

# Contents

Chairman's Statement 3 - 4
Report of the Board of Directors
Unified Shari'a Supervisory Board Report
Independent Auditors' Report
Financial Statements
Statement of Financial Position
Statement of Income
Statement of Cash Flows
Statement of Changes in Owners' Equity
Statement of Changes in Off-Balance Sheet Equity of Investment Accountholders
Statement of Sources and Uses of Charity Fund
Notes to the Financial Statements
Public Disclosures Document 2015 45 - 71

P.O. Box: 11818, Kingdom of Bahrain Tel: (+973) 17 565777 Fax: (+973) 17 583755

E-mail: info@investorsb.com

www.investorsb.com



His Royal Highness Prince Khalifa bin Salman Al Khalifa

The Prime Minister of the Kingdom of Bahrain



His Royal Majesty King Hamad bin Isa Al Khalifa

The King of the Kingdom of Bahrain



His Royal Highness Prince Salman bin Hamad Al Khalifa

Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister



### Chairman's Statement

for the year ended December 31, 2015

In the name of Allah, the Beneficent, the Merciful, Prayers and Peace be upon the Last Apostle and Messenger, our Prophet Muhammad.

#### Dear Shareholders,

With great appreciation and gratitude, I'm glad to share with you the Annual Report and the Audited Financial Data for the Investor's Bank for the year ended in the 31st of December 2015, and I would like to express my thanks on behalf of my colleagues, the members of the Board of Directors, and the Bank Managements, for the endless support.

After nearly 7 years since the beginning of the Global Financial Crisis in 2008, due to the mortgage crisis which resulted in the bankruptcy of several financial establishments; followed by consecutive crises which the developed countries have suffered from including Europe due to the debts and the continuous regional conflicts. And amid the exacerbating economic problems in China; the second largest world's economy, which caused a decline in growth, decline of the primary producers of commodities, the emergence of monetary and fiscal policies; the emergence of a slowdown in profit rates and slowdown of economic growth, it seems that the Global Economy is headed towards a second Global Financial Crisis, which will be in long-term economic downturn, because the Global Economy is already suffering from several complex adversities.

Globally, the severe decline of the oil prices has been the biggest global event; and due to the US Federal Reserve Board decision, there has been a large leap of the US shale oil production and an increase of US profit prices.

In the US however, there is still a sense of uncertainty around the issue of the inflation and unemployment, which might add more pressure to the rise of interest prices and having it negatively affecting the global economic growth, especially in the European countries and the Superstates which have a direct relation to the US economy. Additionally, the global stock markets were not spared these adversities. The majority of the global markets have witnessed a large decline due to fears of whether the news about the global economic instability is true or not. One of those countries is China, which is struggling to regain stability in the monetary market. Further, the issue of the Capital Flight from the Latin continent and Russia has become a real danger threatening the economy of those countries which the government tackled through the implementation of stricter laws to curb the flight of the capital.

Regionally, there are still great challenges which the Arab countries are facing. The decline of the oil prices has significantly affected the budget of those countries, especially the GCC since they are the largest exporters of oil and they primarily rely on oil revenues as the source of their income. The granted flows from the International Monetary Fund States have reinforced the financial resources to some of the Arab countries. Furthermore, the flows have resulted in tax reforms, and raised the procurement efficiency which reflected positively on the public revenues. As for other countries, they moved towards the reduction of public spending and redirection of support of some primary services and the oil derivatives, due to the decline of oil revenues. Also, some countries moved towards the adaptation of alternative fiscal policies funded by the government through the sovereign funds and surpluses which have been available in the past few years. As for those Arab countries which have diverse economy, such countries have succeeded – to

### Chairman's Statement (continued)

a certain degree – in compensating for the deficit in the oil revenues due to their policies which rely on the multiplicity of the sources of income.

Finally, and on a local level, the Bank was not spared the abovementioned global impacts. Thus, through the year of 2015, the Bank implemented policies to reduce general spending, operations, and to promote investments in real estate assets, withdrawing from high-risk investment strategy in order to maintain the continuity of the business. An example for this was when the Bank has made an amicable settlement to exit from an investment made on a piece of land which had been initially rented by the Bank but the process of the investment completion has been impeded due to the Global Financial Crisis in 2008.

Regarding the Bank financial results for the year ended 31st of December 2015, the Bank has recorded a profit of US\$ 1,519,046 compared to the year of 2014, which recorded a loss of US\$ 1,733,640.

In conclusion, I extend my gratitude and appreciation on behalf of the Board of Directors to our shareholders, and especially the members of the Board of Directors and all staff of the Bank for their lucrative efforts.

Mr. Ali Saleh Ayesh Al Rashidi

Chairman

# Report of the Board of Directors

for the year ended December 31, 2015

**US** Dollars

In the name of Allah, the Beneficent, the Merciful, Prayers and Peace upon the Last Apostle and Messenger, Our Prophet Muhammad.

#### **Dear Shareholders**

The Directors have pleasure to submit their report, together with the financial statements of Investors Bank B.S.C. (c) (the "Bank") for the year ended December 31, 2015.

#### **Principal Activities**

The Bank was established in the Kingdom of Bahrain as an exempt company on October 26, 1997 and operates under an investment banking license [Wholesale Bank (Islamic principles)] granted by the Central Bank of Bahrain (the "CBB"). The Bank commenced its commercial operations on June 15, 1998. The legal status of the Bank was changed to a closed Bahraini joint stock company on July 3, 2005.

The Bank focuses on generating liquidity through renting its buildings and reducing its expenses.

The principal activities of the Bank include investment banking and financial activities, investment transactions, participating in equity investments in projects in conformity with the Islamic Shari'a.

#### **Financial Position and Results**

The detailed financial position of the Bank at December 31, 2015 and the results for the year then ended are set out in the accompanying financial statements.

Financial highlights	2015	2014
Total assets	35,787,112	38,782,073
Total equity	25,044,642	24,392,441
Net profit / (loss) for the year	1,519,046	(1,733,640)

Movement in accumulated losses	2015	2014
Balance at January 1	(65,451,100)	(63,717,460)
Net profit / (loss) for the year	1,519,046	(1,733,640)
Transfer to statutory reserve	(151,905)	<del>-</del>
Balance at December 31	(64,083,959)	(65,451,100)

#### **Dividends**

The Board of Directors has not made any appropriations for dividends for the year ended December 31, 2015 (December 31, 2014: nil).

#### **Board of Directors**

The following are the Directors of the Bank as at December 31, 2015:

Name	Title	Independent/ Non Independent
Mr. Ali Saleh Ayesh Al Rashidi	Chairman	Independent
Mr. Falah Hajraf K. Al Hajraf	Vice Chairman	Non Independent
Sheikh Yousif Abdulla Al-Sabah	Member	Non Independent
Mr. Majed Yousef Ahmed Al-Ali	Member	Non Independent
Mr. Abdulla Mohammad Al Rifaie	Member	Non Independent
Mr. AbdulNaser Ahmed Mohamed	Member	Independent
Mr. Adel Jassim Al Sane	Member	Independent

### Report of the Board of Directors (continued)

#### **Auditors**

Deloitte & Touche – Middle East have expressed their willingness to continue in office and a resolution proposing their appointment, as auditors of the Bank for the year ending December 31, 2016; will be submitted to the Annual General Meeting.

#### **Thanks**

We wish to express our gratitude and appreciation to His Majesty King Hamad Bin Isa Al Khalifa, The King of the Kingdom of Bahrain, to His Royal Highness Prince Khalifa Bin Salman Al Khalifa, the Prime Minister and His Royal Highness Prince Salman Bin Hamad Al Khalifa, the Crown Prince and Deputy Supreme Commander, to Government of the Kingdom of Bahrain, the Minister of Industry and Commerce, the Central Bank of Bahrain, the Bahrain Bourse for their vision, guidance and continuous support and for the establishment of a distinguished Islamic Banking Centre in the Kingdom. Gratitude is also extended to the Sharia'a Supervisory Board for their support and valuable guidance, to our investors and to our members of staff, executives and employees.

Mr. Ali Saleh Ayesh Al Rashidi Chairman Mr. Majed Yousef Ahmed Al-Ali Director

March 24, 2016

# Shari'a Board's Report

### In the Name of Allah, The Beneficent, The Merciful

#### To the Shareholders of Investors Bank

Assalam Alaikum Wa Rahmat Allah Wa Baraketuh

In compliance with the letter of appointment, we are required to submit the following report:

We have reviewed the principles and the contracts relating to the transactions and applications introduced.

We have reviewed the principles and the contracts relating to the transactions and applications introduced by the Investors Bank during the period ended 31/12/2015.

We have also conducted our review to form an opinion as to whether the Bank has complied with Shari'a Rules and principles and also with the specific fatwas, rulings and guidelines issued by us.

The Bank's management is responsible for ensuring that the Bank conducts its business in accordance with Islamic Shari'a Rules and Principles. It is our responsibility to form an independent opinion, based on our review of the operations of the Bank, and to report to you.

We conducted our review which included examining, on a test basis of each type of transaction, the relevant documentation and procedures adopted by the Bank.

We planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Bank has not violated Islamic Shari'a Rules and Principles.

### In our opinion:

- (1) the contracts, transactions and dealings entered into by the Bank during the year ended 31/12/2015 that we have reviewed are in compliance with the Islamic Shari'a Rules and Principles;
- (2) the allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Islamic Shari'a Rules and Principles;
- (3) the calculation of Zakah is in compliance with Islamic Shari'a Rules and principles.

We beg Allah the Almighty to grant us all the success and straight-forwardness.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh.

13th Jumada Al Akhir 1437 Hijri corresponding to 22nd March 2016.

**SHARI'A BOARD** 

Shaikh Dr. Abdul Sattar A.Karim Abu Ghuddah

Chairman of the Board

Shaikh Dr. Ali Mohieddin Al Quradaghi

Member

Shaikh Dr. Nedham Mohammed Saleh Yaqoobi

Member

# Independent Auditor's Report

To the Shareholders Investors Bank B.S.C. (c) Manama, Kingdom of Bahrain

#### **Report on the Financial Statements**

We have audited the accompanying statement of financial position of Investors Bank B.S.C. (c) (the "Bank") as at December 31, 2015, and the related statements of income, cash flows, changes in owners' equity, changes in off-balance sheet equity of investment accountholders and sources and uses of charity fund for the year then ended. These financial statements and the Bank's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

#### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Investors Bank B.S.C (c) as at December 31, 2015, the results of its operations, its cash flows, changes in owners' equity, changes in off-balance sheet equity of investment accountholders and sources and uses of charity funds for the year then ended in accordance with Financial Accounting Standards Issued by AAOIFI.

#### Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 in the financial statements which indicates that the Bank has incurred significant accumulated losses as at December 31, 2015. This situation, along with other matters as set forth in Note 2 to the financial statements, indicate the existence of a material uncertainty that may cast significant doubt about the Bank's ability to continue as a going concern. The accompanying financial statements have been prepared assuming that the Bank will continue as a going concern.

#### Report on other Legal and Regulatory Requirements

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain ("CBB") RuleBook Volume 2, we report that, except for the matters discussed in Note 1 to the accompanying financial statements:

- a) the Bank has maintained proper accounting records and the attached financial statements are in agreement therewith;
- b) the financial information contained in the 2015 Report of the Board of Directors is consistent with the financial statements;
- c) we are not aware of further violations (other than those mentioned in Note 1 to the accompanying financial statements) of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB RuleBook (Volume 2 and applicable provisions of Volume 6) and CBB directives and the Bank's Memorandum and Articles of Association having occurred during the year ended December 31, 2015 that might have had a material adverse effect on the business of the Bank or on its financial position;

### Independent Auditor's Report (continued)

d) satisfactory explanations and information have been provided to us by management in response to our requests for the purpose of our audit. To the best of our knowledge and belief, the Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank.

Manama, Kingdom of Bahrain, March 24, 2016 Deloitte & Touche – Middle East Partner Registration No. 184

Deloitte + Pouche

FINANCIAL STATEMENTS

December 31, 2015

# Statement of Financial Position

as at December 31, 2015

	Notes	2015 US\$	201 <i>4</i> US\$
ASSETS Cash and balances with banks Equity investments Deferred payment sale receivable Investments in real estate Other assets Fixed assets	4 5 6 7 8 9	3,107,075 3,738,763 3,680,203 24,265,592 954,129 41,350	4,120,830 6,345,135 3,680,203 23,616,756 952,330 66,819
Total Assets		35,787,112	38,782,073
LIABILITIES AND EQUITY Liabilities Due to a financial institution Murabaha payable Payable against lease commitment Other liabilities  Total Liabilities	6 10 11 12	3,670,202 3,229,064 3,580,902 262,302	3,670,202 3,229,064 6,944,282 546,084 14,389,632
Equity Share capital Statutory reserve Investments fair value reserve Properties fair value reserve Accumulated losses	13 13 14	80,000,000 7,561,420 909,705 657,476 (64,083,959)	80,000,000 7,409,515 2,316,221 117,805 (65,451,100)
Total Equity		25,044,642	24,392,441
Total Liabilities and Equity		35,787,112	38,782,073
OFF-BALANCE SHEET ITEMS Equity of investment accountholders			

Mr. Ali Saleh Ayesh Al Rashidi Chairman

Mr. Majed Yousef Ahmed Al-Ali Director

# Statement of Income

for the year ended December 31, 2015

Notes	2015 US\$	201 <i>4</i> US\$
5 15	1,700,308 (45,727) 27,064	1,545,274 (12,990) 48,094
	1,681,645	1,580,378
16 17 9	(497,898) (764,014) (25,469)	(623,401) (543,426) (24,803)
	(1,287,381)	(1,191,630)
	394,264	388,748
11 5 7	2,169,746 (1,154,129) 109,165	(4,058,982) - 1,936,594
	1,519,046	(1,733,640)
	5 15 16 17 9	1,700,308  1,700,308  (45,727) 27,064  1,681,645  (497,898) (764,014) (25,469)  (1,287,381)  394,264  11 5 (1,154,129) 109,165

Mr. Ali Saleh Ayesh Al Rashidi Chairman Mr. Majed Yousef Ahmed Al-Ali Director

# Statement of Cash Flows

for the year ended December 31, 2015

	Notes	2015 US\$	2014 US\$
Cash flows from operating activities  Net profit / (loss) for the year  Adjustments for:		1,519,046	(1,733,640)
Depreciation	9	25,469	24,803
Write-back of (provision) / provision against lease commitment	11	(2,169,746)	4,058,982
Provision for impairment of financial assets Write-back of impairment on real estate investment Fair value loss on investments at fair value through	5 7	1,154,129 (109,165)	(1,936,594)
statement of income Dividend income	5 15	45,727 (6,197)	12,990 (6,197)
		459,263	420,344
(Increase) / decrease in other assets Decrease in other liabilities Payment against lease commitment	8 12 11	(1,799) (283,782) (1,193,634)	423,523 (148,154) –
Net cash (used in) / from operating activities		(1,019,952)	695,713
Cash flows from investing activities: Purchase of fixed assets Dividends received	9	- 6,197	(6,498) 6,197
Net cash from / (used in) investing activities		6,197	(301)
Net (decrease) / increase in cash and cash equivalents		(1,013,755)	695,412
Cash and cash equivalents, beginning of year		4,120,830	3,425,418
Cash and cash equivalents, end of year	4	3,107,075	4,120,830

Statement of Changes in Owners' Equity

FOR THE YEAR ENDED DECEMBER 31, 2015

	Share Capital US\$	Statutory Reserve US\$	Investments Fair Value Reserve US\$	Properties Fair Value Reserve US\$	Accumulated Losses US\$	Total US\$
Balance as at January 1, 2014	80,000,000	7,409,515	1,964,534	I	(63,717,460)	25,656,589
Net loss for the year	I	I	I	I	(1,733,640)	(1,733,640)
Other comprehensive income: Fair value gain on equity investments at fair value through equity (Note 5) Fair value gain on investment in real estate (Note 7)	1 1	1 1	351,687	117,805	1 1	351,687 117,805
Balance as at December 31, 2014	80,000,000	7,409,515	2,316,221	117,805	(65,451,100)	24,392,441
Net profit for the year	ı	ı	I	I	1,519,046	1,519,046
Transfer to statutory reserve	ı	151,905	I	I	(151,905)	I
Other comprehensive (loss) / income: Fair value loss on equity investments at fair value through equity (Note 5) Fair value gain on investment in real estate (Note 7)	1 1	1 1	(1,406,516)	539,671	1 1	(1,406,516)
Balance as at December 31, 2015	80,000,000	7,561,420	606,705	657,476	(64,083,959)	25,044,642

The accompanying notes from 1 to 27 form an integral part of these financial statements

Statement of Changes in Off-Balance Sheet Investment Account Holders

for the year ended December 31, 2015

	Ğ	alance at .	Balance at January 1, 2015	2015	Movements during the period	ig the period	Balance	Balance at December 31, 2015	31, 2015
		No of units (000)	Average value per share US\$	Total US\$	Investment/ (withdrawal) US\$	Revaluations US\$	No of units (000)	Average value per share US\$	Total US\$
Murabaha with Lotus Air Ltd Investments in International		1	I	1	1	1	1	1	1
Investment Group K.S.C.C. (note b below)	_	12,887	I	I	I	I	12,887	I	I
(Gulf Monetary Group Shares)	14	142,059	I	I	I	1	142,059	I	ı
				1		1			1
	B	alance at	Balance at January 1, 2014	2014	Movements during the period	ng the period	Balance c	Balance at December 31, 2014	31, 2014
		No of vunits (000)	Average value per share US\$	Total US\$	Investment/ (withdrawal) US\$	Revaluations US\$	No of units (000)	Average value per share US\$	Total US\$
Murabaha with Lotus Air Ltd Investments in International		I	1	1	ı	I	I	ı	ı
Investment Group K.S.C.C. (note b below)	_	12,887	I	ı	ı	I	12,887	I	I
romotion managea by the bank (Gulf Monetary Group Shares)	14	142,059	ı	ı	1	1	142,059	I	I
				1		1			1

a. Off-balance sheet investment accounts represent amounts received from and transactions entered on behalf of related parties.

institution to acquire shares of International Investment Group K.S.C.C ("IIG"). The Bank then entered into a deferred payment sale agreement with the off-balance sheet investment account holder for sale of these shares. However, due to a legal dispute with the financial institution, the Bank could not effect the transfer of the IIG shares to the off-balance sheet investment account holder (note 6). The Bank's Board of Directors had resolved to write down the value of these shares to zero in the latter part of On the instructions of an off-balance sheet investment account holder, a related party, the Bank has entered into a deferred payment purchase agreement with a financial 2013 based on the performance of these shares and / or the lack of information to support the carrying value of these shares. <u>.</u> ف

# Statement of Sources and uses of Charity Fund

for the year ended December 31, 2015

	2015 US\$	2014 US\$
Undistributed charity fund beginning of year Payments made during the year	17,513 -	17,513 -
Undistributed charity fund, end of year (Note 12)	17,513	17,513

for the year ended December 31, 2015

#### 1. INCORPORATION AND ACTIVITIES

Investors Bank B.S.C. (c) (the "Bank") was established in the Kingdom of Bahrain as an exempt company on October 26, 1997 and operates under an investment banking license [Wholesale Bank (Islamic principles)] granted by the Central Bank of Bahrain (the "CBB"). The Bank commenced its commercial operations on June 15, 1998. The legal status of the Bank was changed to a closed Bahraini joint stock company on July 3, 2005. The postal address of the registered office of the Bank is Seef Star Building, Seef District, P.O. Box 11818, Manama, Kingdom of Bahrain.

The Bank's activities are regulated by the CBB and supervised by a Shari'a Supervisory Board.

The principal activities of the Bank include investment banking and financial activities, investment transactions, participating in equity investments in projects in conformity with the Islamic Shari'a. The Bank may, in particular, carry on the following business activities:

- a) Providing investment account facilities;
- b) Accepting restricted or unrestricted investment funds and investing them in accordance with the Shari'a;
- c) Managing third party funds as an agent for a fixed fee as a Mudarib and any other banking activities not contravening the provisions of Shari'a;
- d) Industrial, commercial and agricultural business activities, either directly or through companies which the Bank may establish, or in which the Bank may acquire shares; and
- e) Purchasing, leasing and constructing buildings, and renting them.

The Bank is subject to the requirements of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the Central Bank of Bahrain's regulations (as contained in Volume 2 of the CBB rulebook and applicable provisions of Volume 6) and CBB directives and the memorandum and articles of association of the Bank. During 2015, the Bank was not in compliance with respect to the following:

- a) The Bank did not submit to the CBB, within two months following each quarter end its quarterly financial statements of March 31, 2015, June 30, 2015 and September 30, 2015 nor published its quarterly financial information within 45 days of each quarter end. However, the CBB has granted an extension to the Bank until March 31, 2016 for the submission of the quarterly financial statements and exempt the Bank for publishing the quarterly financial statements.
- b) The Bank did not publish its annual accounts within two months from the financial year end as required by the CBB. However, the CBB has granted an extension to the Bank until March 31, 2016.
- c) The Bank's quarterly prudential information return is required to be prepared and submitted to the CBB within 20 days from March 31, 2015, June 30, 2015 and September 30, 2015 and is required to be reviewed by external auditors within two months from March 31, 2015, June 30, 2015 and September 30, 2015. The CBB had granted an extension to the Bank until February 18, 2016. These returns were submitted within the extension period allowed by the CBB. The December 31, 2015 return has not yet been reviewed. However, the CBB has granted an extension to the Bank until March 31, 2016.
- d) The Bank's semi-annual public disclosures are required to be prepared for the review by the external auditors within two months from June 30, 2015. However, the CBB has generated extension until February 18, 2016. The return was submitted within the extension period allowed by the CBB.
- e) As of the date of issuance of these financial statements the Bank's key control positions such as the Chief Executive Officer, Financial Controller, Head of Operations, Head of Risk Management, Head of Compliance and Head of Shari'a Review are vacant.
- f) The Bank's accumulated losses exceeded a significant portion of the Bank's capital as at December 31, 2015. The Bahrain Commercial Companies Law requires if the Bank has lost a substantial portion of its capital, an Extraordinary General Meeting of the Shareholders should be convened to take appropriate measures. This meeting is yet to be convened.

#### 2 BASIS OF PREPARATION

#### Statement of Compliance

The financial statements have been prepared in accordance with Financial Accounting Standards ("FAS") as issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank, the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB

for the year ended December 31, 2015

#### 2 BASIS OF PREPARATION (continued)

directives. For matters which are not covered by AAOIFI standards, the Bank uses the relevant International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB").

#### **Basis of Measurement**

The financial statements have been prepared on the historical cost convention except for investments in equities and certain investments in real estate which are re-measured at fair value, as discussed under the accounting policies which follow.

The financial statements are presented in United States Dollars ("US\$") which management considers is the functional currency of the Bank.

Assets and liabilities are grouped according to their nature and presented in the statement of financial position in an approximate order that reflects their relative liquidity.

#### **Going Concern**

These financial statements have been prepared using the going concern assumption, as management is satisfied that the Bank will continue in operation for the foreseeable future. As at December 31, 2015 the Bank's accumulated losses exceeded a significant portion of its share capital. This situation along with the current lack of adequate capitalization and the Bank's current limited sources of revenue and inability to generate sufficient cash flows from operations raise significant doubts about its ability to continue as a going concern.

Management is of the opinion that the Bank has the ability to develop profitable operations, depending on securing adequate financial resources.

There can be no assurance that the Bank will be successful in achieving profitability or raising additional cash to finance operations. The financial statements do not include any adjustments relating to the recoverability of assets and liabilities that might be necessary should the Bank be unable to continue as a going concern.

#### Summary of significant accounting policies

The following new standard has been issued by AAOIFI for annual periods beginning on or after January 1, 2015 and is not expected to be relevant to the Bank.

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. The adoption of this standard would lead to enhancing certain disclosures and is not expected to have any significant impact on the financial statements of the Bank. The Bank has not early adopted any new standards.

#### A. Cash and cash equivalents:

Cash and cash equivalents comprise cash and balances with banks and due from a financial institution.

#### B. Investments in equities:

Investments in equities are classified as either investments at fair value through statement of income or investments at fair value through equity.

All investments in equities are initially recognized at cost, being the fair value of the consideration on acquisition including related direct expenses. Direct expenses are transaction costs and include fees and commissions paid to agents, advisors and consultants, levies by regulatory agencies and transfer taxes and duties.

#### Subsequent to initial recognition:

- Investments that are classified as investments at fair value through statement of income are carried at fair value.
   The fair value changes of investments at fair value through statement of income are reported in the statement of income.
- Investments that are classified as investments at fair value through equity are carried at fair value. The fair value changes of investments at fair value through equity are reported in the statement of changes in owners' equity under "investments fair value reserve" until such time the investments are sold, realized or deemed to be impaired, at which time the realized gain or loss is reported in the statement of income. The losses arising from impairment of such investments are recognized in the statement of income under "provision for impairment" and removed

for the year ended December 31, 2015

#### 2 BASIS OF PREPARATION (continued)

#### B. Investments in equities: (continued)

from the "investments fair value reserve". Impairment losses recognized in the statement of income for an equity instrument classified as investment at fair value through equity are not reversed through the statement of income.

#### C. Deferred Payment Sale Receivables:

Receivables arising from deferred payment sale are recognized at the time of contracting and stated at cost less impairment, if any.

#### D. 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 directly attributable charges. Subsequent to initial recognition, investments in real estate (except for the investment in freehold land) are measured at fair value. Investment in freehold land is carried at cost less impairment based on specific directives from the Regulator.

Gains arising from changes in the fair values are recognized in the "properties fair value reserve" in the statement of changes in owners' equity.

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

#### E. Fixed Assets:

Fixed assets are stated at historical cost, less accumulated depreciation and impairment loss, if any. Depreciation is recognized so as to write off the cost of these assets using the straight-line method over their useful lives estimated.

The estimated useful lives of the different fixed assets categories are 3 to 5 years.

Expenditures for maintenance and repairs is expensed as incurred. An item of fixed assets is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising on the disposal or retirement of the asset is determined as the difference between the net sales proceeds and the carrying amount of the asset and is recognized in the statement of income.

#### F. Due to Financial Institutions:

Amounts due to financial institutions are initially recognized at cost, being the fair value of consideration received plus accrued profit less amount repaid.

#### G. Off-balance Sheet equity Investments Accounts:

Off-balance sheet equity investment accounts represent assets acquired by funds provided by holders of off-balance sheet equity investment accounts and their equivalent and managed by the Bank as an investment manager based on either a Mudaraba contract or agency contract. The off-balance sheet equity investment accounts are exclusively restricted for investment in specified investment instruments as directed by the off-balance sheet equity of investment account holders. Assets that are held in such capacity are not included as assets of the Bank in the financial statements.

Off-balance sheet equity investments in quoted securities are valued at their market bid price. Off-balance sheet equity investments in securities for which there are no quoted market prices or other appropriate methods from which to derive fair values, are stated at cost less impairment allowances, if any.

#### H. Employees' End-of-Service Benefits:

The Bank makes contributions to the Social Insurance Organization scheme for its national employees calculated as a percentage of the employees' salaries. The Bank's obligations are limited to these contributions, which are expensed when due. For Bahrainis with basic salaries above a certain threshold, the Bank recognizes leaving indemnity in line with the requirements of the Labor Law.

for the year ended December 31, 2015

#### 2 BASIS OF PREPARATION (continued)

#### H. Employees' End-of-Service Benefits: (continued)

The Bank also provides for end-of-service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final salaries and length of service. The expected costs of these benefits are accounted over the period of employment.

#### I. Recognition of Income and Expense:

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment.

Dividend income from equity investments is recognized when the right to receive the dividend is established.

Rental income is recognized on the basis of the contractual amounts receivable on a time proportionate basis.

#### J. Earnings Prohibited by Shari'a:

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

#### K. Dercognition of Financial Instruments:

A financial asset or part of a financial asset, is derecognized when:

- the contractual rights to the cash flows from the asset expire, or
- the Bank transfers its rights to receive cash flows from the financial asset or has assumed an obligation to pay the
  received cash flows in full without material delay to another counterpart under a 'pass through' arrangement; and
  either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither
  transferred nor retained substantially all the risks and rewards of the asset, but has transferred the control of the
  asset.

A financial liability is derecognized when the contractual obligation is discharged, cancelled or expires.

#### L. Foreign Currencies:

Transactions in currencies other than the functional currency (foreign currencies) are initially recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. All differences are taken to the statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Non-monetary items carried at fair value are retranslated at the functional currency closing exchange rates. Differences are taken to equity.

#### M. Fair Values:

For investments traded in organized 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 an assessment of the value of future cash flows.

#### N. Provisions:

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

#### O. Offsetting Financial Instruments:

Financial assets and financial liabilities are offset, and the net amount reported in the statement of financial position, if and only if, there is a legally enforceable or religious right (as determined by Shari'a) to set off recognized amounts and the Bank intends to settle on a net basis.

#### P. Zakah:

In the absence of the appointment of the Bank to pay Zakah on behalf of shareholders, the responsibility of payment of Zakah is on the shareholders of the Bank.

for the year ended December 31, 2015

#### 3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

In the application of the accounting policies which are described in Note 2, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The most significant judgments and estimates are discussed below:

#### 3-1. Going Concern:

The Bank's management is satisfied that the Bank 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 Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis (See also Note 2).

#### 3-2. Fair value of Investments in Real Estate:

The Fair value of investments in real estate is determined by independent real estate valuation experts. The determination of the fair value for such assets requires the use of judgment and estimates by the independent valuation experts that are based on local market conditions existing at the date of the statement of financial position.

#### 3-3. Impairment of Financial Assets:

At each reporting date, the Bank's management assesses whether there is objective evidence that a financial asset, other than those at fair value through statement of income, may be impaired. An asset or a group of assets may be impaired 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) have an impact on the estimated future cash flows of the asset or group of assets that can be reliably estimated.

#### 3-4. Fair Value of Financial Instruments:

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. Consequently differences can arise between carrying values and fair value estimates.

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: Valuation techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

4	CASH AND BALANCES WITH BANKS		
		2015 US\$	2014 US\$
	Cash at banks Cash in hand	3,105,749 1,326	4,119,504 1,326
		3,107,075	4,120,830
5.	EQUITY INVESTMENTS		
<b>J.</b>	EGOTT HAVESTMENTS	2015 US\$	2014 US\$
	Investments at fair value through statement of income Investments at fair value through equity	139,695 3,599,068	185,422 6,159,713
		3,738,763	6,345,135

for the year ended December 31, 2015

#### 5. EQUITY INVESTMENTS (continued)

Investment at fair value through statement of income consist of the following:		
3	2015	2014
	US\$	US\$
Quoted:		7.570
Gulf Finance House Al Salam Bank	2,551 114,024	7,573
Khaleeji Commercial Bank	23,120	161,121 16,728
Midlee   Commercial Bank		
Unquoted:	139,695	185,422
Grand Real Estate Projects Co.	_	_
	139,695	185,422
Investments at fair value through equity consist of the following:		
invesiments at fair value intrough equity consist of the following.	2015	2014
	US\$	US\$
Quoted: Bahrain Islamic Bank (a)	2,646,246	3,380,467
First Takaful Insurance Co.	82,611	1,489,575
Bahrain Family Leisure Co.	46,154	88,329
Takaful International, Bahrain	695,399	772,665
Gulf Monetary Group	-	_
	3,470,410	5,731,036
Unquoted:	0,470,410	0,701,000
Takaful International, Kuwait	128,658	428,677
International Investment Group	-	_
International Projects Consultancy Co.		
	128,658	428,677
	3,599,068	6,159,713

(a) These shares are under legal dispute and in custody of the Court (Refer to Note 6).

The movement of investments during the year is as follows:

S	At fair value through tatement of income US\$	At fair value through equity US\$	Total US\$
Balance January 1, 2014	198,412	5,808,026	6,006,438
Net unrealised (loss) / gain	(12,990)	351,687	338,697
Balance December 31, 2014 Net unrealised loss Impairment loss	185,422	6,159,713	6,345,135
	(45,727)	(1,406,516)	(1,452,243)
	-	(1,154,129)	(1,154,129)
Balance December 31, 2015	139,695	3,599,068	3,738,763

Information on the fair value of equity investments, including their levels in the fair value hireachy is included in Note 19.

for the year ended December 31, 2015

#### 6. DEFERRED PAYMENT SALE RECEIVABLE / DUE TO A FINANCIAL INSTITUTION

On March 7, 2004 the Bank entered into a sale and purchase agreement with a financial institution to purchase shares of a related party for a total consideration of US\$ 5,811,957 including six-month deferred payment costs of US\$ 141,755. Concurrently the Bank entered into an agreement with another related party to sell the same shares for a total consideration of US\$ 5,821,958 including deferred payment costs of US\$ 151,755, payable on September 30, 2004.

In accordance with the terms of the sale and purchase agreement, the Bank pledged certain own equity investments in addition to subsequent dividend shares received, in favour of the financial institution, the carrying value of which as at December 31, 2015 amounted to US\$ 2,646,246 (US\$ 3,380,467 as at December 31, 2014) and dividends receivable up to 2006 totalling US\$ 887,733 (Note 8).

At the date of signature of both agreements, the net remaining amounts due to the financial institution and due from the related party amounted to US\$ 3,670,202 and US\$ 3,680,203 respectively (excluding deferred payment costs). No further settlements were made and the agreement was terminated by the financial institution, which retained the Bank's pledged shares. The Bank's management considered that the agreement was wrongfully terminated and pledged shares were unlawfully retained. The Bank has filed a legal case before the Courts of Bahrain against the financial institution for repossession of the pledged shares, which are currently under the custody of the Court with the related dividends discussed above. Further a cheque in the amount of US\$ 3,680,203 representing the amount due to the Bank on the deferred sale of shares, was drawn by that related party and deposited at the Court.

In the opinion of the Bank's management, no provision is required to be made in the financial statements against the pledged shares or against any contingent liabilities that might arise on the final settlement.

#### 7. INVESTMENTS IN REAL ESTATE

In 2014, the Bank changed its accounting policy for measuring investments in real estate from the cost model to the valuation model (except for freehold land in Burhama which will continue to be carried at cost less impairment based on specific directives of the Regulator) under FAS 26: *Investment in Real Estate*.

	2015 US\$	2014 US\$
Carried at cost less impairment: Burhama Land	7,161,803	7,161,803
Carried at revalued amounts: Al Muhannad Tower (7 units) Hoora Building 91700 Hoora Building 92072 Seef Star Building	1,459,226 6,204,244 6,204,244 3,236,075	1,531,874 5,896,552 5,896,552 3,129,975
	24,265,592	23,616,756
The movement of investments in real estate is as follows:		
	2015 US\$	2014 US\$
At January 1,	23,616,756	21,562,357
Write back of provision for impairment, net Change in fair value recognised in equity	109,165 539,671	1,936,594 117,805
Balance at December 31,	24,265,592	23,616,756

The fair value of the Burhama land which is carried at adjusted cost as explained above is US\$ 8,209,549 (2014: US\$ 8,209,549)

The fair value of investments in real estate is determined based on valuations performed by independent valuation experts as at December 31.

for the year ended December 31, 2015

#### 8. OTHER ASSETS

Disputed dividends receivable (Note 6) Prepaid expenses Regulatory deposit with CBB Other receivables Refundable deposit

2015	2014
US\$	US\$
887,733	887,733
48,701	45,495
13,263	13,263
3,875	5,282
557	557
954,129	952,330
557	55

#### 9. FIXED ASSETS

Motor vehicles US\$	Office equipment & furniture US\$	Fixtures US\$	Total US\$
21,292	802,645 6,279	1,411,453 219	2,235,390 6,498
21,292	808,924	1,411,672	2,241,888
21,292	808,924	1,411,672	2,241,888
2,484 4,258	786,725 7,623	1,361,057 12,922	2,150,266 24,803
6,742 4,260	794,348 8,273	1,373,979 12,936	2,175,069 25,469
11,002	802,621	1,386,915	2,200,538
10,290	6,303	24,757	41,350
14,550	14,576	37,693	66,819
	vehicles US\$ 21,292 21,292 21,292 2,484 4,258 6,742 4,260 11,002	Motor vehicles US\$         equipment & furniture US\$           21,292         802,645 6,279           21,292         808,924           21,292         808,924           21,292         808,924           2,484 786,725 7,623         7,623           6,742 794,348 4,260 8,273         8,273           11,002         802,621           10,290         6,303	Motor vehicles US\$         equipment & furniture US\$         Fixtures US\$           21,292         802,645 6,279         1,411,453 219           21,292         808,924         1,411,672           21,292         808,924         1,411,672           21,292         808,924         1,361,057 12,922           2,484         786,725 7,623         1,361,057 12,922           6,742         794,348 7,623         12,922           6,742         794,348 1,373,979 12,936           11,002         802,621         1,386,915           10,290         6,303         24,757

#### 10. MURABAHA PAYABLE

In 2004, a related party entered into a Murabaha financing agreement with a financial institution against the pledge of 18,840,341 equity shares, of which 8,352,705 owned by the Bank with a carrying value at that time of US\$ 5,760,487, and the remaining 10,487,636 shares owned by the borrowing related party and another related party.

Also on November 1, 2004 the Bank obtained from the above related party a one year financing totalling US\$ 3,229,064 including financing cost of US\$ 134,295 by virtue of a Murabaha contract.

Following the default of the related party, the case was brought to Court, which ruled in favour of the financial institution and ordered the settlement of the outstanding balance of BD 2,236,191 (US\$ 5,931,541) in addition to annual profit of 3% effective April 2011 and settlement of legal costs.

As no settlement was made by any of the parties that had pledged the shares in guarantee of the financing agreement as stated above, the Court appointed in 2013 a broker to auction all the 18,840,341 pledged shares in one bulk. A number of unsuccessful auctions were held at varying starting prices.

In recognition of the Bank's liability, management decided to write down to zero the value of its 8,352,705 pledged shares and valued the remaining shares (2,912,950 shares) in its portfolio at BD 0.100 (US\$ 0.2652) per share, being the lowest bidding price up to the 2014 year end. In April 2015, the 8,352,705 shares were liquidated at an auction price of BD 0.100 per share and the amount was directly awarded to the party to whom the shares were pledged to with no gain or loss being recognised by the Bank.

for the year ended December 31, 2015

#### 10. MURABAHA PAYABLE (continued)

Subsequent to the auction, the remaining 2,912,950 unpledged shares were valued at BD 0.090 (US\$ 0.239) being the quoted price as at December 31, 2015.

#### 11. PAYABLE AGAINST LEASE COMMITMENTS

2015 US\$ 2014 US\$ US\$

Lease commitment payable

During 2006, the Bank entered into a lease agreement for the lease of a land on behalf of a related party for a term of 29 years, with a grace period of 2.5 years. The Bank also entered into a back to back agreement with the related party in which both parties agreed that the ultimate lessee of the land is the Bank's related party and is liable to make the lease payment to the Bank who in turn will settle the lease payments to the lessor.

The related party had defaulted on its lease payments due to the delay in the execution of the planned project on the leased land. Since the lease agreement was signed between the Bank and the lessor, the Bank's Board of Directors acknowledged that the lessor may claim the outstanding lease payments from the Bank. Accordingly and as at December 31, 2014 the Bank has provided for lease obligations as at that date amounting to US\$ 6,944,282.

In November 2015, the Bank entered into a final settlement agreement with the owner by virtue of which both parties have agreed the repossession of the land by the owner and a final settlement of US\$ 4,774,536 (BD 1,800,000) payable in four quarterly installments of US\$ 1,193,634 each (BD 450,000) starting November 18, 2015 and ending August 1, 2016 against post dated cheques delivered by the Bank.

		2015 US\$
Lease commitment provided upto December 31, 2013 Amount provided for during 2014		2,885,300 4,058,982
Balance December 31, 2014 Reversal of lease liabilities booked to income Settlement made		6,944,282 (2,169,746) (1,193,634)
Balance December 31, 2015		3,580,902
OTHER LIABILITIES	2015 US\$	201 <i>4</i> US\$
Accrued expenses Unearned rental income Charity payable Others	194,282 44,125 17,513 6,382 262,302	197,540 306,642 17,513 24,389 546,084

12.

for the year ended December 31, 2015

#### 13. SHARE CAPITAL AND STATUTORY RESERVE

i)	Share capital	2015 US\$	2014 US\$
	Authorised: 303,030,303 ordinary shares of US\$ 0.33 each	100,000,000	100,000,000
	Issued and fully paid up As at the beginning and end of the year 242,424,242 shares of US\$ 0.33 each	80,000,000	80,000,000

#### (ii) Statutory reserve

In accordance with the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net profit for the year is transferred to the statutory reserve until such time the reserve reaches 50% of the Bank's paid-up share capital. This reserve is not available for distribution, but can be utilised as security for the purpose of distribution in such circumstances as stipulated in the Bahrain Commercial Companies Law and other applicable statutory regulations.

#### 14. INVESTMENTS FAIR VALUE RESERVE

	The movement of the investments fair value reserve is as follows:	Fair value reserve	
		2015 US\$	2014 US\$
	Fair value reserve as at January 1 Bahrain Family Leisure Co. Bahrain Islamic Bank First Takaful Insurance Co.	14,135 1,643,925 658,161 2,316,221	10,156 1,157,696 796,682 1,964,534
	Fair value (loss) / gain during the year (Note 5) Bahrain Family Leisure Co. Bahrain Islamic Bank First Takaful Insurance Co.	(14,135) (734,220) (658,161) (1,406,516)	3,979 486,231 (138,523) 351,687
	Fair value reserve as at December 31	909,705	2,316,221
15.	OTHER INCOME, NET	2015 US\$	2014 US\$
	Dividend income Income from commodity murabaha contract Foreign exchange loss Others	6,197 20,727 (815) 955 27,064	6,197 41,729 (530) 698 48,094

for the year ended December 31, 2015

#### 16. STAFF COSTS

	2015 US\$	2014 US\$
Salaries and other staff costs Retrenchment cost	224,611 273,287	623,401
	497,898	623,401

On May 31, 2015, six employees of the Bank resigned and were paid compensation for their services to the Bank. Further, two of these employees were hired on contractual basis as executive assistant and financial advisor effective June 1, 2015.

17.	ADMINSTRATIVE AND GENERAL EXPENSES		
		2015	2014
		US\$	US\$
	Consultancy and legal expenses	224,649	80,375
	Electricity and municipality	106,187	81,997
	Maintenance	59,162	52,543
	Other professional fees	80,106	54,907
	Office service and cleaning	35,117	35,117
	License and registration	34,748	36,390
	Board of Directors and committees meeting expenses and		
	attendance fees (Note 21)	39,877	55,533
	Shari'a Supervisory Board remuneration, meeting expenses and	15 400	20,000
	attendance fees (Note 21)	15,433	28,929
	Advertising and promotion Staff related claims	5,343 1,099	12,320 36,953
	Communication	13,455	11,186
	Business development	25,466	11,739
	Others	35,574	45,437
		676,216	543,426
	Penalties imposed by the CBB	87,798	
		764,014	543,426
18.	ASSETS IN LEGAL CUSTODY		
	The carrying values of assets in custody as at December 31 are as follows:		
	, ,	2015	2014
		US\$	US\$
	Equity investments (Notes 5 & 6)	2,646,246	3,380,467
	Dividends receivable (Notes 6 & 8)	887,733	887,733
	Dividends receivable (1701es 0 & 0)		
		3,533,979	4,268,200

for the year ended December 31, 2015

#### 19. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table shows the carrying amounts and fair values of financial instruments recognized in the financial statements, including their levels in the fair value hierarchy. It does not include financial assets and financial liabilities which are not measured at fair value and where the directors consider that their carrying amounts are reasonable approximations of their fair value:

	December 31, 2015			
	C	Fair	value	
Financial assets measured at fair value	Carrying Amount US\$	Level 1 US\$	Level 3 US\$	Fair value basis for Level 3
At fair value through statement of income				
Equities – Quoted	139,695	139,695	/-	
At fair value through equity Equities – Quoted Equities – Unquoted	3,470,410 128,658	3,470,410 -	- 128,658	Net asset value of investee
	3,738,763	3,610,105	128,658	
		]	December 31,	2014
		Fair	value	
Financial assets measured at fair value	Carrying Amount US\$	Level 1 US\$	Level 3 US\$	Fair value basis for Level 3
At fair value through statement of income				
Equities – Quoted	185,422	185,422	_	
At fair value through equity Equities – Quoted Equities – Unquoted	5,731,036 428,677	4,958,371 -	772,665 428,677	Auction price (Refer to Note 10) Net asset value of investee
	6,345,135	5,143,793	1,201,342	=
The movement in Level 3 during 2015 is a	s follows:			2015

Balance January 1
Transfer out Level 3 to Level 1
Net unrealized loss

Balance December 31

US\$

1,201,342
(772,665)
(300,019)

128,658

for the year ended December 31, 2015

#### 20. CAPITAL MANAGEMENT

The Bank's capital structure is primarily made up of its paid up capital, including reserves. From a regulation's perspective, the significant amount of the Bank's capital is in Tier 1 form as defined by the CBB, i.e., most of the capital is of permanent nature.

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

	2015 US\$
	-004
Common Equity Tier 1 (CET 1) Issued and fully paid ordinary shares Legal / statutory reserve Accumulated losses Current cumulative net income Accumulated other comprehensive income and losses (and other reserve)	80,000,000 7,561,420 (65,603,005) 1,519,046 909,705
Total CET1 capital prior to regulatory adjustments Investment in financial entity where ownership is < 10% of the issued common share capital	24,387,166 (250,779)
Total Common Equity Tier 1 capital after regulatory adjustments	24,136,387
Other capital (AT1 & T2) Assets revaluation reserve - property, plant, and equipment*	657,476
Total Eligible Capital	24,793,863
	2014 US\$
Tier 1 Capital Issued and fully paid ordinary shares Legal / statutory reserve Accumulated losses	80,000,000 7,409,515 (65,451,100)
Excess amount over maximum permitted large exposure limit	21,958,415 (711,744)
Total Tier 1 Capital	21,246,671
Tier 2 Capital	
Assets revaluation reserve – Property, plant and equipment (45% only)*	53,012
Unrealised gross gains arising from fair valuing equities (45% only)	1,042,300
Excess amount over maximum permitted large exposure limit	1,095,312 (711,744)
Total Tier 2 Capital	383,568
Total eligible capital	21,630,239

<sup>\*</sup> The amount taken to this reserve relates to the Bank's "Properties fair value reserve" pertaining to investments in real estate.

for the year ended December 31, 2015

#### 20. CAPITAL MANAGEMENT (Continued)

To assess its capital adequacy requirements in accordance with the CBB requirements, the Bank 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 US\$
Credit risk weighted exposures Market risk weighted exposures Operational risk weighted exposures	112,806,775 494,947 2,312,321
Total risk weighted exposure	115,614,043
Capital Equity Tier 1	20.88%
Tier 1	20.88%
Total Capital Adequacy ratio (Total Capital)	21.45%
	201 <i>4</i> US\$
Credit risk weighted exposures Market risk weighted exposures Operational risk weighted exposures	56,236,632 2,293,558 2,129,618
Total risk weighted exposure	60,659,808
Capital adequacy ratio	35.66%

#### 21. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties comprise major shareholders, directors of the Bank, Shari'a Supervisory Board members, entities owned or controlled, jointly controlled or significantly influenced by them and companies affiliated by virtue of shareholding in common with that of the Bank.

Transactions with related parties are undertaken on terms agreed between the parties which may not necessarily be on arms length basis.

for the year ended December 31, 2015

RELATED PARTY TRANSACTIONS AND BALANCES (continued)

			Dec	December 31, 2015				
		Shareholders			Others			
ASSETS	Gross US\$	Provision US\$	Net US\$	Gross US\$	Provision US\$	Net US\$	Total US\$	
through statement of income  - Grand Real Estate Projects Co.	ı	1	1	15,802,165	(15,802,165)	1	1	
Equity investments at fair value through equity  - International Investment Group (IIG) - Gulf Monetary Group (GMG) - Managed Portfolio (GMG Shares) - Takaful International, Bahrain - Takaful International, Kuwait - International Projects Consultancy Co.	7,364 96,250 203,562 - -	(7,364) (96,250) (203,562) - -	11111	5,313,170 715,434 45,579	- - (4,617,771) (586,776) (45,579)	- 695,399 128,658	- - 695,399 128,658	
Deferred payment sale receivables - Gulf Monetary Group	3,680,203	ı	3,680,203	. 1		ı	3,680,203	
Other assets  Receivable from sale of investments:  - Gulf Monetary Group  - International Investment Group	5,974,754 10,811,971	(5,974,754)	1 1	1 1	1 1	1 1	1.1	
Receivable from Mudarib: - International Investment Group	4,464,281	(4,464,281)	1	ı	1	ı	I	
Dividend receivable:  - International Investment Group  - Grand Real Estate Projects Co.  - Takaful International, Bahrain	778,343	(778,343)	1 1 1	931,034 38,633	(931,034) (38,633)	1 1 1	1 1 1	
Current account:  - Gulf Monetary Group  - International Investment Group  - Grand Real Estate Projects Co.	150,371 33,507 -	(150,371) (33,507)	1 1 1	8,861,745	- - (8,861,745)	1 1 1		
<b>Advance for investment</b> – Josor Capital	ı	-	I	408,536	(408,536)	I	I	

for the year ended December 31, 2015

S
0
ሯ
• •
-
က
_
ᇷ
٣
=
≥
ā
ŭ
Ō
Ŏ

			חבר	December 31, 2013			
		Shareholders			Others		
	Gross US\$	Provision US\$	Net US\$	Gross US\$	Provision US\$	Net US\$	Total US\$
Others (Rent Receivable)  - Grand Real Estate Projects Co.	1	1	1	9,312	(9,312)	ı	1
LIABILTIES: - Murabaha payables - International Investment Group	3,229,064	I	3,229,064	ı	1	ı	3,229,064
<ul> <li>Other liabilities</li> <li>Takaful International, Bahrain</li> <li>Key Mangement Personnel</li> </ul>	1 1	1 1	1 1	2,611	1 1	2,611	2,611
<ul> <li>Shari'a Supervisory Board Remuneration &amp; attendence allowances</li> </ul>	1	ı	ı	27,851	ı	27,851	27,851
<ul> <li>Board Members attendence allowances</li> </ul>	ı	1	ı	4,000	ı	4,000	4,000
Off-balance sheet items: Equity of investment accountholders  Investments in IIG on behalf of GMG	5,670,202	(5,670,202)	1	I	ı	1	ı
<ul> <li>GMG shares managed by the Bank on behalf of GMG, IIG and Investors Holding</li> </ul>	10,452,776	(10,452,776)	ı	·	1	ı	1

for the year ended December 31, 2015

December 31, 2014

			Ze	December 51, 2014	4		
		Shareholders			Others		
	Gross US\$	Provision US\$	Net US\$	Gross US\$	Provision US\$	Net US\$	Total US\$
ASSETS Equity investments at fair value through statement of income  — Grand Real Estate Projects Co.	1	I	. 1	15,802,165	15,802,165 (15,802,165)	1	1
Equity investments at fair value through equity  - International Investment Group (IIG)  - Gulf Monetary Group (GMG)  - Managed Portfolio (GMG Shares)  - Takaful International, Bahrain  - Takaful International, Kuwait  - International Projects Consultancy Co.	7,364 96,250 203,562 -	(7,364) (96,250) (203,562) -	1 1 1 1 1 1	5,313,170 715,434 45,579	- - (4,540,505) (286,757) (45,579)	- - 772,665 428,677	- - 772,665 428,677
Deferred payment sale receivables - Gulf Monetary Group	3,680,203	1	3,680,203	I	I	I	3,680,203
Other assets Receivable from sale of investments: - Gulf Monetary Group - International Investment Group	5,974,754 10,811,971	(5,974,754)	1 1	1 1	1 1	1 1	1 1
Receivable from Mudarib:  — International Investment Group	4,464,281	(4,464,281)	1	1	ı	I	I
Dividend receivable:  - International Investment Group  - Grand Real Estate Projects Co.  - Takaful International, Bahrain	778,343	(778,343)	1 1 1	931,034	(931,034) (38,633)	1 1 1	1 1 1
Current account:  - Gulf Monetary Group  - International Investment Group  - Grand Real Estate Projects Co.	150,371 33,507 -	(150,371)	1 1 1	8,861,745	_ _ (8,861,745)	1 1 1	1 1 1
Advance for investment – Josor Capital	I	l	I	408,536	(408,536)	I	I

# Notes to the Financial Statements for the year ended December 31, 2015

7
201
_`
3
Ser
Decemb

RELATED PARTY TRANSACTIONS AND BALANCES (continued)

			1				
		Shareholders			Others		
	Gross	Provision	Net 18\$	Gross	Provision	Net	Total
Others (Rent Receivable)	<del>)</del>	<del>)</del>	<del>)</del>	<del>)</del>	<del>)</del>	<del>)</del>	<del>)</del>
- Grand Real Estate Projects Co.	I	I	ı	9,312	(9,312)	I	ı
UABILITIES:  Murabaha payables  - International Investment Group	3,229,064	I	3,229,064	I	1	I	3,229,064
Other liabilities - Takaful International. Bahrain	ı	I	I	3.610	I	3.610	3.610
<ul> <li>Key Mangement Personnel</li> </ul>	1	ı	ı	14,967	I	14,967	14,967
<ul> <li>Shari'a Supervisory Board Remuneration &amp; attendence allowances</li> </ul>	l	I	I	27,852	I	27,852	27,852
<ul> <li>Board Members' attendance allowance</li> </ul>	l	ı	ı	2,500	I	2,500	2,500
Off-balance sheet items: Equity of investment accountholders							
<ul> <li>Investments in IIG on behalt of GMG</li> <li>GMG shares managed by the Bank</li> </ul>	5,6/0,202	5,6/0,202 (5,6/0,202)	I	I	I	I	I
on behalf of GMG, IIG and Investors Holding	10,452,776	10,452,776 (10,452,776)	1	I	ı	I	I

The income and expenses with related parties included in the financial statements are as follows:

December 31, 2015

Shareholders	Others	
Net US\$	Net US\$	Total US\$
1 1	77,266 300,019	77,266 300,019
ı	39,877	39,877
I	15,433	15,433
ı	ı	ı

Provision for impairment – Takaful International, Bahrain

- Takaful International, Kuwait

expenses and attendance allowance BOD and Board Committees meeting

# Key Management Benefits:

attendance allowances

Remuneration, meeting expenses and

Shari'a Supervisory Board

Salaries and other short term benefits Post employment benefits

# RELATED PARTY TRANSACTIONS AND BALANCES (continued)

# Notes to the Financial Statements

for the year ended December 31, 2015

4		Total US\$	55,533	28,929	130,848
December 31, 2014	Others	Net US\$	55,533	28,929	130,848
Dec	Shareholders	Net US\$	1	1	1 1

# Expenses:

expenses and attendance allowance BOD and Board Committees meeting

Shari'a Supervisory Board Remuneration, meeting expenses and attendance allowance

# Key Management Benefits:

Salaries and other short term benefits Post employment benefits

for the year ended December 31, 2015

#### 22. SEGMENT INFORMATION:

The industrial distribution of the Bank's assets and liabilities as at December 31, 2015 is as follows:

		December 3	31, 2015	
	Banks and financial institutions US\$	Investment companies US\$	Others US\$	Total US\$
<b>Assets</b> Cash and balances with banks	3,107,075	_	_	3,107,07
quity investments	3,692,609	_	46,154	3,738,76
referred payment sale receivable	-	3,680,203	_	3,680,20
ovestments in real estate	900,996	- /	24,265,592	24,265,59
Other assets Exed assets	900,996	_/	53,133 41,350	954,12 41,35
otal assets	7,700,680	3,680,203	24,406,229	35,787,11
abilities				
ue to a financial institution	3,670,202	_	-	3,670,20
Nurabaha payable	3,229,064	<del>-</del>	<u>-</u>	3,229,00
ayable against lease commitment ther liabilities	- 2,611		3,580,902 259,691	3,580,90 262,30
etal liabilities	6,901,877	-	3,840,593	10,742,47
		December 3	31, 2014	
	Banks and			
	financial	Investment	Oil	T . I
	institutions US\$	companies US\$	Others US\$	Total US\$
ssets	σσφ	ΟΟΨ	σσφ	ΟΟΨ
ash and balances with banks	4,120,830	_	_	4,120,83
quity investments	6,256,806	_	88,329	6,345,13
eferred payment sale receivable	_	3,680,203	-	3,680,20
vestments in real estate ther assets	900,996	_	23,616,756 51,334	23,616,73 952,33
xed assets	700,770	_	66,819	66,8
tal assets	11,278,632	3,680,203	23,823,238	38,782,07
abilities				
ue to a financial institution	3,670,202	_	_	3,670,2
urabaha payable	3,229,064	_	_	3,229,00
yable against lease commitment ther liabilities	- 3,610	_	6,944,282 542,474	6,944,2 546,0
	.5 0 1 ()	_	$\Delta \Delta $	340 U
mer liabililles				

#### Geographical concentration

Total liabilities

Assets and liabilities of the Bank as at December 31, 2015 and December 31, 2014 are primarily concentrated in the Middle East region.

6,902,876

14,389,632

7,486,756

for the year ended December 31, 2015

#### 23. RISK MANAGEMENT:

The Bank is exposed to credit risk, liquidity risk and market risk along with other operational risks. The Bank's Board of Directors has the overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established an Executive Committee, which is responsible for developing and monitoring the Bank's operations and policies across various functions including the risk management policies.

The Bank's Audit Committee is responsible for monitoring compliance with the risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by an outsourced Internal Audit function.

#### Credit risk

Credit risk is the risk that a counterparty to a financial transaction does not discharge its obligations on due dates and causes the other party to incur a financial loss.

The Bank's credit risk arises mainly from balances with banks, due from a financial institution, deferred payment sale receivables and other assets. The Bank manages it credit risk on bank balances by placing funds with reputable banks having good credit ratings.

The Bank's maximum exposure to credit risk at December 31, was as follows:

Balances with banks Deferred payment sale receivable Other assets

2015	2014
US\$	US\$
3,105,749	4,119,504
3,680,203	3,680,203
892,165	893,572
7,678,117	8,693,279

Analysis of the Bank's exposure to credit risk:

December 31, 2015

Neither past due nor impaired
Past due but not impaired
Individually impaired Gross amount
Provision for impairment

		•		
Balances with banks and financial institution US\$	Receivables from sale of investments US\$	Deferred payment sale receivable US\$	Other financial assets US\$	Total US\$
3,105,749	_	_	4,432	3,110,181
-	-	3,680,203	887,733	4,567,936
- -	16,786,726 (16,786,726)	- -	16,693,813 (16,693,813)	33,480,539 (33,480,539)
3,105,749		3,680,203	892,165	7,687,117

for the year ended December 31, 2015

#### 23. RISK MANAGEMENT: (continued)

#### Credit risk (continued)

			December 31, 2	014	
	Balances with banks and financial institution US\$	Receivables from sale of investments US\$	Deferred payment sale receivable US\$	Other financial assets US\$	Total US\$
Neither past due nor impaired	4,119,504	-	-	5,839	4,125,343
Past due but not impaired	_	_	3,680,203	887,733	4,567,936
Individually impaired Gross amount Provision for impairment	<u>-</u>	16,786,726 (16,786,726)		16,693,813	33,480,539 (33,480,539)
	4,119,504		3,680,203	893,572	8,693,279

#### Credit quality per class of financial assets

The table below analyses the Bank's maximum credit exposure where the credit quality is reflected by external credit ratings (S&P, Moody's and Fitch) of the counterparties where relevant:

2015	Balances with banks and financial institution US\$	Deferred payment sale receivables US\$	Other financial assets US\$	Total US\$
Non-investment / speculative: BB – B Unrated	1,681,591 1,424,158	- 3,680,203	- 892,165	1,681,591 5,996,526
	3,105,749	3,680,203	892,165	7,678,117
2014				
Non-investment / speculative: BB – B Unrated	1,389,150 2,730,354	_ 3,680,203	- 893,572	1,389,150 7,304,129
	4,119,504	3,680,203	893,572	8,693,279

#### Concentration Risk

Concentration risk is the risk of insufficient diversification of the portfolio resulting in an adverse impact of an external event on portfolio constituents sensitive to similar risk factors. Concentration risk primarily arises due to name and sector concentration.

for the year ended December 31, 2015

#### 23. RISK MANAGEMENT: (continued)

#### Concentration Risk (continued)

The Bank's financial assets with credit risk can be analysed by the following industry sector:

2015	Banks and financial institution US\$	Investment companies US\$	Others US\$	Total US\$
Balances with banks Deferred payment sale receivable Other assets	3,105,749 - 887,733	3,680,203 -	- - 4,432	3,105,749 3,680,203 892,165
	3,993,482	3,680,203	4,432	7,678,117
2014				
Balances with banks Deferred payment sale receivable Other assets	4,119,504 - 887,733	3,680,203 -	- - 5,839	4,119,504 3,680,203 893,572
	5,007,237	3,680,203	5,839	8,693,279

#### Geographical concentration

Assets and liabilities of the Bank as at 31 December 2015 and 31 December 2014 are primarily concentrated in the Middle East region.

#### Liquidity risk

Liquidity risk is defined as the risk that funds will not be available to meet liabilities as they fall due. It is the Bank's policy to keep a significant part of its assets in the form of liquid assets such as balances with banks, due from a financial institution, investments at fair value through statement of income and investments at fair value through equity.

The table below summarises the maturity profile of the Bank's assets and liabilities as of December 31, 2015 based on expected periods to cash conversion from the reporting date:

				2015			
	Upto 1 month US\$	1 to 3 months US\$	3 months to 1 year US\$	Total within 1 year US\$	1 to 3 years US\$	No fixed maturity US\$	Total US\$
Assets							
Cash and balances with banks	3,107,075	-	-	3,107,075	_	-	3,107,075
Equity investments	-	-	139,695	139,695	-	3,599,068	3,738,763
Deferred payment sale receivable	3,680,203	-	-	3,680,203	-	-	3,680,203
Investment in real estate	-	-	-	-	-	24,265,592	24,265,592
Other assets	3,875	-	48,701	52,576	-	901,553	954,129
Fixed assets	-	-	-	-	-	41,350	41,350
Total assets	6,791,153	_	188,396	6,979,549	-	28,807,563	35,787,112
Liabilities							
Due to a financial institution	3,670,202	-	-	3,670,202	-	-	3,670,202
Murabaha payable	3,229,064	-	-	3,229,064	-	-	3,229,064
Payable against lease commitment	-	1,193,634	2,387,268	3,580,902	-	-	3,580,902
Other liabilities	58,979	44,313	141,497	244,789	-	17,513	262,302
Total liabilities	6,958,245	1,237,947	2,528,765	10,724,957	-	17,513	10,742,470
Net	(167,092)	(1,237,947)	(2,340,369)	(3,745,408)	-	28,790,050	25,044,642

for the year ended December 31, 2015

#### 23. RISK MANAGEMENT: (continued)

#### Liquidity risk (continued)

				2014			
	Upto 1	1 to 3	3 months	Total within	1 to 3	No fixed	
	month US\$	months US\$	to 1 year US\$	1 year US\$	years US\$	maturity US\$	Total US\$
Assets							
Cash and balances with banks	4,120,830	_	_	4,120,830	_	_	4,120,830
Equity investments	_	-	185,422	185,422	-	6,159,713	6,345,135
Deferred payment sale receivable	3,680,203	-	_	3,680,203	-	_	3,680,203
Investments in real estate	_	-	<del>-</del>	_	-	23,616,756	23,616,756
Other assets	5,282	_	45,495	50,777	-	901,553	952,330
Fixed assets	-	-	-	- /	_	66,819	66,819
Total assets	7,806,315		230,917	8,037,232	-	30,744,841	38,782,073
Liabilities							
Due to a financial institution	3,670,202	_	_	3,670,202	_	_	3,670,202
Murabaha payable	3,229,064	_	_	3,229,064	_	_	3,229,064
Payable against lease commitment	_	_	_	-	_	6,944,282	6,944,282
Other liabilities	52,567	62,916	413,088	528,571	-	17,513	546,084
Total liabilities	6,951,833	62,916	413,088	7,427,837	_	6,961,795	14,389,632
Net	854,482	(62,916)	(182,171)	609,395	_	23,783,046	24,392,441
						_	

#### **Currency risk**

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

The Bank has the following significant exposure in a foreign currency at the date of statement of financial position:

	2015	
Assets US\$	Liabilities US\$	Total US\$
215,557		215,557
	2014	
Assets US\$	Liabilities US\$	Total US\$
1,922,714		1,922,714

#### Sensitivity Analysis:

The following table demonstrate the sensitivity to a reasonable possible change in foreign exchange rates, with all other variables held constant, of the Bank's statement of income for balances as of December 31:

	Change in rate	Effect on net inc	ome for the year
		2015 US\$	2014 US\$
Kuwaiti Dinar	5%	10,778	96,136

for the year ended December 31, 2015

#### 23. RISK MANAGEMENT: (continued)

#### Currency risk (continued)

The decrease in rate will have an opposite impact on net income.

#### **Equity price risk**

Equity price risk is the risk that Bank's quoted equity investments will depreciate in value due to movements in the quoted equity prices. The Bank has listed equity investments classified at fair value through statement of income and investments at fair value through equity. The price movement of these exposures are monitored by the Bank on a daily basis.

The following table demonstrates the sensitivity to a reasonable possible change in equity prices, with all other variables held constant, of the Bank's statement of income or equity based on the position as of December 31:

	Change in rate	Effect on profit for	the year / equity
Por Market		2015 US\$	2014 US\$
Particulars Investments at fair value through statement of income	20%	27,939	37,084
Investments at fair value through equity	20%	694,082	1,146,207

The decrease in rate will have an opposite impact on profit / equity.

#### **Operational Risk**

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events which includes but is not limited to legal risk and Shari'a compliance risk. This definition excludes strategic and reputational risk.

#### 24. SHARI'A SUPERVISORY BOARD:

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

#### 25. SOCIAL RESPONSIBILITY

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

#### 26. CONTINGENT LIABILITIES

Various parties have filed legal actions against the Bank with varying claims and associated legal costs. The outcome of the remaining actions cannot be presently determined. Accordingly the Bank has not made any provisions.

#### 27. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were authorised for issue in accordance with a resolution of the Bank's Board of Directors on March 24, 2016.

PUBLIC DISCLOSURES DOCUMENT

December 31, 2015

# Table of Contents

1	EXECU	JTIVE SUMMARY	47
2	MANA	AGEMENT DISCUSSION AND ANALYSIS	47
3	CORP	ORATE GOVERNANCE	47
	3.1	Ownership Structure of the Bank	47
		3.1.1 Distribution of Ownership by Directors, Senior Managers, on an Individual Basis	47
		3.1.2 Distribution of Ownership by Nationality	47
		3.1.3 Distribution of Ownership of Shares by size of Shareholder	48
		3.1.4 Ownership by Government	48
	3.2	The Board of Directors	48
	0.2	3.2.1 The Election System of the Board of Directors	49
		3.2.2 Termination Of Board's Membership	49
	3.3	Profiles of Members of the Board of Directors	49
	3.4	Board Committees	50
		3.4.1 Executive Committee (EXCOM)	50
		3.4.2 Audit and Risk Committee	50
		3.4.3 Nomination and Remuneration and Corporate Governance Committee	51
	3.5		52
	3.6	Organisational Chart 2015  Board and Committees Meetings	53
	3.7		54
		Approval Authority Structure  Code of Conduct	
	3.8		54
	3.9	Evaluation Of Board Performance	54
		Social Responsibility	54
		Conflict of Interest	55
		Management Profile	55
		Managerial Committee	55
		Remuneration And Incentives	55
		Corporate Governance Events	56
		Communications Policy	56
		Shari'a Compliance	56
	3.18	Zakah Contributions	56
	3.19	Compliance With CBB'S Corporate Governance Guidelines	56
	3.20	Financial Penalties	57
	3.21	Types Of Material Transactions That Requires Board Approval	57
4	CAPIT	AL ADEQUACY AND MANAGEMENT	57
	4.1	Capital Structure	57
	4.2	Capital Adequacy	58
_			
5		MANAGEMENT	59
	5.1	Credit Risk	60
		5.1.1 Credit Risk Mitigation	61
		5.1.2 Concentration Risk	61
	5.2	Market Risk	63
		5.2.1 Currency Risk	64
	5.3	Operational Risk	65
		5.3.1 Risk and Control Self Assessment	65
		5.3.2 Operational Risk Loss Database	65
		5.3.3 Operational Risk Capital Charge	65
		5.3.4 Legal Risk – Current Litigations and Claims	66
	5.4	Liquidity Risk	67
	5.5	Rate of Return Risk	68
	5.6	Equity Price Risk in the Banking Book	68
		5.6.1 Valuations Policy	69
		5.6.2 Equity Based Financing	69
	5.7	Displaced Commercial Risk	69
	5.8	Risk Mitigation	69
6		ICTED INVESTMENT ACCOUNTS	70
-			
/	KELAT	ED PARTY TRANSACTIONS	70

#### 1. Executive Summary

Basel 3 based guidelines of the Central Bank of Bahrain ["the CBB"] outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from January 1, 2015 in the Kingdom of Bahrain.

This document encompasses the detailed public disclosure requirements and contains a description of following major aspects of Investors Bank ["the Bank" or "IB"]:

Capital Adequacy Policies and Practices; and

#### Risk Management

The Bank has adopted the Standardised Approach to determine the capital requirement for credit risk and market risk, and the Basic Indicator Approach for operational risk.

The disclosed Tier 1 and total capital adequacy ratios comply with the minimum capital requirements under the CBB's Basel 3 framework.

#### 2. Management Discussion and Analysis

During the year 2015 the Bank did not undertake any new investment transactions. The Bank focused on generating liquidity through renting its buildings and reducing its expenses.

For the year ended December 31, 2015 the Bank reported a net profit of US\$ 1,519,046 compared to a net loss of US\$ 1,733,640 for the year ended December 31, 2014.

Financial ratios for five years:

Ratio name	2015	2014	2013	2012	2011
ROAE	6.15	- 6.93	-14.15	-15.34	-13.72
ROAA	4.07	- 4.63	-10.59	-12.41	-11.48
STAFF COST/INCOME	29.61	39.45	187.95	64.69	294.85
COST/INCOME	9.67	209.70	967.95	454.00	1,672.43
EPS (\$)	0.01	- 0.01	- 0.02	- 0.02	- 0.02

#### 3. Corporate Governance

#### 3.1 Ownership structure of the Bank

The ownership structure of the Bank is given below:

#### 3.1.1 Distribution of ownership by Directors, Senior Managers, on an individual basis

The Bank's Board of Directors and Senior Managers do not own any shares in the Bank on an individual basis.

There has been no trading of the Bank shares held by Directors during the year.

#### 3.1.2 Distribution of ownership by nationality

Country	No. of Shares	Ownership %
Kuwait	198,149,182	81.75%
Bahrain	30,726,460	12.67%
Qatar	6,934,298	2.86%
UAE	5,266,423	2.17%
KSA	1,216,970	0.50%
Oman	130,909	0.05%
Total	242,424,242	100.00%

#### 3. Corporate Governance (continued)

#### 3.1 Ownership structure of the Bank (continued)

#### 3.1.3 Distribution of ownership of shares by size of shareholder

Ownership size	No of shareholders	Total ownership
0-5%	105	37.96%
5-15%	2	12.70%
>15%	2	49.34%

The following table shows the names of the shareholders who own 5% or more in the Bank's capital:

Shareholder Name	No of shares	Total ownership
Ajal Holding Company	82,844,459	34.17%
International Investment Group	36,780,742	15.17%
Fahad Sultan Sons & Co.	15,709,091	6.48%
Gulf Monetary Group	15,069,091	6.22%
Total	150,403,383	62.04%

#### 3.1.4 Ownership by Government

No sovereign Government owns any shares in the Bank.

#### 3.2 The Board of Directors

The Board of Directors ("BOD") is responsible for approving the Bank's overall business strategy, monitoring its operations, and taking critical business decisions. The Board, elected by the shareholders, is the ultimate decision making body of the Bank and has the following broad responsibilities, as enunciated in the Corporate Governance Manual of the Bank:

- Providing effective governance over the Bank's affairs for the benefit of its shareholders, employees, customers and other stakeholders;
- Overseeing the conduct of the Bank's business so that it is effectively managed in the long-term interest of shareholders;
- Selecting, evaluating and compensating the Chief Executive Officer (CEO) and planning for CEO succession, as well as monitoring management's succession planning for other key executives;
- Reviewing, approving and monitoring the Bank's strategic plans and objectives;
- Approving the policies of the Bank with respect to various risks and for ensuring that the management takes the steps necessary to identify, measure, monitor, and control these risks. The Board shall also approve policies that identify lines of authority and responsibility for managing risk exposures;
- Monitoring the Bank's accounting and financial reporting practices and reviewing the Bank's financial and other controls;
- Overseeing the Bank's compliance with applicable laws and regulations;
- Approving the financial statements of the Bank; and
- Review of internal control processes and procedures.

The Board shall also ensure the integrity of the Bank's accounting and financial reporting system through regular independent review by internal and external auditors. The Audit Committee is responsible for review of the integrity of the Bank's financial reporting and report to the Board.

The BOD aspires to the highest standards of ethical conduct: doing what it says; reporting results with accuracy and transparency; and maintaining full compliance with the laws, rules and regulations that govern the Bank's business. The Board attempts to monitors compliance of the ethical conduct through periodic reviews by compliance and the internal audit functions.

#### 3. Corporate Governance (continued)

#### 3.2 The Board of Directors (continued)

Review of internal control, processes & procedure is carried out by internal Audit department where the Bank has outsourced its internal audit function to Protiviti, Bahrain.

As per the Articles of Association ("AOA") of the Bank, the Board should have not less than three and not more than 10 members. Currently the Bank has seven members on its Board of Directors, of which three are independent. The term of membership to the Board shall be three years which may be renewed.

Currently the Bank does not have a pre-defined process to induct, educate and orient new directors, which is going to be established soon.

#### 3.2.1 The election system of the Board of Directors

As per the AOA, The Ordinary General Assembly may appoint a number of members from amongst those who have experience and expertise in the Board of Directors from other than the founders of the Bank and the shareholders in the number and specialisation that the Board believes that the interest of the Bank so requires and in order to make available qualified, technical, management, academic and practical expertise.

#### 3.2.2 Termination of Board's membership

As per the AOA, the membership of the director may terminate in the following cases:

- If he is appointed or elected in contrary to the provisions of the Memorandum and AOA.
- If he misuse his membership to carry out business in competition with the Bank or causes actual damages to it.
- If he fails to attend three consecutive meetings without legitimate cause and this issue is notified to the BOD in writing and the Board takes an appropriate action in respect thereof.
- If he resigns, relinquishes or is dismissed from his office provided that this done in an appropriate time
  otherwise he shall be required to compensate the Bank.
- If he occupies another position within the Bank for consideration other than the position that the BOD
  may resolve from time to time to pay a remuneration for the person who occupies such position due to its
  executive nature.

#### 3.3 Profiles of Members of the Board of Directors

- 1- Mr. Ali Saleh Ayesh Al Rashidi Chairman / Independent / Non-Executive (Appointed on October 29, 2015)

  Mr. Al Rashidi is a lawyer; he holds a Master degree in Law and has 14 years of experience in legislation. He is the chairman of Amar Holding Co. Kuwait; and deputy chairman of Remal Al Kuwait Real Estate Co. Kuwait. Currently Mr. Al Rashidi is the president of Salam Group Law Firm, Kuwait.
- 2- Mr. Falah Hajraf K. Al Hajraf Vice Chairman / Non-Independent / Executive (Appointed on May 19, 2014)
  Mr. Al Hajraf holds a Bachelor degree in Law from Cairo University, Egypt; he has over 13 years of experience in real-estate investment and logistics. Mr. Al Hajarf is also a lawyer, co-founder and owner of RHA Law Office in Kuwait; currently he is the chief executive officer of Grand Real Estate Projects Co. Kuwait.
- 3- Sheikh Yousif Abdulla Al-Sabah Member / Non-Independent / Non-Executive (Appointed on May 19, 2014)
  Sheikh Yousif Al-Sabah holds a Master degree in business administration from University of Kuwait; He also holds a Master degree in international studies & diplomacy from University of London, UK. He has over 19 years of experience, having worked in senior positions in both public and private sector. Currently, Mr. Al-Sabah is the chairman of Industry & Technology Co. Kuwait; In addition, he is also the director general of Kuwait Ports Authority.
- 4- Mr. Majed Yousef Ahmed Al-Ali Member / Non-Independent / Executive (Appointed on May 19, 2014)

  Mr. Al-Ali holds HND degree in Banking from Institute of Banking Studies, Kuwait, he has more than 22 years of experience in banking industry; and was the chief financial officer of Kuwait Real-Estate Bank. Currently his is the chairman of Grand Real Estate Projects Co. Kuwait, and general manager of Wethaq Takaful Insurance Co. Kuwait.

#### 3. Corporate Governance (continued)

#### 3.3 Profiles of Members of the Board of Directors (continued)

- 5- Mr. Abdulla Mohammad Al Rifaie Member / Non-Independent / Executive (Appointed on May 19, 2014)
  Mr. Al Rifaie is a lawyer, he graduated from University of Cairo, Egypt; and worked for Kuwait National Bank.
  Currently he is the chief executive officer of International Investment Group (IIG). Kuwait. Mr. Al Rifaie has over 11 years of experience in the law and legislation.
- 6- Mr. AbdulNaser Ahmed Mohamed Member / Independent / Non-Executive (Appointed on June 19, 2014)

  Mr. Mohamed holds a Bachelor Degree in Economics from University of Texas at Austin, USA; he has over 27 years of experience in banking & Finance; he worked for many leading financial institutions in Bahrain.
- 7- Mr. Adel Jassim Al Sane Member / Independent / Non-Executive (Appointed on October 29, 2015)

Mr. Al Sane holds a Master degree in business administration - specialization in international treasury management, debt & currency management - from University of Illinois Springfield, USA. He has over 30 years of experience in investment & financial industry; having worked for Al Safat Investment Co., Securities Group, Al Ahlia Investment Co. and Ministry of Finance, Kuwait. Currently, Mr. Al Sane is the chief executive officer of Dasman Bilingual School – Kuwait.

#### 3.4 Board Committees

Consistent with the industry practices, the Board has established the following board sub-committees with defined roles and responsibilities:

#### 3.4.1 Executive Committee (EXCOM)

The EXCOM provides direction to the executive management on all business matters. The Executive Committee reviews and approves the recommendations for investment strategies, investment proposals, various products and services and where deemed necessary, also refers decisions to the Board of Directors.

The EXCOM is also responsible for business matters concerning risk management, strategy review and recommendation to the Board.

#### Executive Committee (EXCOM) Members:

As of January 1, 2015:

- Mr. Majed Yousef Ahmed Al-Ali Chairman (Non Independent)
- Mr. AbdulNaser Ahmed Mohamed Vice Chairman (Independent)
- Mr. Falah Hajraf K. Al Hajraf Member (Non Independent)

As of October 29, 2015:

- Mr. Majed Yousef Ahmed Al-Ali Chairman (Non Independent)
- Mr. AbdulNaser Ahmed Mohamed Vice Chairman (Independent)
- Mr. Adel Jassim Al Sane Member (Independent)

As of December 31, 2015

- Mr. Majed Yousef Ahmed Al-Ali Chairman (Non Independent)
- Mr. Abdulla Mohammad Al Rifaie Vice Chairman (Non Independent)
- Mr. Adel Jassim Al Sane Member (Independent)

#### 3.4.2 Audit and Risk Committee

The Audit Committee has the responsibility to assist the Board in discharging its oversight duties relating to matters such as risk and compliance, including the integrity of the Bank's financial statements, financial reporting process and systems, internal controls and financial controls. The Committee also liaises between the External Auditors and the Board. The information pertaining to the appointment / reappointment of external auditors and the related fees is available for the perusal of the shareholders; the same will be decided at the Annual General Meeting.

Details of audit fees and other services provided by the external auditor will be available at the request of the regulatory authorities of the CBB. It will also be available for the shareholders upon an official written request to Investors Bank provided that such matters shall not affect the interests of the bank or its competitiveness in the market.

#### 3. Corporate Governance (continued)

#### 3.4 Board Committees (continued)

#### 3.4.2 Audit and Risk Committee (continued)

#### Audit and Risk Committee Members:

#### As of January 1, 2015:

- Mr. AbduÍNaser Ahmed Mohamed Chairman (Independent)
- Sheikh Yousif Abdulla Al-Sabah Vice Chairman (Non-Independent)
- Mr. Majed Yousef Ahmed Al-Ali Member (Non-Independent)

#### As of 29 October 2015:

- Mr. AbdulNaser Ahmed Mohamed Chairman (Independent)
- Mr. Adel Jassim Al Sane Vice Chairman (Independent)
- Mr. Majed Yousef Ahmed Al-Ali Member (Non-Independent)

#### As of 31 December 2015

- Mr. AbdulNaser Ahmed Mohamed Chairman (Independent)
- Mr. Ali Saleh Ayesh Al Rashidi Vice Chairman (Independent)
- Sheikh Yousif Abdulla Al-Sabah Member (Non-Independent)

Members of management, representatives of Internal and External Auditors, independent consultants and other specialists may be invited to attend meetings at the request of the Chairman of the Audit Committee.

#### 3.4.3 Nomination and Remuneration and Corporate Governance Committee

The Nomination and Remuneration and Corporate Governance Committee is appointed by the Board of Directors to assist the Board in discharging its oversight duties relating to:-

- Identifying individuals qualified to become the members of the Board of Directors and recommending to the Board nominees for the next Annual General Meeting.
- Review and approve a formal and transparent procedure for developing a remuneration policy for the Board Chairman, Directors, the CEO and the senior management, and
- Ensure that compensation offered is competitive in line with the market/per group and consistent with the responsibilities assigned.

#### Nomination and Remuneration and Corporate Governance Committee Members:

#### As of January 1, 2015:

- Mr. Falah Hajraf K. Al Hajraf Chairman (Non Independent)
- Mr. Majed Yousef Ahmed Al-Ali Vice Chairman (Non Independent)
- Mr. AbdulNaser Ahmed Mohamed Member (Independent)
- Mr. Abdulla Mohammad Al Rifaie Member (Non Independent)

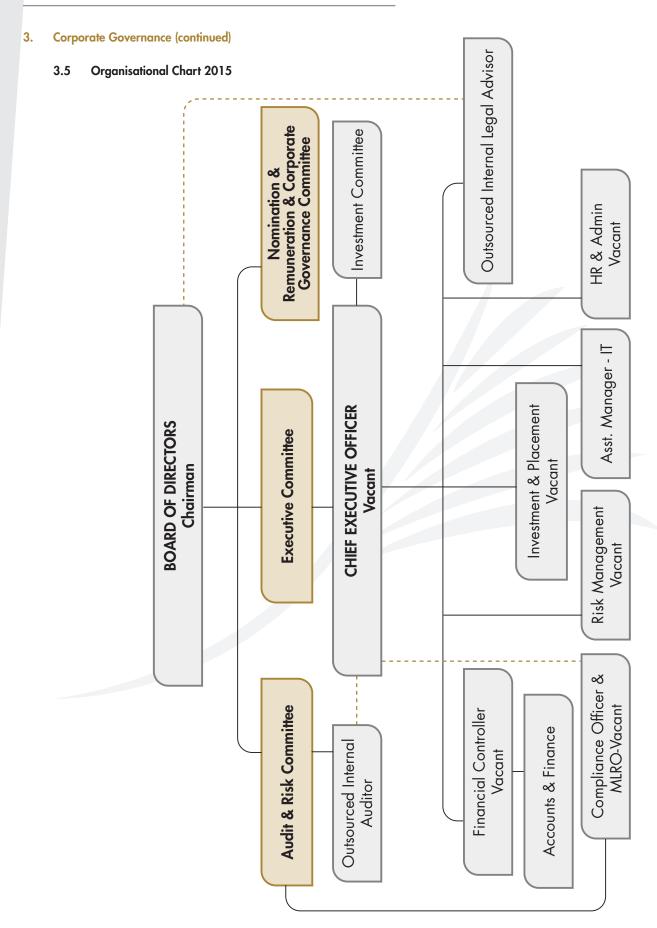
#### As of 29 October 2015:

- Mr. Ali Saleh Ayesh Al Rashidi Member Chairman (Independent)
- Mr. Abdulla Mohammad Al Rifaie Vice Chairman (Non Independent)
- Mr. Adel Jassim Al Sane Member (Independent)
- Mr. AbdulNaser Ahmed Mohamed Member (Independent)

#### As of 31 December 2015:

- Mr. Ali Saleh Ayesh Al Rashidi Member Chairman (Independent)
- Sheikh Yousif Abdulla Al-Sabah Vice Chairman (Non-Independent).
- Mr. AbdulNaser Ahmed Mohamed Member (Independent)

Striving to enhance the Corporate Governance practices, commensurate with the size of operations and feasibility, the Bank may introduce additional board sub-committees as well as management level committees to manage its affairs in an efficient and transparent manner.



#### 3. Corporate Governance (continued)

#### 3.6 Board and Committees meetings

#### **Board of Directors:**

As per the Corporate Governance Manual, the BOD should meet at least four times during a single year. The BOD held two meetings during 2015.

The dates and attendance details of the BOD meetings are given below:

Names of directors	Date and location		
indines of directors	23/5 Bahrain	29/10 Bahrain	
Mr. Falah Hajraf K. Al Hajraf	(√)	(√) By Phone	
Sheikh Yousif Abdulla Al-Sabah	(√)	(√)	
Mr. Majed Yousef Ahmed Al-Ali	(√)	(√)	
Mr. Abdulla Mohammad Al Rifaie	(√) By Phone	(√)	
Mr. AbdulNaser Ahmed Mohamed	(√)	(√) By Phone	
Mr. Ali Saleh Ayesh Al Rashidi	N/A	(√)	
Mr. Adel Jassim Al Sane	N/A	(√)	

Attended:  $(\sqrt{\ })$  Absent: (X)

#### **Executive Committee:**

The committee should meet at least four times a year. The Committee held two meetings during 2015.

The dates and attendance details of the Committee meetings are given below:

Names of directors	Date and location			
inames of directors	23/5 Bahrain	28/11 Bahrain		
Mr. Majed Yousef Ahmed Al-Ali	(√)	(√)		
Mr. AbdulNaser Ahmed Mohamed	(√)	(√)		
Mr. Falah Hajraf K. Al Hajraf	(√)	N/A		
Mr. Adel Jassim Al Sane	N/A	(√)		

Attended:  $(\sqrt{\ })$  Absent: (X)

#### **Audit and Risk Committee:**

The Committee should meet at least four times a year. The Committee held three meetings during 2015.

The date and attendance details of the Committee meeting are given below:

Names of directors	Date and location			
	23/5 Bahrain	15/6 Bahrain	28/11 Bahrain	
Mr. AbdulNaser Ahmed Mohamed	(√)	(√)	(√)	
Sheikh Yousif Abdulla Al-Sabah	(√)	( × )	N/A	
Mr. Majed Yousef Ahmed Al-Ali	(√)	(√)	(√)	
Mr. Adel Jassim Al Sane	N/A	N/A	(√)	

Attended:  $(\sqrt{\ })$  Absent: (X)

#### 3. Corporate Governance (continued)

#### 3.6 Board and Committees meetings (continued)

#### Nomination and Remuneration and Corporate Governance Committee:

The Committee must meet at least once a year. The Committee did not hold any meeting during 2015.

#### 3.7 Approval authority structure

The materiality level for transactions that require Board approval varies for different activities and is governed by the Board approved delegation of authority document.

In addition as per the Board Charter, decisions made by the Board, other than those made at Annual General Meetings and Extra-ordinary General Meetings may be made through circulation. In all such cases:

- The Board secretary shall ensure and confirm circulation of necessary information and documentation;
- A decision through circulation will not be valid unless approved by more than half of the responding members, which should not be less than two;
- All Board members shall be required to respond to the Board Secretary within the following working week of circulation; and
- If the Board Secretary does not receive the response from any Board member within the following working week of circulation, his/her response shall be considered as approved.

#### 3.8 Code of Conduct

The Bank will adopt a Code of Conduct and other internal policies and guidelines designed to support the mission statement set forth above and to comply with the laws, rules and regulations that govern the Bank's business operations. The Code of Conduct will be documented, published and communicated throughout the Bank.

The Code of Conduct will apply to all employees of the Bank as well as to Directors, temporary workers and other independent contractors and consultants when engaged by or otherwise representing the Bank, so that the Board, senior management and staff understand the importance of conducting business based on good corporate governance values and understand their accountabilities to various stakeholders of the Bank.

The Board, senior management and staff will be informed of and be required to fulfil their fiduciary responsibilities to the Bank's stakeholders.

All will adopt and will adhere to the following code of conduct in respect to their behaviour:

- Ensure that their conduct in general is in the best interest of the Bank and its stakeholders
- To act only within the scope of their responsibilities
- Disclose any potential conflicts of interest
- Ensure confidentiality of information

The Audit Committee shall monitor compliance with the Code of Conduct and other internal policies and guidelines.

#### 3.9 Evaluation of Board Performance

The Board shall, through the Nomination and Remuneration Committee, conduct an annual review of the Board's performance. This review shall include an overview of the talent base of the Board as a whole as well as an individual assessment of each director's qualification under corporate governance rules and all other applicable laws, rules and regulations regarding directors; consideration of any changes in a director's responsibilities that may have occurred since the director was first elected to the Board and such other factors as may be determined by the Committee to be appropriate for review.

The Board of Directors shall review the performance of the Chairman and the CEO in order to ensure they are providing the best leadership for the Bank.

#### 3.10 Social Responsibility

The Bank discharges its social responsibility through donations to charitable causes and organisations. However, there were no donations to charitable causes and organisations during the year ended December 31, 2015 (2014: nil).

#### 3. Corporate Governance (continued)

#### 3.11 Conflict of Interest

As per the Board Charter:

- Directors and employees of the Bank shall act ethically at all times and in accordance with the Bank's applicable Code of Conduct. If an actual or potential conflict of interest arises in respect of a director, the director shall promptly disclose such conflict to the Board.
- The Board will establish and disseminate to its members and management policies and procedures for the identification, reporting, disclosure, prevention or strict limitation of potential conflicts of interest. It is senior management's responsibility to implement these policies.
- Any decision to enter into transactions, under which Board members or any member of executive management may have a conflict of interest that is material, shall be formally and unanimously approved by the Board.
- Executive directors shall absent themselves from any discussions or decision-making that involve a subject where
  they are incapable of providing objective advice, or which involves a subject or (proposed) transaction where a
  conflict of interest exists.
- Directors shall disclose to the Board any potential conflict of interest in their activities with other organisations.
- All Board members and members of executive management must declare to the Board in writing, on an annual basis, all of their other interests in other institutions, whether as a shareholder of five percent (5%) or more of the voting capital of the company, a manager or other form of significant participation.

#### 3.12 Management Profile

As of 31 December 2015 the Bank's key control positions such as the Chief Executive Officer, financial controller, head of operation, head of Risk management, head of compliance, and head of Sharia are vacant.

#### 3.13 Managerial Committee

The Board had approved the formation of "Investment Committee" in October 2009.

The overall role of the Investment Committee as approved by the Board is to facilitate:

- the investment and credit business of the Bank in the most effective and efficient manner within the risk guidelines specified by the Board;
- to oversee and perform Asset Liability Management activities; and
- to oversee credit, market, liquidity, profit rate risk and other risks that the Bank is exposed to.

The Investment Committee is chaired by the Chief Executive Officer and comprise of Financial Controller and Assistant Manager – Information Technology with two in house advisors. However, the position of Chief Executive Officer and Financial Controller are currently vacant.

#### 3.14 Remuneration and Incentives

The remuneration to the BOD is governed by the AOA of the Bank, which states the following:

- The General Assembly shall determine the remunerations of the members of the BOD, provided that such remunerations shall not exceed ten percent (10%) of the net profit in each financial year after deducting statutory reserves and after distributing a profit of not less than five percent (5%) of the Bank's paid capital to the shareholders. However, this provision shall not oblige the Bank to pay five percent (5%) of any other amount. Such remunerations shall be distributed to the members of the Board in proportion to their actual attendance of the meetings of the BOD and the committees connected to it as per the minutes of meetings approved by the Bank.
- The General Assembly may decide to pay an annual remuneration to the members of the BOD during the years in which the Bank does not post any profit or during the years in which it does not pay out dividends to the shareholders, subject to the approval of the Minister of Commerce.

The Bank provides fixed annual fees to the Shari'a Board and does not provide any performance linked incentives.

The remuneration to the employees of the Bank is on the basis of the employment contracts of the individuals. There is a system of annual appraisal based on which the terms of the contract are reviewed every year.

#### 3. Corporate Governance (continued)

#### 3.14 Remuneration and Incentives (continued)

Any bonus/ex-gratia payment is purely at the discretion of the Bank. The AOA provides the guidelines for the employee incentive programme that has not been implemented.

#### 3.15 Corporate Governance Events

- On October 29, 2015 the following Board of Directors were appointed:
  - o Mr. Ali Saleh Ayesh Al Rashidi
  - o Mr. Adel Jassim Al Sane

#### 3.16 Communications Policy

The Bank has a Board approved communication strategy which is part of the public disclosure policy, in compliance with CBB regulations under PD Module of the Volume 2 of CBB Rulebook, to disclose material information about its activities to various stakeholders. As a policy, the Bank maintains at least three years of financial data on its website.

The communication policy applies to all modes of communication to the public including written, oral and electronic communications. These disclosures are made on a timely basis in a manner required by applicable laws and regulatory requirements.

Management seeks to respond to shareholders' questions and concerns on a prompt basis, subject to the limitations imposed by law and the confidentiality of certain information. The Bank maintains a website at www.investorsb. com, which includes information of interest to various stakeholders including the regulatory authorities. Information available on the website includes the Annual Report and reviewed quarterly financials of the Bank.

#### 3.17 Shari'a Compliance

All the transactions entered into by the Bank are presented to Shari'a Supervisory Board, which comprises of three Shari'a scholars, for review on an annual basis and to ensure that the respective agreements are in compliance with the principles of Shari'a. The internal legal advisor of the Bank is also the internal Sharia`a reviewer and Secretary to the Shari'a Board.

The Bank strives to make sure that it does not engage in non-Shari'a compliant earning. However if there are any non-compliant earnings, they are dealt with through cleansing principles as recommended by the Shari'a Board.

#### 3.18 Zakah Contributions

In the absence of appointment of the Bank to pay zakah on behalf of Shareholders, the responsibility of payment of zakah is on individual shareholders of the Bank.

#### 3.19 Compliance with CBB's Corporate Governance Guidelines

The Bank, during the year ended December 31, 2015 has reported non-compliance with the following sections of the CBB rule book volume 2 HC modules:

HC-1.9.1 to 1.9.4; Evaluation of the Board, Committee and Directors:

The Bank's Board does not conduct an annual review of its performance, the performance of committees nor each individual director. Further the Board did not report to the shareholders, at each annual shareholder meeting, the evaluations that have been done and its findings.

HC-1.3.3; Decision Making Process:

The Board must meet frequently to enable it to discharge its responsibilities effectively but in no event less than four times a year. All Directors must attend the meetings whenever possible and directors must maintain informal communication between meetings.

HC-9.2.4(b); Corporate Governance Committee shall comprise of A Shari'a scholar who is an SSB member:

A Shari'a scholar who is an SSB member for the purpose of leading the Corporate Governance Committee on Shari'a-related governance issues (if any), and also to coordinate and link the complementary roles and functions of the Corporate Governance Committee and the SSB.

#### 3. Corporate Governance (continued)

#### 3.20 Financial Penalties

During year 2015 the Central Bank of Bahrain (CBB) imposed the followings financial penalties on the Bank in accordance with Chapter EN-6.2A (b) of the CBB Rule book – Volume 2

Nature of Financial Penalty	CBB Rulebook – Volume 2 Reference	Date Submitted to CBB	Amount
Failure to submit Annual Audited financial statements for the year ending December 31, 2014 to the CBB by March 31, 2015.	BR 1.1.2	May 25, 2015	BD 2,750 Equivalent to US\$ 7,294
Failure to submit the group structure and the Bahrain's office organization chart for the year ended December 31, 2014 to the CBB by March 31, 2015.	BR-1.1.4(d)	September 2, 2015	BD 7,750 Equivalent to US\$ 20,557
Failure to submit report on the controllers of the licensee and the extent of their shareholders interest for the year ended December 31, 2014 to the CBB by March 31, 2015.	GR-5.1.9 and BR-1.1.4(k)	September 2, 2015	BD 7,750 Equivalent to US\$ 20,557
Failure to submit agreed upon procedures report concerning the completeness of disclosure required by Module PD for the period ended December 31, 2014 to the CBB by March 31, 2015.	BR-1.1.4 and AU-3.1.3	August 12, 2015	BD 6,700 Equivalent to US\$ 17,772
Failure to submit agreed upon procedure report for the PIRI for the period ended December 31, 2014 to the CBB by March 31, 2015.	BR-3.1.4	August 10, 2015	BD 8,150 Equivalent to US\$ 21,618

#### 3.21 Types of Material Transactions that requires Board approval

Based on the Bank's approved list of delegation of financial and administration authorities, the following are samples of transactions which have to be approved by Board of Directors:

- Investment in listed equities which exceeds US\$ 3 million.
- Investment in Unlisted equities which exceeds US\$ 1.5 million.
- Investment in initial public offering (IPO) which exceeds US\$ 1 million.
- Other investment which exceeds US\$ 1.5 million.
- Write-off receivable in excess of US\$ 250,000.

#### 4. Capital Adequacy and Management

The Bank follows the CBB guidelines for the capital requirements of the Bank and maintains sufficient capital to ensure compliance with the minimum capital requirements of the CBB.

#### 4.1 Capital Structure

The Bank has capital in the form of equity and does not have any other equity related instrument including innovative, complex or hybrid capital instruments.

#### 4. Capital Adequacy and Management (continued)

#### 4.1 Capital Structure (continued)

The Bank's regulatory capital position at December 31, 2015 was as follows:

Eligible Capital	December 31, 2015
Common Equity Tier 1 (CET1)	
Issued and fully paid ordinary shares Legal / Statutory Reserve Accumulated losses Current cumulative net income Accumulated other comprehensive income and losses (and other reserves)	80,000,000 7,561,420 (65,603,005) 1,519,046 909,705
Total CET1 capital prior to regulatory adjustments	24,387,166
Less: Investment in financial entity where ownership is < 10% the issued common share capital	(250,779)
Total Common Equity Tier 1 capital after regulatory Adjustments	24,136,387
Other Capital (AT1 & T2)	
Assets revaluation reserve – property, plant, and equipment *	657,476
Total Capital	24,793,863

<sup>\*</sup> The amount taken to this reserve relates to the Bank's "Properties fair value reserve" pertaining to investment in real estate.

#### 4.2 Capital Adequacy

The Bank determines Risk Weighted Assets according to the Standardised Approaches for credit and market risk and Basic Indicator Approach for operational risk as per CBB guidelines that seek to reflect the varying levels of risk attached to the assets.

#### 4. Capital Adequacy and Management (continued)

#### 4.2 Capital Adequacy (continued)

The Bank's policy is to maintain a capital adequacy ratio, at all times, in excess of the minimum required by CBB.

Risk Assets/ Categories	Risk Weighted Assets (RWA)	Capital Charge @ 12% of RWA
Credit Risk		
– Cash and balances with banks	622,436	74,692
- Equity investments	4,289,308	514,717
– Deferred payment sale receivables	7,903,310	948,397
- Investment in real estate	99,009,505	11,881,141
– Other assets	940,866	112,904
– Fixed assets	41,350	4,962
Total Credit Risk	112,806,775	13,536,813
Market Risk		
- Equity position risk	279,390	33,527
– Foreign exchange risk	215,557	25,867
Total Market Risk	494,947	59,394
Total Operational Risk	2,312,321	277,479
Total Risk Weighted Assets	115,614,043	
Total Eligible Capital	24,793,863	
Capital Equity Tier 1		20.88%
Tier 1		20.88%
Total Capital Adequacy Ratio (Total Capital)		21.45%

#### 5. Risk Management

The Bank is exposed to the credit, market and liquidity risk during the course of its business along with other operational risks.

The Bank's Board of Directors has the overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established an Executive Committee (EXCOM), a board level subcommittee that is responsible for developing and monitoring the Bank's operations and policies across various functions including the risk management framework.

The Bank's Audit Committee is responsible for monitoring compliance with the risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by outsourced Internal Audit function.

The Bank has established and implemented various exposure limits as well as set levels of risk that the Bank is willing to accept in relation to its available capital.

The limit structure includes single obligor level limits, large exposure limits, industry level limits, country level limits etc. All limits have been set as per CBB guidelines and Bank's internal limits and policy.

The risk management philosophy of the Bank, as enunciated in the Risk Management Manual, is to identify, capture, monitor and manage the various dimensions of risk with the objective of protecting asset values and income streams so that the interests of the Bank's shareholders (and the Bank's creditors / lenders) are safeguarded.

#### 5. Risk Management (continued)

#### 5.1 Credit Risk

Credit risk is the risk that a counterparty to a financial transaction does not discharge its obligations on due dates and causes the other party to incur a financial loss. Credit risk may arise from all products and services where counterparties of the Bank fail to meet their payment obligations in accordance with terms and conditions of the contract. This risk exists in all activities of the Bank, including the Banking Book and both "on" or "off" the balance sheet.

The Bank's credit risk arises mainly from balances with banks, due from a financial institution, deferred payment sale receivables and other assets.

The Bank manages its credit risk on bank balances by placing funds with reputable banks having good credit ratings.

The following table demonstrates Bank's credit risk exposure:

Credit Risk Exposure			
	Own capital and current account		
Portfolios	Total gross credit risk exposure over to period *		
Balances with banks	3,105,749	2,655,262	
Due from a financial institution	_	1,326,949	
Deferred payment sale receivables	3,680,203	3,680,203	
Other assets	892,165	891,418	
Total	7,678,117	8,553,832	

<sup>\*</sup> These have been computed based on the average of the guarter end balances.

As part of the Bank's credit risk strategy, the Bank has established a credit risk appetite which is quantified in terms of a limit structure for credit risk. The limit structure also helps the Bank's control over the credit risk and to maintain a proper diversification of its activities and thereby attempt to avoid concentration of risks for counterparty, country, sector, industry and region. The Bank manages credit risk of its exposures by constant monitoring of the limit structure. The updated limit structure, approved by the Board in October 2009, covers new investment exposures by the Bank.

The Bank continues to have certain exposures, originated in earlier years, that exceed the limit stipulated under the CBB guidelines and the internal limit structure of the Bank.

For "Balances with banks", the Bank uses ratings assigned by External Credit Assessment Institutions ["ECAI"] for risk assessment and calculating risk weighted equivalents. ECAIs considered by the Bank are Standard and Poor's, Moody's and Fitch.

Analysis of Bank's exposure to Credit Risk (Past due and impaired):

	Banking and financial institutions	Investment Companies	Others	Total
Past due but not impaired Islamic financing contracts	887,733	3,680,203	_	4,567,936
Impaired financing contracts	16,088,102	6,125,125	11,267,312	33,480,539
Total	16,975,835	9,805,328	11,267,312	38,048,475

#### 5. Risk Management (continued)

#### 5.1 Credit Risk (continued)

Aging of past due and impaired financing contracts:

	Banking and financial institutions	Investment Companies	Others	Total
Less than 3 months	_	_	_	-
3 months – 1 year	_	_	_	-
1 year – 3 years	_	<del>/-</del>	_	-
Over 3 years	16,975,835	9,805,328	11,267,312	38,048,475
Total	16,975,835	9,805,328	11,267,312	38,048,475

Movement in specific provisions during the year:

	Banking and financial institutions	Investment Companies	Others	Total
Balance at the beginning of the year	16,088,102	6,125,125	11,267,312	33,480,539
Net provision for impairment for the year	<u>-</u> ,	-	_	_
Balance at the end of the year	16,088,102	6,125,125	11,267,312	33,480,539

Past due exposures are those on which payments are not being made on time and are behind schedule, although partial payments may have been made.

The management of the Bank analyses its credit risk portfolio on a periodical basis to assess its recoverability. Impairment provisions for assets are based on the management's assessment of the expected realisations. Specific impairments are identified by the Bank based on the various specific factors, which include financial health of the investee and any expected cash for in kind settlements.

The Bank does not maintain any collective impairment provisions as of December 31, 2015.

#### 5.1.1 Credit Risk Mitigation

The Bank does not generally engage in lending against collateral and does so by exception. However, the Bank has designed guidelines (covered in the Credit policy approved in July 2010) for collateral valuation and management (wherever required) and will extend credit facilities only where it is supported by adequate tangible security and/or audited financial statements of its customers/counterparties.

Also the market value of security offered by prospective and existing customers/counterparties will be evaluated by the Bank based on market information.

#### 5.1.2 Concentration Risk

Concentration risk arises when a number of counterparties are engaged in similar economic 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. The Bank seeks to manage its concentration risk by establishing geographic and industry wise concentration limits. Presently, most of the Bank's assets are, however, in GCC region as this has strategic fit with Bank's overall business approach and also the current market imperatives. The Bank allocates exposure to a particular geographical area based on the location of the asset or on the location of the investee company.

#### 5. Risk Management (continued)

#### 5.1 Credit Risk (continued)

#### 5.1.2 Concentration Risk (continued)

The Bank's assets exposed to credit risk are distributed over the following geographical areas:

#### Own capital

Acceleration	Geographic area			
Asset category	Bahrain	Kuwait	Other countries	Total
Balances with banks	3,101,461	4,288	_	3,105,749
Deferred payment sale receivables	3,680,203	/-	_	3,680,203
Other assets	888,290	_	3,875	892,165
Total	7,669,954	4,288	3,875	7,678,117

The Bank's assets exposed to credit risk by industry or counterparty is given below:

#### Own capital

Own capital				
	Industry sector			
Asset category	Banks and financial institutions	Investment companies	Others	Total
Funded				
Balances with banks	3,105,749	_	_	3,105,749
Deferred payment sale receivables	<u>-</u>	3,680,203	_	3,680,203
Other assets	887,733	_	4,432	892,165
Total	3,993,482	3,680,203	4,432	7,678,117

The Bank does not have any unfunded exposures.

As required by CBB, the Bank must not incur an exposure to an individual counterparty or group of closely related counterparties, which exceeds 15% of the Bank's capital base without the prior written approval of the CBB. Also the Bank's shareholders with significant ownership of the Bank's capital are not allowed to obtain financing facilities from the Bank (i.e. a 0% limit).

#### 5. Risk Management (continued)

#### 5.1 Credit Risk (continued)

#### 5.1.2 Concentration Risk (continued)

The Bank's concentrations of exposure to individual counterparties and group of closely related counterparties in excess of 15% are given below:

Concentration of risk				
Counterparties	Own capital			
	Total exposure			
Counterparty # 1	3,680,203			
Counterparty # 2	<i>7</i> ,161,803			
Counterparty # 3	6,204,244			
Counterparty # 4	6,204,244			
Counterparties – Closely Related – Including Counterparties 1	4,504,260			

Additionally, Bank's past due exposures broken-down by geographical areas are given in the table below:

Impaired exposures, Past Due exposures and allowances				
Own capital				
Geographic area	Past due and Impaired Islamic financing contracts	Specific impairment provision		
Bahrain	10,874,745	6,306,809		
Kuwait	25,890,194	25,890,194		
Other countries	1,283,536	1,283,536		
Total	38,048,475	33,480,539		

#### 5.2 Market Risk

The Central Bank of Bahrain defines market risk as "the risk of losses in on and off-balance sheet positions arising from movements in market prices".

Market risk is the risk of changes in the value of the security or transaction due to changes in underlying market exposure. Market risk may arise from movements in market dynamics such as reference rates, foreign exchange markets, equity markets or commodity markets.

The Bank has following sources of market risk:

Equity price risk in the trading book (for listed equities); and

Currency risk on account of foreign currency denominated investments in the trading as well as banking book.

The Bank's trading book equity positions are listed in some GCC stock exchanges and have a ready market. The FX positions in the Banking book are structural in nature and have a ready market.

Additionally, as part of trading book, the Bank does not have exposure to assets that do not have a ready market.

#### Risk Management (continued)

#### 5.2 Market Risk (continued)

The following table demonstrates the sensitivity to a reasonable possible change in equity prices, with all other variables held constant, of the Bank's statement of income based on the statement of financial position as of December 31, 2015:

Particulars	20% decrease	20% increase
Investments at fair value through statement of income	(27,939)	27,939

As part of the overall market risk strategy, the Bank attempts to proactively measure and monitor market risk in its portfolio using appropriate measurement techniques (standardised measurement methodology suggested by CBB). Additionally, in order to control market risk the Bank holds sufficient capital in line with Pillar 1 regulatory capital requirements of the CBB. The Bank has also established a limit structure to provide a ceiling on the market risk exposure that can be taken by the Bank.

Bank's capital requirements for Market Risk using the Standardised measurement method:

Particulars	Gross exposure as at December 31, 2015	Risk weighted assets (RWA) as at December 31, 2015	Capital requirement @ 12% of RWA as at December 31, 2015	Maximum capital requirement during the period	Minimum capital requirement during the period
Equity Position	139,695	279,390	33,527	45,918	33,527
Foreign Exchange Position	215,557	215,557	25,867	226,037	25,867

#### 5.2.1 Currency Risk

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

The Bank had the following net foreign currency exposures as at December 31, 2015:

Currency	(US\$ Equivalent)
Bahraini Dinar	29,929,571
Kuwaiti Dinar	215,557
United Arab Emirates Dirham	1,462,630

#### Sensitivity Analysis:

The following table demonstrates the sensitivity to a reasonable possible change in foreign exchange rates, with all other variables held constant, of the Bank's statement of income based on the statement of financial position as of December 31, 2015:

Currency	5% decrease	5% increase
Kuwaiti Dinar	(10,778)	10, <i>77</i> 8

Note: Bahraini Dinar and UAE Dirham exposures are not considered to represent significant currency risk as both currencies are pegged to the US Dollars.

#### 5. Risk Management (continued)

#### 5.3 Operational Risk

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events which includes but is not limited to legal risk and Shari'a compliance risk. This definition excludes strategic and reputational risk.

The Bank has implemented an operational risk framework of the Basic Indicator Approach ["BIA"], as defined by the CBB guidelines. This framework includes measuring, monitoring and managing operational risk across the Bank. This framework uses tools like Risk and Control Self-Assessment and identification of Key Risk Indicators.

The operational risk framework will evolve with the changing needs of the Bank's businesses and regulatory guidance, taking into account internal and external operational risk events, business environment and internal control factors.

While individual units have direct responsibility for the control and mitigation of operational risk, the proposed framework provides a consistent methodology across the Bank. The Bank attempts to manage operational risk through appropriate controls, appropriate training to the employees, and internal checks and balances including internal audit and compliance.

#### 5.3.1 Risk and Control Self-Assessment

The Bank has established RCSA methodology to provide an annual, forward-looking process for identifying and assessing risks, evaluating controls, establishing thresholds for risks and controls and determining the appropriate level of risk mitigation.

This process will enable the Bank to better understand its risk profile and ensure that operational risk-taking is aligned with the Bank's risk appetite.

#### 5.3.2 Operational Risk Loss Database

The Bank has a policy to collect loss events' information for preparing Operational Risk Loss Database. The functional units of the Bank have to map their risk events and collect/record related operational loss event data.

The Bank has embellished a disaster recovery site to ensure timely recovery of system and restoration of critical business process in the event of disaster.

#### 5.3.3 Operational Risk capital charge

Bank's capital charge for Operational Risk using Basic Indicator Approach

Particulars	Average gross income	Risk weighted exposures	Capital charge
Operational risk	1,233,238	2,312,321	184,986

As required by CBB under section CA 6.2.3 of the CBB Rulebook, the operational risk capital charge is 15% of the average of annual gross income of last 3 years' profit. Figure for any year in which annual gross income is negative or zero has been excluded from both the numerator and denominator when calculating the average.

Bank's indicators of Operational Risk exposures for Basic Indicator Approach

Particulars	Amount
Gross Income	1,233,238
Amount of non-Shari'a-compliant income	None
Number of Shari'a violations that were identified and reported during the financial year	None

The non-Shari'a compliant income is the interest income on the Bank's current accounts and forms part of undistributed charity funds (as approved by the Shari'a Board).

#### Risk Management (continued)

#### 5.3 Operational Risk (continued)

#### 5.3.3 Operational Risk capital charge (continued)

As per the CBB rulebook, Gross income is defined as:

Net income from financing activities which is gross of any provisions, operating expenses, realised profits/losses from the sale of securities in the banking book, and depreciation of Ijarah assets;

Net income from investment activities; and

Fee income (e.g. commission and agency fee)

less

Investment account holders' share of income

Takaful income

#### 5.3.4 Legal Risk – Current Litigations and Claims

The Bank has appointed external legal advisor(s) for advice on various legal issues including legal documentation.

The current litigations and claims of the Bank are given below:

• On March 7, 2004, the Bank entered into a sale and purchase agreement with a financial institution to purchase shares of a related party for a total consideration of US\$ 5,811,957 including six-month deferred payment costs of US\$ 141,755. Concurrently the Bank has entered into an agreement with another related party to sell the same shares for a total consideration of US\$ 5,821,958 including deferred payment costs of US\$ 151,755, payable on September 30, 2004.

In accordance with the terms of the agreement, the Bank pledged certain own equity investments in addition to subsequent dividend shares received, in favour of the financial institution, the carrying value of which as at December 31, 2015 amounted to US\$ 2,646,246 (US\$ 3,380,467 as at December 31, 2014) and dividends receivable up to 2006 totalling US\$ 887,733.

As the date of signature of both agreements, the net remaining amounts due to the financial institution and due from the related party amounted to US\$ 3,670,202 and US\$ 3,680,203 respectively (excluding deferred payment costs). No further settlements were made and the agreement was terminated by the financial institution, which retained the Bank's pledged shares. The Bank's management considered that the agreement was wrongfully terminated and pledged shares were unlawfully retained. The Bank has filed a legal case before the Courts of Bahrain against the financial institution for repossession of the pledged share, which are currently under the custody of the Court with the related dividends discussed above. Further a cheque in the amount of US\$ 3,680,203 representing the amount due to the Bank on the deferred sale of shares was drawn by that related party and deposited at the Court.

In the opinion of the Bank's management, no provision is required to be made in the financial statements against the pledged shares or against any contingent liabilities that might arise on the final settlement.

• In 2004, a related party entered into a Murabaha financing agreement with a financial institution against the pledged of 18,840,341 equity shares, of which 8,352,705 owned by the Bank with a carrying value at that time of US\$ 5,760,487, and the remaining 10,487,636 shares owned by the borrowing related party and another related party.

Also on November 1, 2004 the Bank obtained from the above related party a one year financing totalling US\$ 3,229,064 including financing cost of US\$ 134,295 by virtue of a Murabaha contract.

Following the default of the related party, the case was brought to Court, which ruled in favour of the financial institution and ordered the settlement of the outstanding balance of BD 2,236,191 (US\$ 5,931,541) in addition to annual profit of 3% effective April 2011 and settlement of legal costs.

As no settlement was made by any of the parties that had pledged the shares in guarantee of the financing agreement as stated above, the Court appointed in 2013 a broker to auction all the 18,840,341 pledged shares in one bulk. A number of unsuccessful auctions were held at varying starting prices.

#### 5. Risk Management (continued)

#### 5.3 Operational Risk (continued)

#### 5.3.4 Legal Risk - Current Litigations and Claims (continued)

In recognition of the Bank's liability, the management decided to write down to zero the value of its 8,352,705 pledged shares and valued the remaining same shares (2,912,950 shares) in its portfolio at BD 0.100 (US\$ 0.2652) per share, being the lowest bidding price up to the 2014 year end. In April 2015, the 8,352,705 shares were liquidated at an auction price of BD 0.100 per share and the amount was directly awarded to the party to whom the shares were pledged to with no gain or loss being recognised by the Bank.

Subsequent to the auction, the remaining 2,912,950 unpledged shares were valued at BD 0.090 (US\$ 0.239) being the quoted price at December 31, 2015.

There are two labour cases running against the bank from two former employees seeking compensations
as a result of alleged unfair termination of their services with the bank. The Bank's legal position is strong
and a material liability to the Bank is not expected from the cases.

The Bank has appointed external law firm(s) to deal with the above cases.

#### 5.4 Liquidity Risk

Liquidity risk is defined as the risk that funds will not be available to meet liabilities as they fall due.

It is the Bank's policy to keep a significant part of its assets in liquid assets such as investments at fair value through statement of income and investment at fair value through equity.

The Bank funds its exposures mainly from equity and does not take restricted or unrestricted deposits to fund its exposures.

The Bank has established a limit structure to monitor the prevailing liquidity position and to control negative mismatches that may affect the fulfilment of short term obligations of the Bank.

The maturity profile of for cash and cash equivalents, Murabaha payables has been presented using contractual cash flows.

For other balances, maturity profile is based on expected cash flows/ settlement profile.

Period 2015	Up to 1 month	1 to 3 months	3 months to 1 year	Total Within 1 year	1 to 3 years	No fixed maturity	Total
Assets							
Cash and balances with banks	3,107,075	_	_	3,107,075	_	_	3,107,075
Equity Investments	_	_	139,695	139,695	_	3,599,068	3,738,763
Deferred payment sale receivables	3,680,203	_	_	3,680,203	_	_	3,680,203
Investment in real estate	-	_	_	-	_	24,265,592	24,265,592
Other assets	3,875	_	48,701	52,576	_	901,553	954,129
Fixed assets	_	_	_	_	_	41,350	41,350
Total assets	6,791,153	-	188,396	6,979,549	-	28,807,563	35,787,112

#### Risk Management (continued)

#### 5.4 Liquidity Risk (continued)

Period 2014	Up to 1 month	1 to 3 months	3 months to 1 year	Total Within 1 year	1 to 3 years	No fixed maturity	Total
Liabilities							
Due to a financial institution	3,670,202	_	_	3,670,202	-	_	3,670,202
Murabaha payable	3,229,064	_	_	3,229,064	/ -	_	3,229,064
Payable against lease commitment	_	1,193,634	2,387,268	3,580,902	_	_	3,580,902
Other liabilities	58,979	44,313	141,497	244,789	_	17,513	262,302
Total liabilities	6,958,245	1,237,947	2,528,765	10,724,957	-	17,513	10,742,470
Cumulative Liquidity Gap	(167,092)	(1,405,039)	(3,745,408)	(3,745,408)	(3,745,408)	25,044,642	

Following are the key liquidity ratios as at December 31, 2015:

Description	Ratio
Short Term Assets : Total Assets	19.5 %
Short Term Assets : Short Term Liabilities (Times)	0.65

#### 5.5 Rate of Return Risk

Rate of return risk arises due to different timing of re-pricing of the Bank's assets and liabilities. The Bank's exposure to rate of return risk is limited to balances with banks. The Bank does not have any assets which are exposed to rate of return risk.

#### 5.6 Equity Price Risk in the Banking book

Equity price risk is the risk that quoted equity investments will depreciate in value due to movements in the quoted equity prices. The Bank has a few listed equity exposures in the investments at fair value through equity portfolio. The price movement of these exposures are closely monitored by the Bank and reported to the management.

#### Sensitivity Analysis:

The following table demonstrates the sensitivity to a reasonable possible change in equity prices, with all other variables held constant, of the Bank's equity based on the statement of financial position as of December 31, 2015:

Particulars	20% decrease	20% increase
Investments at fair value through equity	(694,082)	694,082

#### 5. Risk Management (continued)

#### 5.6 Equity Price Risk in the Banking book (continued)

#### 5.6.1 Valuations Policy

The Bank measures the fair value of quoted investments using the market bid-prices in an active market for that instrument. Fair value for unquoted managed funds is the fund's net assets value as determined by the respective fund manager.

#### 5.6.2 Equity based financing

The Bank has the following investments classified as quoted on an active market or privately held:

Types And Nature of Investments				
	Publicly traded	Privately held		
Investment in shares	3,470,410	128,658		
Investment in managed funds	_	_		
Total	3,470,410	128,658		

Additionally the Bank has following cumulative realized gains or losses arising from sales or liquidations, total unrealized gains and losses recognized in the statement of financial position but not through the statement of income, and any unrealized gains and losses included in Tier 1 capital:

Particulars	Amount
Cumulative realized gains (losses) arising from sales or liquidations in the reporting period	-
Total unrealized gains (losses) recognized in the statement of financial position but not through the statement of income	909,705
Unrealized gains (losses) included in Tier One Capital	909,705

The Bank has following capital requirements broken down by equity groupings:

Equity grouping	Risk weighted assets (RWA)	Capital requirements @ 12% of RWA
Investment in shares	4,289,308	514,717
Investment in managed funds	_	_
Total	4,289,308	514,717

#### 5.7 Displaced Commercial Risk

The risk when an Islamic bank is under pressure to pay its investors-depositors a rate of return higher than what should be payable under actual terms of the investment contract.

Since the Bank does not take deposits from outside parties, displaced commercial risk is not currently relevant for the Bank.

#### 5.8 Risks Mitigation

The Strategies used to mitigate the risks faced by the Bank have been effective throughout the reporting year.

#### 6. Restricted Investment Accounts

The Bank has not, as a focused business proposition, opened Investment Accounts or accepted Investment Account deposit (restricted or unrestricted) except for three specific transactions involving related parties and therefore does not have any formal policies and procedures for management of RIA accounts. The Bank accepted certain funds from a related party in 1999 under a Mudaraba arrangement which were deployed in a Murabaha with a non-related party. The Murabaha was partially repaid and the balance amount has been impaired. Appropriable impairment provisions have been made in the RIA.

Balance as of December 31, 2015 net of provision:

Exposures	No of units (000)	Average value per share US\$	Total US\$
Murabaha with Lotus Air Ltd *	_	_	_
Investments in International Investment Group K.S.C.C. **	12,887	_	_
Portfolio managed by the Bank ***	142,059	-	_
Total			_

<sup>\*</sup> The Bank accepted certain funds from a related party in 1999 under a Mudaraba arrangement which were deployed in a Murabaha with a non-related party. The Murabaha was partially repaid and the balance amount has been impaired. Appropriable impairment provisions have been made in the RIA.

This account does not have a specific maturity due to it being a subject of litigation in the Kingdom of Bahrain courts.

The Bank did not distribute any returns to the restricted investment account holders.

#### \*\*\* Managed Portfolio

During 2004, the Bank signed a Portfolio Management Agreement with some related parties. The underlying assets of the portfolio comprise the shares of one of the related parties that is also a partial owner of the portfolio.

This portfolio may be liquidated on the instructions of the owners after due regulatory approvals are obtained and hence has no fixed maturity.

The Bank's Board of Directors had resolved to write down the value of these shares to zero in the latter part of 2013 based on the performance of these shares and / or the lack of information to support the carrying value of these shares.

#### 7. Related party transactions

Related parties comprise major shareholders, directors of the Bank, Shari'a Supervisory Board members, entities owned or controlled, jointly controlled or significantly influenced by them and companies affiliated by virtue of shareholding in common with that of the Bank.

Transactions with related parties are undertaken on terms agreed between the parties which may not necessarily be on arm's length basis.

As per the Investment Policy (approved in July 2010), adequate due-diligence should be carried out before undertaking any investment exposure (whether to a related party or an outside investment).

Additionally all the exposures to connected counterparties are justified only when undertaken for the clear commercial advantage for the Bank, when negotiated and undertaken on terms agreed between the parties which may not be necessary be on an arm's length basis and when included in the policy statement agreed with CBB. The investments in related parties need to be approved by the BOD and a prior approval from the CBB is also required.

<sup>\*\*</sup> On the instructions of a restricted investment account holder, a related party, the Bank had entered into a deferred payment purchase agreement with a financial institution to acquire shares of International Investment Group K.S.C.C. ('IIG'). The Bank then entered into a deferred payment sale agreement with the restricted investment account holder for sale of these shares. However, due to a legal dispute with the financial institution, the Bank could not affect the transfer of the IIG shares to the restricted investment account holder.

#### 7. Related party transactions (continued)

Significant balances with related parties at December 31 comprise:

	2015	2014
Assets	4,504,260	4,881,545
Liabilities	3,278,493	3,277,993
Restricted Investment Accounts	_	_

Significant transactions with related parties include:

	2015	2014
Expenses	55,310	84,462
Provision for impairment	377,285	_
Other comprehensive loss	_	_

The Group entities include those entities, which are subject to common control or influence of certain shareholders of the

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

The key management personnel compensation is as follows:

	2015	2014
Salaries, short term benefits and post-employment benefits	_	140,541