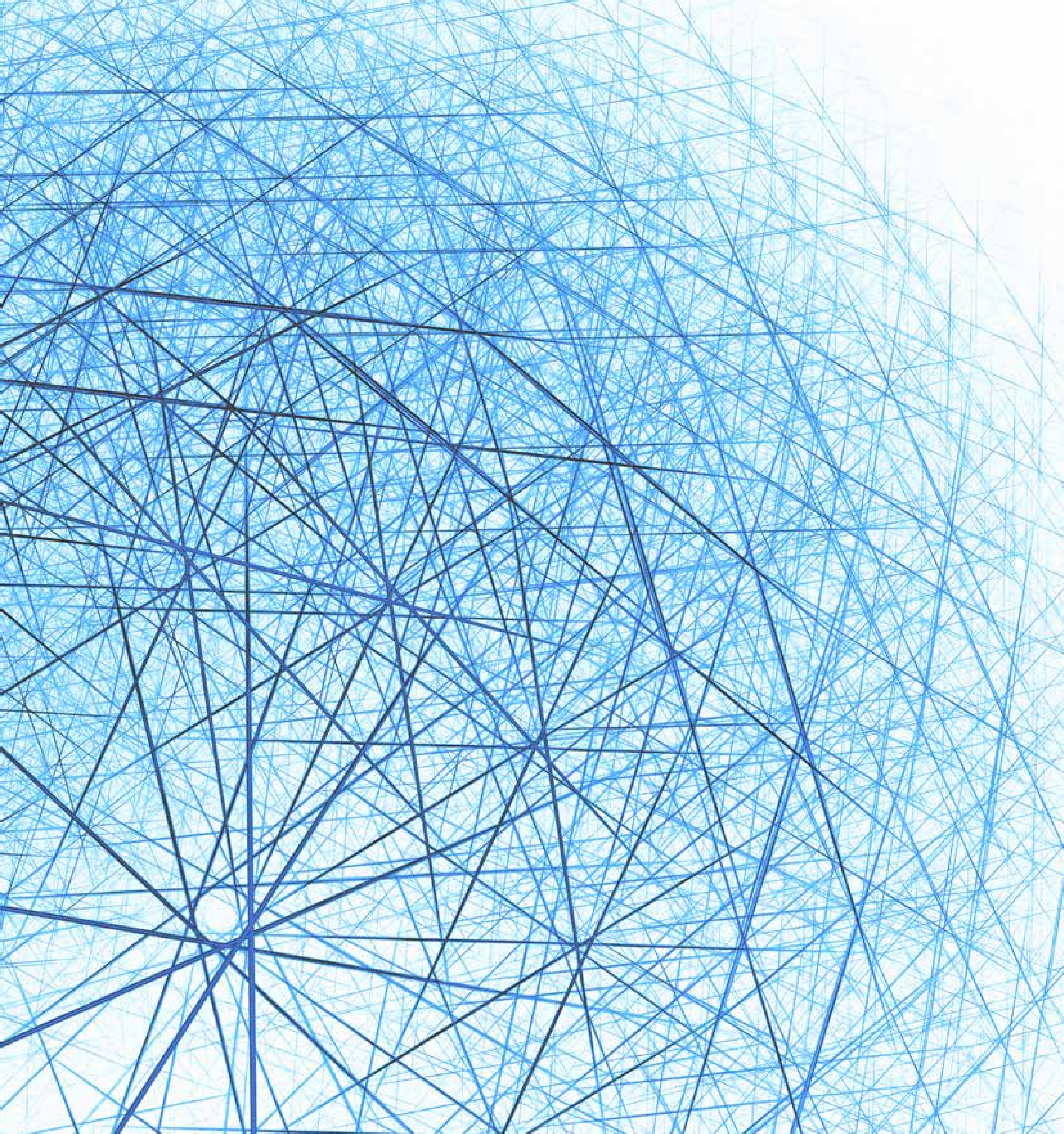


Annual Report 2015

مصرف إبدار
Ibdar Bank

His Royal Highness Prince Khalifa bin Salman Al Khalifa
The Prime Minister of the Kingdom of Bahrain

His Majesty King Hamad bin Isa Al Khalifa
The King of the Kingdom of Bahrain

His Royal Highness Prince Salman bin Hamad Al Khalifa
The Crown Prince, Deputy Supreme Commander of Bahrain Defence Force & First Deputy Prime Minister

Table of Contents

Corporate Profile

Ibdar is a multi-disciplined Islamic investment bank that combines financial expertise with a proven record of accomplishment of business innovation and responsible execution in order to deliver wealth to stakeholders. Ibdar aims to be the region's most ethical and rewarding Islamic bank and has intention to grow to be an Islamic Institution known for its business ingenuity and financial talent.

Licensed as an Islamic wholesale bank by the Central Bank of Bahrain, Ibdar Bank has USD300 million in paid up capital. Ibdar is engaged in private equity, Sukuk capital markets and real estate activities through which it aims to generate diversified and recurring income streams for the Bank, its shareholders and co-investors.

Geographically, the Bank's focus is on the GCC and MENA region including Turkey. It also transacts in Southeast Asia and select developed markets on an opportunistic basis. Ibdar has significant expertise in areas such as aviation, infrastructure, maritime, oil & gas, and real estate, among others.

Shareholders

Ibdar Bank is backed and supported by a select group of regional shareholders and a close-knit network of strategic partners, business associates and allies. The Bank's shareholders include a group of well-established, diversified and renowned institutions across the GCC countries among which are:

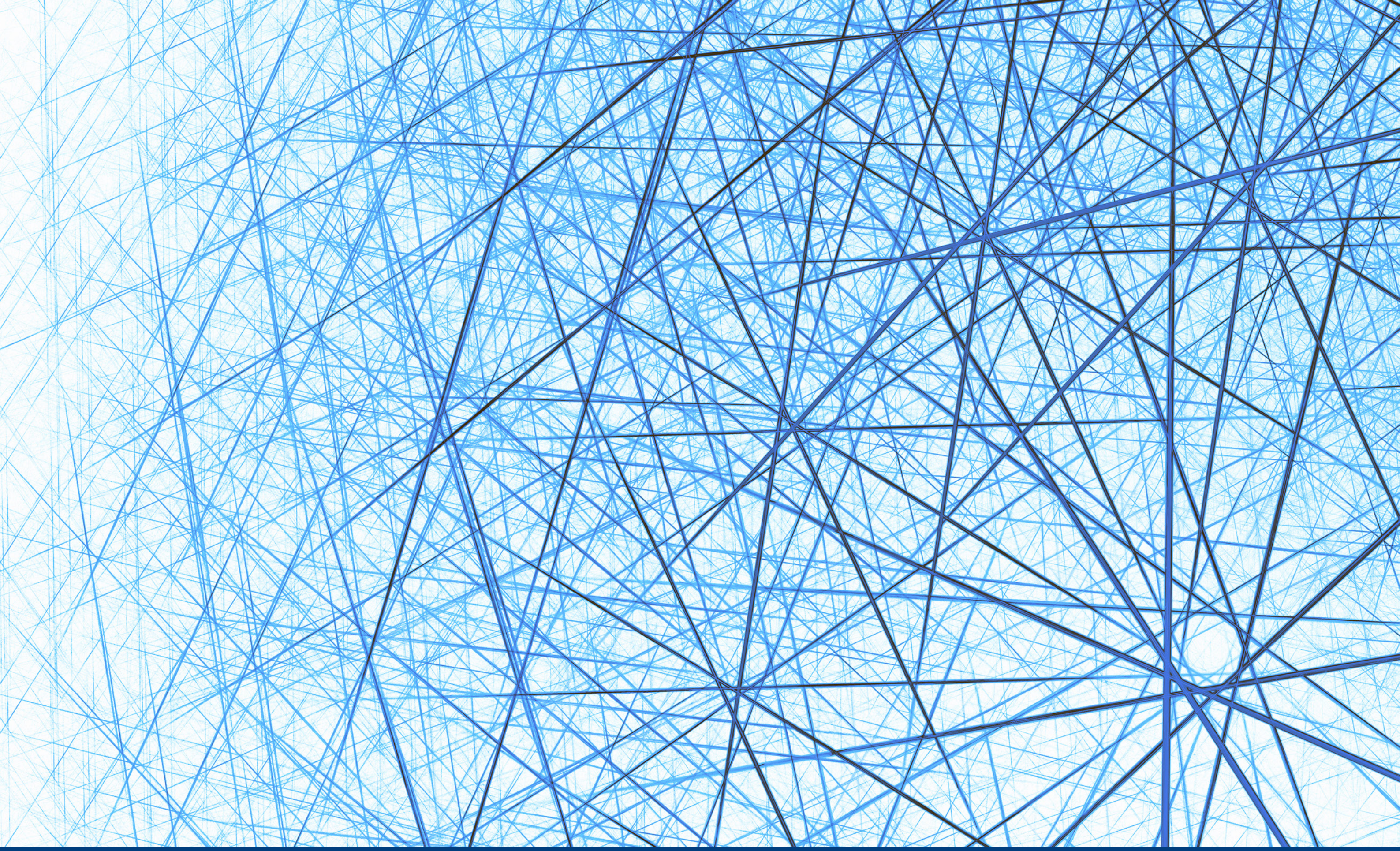
Kuwait Finance House – Kuwait	30.08%
Kuwait Investment Company	7.69%
Sukouk Holding Company	4.89%
Kuwait Finance House (Bahrain) B.S.C. (C)	4.71%
Qatar Islamic Bank	4.60%
Al-Bassam Investment Company W.L.L.	3.90%
Overseas Investment S.P.C.	3.46%
Bahrain Islamic Bank B.S.C.	3.37%
Samama Global Corporation	3.35%
Gulf Investment House	2.95%
National Amlak Company Ltd	2.79%
Islamic Corporation for the Development of Private Sector	2.30%
Others	25.91%

Vision

To be the Islamic Investment Bank of choice.

Mission

To excel in enhancing shareholders' value, providing consistent rewarding returns to clients, and harnessing a rewarding career path to our staff, with an aim to become an Islamic investment-banking powerhouse.



Board of Directors

Chairman's Report
Board Members
Board Committees

Chairman's Report

In the name of Allah, the Most Merciful, the Most Compassionate. Praise be to Allah, and Peace and Prayers upon the Last Prophet and Messenger Mohammed, his household and his Companions.

Dear Ladies and Gentlemen,

Assalamu alaikum wa rahmatu Allah wa barakatuh

On behalf of the Board of Directors, I am pleased to report that 2015 was a year of marked improved performance and progress at Ibdar Bank ("Ibdar"or the "Bank") despite global and regional macro-economic challenges. Throughout the year, we remained focused on building a sustainable business through commitment and innovation and leadership with our primary goal to deliver value for shareholders, and clients.

2015 saw tumbling oil prices and continuing political instability in the region. Such depressed oil prices prompted many regional governments to introduce subsidy cuts across a wider range of consumer goods and services triggering stock markets to lose value. Amid these challenging market conditions, our financial results for the year ended 31 December 2015 with increased revenues as a result of several new investments and exits. The total revenues increased by 88% to USD25.6 million for the year, compared to USD13.6 million for 2014. Operating profit before impairment charges, rose to USD11.3 million compared to USD0.5 million in 2014. This improvement was overshadowed by impairment and negative fair value changes of USD23.8 million compared to USD15.8 million in 2014. Total assets grew by 15.4% reaching USD 490 million by year end.

Improved performance in 2015 was underpinned by the increased investment activities undertaken by the Bank during the year. Income was generated from multiple sources including income from investment banking services as a result of sell down activities and from investment securities including the returns on the Sukuk portfolio. Strong recurring income was generated from the share of new investments retained in the investment portfolio, existing investments and income from real estate activities. We have made continuous efforts to diversify our revenue base.

Maintaining satisfactory liquidity levels remains a high priority for Ibdar and despite the increased investment activities and funds deployed to acquire new investments, Ibdar maintains sufficient liquidity levels to continue to expand the investment portfolio. The liquidity ratio at the end of the year stood at 61.6% as compared to 79.9% in 2014.

Several income generating real estate assets in Bahrain were exited providing liquidity and attractive returns to investors. Ibdar acquired four new Bombardier Q400 aircrafts during the year that are leased to strong covenants in Africa. These transactions provide attractive cash yields to investors and are structured in a manner to fully amortize the senior financing during the lease tenor. In recognition of Ibdar's efforts to create innovative aviation transactions and introduction of Islamic financing into the African aviation industry, "African Aviation Awards" in 2015 presented the prestigious "African finance deal of the year - 2014" to Ibdar.

Developed markets continue to be a key focus for Ibdar and its regional investor base. Accordingly, the Bank participated in a real estate development in Manchester, United Kingdom. We are continuing to build our track record as Ibdar, demonstrated by our ability to execute new transactions and exit existing portfolio assets providing yielding opportunities and strong development and private equity investment opportunities for our investors and shareholders.

Looking ahead, we continue to strive to be a leading Shariah compliant financial institution and remain focused on improving our ability to source, manage and exit real estate and private equity transactions and provide attractive returns to our investor base while taking steps to minimize their downside risk. While we will focus on developed markets in 2016, GCC and wider MENA region continues to provide strong investment pipeline for consideration.

Paul Andrew Mercer
Chairman

On behalf of the Board of Directors, I would like to express our deep thanks and appreciation to the leadership of His Royal Majesty King Hamad bin Isa Al Khalifa, His Royal Highness the Prime Minister Prince Khalifa bin Salman Al Khalifa and His Royal Highness the Crown Prince and Deputy Supreme Commander Prince Salman bin Hamad Al Khalifa, the Ministry of Finance, the Ministry of Industry and Commerce, and the Central Bank of Bahrain for their continued support and contribution as we build a stronger Islamic investment platform. Similarly, we are deeply grateful to our customers, shareholders and employees for their ongoing confidence in Ibdar to become a powerful force in the regional Islamic banking environment and we look forward to their continued support in 2016.

Yours Sincerely,

Paul Mercer
Chairman

Board Members

Reflecting the Bank's top tier institutional shareholders base, the Board of Directors at Ibdar brings a wealth of financial and industry-specific experience. The primary responsibility of each Director is to provide effective governance over the Bank's affairs and to promote and achieve sustainable performance that results in long-term growth for the benefit of all our shareholders. The Board also has the duty of balancing the interests of our stakeholders, including our clientele, business partners, correspondents, employees, suppliers, and our local communities, whilst continuing to maintain high standards of transparency and accountability.

Paul Andrew Mercer
Chairman

Mr. Paul Andrew Mercer joined the Board in 2011 and was re-elected Chairman of Ibdar Bank in January 2013. He holds a Post Graduate Diploma in Law from Chester Law School, UK and Bachelor and Master Degrees in Law from Cambridge University, UK, and has an extensive experience of 20 years in Law and Banking.

Mr. Mercer is an Executive Manager at Kuwait Finance House (Bahrain) and heads up the Legal, Compliance & AML, Risk Management, Strategic Planning & Governance, Credit, Operations, Collections and IT departments. He is also the Vice Chairman of Bahrain-based Menatelecom and a Board member of Turkapital Holding. From 1995 until 2003, he worked as a private practice lawyer with leading UK law firms Clifford Chance, Norton Rose and Macfarlanes.

Khalid Mohamed Yusuf Najibi
Vice Chairman

Mr. Khalid Mohammed Najibi holds a Bachelor's Degree in Business Administration with a major in Finance from Schiller International, UK, and is a Certified Public Accountant (CPA). He has been involved in the banking, investment and finance industry and business management for over 25 years.

Mr. Najibi is the Founding Member and Executive Director of Najibi Investment Company, Board Member of Arbah Capital in the Kingdom of Saudi Arabia, Board Member of Skaugen Gulf Petchem Carriers and Alsouq Real Estate Company WLL in Bahrain.

Previously, Mr. Najibi was a Board Member and Managing Director of Capital Management House in Bahrain, Board Member and Chairman of the Nomination & Remuneration Committee of QInvest in Qatar, Board Member of LONA Real Estate, Board Member of Gulf Finance House in Bahrain, and Board Member of Crown Industries.

Abdul Hakim Al-Adhamy
Board Member

Mr. Abdul Hakim Al-Adhamy joined the Board in 2013 bringing with him 36 years of experience in auditing, risk advisory and banking. He is the chairman of the Audit Committee and member of the Risk Committee. He holds a Bachelor Degree in Commerce from Baghdad University.

Currently, Mr. Al-Adhamy serves as Independent Member of the Board of Directors and member of the Audit Committee of Ebrahim Khalil Kanoo BSC (c), Bahrain, Member of the Board and Executive Committee of Amwaj Property Limited BVI, Member of the Board of Directors of Motor City BSC (c) and member of the Board of Directors of Alkindi Specialist Hospital WLL.

Previously, Mr. Al-Adhamy was a Partner with both KPMG Bahrain and Qatar from 1997 to 2007 and Ernst and Young Bahrain from 1985 to 1990. He also served as Member of the Board and Chairman of Audit & Risk Committee of Islamic Bank of Britain, PLC-UK, Bahrain National Holding BSC – Bahrain, Capital Management House BSC (c), Bahrain, Member of the Audit Committee, Solidarity Saudi Takaful Company and member of Audit and Risk Committee of Commercial Bank of Dubai & Kuwait Finance House, Bahrain. He is also a member of the Institute of Chartered Accountants of England and Wales.

Abdullah Almarzouq
Board Member

Mr. Abdullah Almarzouq joined the Board in 2011. Mr. Almarzouq currently holds the position of Group Deputy General Manager for Financial Institutions at Kuwait Finance House (KFH). He represents KFH on the boards of several financial institutions in Kuwait, Saudi Arabia and Bahrain focused on commercial banking, investment banking, and real estate. Prior to that he was an investment banker with HSBC in the Middle East. Before joining HSBC, Mr. Almarzouq was managing the Stocklord hedge fund with a focus on energy, commodities and real estate. Previously, he headed corporate finance at the National Bank of Kuwait. Mr. Almarzouq completed his MBA from MIT Sloan School of Management in 2002 and his BS in Mechanical Engineering from Tufts University in 1994. He has been involved in the banking industry for over 20 years.

Khalid Abdulla Al Bassam
Board Member

Mr. Khalid Abdulla Al Bassam joined the Board in 2013. He graduated with a Bachelor degree in Business Administration, from Eastern New Mexico University, USA. His 26-year career includes extensive experience in management, banking and investments. Mr. Al Bassam is the Chairman of both Al Bassam Investment Company W.L.L, and Foulath Holding BSC(C) and its subsidiaries, Bahrain. He is also a Board member of Gulf Investment Corporation, Kuwait.

Previously, he was the Deputy Governor of the Central Bank of Bahrain, Vice Chairman of the Bahrain Stock Exchange and a Board member of the General Organization for Social Insurance (''GOSI'') Bahrain.

Khalid bin Mohammed Alaboodi
Board Member

Mr. Khaled bin Mohammed Al-Aboodi holds a Bachelor Degree in Economics from King Saud University, KSA, and a Master Degree in Economics from the Northeastern University, USA. He has been involved in the economics, banking industry and business management for almost 31 years.

Mr. Al-Aoodi has been the Chief Executive Officer of the Islamic Cooperation for the Development of the Private Sector (ICD) since 2007. He started his tenure with the Ministry of Finance & National Economy of Saudi Arabia and, following a move to Washington, was appointed Alternate Executive Director for Saudi Arabia at the World Bank Board.

Currently, Mr. Al-Aboodi serves as the Chairman of Bedaya Home Finance Company, Saudi Arabia, Burj Bank, Pakistan, Tamweel Africa Holding Senegal, Mauritania Investment Group, Mauritania, and Kazakhstan Leasing Company, Kazakhstan.

Mishari Zaid Al Khalid
Board Member

Mr. Mishari Zaid Al Khalid joined the Board in 2013. He holds a Bachelor Degree in Business management from the University of Cairo, Egypt. Through his 38-year career, he has gained extensive experience in banking, investment and business management. Mr. Al Khalid is the General Manager of Al Khalid International Group in Kuwait.

Before that, he served as the Chairman and Managing Director of Al-Safat Real Estate Company in Kuwait, General Manager of Kuwaiti Real Estate Investment Group, Executive Committee Member at Egyptian Gulf Bank in Egypt, and Director of Treasury & Investment Affairs at The Public Institution for Social Security in Kuwait.

He is also the Vice Chairman of Kuwait Investment Company and Chairman of Al Khalid International Holding and a member of the Board of National Hotels Company in Bahrain. In addition, he served as a member of the Board of Directors of CAPIVEST in Bahrain, Al-Safat Investment Company in Kuwait, and Kuwaiti Egyptian Investment Company in Egypt.

Saleh Hassan Al Afaleq
Board Member

Mr. Saleh Hassan Al Afaleq holds a Bachelor Degree in Management Information System from King Faisal University, Saudi Arabia, and a Master Degree in Human Resource Development from Seattle University, USA, and has extensive experience of 24 years in business management.

Mr. Al Afaleq is the Managing Directorof Al-Kifah Holding Company and its subsidiaries, Board member and Founding Member of Al-Ahsa Amusement and Tourism Company, Vice Chairman of Arbah Capital (KSA), and Member of the Board of Noor Capital (Abu Dhabi), Member of the Board of Saudi Industrial Property Authority (MODON). He is also the Chairman of Al Ahsa Chamber of Commerce & Industry (Saudi Arabia) and the Vice Charmin of The Council of Saudi Chambers of Commerce.

Zeyad Tareq Al Mukhaizeem
Board Member

Mr. Zeyad Tareq Al Mukhaizeem joined the Board in 2013. He graduated with a Bachelor of Science in Civil Engineering, from the University of the Pacific, USA 2004, and MBA from DePaul University, USA – Bahrain Campus 2007. His 12-year career includes extensive experience investment management, real estate, and business restructuring /turnaround.

Mr. Al Mukhaizeem is Executive Director – Head of Investment Sector at Aref Investment House in Kuwait. He also serves as a Chairman of the Board and Executive Committee for Munshaat Real Estate Projects Company and a Board member of Bank of London and the Middle East (BLME) with board positions for real estate and private equity funds.

Prior to that, Mr. Al Mukhaizeem worked as Investment Manager at the Direct Investment Department at Kuwait Finance House, Kuwait.and Project Manager at the Kuwaiti Manager Company and Bovis Lend Lease, Kuwait/ Kingdom of Bahrain.

He has also been a member of the Project Management Institute (PMI) since 2004, and the International Association of Consultants Valuators and Analysts since 2009.

Board Committees

The Board of Ibdar Bank has established four sub-committees with specific delegated authorities and responsibilities to assist in carrying out its functions and ensure that there is independent oversight of internal control and risk management. The Committees - Audit, Executive; Nomination & Remuneration; and Risk Management - report to the Board on their activities based on approved charters setting forth their roles and duties.

Audit Committee

Role

The Committee performs the following functions:

- Reviews accounting and financial policies and procedures.
- Reviews the integrity of the Bank financials and internal controls.
- Recommends appointment of external auditors.
- Reviews and assesses external and internal audit work.
- Ensures that management has appropriate controls for identifying and monitoring of risk, compliance and practice standards.
- Oversees the internal audit function
- Encourages a culture of accountability in the Bank and, particularly, for financial matters.

Members

Abdul Hakim Al Adhamy (Chairman)
Khalid Abdulla Al Bassam
Mishari Zaid Al Khalid

Executive Committee

Role

The Committee performs the following functions:

- Plays an effective supervisory role in the Bank’s business decisions.
- Oversees the Bank’s long term policy objectives and its activities and has among others, the duties of developing and reviewing strategies, framework, policies and procedures for the approval of the Board.
- Reviews the plans and annual budgets of the Bank and monitors performance of the Bank against these plans and budgets.
- Assesses and approves new investment or activities proposed by the business units.
- Decides on all investments within its authoritative limits delegated by the Board.

Members

Khalid Mohamed Yusuf Najibi (Chairman)
Abdullah Almarzouq
Saleh Hassan Al Afaleq
Zeyad Tareq Al Mukhaizeem

Nomination and Remuneration Committee

Role

The Committee performs the following functions:

- Identifies and recommends members of the Board and senior management.
- Recommends remuneration for approved person and material risk takers.
- Reviews the Bank's remuneration policy for approved persons and material risk takers.
- Recommends Board members remuneration based on attendance and performance.
- Monitors evolution of the Bank organisational structure.

Members

Khalid bin Mohammed Alaboodi (Chairman)
Khalid Mohamed Yusuf Najibi
Mishari Zaid Al Khalid

Risk Committee

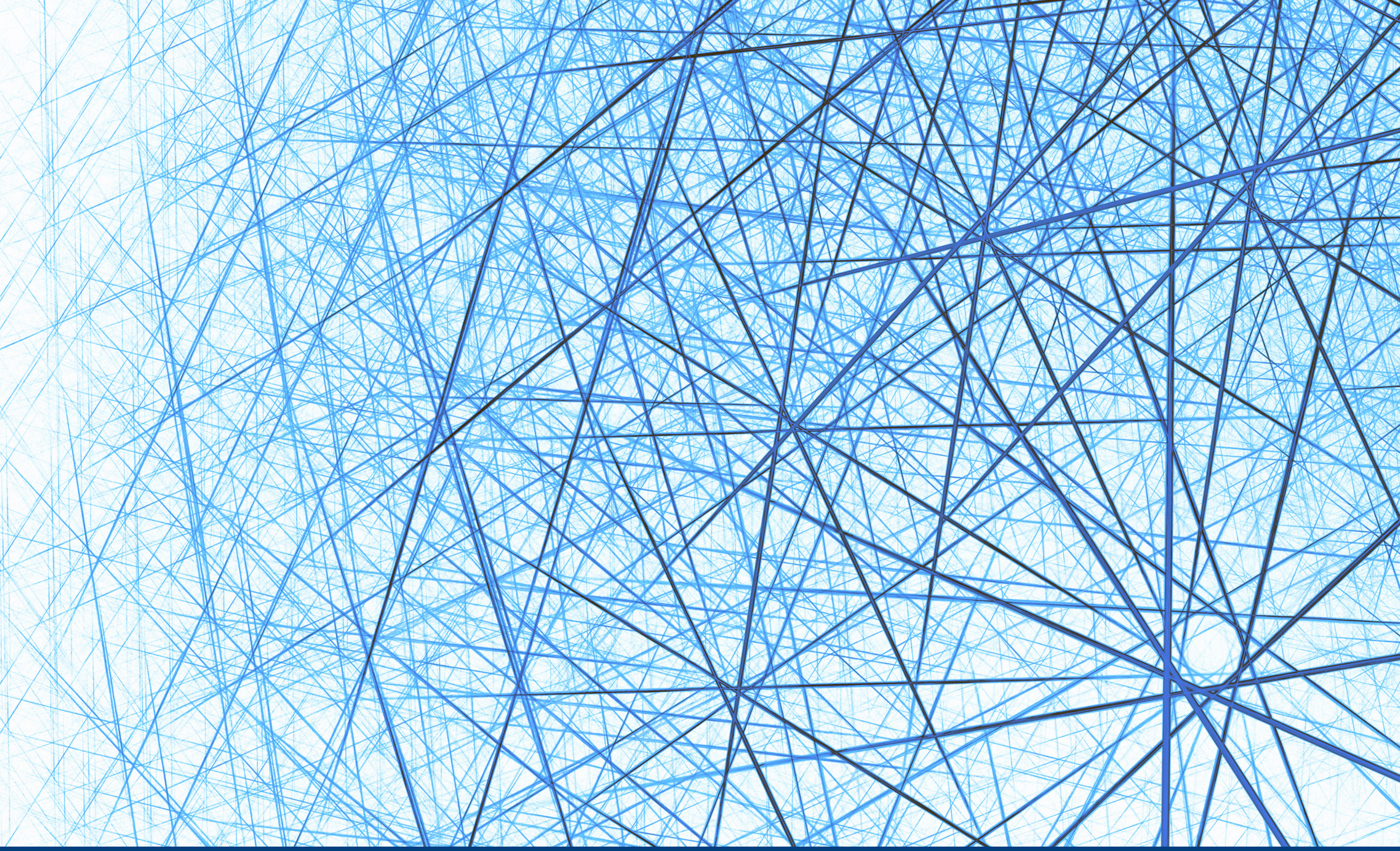
Role

The Committee performs the following functions:

- Oversees the Bank's risk management framework, and ensures that the procedures for identification, assessment, monitoring, mitigating, and managing risks are in place and operating effectively to reach compliance with internal risk management guidelines and Basel II.

Members

Khalid Abdulla Al Bassam (Chairman)
Abdul Hakim Al Adhamy
Paul Andrew Mercer



Executive Management

Management Team
Management Committees
Organizational Structure
Risk Management and Compliance

Management Team

Delegated by the Board, the Management team takes the responsibility of operating the Bank in an effective, ethical and legal manner designed to produce significant and consistent value for its shareholders in accordance with the Bank's policies and standards.

Ahmed Al Rayes
Acting Chief Executive Officer

Ahmed Al Rayes has been nominated Acting Chief Executive Officer of Ibdar Bank in September 2015 to take the responsibility for overlooking the overall performance of the bank, setting its strategic direction, managing the assets and liabilities, and managing the communications with shareholders. Joined Ibdar as CIO in June 2015, Ahmed also holds the responsibility of leading the investment teams for establishing and implementing the Bank's investment strategies. Throughout his career, Ahmed has gained over 15 years of extensive experience in Investment field. Prior to joining Ibdar Bank he was Head of Academic, Islamic Finance, and Quality Assurance at Bahrain Institute of Banking and Finance (BIBF). Ahmed holds a BSc in Mechanical Engineering from the University of Bahrain and an MBA from University of Strathclyde in Glasgow,Scotland.

Janaka Mendis
Chief Financial Officer

Janaka Mendis joined Ibdar Bank as Chief Financial Officer in June 2015 with 20 plus years of experience in the financial services industry. Prior to joining Ibdar, he was at Al Salam Bank Bahrain for 7 years of which 4 years as the Chief Operating Officer. Janaka holds an MBA from TRIUM, jointly offered by NYU Stern business school, LSE and HEC Paris. He is also a fellow of the Chartered Institute of Management Accountants (UK) and the Institute of Chartered Accountants of Sri Lanka.

Management Committees

The two Management Committees at Ibdar Bank support the Management in managing and overseeing the Bank's activities, and in proposing new strategies, policies, and procedures to the Board. These Committees are:

Asset and Liability Committee (ALCO)

Objective / Function

The Asset and Liability Committee determines the appropriate levels of liquidity, and ensures that all future commitments are funded in the most appropriate and cost-efficient manner. The Committee also ensures that the Bank fully adheres to the requirements of the CBB regarding capital, liquidity, and mismatched risk. It ascertains that approved investment deposits limits are not exceeded, and Treasury management and dealing activities are within the policy guidelines set by the Board. Furthermore, it monitors and supervises the overall balance sheet structure.

Members

Chief Executive Officer*	Chairman
Chief Investment Officer	Member
Chief Financial Officer	Member
Head of Treasury & Capital Market	Member
Head of Risk Management	Member

Investment, Credit and Risk Committee

Objective / Function

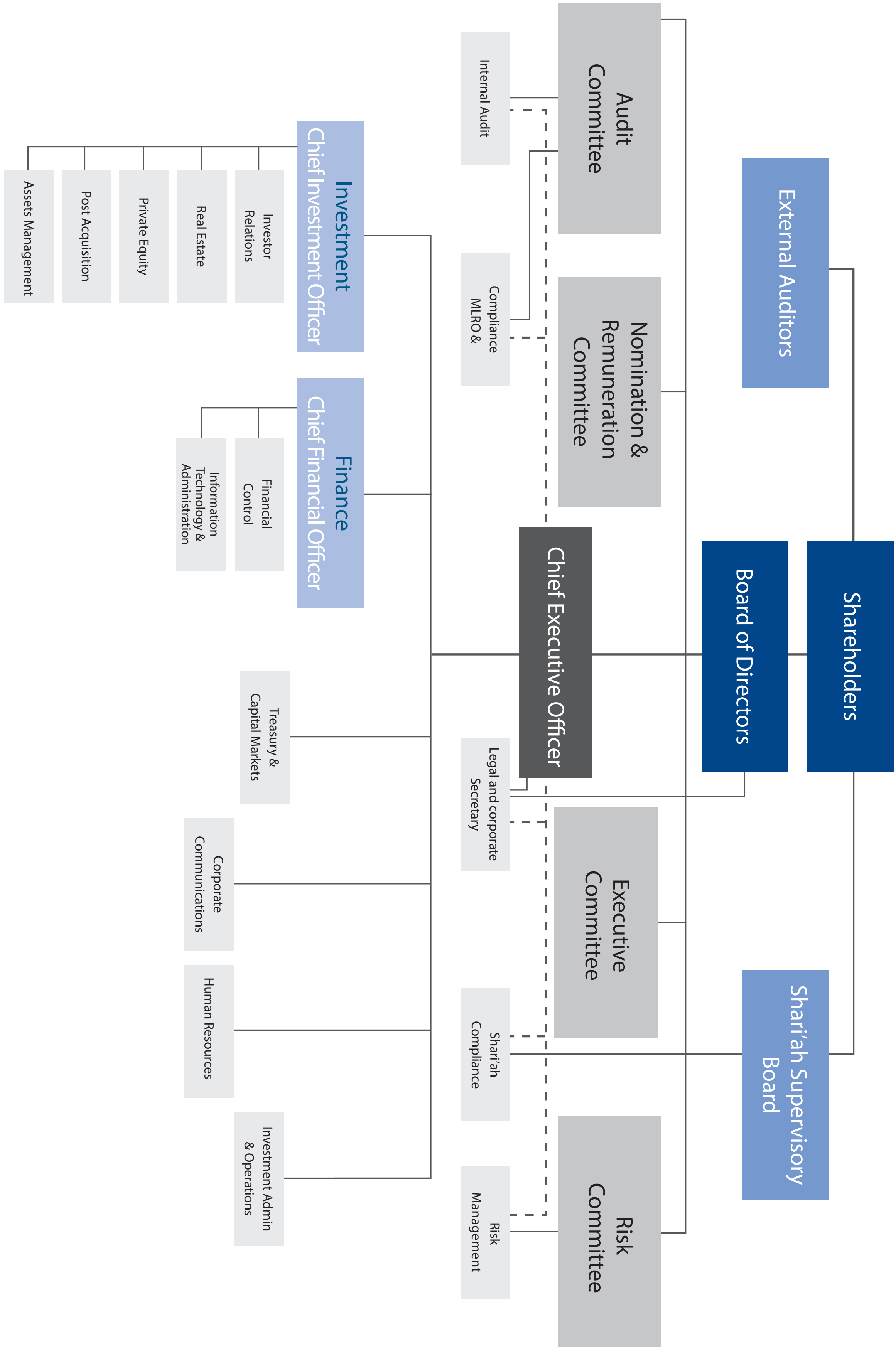
The Investment, Credit and Risk Committee (ICRC) is responsible for managing and supervising all activities related to investments, credit and risk management. The Committee reviews and recommends investment policies, strategies, and products and services to the Executive Committee and the Board. It also examines, recommends, and approves investment proposals as per the policies and limits approved by the Board. In addition, it monitors the risk profile and risks per product to ensure that adequate measures have been taken to maintain the quality of the Bank's assets.

Members

Chief Executive Officer*	Chairman
Chief Investment Officer	Member
Chief Financial Officer	Member
Head of Risk Management	Non-Voting Member
Head of Legal	Non-Voting Member
Head of Treasury and Capital Market	Non-Voting Member

*Chief Executive Officer position is vacant effective September 1, 2015.

Organizational Structure



Risk Management and Compliance

Risk Management

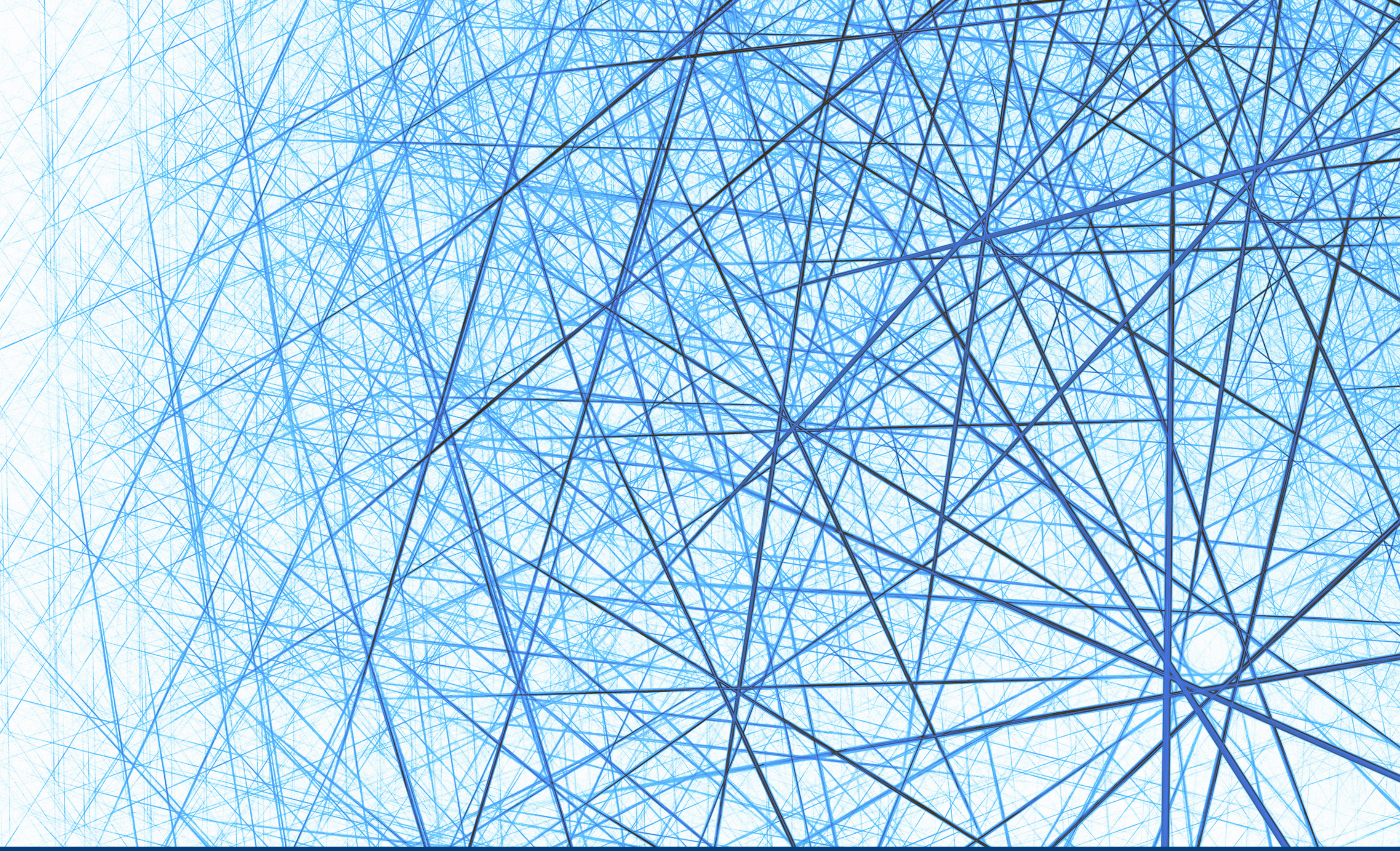
The fundamental principle underlying our risk management framework is ensuring that accepted risks are within Board approved risk appetite and the returns are commensurate with the risks taken. The objective is creating shareholder value through protecting the Bank against unforeseen losses, ensuring maximization of earnings potential and opportunities in relation to the Bank's risk appetite and ensuring earnings stability.

Risk is an inherent part of Ibdar's business activities. At the Group level, the risk parameters and internal controls are implemented through a risk management and control framework. The framework includes qualitative elements such as policies, procedures and authorities, and quantitative components including risk measurement methodologies and risk limits. The framework is continuously updated to our changing businesses and the market conditions. Ibdar applies holistic approach to risk management to ensure that all risk types are covered in managing its banking activities. The risk management framework achieves this through the definition of the Bank's key risk management principles covering credit, market, operational, strategic and reputation risks, the role and responsibilities of the Board and Senior Management towards risk management, the risk assessment methodology based on likelihood and consequences, the major risk policies, procedures and risk limits, the risk management information systems and reports, the internal control framework and the Bank's approach to capital management. The effectiveness of the risk management framework is independently assessed and reviewed through internal audits, in addition to periodic control risk self-assessments. As a result, the risk management framework creates an alignment between business and risk management objectives.

Compliance & Anti-Money Laundering

The Bank has an independent and dedicated unit to coordinate the implementation of compliance and Anti-Mony Laundering and Anti-Terrorist Financing program. The program covers policies and procedures for managing compliance with regulations, anti-money laundering, disclosure standards on material and sensitive information and insider trading. In line with its commitment to combat money laundering and terrorist financing, Ibdar Bank through it's Anti-Money Laundering policies ensures that adequate preventive and detective internal controls and systems operate effectively.

The policies govern the guidelines and procedures for client acceptance, maintenance and monitoring in line with the Central Bank of Bahrain and International standards such as FATF recommendations and Basel Committee papers. The compliance program also ensures that all applicable Central Bank of Bahrain regulations are complied with and/ or non-compliance is detected and addressed in a timely manner. The program includes compliance with regulations set by Ministry of Industry & Commerce.



Shari'ah Compliance

Shari'ah Supervisory Board Members

Shari'ah Supervisory Board's Report

Shari'ah Supervisory Board Members

The Shari'ah Supervisory Board forms an integral part of the Banks' operations. Our Board members review all transactions and projects to ensure that they are fully compliant, and in accordance, with the rules and principles of the Islamic Shari'ah.

Our Shari'ah Supervisory Board consists of three of the most prominent and distinguished scholars in the field of Islamic Shari'ah:

His Eminence Dr. Abdul Sattar Abdul Kareem Abu-Ghuddah
Chairman

Dr. Abdul Sattar Abdul Kareem Abu-Ghuddah joined the Shari'ah Supervisory Board of Ibdar Bank in 2013. He holds two Bachelor degrees in Law and Shari'ah from the University of Damascus; and two Master Degrees in Shari'ah and Hadith, and a PhD in Comparative Fiqh from the Al-Azhar University in Egypt. Dr. Abu-Ghuddah is an active member of the Islamic Fiqh Academy, which evolved from the Organization of Islamic Conference in Jeddah, KSA. He is also a member of both the Accounting Standards Board and Shari'ah Board of AAOIFI in Bahrain.

Dr. Abu-Ghuddah teaches Fiqh, Islamic studies and Arabic in Riyadh and has performed the valuable task of researching information for the Fiqh Encyclopaedia complied by the Ministry of Awqaf and Islamic Affairs in Kuwait.

He is currently the chairman and member of the Shari'ah supervisory boards of numerous international and regional Islamic banks and financial institutions, including the Shari'ah Board of the Central Bank of Bahrain. In addition to his participation in Islamic finance conferences, Dr. Abu-Ghuddah is also very prominent for his publications in the various topics of Islamic banking.

His Eminence Shaikh Adnan Abdulla Al Qattan
Board Member

Shaikh Adnan Abdulla Al Qattan holds a Bachelor's degree in Islamic Shari'ah from the Islamic University, Madinah, Saudi Arabia, and a Master's degree in Quran and Sunnah from the University of Um Al-Qura, Makkah, Saudi Arabia.

Shaikh Al Qattan is the Chairman of Bahrain's Hajj Mission, President of the Supreme Shari'ah Appeal Court, and a member of the Supreme Council for Islamic Affairs. He is also the President of the Board of Trustees of Al Sanabel Orphans Care and Vice-President of the Royal Charity Organization.

Shaikh Al Qattan serves in the Shari'ah Supervisory Board of various Islamic banks and financial and investment institutions, in addition to being Friday sermon orator at Al-Fatih Grand Mosque in Manama (Bahrain).

His Eminence Shaikh Nidham Mohammed Saleh Yaquby
Board Member

Shaikh Nidham Mohammed Saleh Yaquby holds a Bachelor's degree in Economics and Comparative Religion from McGill University, Montreal and PhD from Lahaye University.

Shaikh Nidham obtained his Shari'ah knowledge and teachings from prominent Shari'ah scholars in the Gulf region and achieved their highest valuation. Shaikh Nidham is the chairman and member in numerous Shari'ah supervisory boards of international Islamic banks and financial institutions including the Dow Jones Islamic Index.

He is a member of the Shari'ah board of Central Bank of Bahrain, the AAOIFI Shari'ah Board, and the Islamic Rating Agency Shari'ah Board. Shaikh Nidham is also very prominent for his participation, contribution in international Islamic finance conferences, and offering financial solutions and instruments for contemporary financing schemes. Shaikh Yaquby is a visiting professor at the International Islamic University, Malaysia.

Shari'ah Supervisory Board Members

بسم الله الرحمن الرحيم

مصرف إبدار
Ibdar Bank

12 Jumada Al-Awwal 1437
21 February 2016

Thanks to Allah Almighty, and Prayers and Peace be upon His Messenger, our Prophet Mohammed and all his Relatives and Companions.

After completing the financial on 31/12/2015, we report you the following:

We have studied the products introduced by the bank and verify the extent of the Bank's commitment to the provisions and principles of Islamic Sharia's laws, and with the specific fatwas, rulings and guidelines issued by us.
Since the Executive Management takes the responsibility to ensure that the Bank's commitment to act in accordance with the rules and principles of Sharia law, our responsibility is limited to declaring and stating the Sharia opinion on the banking and investment transactions that were presented the Sharia Supervisory Board.

Ibdar Bank's operations have been discussed and reviewed by Sharia Supervisory Board and it's executive member, through eight meetings during the year , beside the daily engagements of the internal Sharia Supervision and Advisory Department , where a full thorough review for more than 221 documents, agreements , guidelines and policies that were introduced from the management or transferred from the Board of Directors to the Sharia Supervisory Board.

The scope of our review covered the most important investment projects, such as, Investments in Aviation, Private Equities, Real Estate investments, Shipping, Sukuks & Money market, food processing, unrestricted investments and Funds' proposals.

The Sharia Supervisory Board also respond to the inquiries by the concerned departments in the bank directly or through its Executive member, as well as declaring opinions and advices, when requested to do so, on new contracts and financial transactions structuring developed.

www.ibdarbank.com
مصرف إبدار ش.م.ب (م)، برج الزامل، الطابق السادس، شارع الخليفة، ص.ب ١٠٠١ المنامة، مملكة البحرين، هاتف : ٩٧٣١٧٥١٠٠٠٠+، فاكس : ٩٧٣١٧٥١٠٠٥١+
Ibdar Bank BSC (c), Zamil Tower, Sixth Floor, Al Khalifa Avenue, P.O. Box 1001 Manama, Kingdom of Bahrain, Telephone: +973 17 510000, Facsimile: +973 17 510051

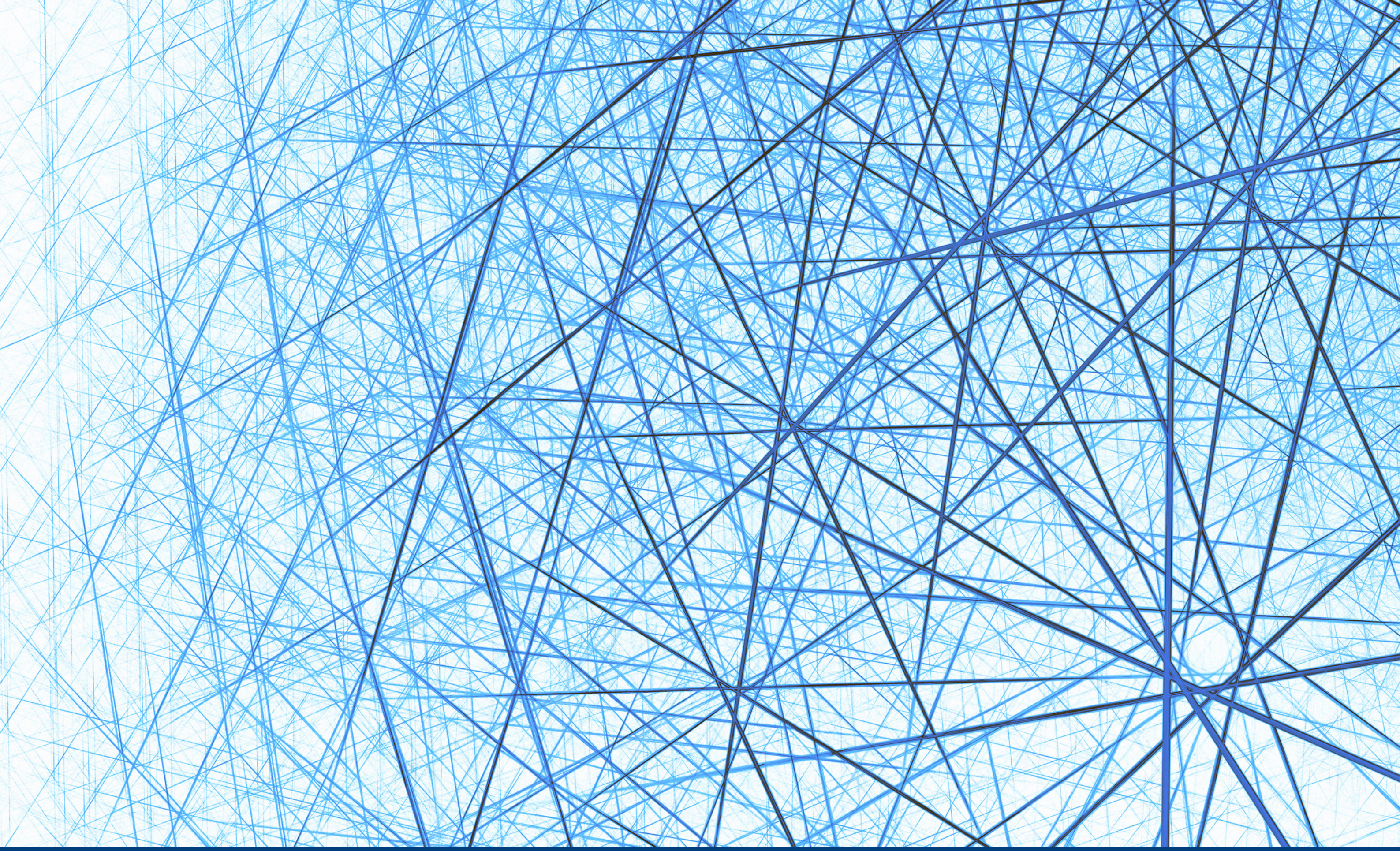
In our opinion:

1. The contracts and transactions entered into by the Bank during the year ended 31 December 2015, that we have reviewed are in compliance with the Islamic Sharia rules and principles; saved few transactions which were rectified at a later stage.
2. The allocation of profit and losses relating to investment accounts conform to the basis that had been approved by us in accordance with Islamic Sharia rules and principles;
3. Paying Zakat is the responsibility of the Shareholders, The basis of Zakat calculation and estimation is in compliance with Islamic rules and with accordance to AAOIFI Sharia Standard. The exact amount of Zakat per share shall be announced to the Shareholders on a separate report.
4. Impure earnings were identified during the year 2015, and it was fully disbursed for charity.

We pray to Allah almighty to grant the Bank all success and further compliance with the principles of Islamic Sharia.

Prayer and peace be upon our prophet Mohammed, His relatives and companions.

Dr.Abdulsttar Abu Ghudda SSB Chairman	Shaikh /Adnan Al-Qattan SSB Member	Shaikh/ Nizam Yacoby SSB Executive Member



Financial Performance

Independent Auditor's Report Consolidated Financial Statements

Independent Auditor's Report

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Audit
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PO Box 710, Manama
Kingdom of Bahrain

Telephone +973 17 224807
Fax +973 17 227443
Website: www.kpmg.com/bh
CR No. 6220

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Ibdar Bank B.S.C. (c)
Manama, Kingdom of Bahrain

Report on the consolidated financial statements
We have audited the accompanying consolidated financial statements of Ibdar Bank B.S.C. (c) (the "Bank") and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statements of income, changes in owners' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

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

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

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

KPMG

KPMG Fakhro
Partner Registration no. 137
28 March 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2015

USD 000's

	note	December 31 2015	December 31 2014 (Restated)
ASSETS			
Cash and balances with banks		13,219	17,016
Placements with financial institutions		2,002	8,976
Financing receivables	5	14,973	11,169
Assets held-for-sale	6	112,170	-
Receivable from Ijarah investors	8	15,662	27,033
Investment securities	9	195,455	206,152
Equity-accounted investees	10	12,500	12,468
Investment in real estate	11	30,034	43,239
Assets acquired for leasing	7	88,194	91,777
Development properties	12	-	834
Other assets	13	5,717	6,003
Total assets		**489,926**	424,667
LIABILITIES			
Placements from financial institutions		4,163	9,537
Financing liabilities	14	26,221	11,671
Liabilities related to assets held-for-sale	6	73,050	-
Liabilities related to assets acquired for leasing	15	70,752	75,621
Other liabilities	16	11,763	11,303
Total liabilities		**185,949**	108,132
OWNERS' EQUITY			
Share capital	17	300,000	300,000
Share premium	17	-	16,385
Statutory reserve		676	676
Accumulated losses		(15,488)	(17,416)
Investments fair value reserve		(107)	(494)
Property fair value reserve		1,826	3,518
General reserve		4,618	4,618
Equity attributable to shareholders of Bank		**291,525**	307,287
Non-controlling interests		12,357	9,248
Non-controlling interests related to assets held-for-sale	6	95	-
Total owners' equity		**303,977**	316,535
Total liabilities and owner's equity		**489,926**	424,667

The consolidated financial statements were approved by the Board of Directors on 28 March 2016 and signed on its behalf by:

Paul Mercer

Paul Mercer
Chairman

Khalid M. Najibi
Vice chairman

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2015

USD 000's

	note	2015	2014 (Restated)
INCOME			
Income from operations			
Income from investment banking services		1,956	454
Income from investment securities	18	8,097	7,903
Finance income		204	527
Share of profit equity-accounted investees	10	2,261	(1,424)
Gain on sale of development properties	12	411	2,701
Gain on sale of investment in real estate		2,380	400
Income from assets acquired for leasing, net	7	3,529	886
Other income	19	2,790	2,153
Total income from continuing operations		**21,628**	13,600
Income from assets held-for-sale, net	6	3,932	-
Total income		**25,560**	13,600
EXPENSES			
Staff cost	20	7,356	6,586
Finance expense		797	773
Foreign exchange losses		479	72
Depreciation and amortisation		177	488
Other expenses	21	5,448	5,147
Total expenses		**14,257**	13,066
Profit before fair value changes and impairment allowances		**11,303**	**534**
Fair value loss on investment securities, net	9	(9,085)	(10,468)
Impairment allowances	22	(14,701)	(5,374)
LOSS FOR THE YEAR		**(12,483)**	(15,308)
LOSS FOR THE YEAR FROM:			
- Continuing operations		(16,415)	(15,308)
- Assets held-for-sale		3,932	-
		(12,483)	(15,308)
Attributable to:			
Shareholders of Bank		(14,457)	(16,316)
Non-controlling interests		1,879	1,008
Non-controlling interests related to assets held-for-sale		95	-
		(12,483)	(15,308)

The consolidated financial statements were approved by the Board of Directors on 28 March 2016 and signed on its behalf by:

Paul Mercer

Paul Mercer
Chairman

Khalid M. Najibi
Vice chairman

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

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

USD 000's

2015	Equity attributable to shareholders of Bank										
	Share capital	Share premium	Statutory reserve	Accumulated losses	Investment fair value reserve	Property fair value reserve	General reserve	Total	Non-controlling interests	Non-controlling interests relating to assets held-for-sale	Total owners' equity
Balance at 1 January 2015	300,000	16,385	676	(17,416)	(494)	3,518	4,618	307,287	9,248	-	316,535
(Loss) / profit for the year	-	-	-	(14,457)	-	-	-	(14,457)	1,879	95	(12,483)
Share of reserve from equity-accounted investees	-	-	-	-	-	(181)	-	(181)	-	-	(181)
Transfer to income statement on disposal	-	-	-	-	-	(1,439)	-	(1,439)	-	-	(1,439)
Cumulative changes in fair value	-	-	-	-	387	(72)	-	315	-	-	315
Total recognised income and expense for the year	**-**	**-**	**-**	**(14,457)**	**387**	**(1,692)**	**-**	**(15,762)**	**1,879**	**95**	**(13,788)**
Adjustment of losses (note 17)	-	(16,385)	-	16,385	-	-	-	-	-	-	-
Disposal of assets acquired for leasing, net (note 7)	-	-	-	-	-	-	-	-	2,013	-	2,013
Distribution to non-controlling interests	-	-	-	-	-	-	-	-	(783)	-	(783)
Balance at 31 December 2015	**300,000**	**-**	**676**	**(15,488)**	**(107)**	**1,826**	**4,618**	**291,525**	**12,357**	**95**	**303,977**

2014 (Restated)	Equity attributable to shareholders of Bank									
	Share capital	Share premium	Statutory reserve	Accumulated losses	Investment fair value reserve	Property fair value reserve	General reserve	Total	Non-controlling interests	Total 'owners equity
Balance at 1 January 2014	300,000	16,385	676	(1,100)	3,348	2,089	4,618	326,016	2,140	328,156
(Loss) / profit for the year	-	-	-	(16,316)	-	-	-	(16,316)	1,008	(15,308)
Share of reserve from equity-accounted investees	-	-	-	-	-	17	-	17	-	17
Cumulative changes in fair value	-	-	-	-	(3,842)	1,412	-	(2,430)	-	(2,430)
Total recognised income and expense for the year	-	-	-	(16,316)	(3,842)	1,429	-	(18,729)	1,008	(17,721)
Partial disposal of assets acquired for leasing, net (note 7)	-	-	-	-	-	-	-	-	7,981	7,981
Distribution to non-controlling interests	-	-	-	-	-	-	-	-	(1,881)	(1,881)
Balance at 31 December 2014	300,000	16,385	676	(17,416)	(494)	3,518	4,618	307,287	9,248	316,535

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2015 | **USD 000's**

	2015	2014 (Restated)
OPERATING ACTIVITIES		
Loss for the year	(12,483)	(15,308)
Adjustments for:		
Depreciation and amortisation	177	488
Fair value loss on unquoted equity securities	9,085	10,468
Gain on sale of investment securities	(4,481)	(2,041)
Gain on sale of investment in real estate	(2,380)	(400)
Impairment allowances	14,701	5,374
Share of (profit) / loss of equity accounted investees	(2,261)	1,424
Net amortisation of premium / (discount) on sukuk	197	433
	2,555	438
Changes in operating assets and liabilities:		
Financing receivables	10,375	(10,355)
Receivables from Ijara investors	(3,174)	-
Placements with financial institutions (with original maturity of 91 days or more)	-	4,538
Investment in Ijara assets	-	4,792
Development properties	-	5,330
Other assets	424	(1,840)
Other liabilities	1,068	3,246
Equity of investment accounts holders	-	(498)
Net cash generated from operating activities	**11,248**	5,651
INVESTING ACTIVITIES		
Purchase of investment securities	(77,680)	(33,194)
Proceeds from sale of investment securities	71,397	37,872
Proceeds from sale of investment in real estate	13,581	2,653
Proceeds from sale of development properties	834	-
Payments for assets held-for-sale, net	(39,120)	-
Assets acquired for leasing	(1,286)	(16,155)
Payments for purchase of equipment	(151)	(149)
Payments for acquisition of associate	-	(2,503)
Net cash used in investing activities	**(32,425)**	(11,476)
FINANCING ACTIVITIES		
Distribution to non-controlling interests	(783)	(1,881)
Non-controlling interests related to assets acquired for leasing	2,013	7,981
Placement from financial institutions, net	(8,037)	(1,577)
Financing from financial institutions	17,213	-
Net cash generated from financing activities	**10,406**	4,523
NET DECREASE IN CASH AND CASH EQUIVALENTS	(10,771)	(1,302)
Cash and cash equivalents at 1 January	25,992	27,294
CASH AND CASH EQUIVALENTS AT 31 December	**15,221**	25,992
CASH AND CASH EQUIVALENTS comprise:		
Cash and bank balances	13,219	17,016
Placements with financial institutions (with original maturity of 90 days or less)	2,002	8,976
	15,221	25,992

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

for the year ended 31 December 2015 USD 000's

1 INCORPORATION AND ACTIVITIES

Ibdar Bank B.S.C.(c) (the "Bank"), is a closed shareholding company incorporated in the Kingdom of Bahrain on 12 June 2007 under commercial registration (CR) number 65549.

The Bank operates as an Islamic Wholesale Investment Bank under a license issued by the Central Bank of Bahrain (the "CBB"). The Bank's registered office is Zamil Tower, 6th Floor, Al Khalifa Avenue, Block 305, Manama, Kingdom of Bahrain.

The Bank's activities are regulated by the CBB and supervised by a Shari'a Supervisory Board (SSB) whose role is defined in the Bank's Memorandum and Articles of Association.

The principal activities of the Bank and its subsidiaries (together the "Group") include investment advisory services and investment transactions, which comply with Islamic rules and principles according to the opinion of the Group's Shari'a Supervisory Board.

Consolidated financial statements

The consolidated financial statements comprise the results of the Bank and its subsidiaries. The following are the principal subsidiaries of the Bank that are consolidated:

Subsidiary	Beneficial ownership interests	Year of incorporation / acquisition	Country of incorporation	Principal activity
Elaf Corporate Services Limited	100%	2008	British virgin Island	Manage affiliated companies
Tamkeen Investment Company B.S.C. (c)	100%	2008	Bahrain	Administer Management Incentive Program ("MIP").
Suffun Bahrain W.L.L.	100%	2010	Bahrain	Investment Holding Company
Medical Management Group SPC	100%	2005	Bahrain	SPV to invest in health care
Q400 Aviation	41.01%	2013	British Virgin Islands	Purchase and lease of aircraft to airline company
Q400-II Aviation Company Limited	90.55%	2015	British Virgin Islands	Purchase and lease of aircraft to airline company
Q400-III Aviation Company Limited	100%	2015	British Virgin Islands	Purchase and lease of aircraft to airline company
Q400-IV Aviation Company Limited	100%	2015	British Virgin Islands	Purchase and lease of aircraft to airline company
Q400-V Aviation Company Limited	100%	2015	British Virgin Islands	Purchase and lease of aircraft to airline company

The Group has other special purpose entities (SPE's) holding companies and subsidiaries which are set up to supplement the activities of the Group and its principal subsidiaries.

The following subsidiaries were liquidated during 2015:
Elaf Bahrain Real Estate Company B.S.C. (c)
Sokouk Exchange Centre – Tadawul Holding W.L.L.
Suffun Investment Company
GCC Balanced Growth Fund Company B.S.C.(c)
Sakan Development Company Limited

2 BASIS OF PREPARATION

a) Statement of compliance

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

b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except for certain investment securities and investment properties that are carried at fair value. The consolidated financial statements are presented in United States Dollars (USD), being the functional currency of the Group's operations. All financial information presented in USD has been rounded to the nearest thousands, except when otherwise indicated.

c) Basis of consolidation

i) Subsidiaries

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

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

The financial statements of SPE are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's fiduciary assets under management is set out in note 31.

Loss of control
Upon the loss of control, the Group recognised the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the consolidated income statement. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost.

2 BASIS OF PREPARATION (continued)

c) Basis of consolidation (continued)

i) Subsidiaries (continued)

Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

Non-controlling interests

Interests in the equity of subsidiaries not attributable to the parent are reported in consolidated statement of financial position as non-controlling interests. Profits or losses attributable to non-controlling interests are reported in the consolidated income statement as income attributable to non-controlling interests. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in equity in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other equity are reclassified to the consolidated income statement.

ii)Investment in associates (Equity-accounted investees)

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exit when the Group holds between 20% and 50% of the voting power of another entity.

On initial recognition of an associate, the Group makes an accounting policy choice as to whether the associate shall be equity accounted or designated as at fair value through income statement. The Group makes use of the exemption in FAS 24 – Investment in Associates for venture capital recognised and designates certain of its investment in associates, as 'investments carried at fair value through income statement'. These investments are managed, evaluated and reported on internally on a fair value basis (refer note 3 (b)).

If the equity accounting method is chosen for an associate, these are initially recognised at cost and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investees after the date of acquisition.

2 BASIS OF PREPARATION (continued)

c) Basis of consolidation (continued)

ii)Investment in associates (Equity-accounted investees) (continued)

Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investees arising from changes in the investee's equity. When the Group's share of losses exceeds its interest in an equity-accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the equity-accounted investees.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an equity-accounted investee at the date of acquisition is recognised as goodwill, and included within the carrying amount of the investment. When the excess is negative, a bargain purchase gain is recognised immediately in the consolidated income statement.

If the ownership interest in an equity-accounted investee is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in equity is reclassified to the consolidated income statement where appropriate.

iii) Transactions eliminated on consolidation and equity accounting

Intra-group balances and transactions, and any recognised gains or losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group gains on transactions between the Group and its equity-accounted investees are eliminated to the extent of the Group's interest in the investees. Unrealised losses are also eliminated in the same way as recognised gains, but only to the extent that there is no evidence of impairment.

The reporting period of the Group's subsidiaries and equity-accounted investees are identical and their accounting policies conform to those used by the Group for similar transactions and events in similar circumstances. The accounting policies of the subsidiaries and equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

d) Business combination

Business combinations are accounted for using the acquisition method as at the acquisition date i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in the consolidated income statement immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in consolidated

2 BASIS OF PREPARATION (continued)

d) Business combination (continued)

income statement. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by Group entities to all periods presented in these consolidated financial statements.

New standards, amendments and interpretations issued effective from 1 January 2015
The following standards, amendments and interpretations, which became effective as of 1 January 2015, are relevant to the Company/Group:

(a) Financial Accounting Standard (FAS) No. 23 - Consolidation

The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) issued amendments to FAS 23. These amendments provide clarification and expand the scenarios for assessing control when an entity holds less than majority voting rights in an investee. In particular, the concept of de-facto control has been introduced.

The amendment clarifies that where the Islamic Financial instiution has less than majority voting rights in an investee, control may also exist through

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

Further, FAS 23 does not provide specific guidance for assessment of control over special purpose vehicles (SPVs) where the Bank has delegated power from its investors. The Bank previously referred to the relevant guidance in International Financial Reporting Standards (IFRSs). As a result of revision to IFRS 10 (consolidation), the Group has now also changed its accounting policy for determining when it has control over SPVs to be in line with IFRS 10. The new control model focuses on the scope of decision making authority over the SPV, rights held by other parties and the Bank's aggregate economic interest in the investee. In particular, expanded guidance has been provided to assess

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

when the Group's power over an investee would be considered as those of a principal (primarily for its own benefit) and when it would be considered to be that of an agent (primarily for benefit of its investors).

A principal will be required to consolidate the SPV where as an agent will not be required to consolidate the SPV.

In accordance with the transitional provisions of the amended FAS 23, the Group reassessed its control conclusions for its investees as of 1 January 2015, being the date of initial application of these amendments. Except for a continuing consolidation of Palma Ibdar Aviation Limited, there were no changes to the entities that were controlled and consolidated by the Group as of 31 December 2014. Accordingly, adoption of the new amendments did not have a significant impact on the consolidated financial statements or the amounts reported in the comparative periods.

(a) Foreign currency transactions

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

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

Other group companies
The other Group companies functional currencies are either denominated in US dollars or currencies which are effectively pegged to the US dollars, and hence, the translation of financial statements of the group companies that have a functional currency different from the presentation currency do not result in exchange differences.

(b) Investment securities

Investment securities comprise debt and equity instruments, but exclude investment in subsidiaries and equity-accounted investees (refer note 2 (c ii)).

(i) Classification

The Group segregates its investment securities into debt-type instruments and equity-type instruments.

Debt-type instruments
Debt-type instruments are investments that provide fixed or determinable payments of profits and capital. Investments in debt-type instruments are classified in the following categories:

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Investment securities (continued)

(i) Classification (continued)

At fair value through income statement (FVTIS)
These investments are either not managed on contractual yield basis or designated on initial recognition at FVTIS to avoid any accounting mismatch that would arise on measuring the assets or liabilities or recognised the gains or losses on them on different bases. Currently, the Group does not have any investment under this category.

At amortised cost
This classification is for debt-type instruments which are not designated as FVTIS and are managed on contractual yield basis. These include investments in medium to long-term sukuk.

Equity-type instruments
Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities. Investments in equity type instruments are classified in the following categories:

At fair value through income statement (FVTIS)
Equity-type instruments classified and measured at FVTIS include investments held-for-trading and those designated on initial recognition at FVTIS.

Investments are classified as held-for-trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealers margin or that form part of a portfolio where there is an actual pattern of short-term profit taking. The Group currently does not have any of its investments classified as investments held-for-trading purposes.

On initial recognition, an equity-type instrument is designated as FVTIS only if the investment is managed and its performance is evaluated and reported on internally by the management on a fair value basis. This category currently includes investment in private equity, funds and investment in associates (refer note 2 c (ii))

At fair value through equity (FVTE)
Equity-type instruments other than those designated at FVTIS are classified as at fair value through equity. This category includes investment in unquoted equity securities.

(ii) Recognition and de-recognition

Investment securities are recognised at the trade date i.e. the date that the Group contracts to purchase or sell the asset, at which date the Group becomes party to the contractual provisions of the instrument. Investment securities are recognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Investment securities (continued)

(iii) Measurement

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

Subsequent to initial recognition, investments carried at FVTIS and FVTE are re-measured to fair value. Gains and losses arising from a change in the fair value of investments carried at FVTIS are recognised in the consolidated income statement in the period in which they arise. Gains and losses arising from a change in the fair value of investments carried at FVTE are recognised in the consolidated statement of changes in equity and presented in a separate fair value reserve within equity.

When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in equity is transferred to the consolidated income statement.

Investments carried at FVTE where the entity is unable to determine a reliable measure of fair value on a continuing basis, such as investments that do not have a quoted market price or where there are no other appropriate methods from which to derive reliable fair values, are stated at cost less impairment allowances.

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

(iv) Measurement principles

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

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

The Group measures the fair value of quoted investments using the market bid-prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active or the instrument is not quoted, the Group establishes fair value using a valuation technique. Valuation techniques

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Investment securities (continued)

(iv) Measurement principles (continued)

include using recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flow analysis and other valuation models with accepted economic methodologies for pricing financial instruments.

(c) Placements with financial institutions

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

(d) Financing receivables

Financing receivables comprise Shari'a compliant contracts with fixed or determinable payments and are stated at amortised cost less provision for impairment, if any. Specific provisions are created for impairment where losses are expected to arise on non-performing receivables. The receivables are written off when they are considered to be uncollectible to reduce all impaired financing receivables to their expected recognised values.

(e) Musharaka financing

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

(f) Investment in real estate

Investment in real estate comprise land and building held to earn rental income and/or are expected to benefit from capital appreciation or land held for undetermined future use. Investment in real estate are measured initially at cost, including directly attributable expenditure. Subsequently, investment properties are carried at fair value.

Any recognised gains arising from changes in the fair value of investment in real estate shall be recognised directly in owners' equity under "Property fair value reserve".

Investment in real estate is derecognised when they have been disposed of or when an investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property is recognised in the consolidated income statement in the year of retirement or disposal.

Any losses resulting from re-measurement at fair value of investment in real estate carried at fair value shall be adjusted in owners' equity against the property fair value reserve to the extent of the available credit balance of this reserve. In case such losses exceed the available balance, the losses shall be recognised in the consolidated income statement. In case there are recognised losses relating to investment in real estate that have been recognised in the consolidated income statement in a previous financial period, the recognised gains relating to the current financial period shall be recognised to the extent of crediting back such previous losses in the consolidated income statement.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Development properties

Development properties represent properties developed and held for sale in the ordinary course of business. The cost of development properties include the cost of land and related expenses incurred for development. Development properties are carried at lower of cost or net realisable value which is estimated selling price less costs to be incurred in connection with the sale.

(h) Assets acquired for leasing

Assets acquired for leasing represents aircraft acquired by the Group for lease and stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight line basis at rates that systematically reduce the cost of the leased assets over the estimated useful life of the assets. The Group assesses at each reporting date whether there is objective evidence that the assets acquired for leasing are impaired. Impairment losses are measured as the difference between the carrying amount of the asset and the estimated recoverable amount. Impairment losses, if any, are recognised in the income statement.

(i) Assets held-for-sale and discounted operations

Classification
The Group classifies non-current assets or disposal groups as held-for-sale if its carrying amount is expected to be recovered within twelve months principally through a sale transaction rather than through continuing use. A disposal group is a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. A subsidiary acquired exclusively with a view to resale is classified as disposal group held-for-sale and income and expense from its operations are presented as part of discontinued operation.

If the criteria for classification as held-for-sale are no longer met, the entity shall cease to classify the asset (or disposal group) as held-for-sale and shall measure the asset at the lower of its carrying amount before the asset (or disposal group) was classified as held-for-sale, adjusted for any depreciation, recognised or revaluations that would have been recognised had the asset (or disposal group) not been classified as held-for-sale and its recoverable amount at the date of the subsequent decision not to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets and investment property carried at fair value, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognised in the consolidated income statement. Gains are not recognised in excess of any cumulative impairment loss.

Measurement
Non-current assets or disposal groups classified as held-for-sale, other than financial instruments, are measured at the lower of its carrying amount and fair value less costs to sell. Financial instruments that are non-current assets and 'held-for-sale' continue to be measured in accordance with their stated accounting policies. On classification of equity-accounted investee as held-for-sale, equity accounting is ceased at the time

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Assets held-for-sale and discounted operations (continued)

of such classification as held-for-sale. Non-financial assets (i.e. intangible assets, equipment) are no longer amortised or depreciated.

Discounted operations
A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held-for-sale, if earlier. When an operation is classified as a discontinued operation, the comparative consolidated income statement is re-presented as if the operation had been discontinued from the start of the comparative year.

(j) Impairment of assets

The Group assesses at each reporting date whether there is objective evidence that an asset is impaired. Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

Financial assets carried at amortised cost
For financial assets carried at amortised cost, impairment is measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses are recognised in consolidated income statement and reflected in an allowance account. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the consolidated income statement.

Investments carried at fair value through equity (FVTE)
In the case of equity type instruments carried at fair value through equity, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in recognition of an impairment loss. If any such evidence exists for equity type instruments, the recognised re-measurement loss shall be transferred from equity to the consolidated income statement. Impairment losses recognised in consolidated income statement for an equity investment are reversed directly through equity.

For equity type instruments carried at cost due to the absence of reliable fair value, the Group makes an assessment of whether there is an objective evidence of impairment

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment of assets (continued)

for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the expected recoverable amount is assessed to be below the carrying amount of the investment. All impairment losses are recognised through the consolidated income statement and is not reversed.

Other non-financial assets
The carrying amount of the Group's assets or its cash generating unit, other than financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other asset and groups. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset or a cash generating unit is the greater of its value in use or fair value less costs to sell. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the consolidated income statement.

Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Separately recognised goodwill is not amortised and is tested annually for impairment and carried at cost less accumulated impairment losses.

Impairment losses on separately recognised goodwill are not reversed.

(k) Financing liabilities

Financing liabilities represents facilities from financial institutions, and financing raised through Sukuk. Financing liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective profit rate method. Financing costs, dividends and losses relating to financing liabilities are recognised in the consolidated income statement as finance expense. The Group derecognises a financing liability when its contractual obligations are discharged, cancelled or expire.

(l) Due to financial institutions

These comprise funds from financial institutions received on Shari'ah compliant contracts. Due to financial institutions are stated at their amortised cost.

(m) Share capital and reserves

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Equity instruments of the group comprise ordinary shares and equity component of share-based payments and convertible instruments. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Share capital and reserves (continued)

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

(n) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise cash in hand, bank balances and placements with financial institutions with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in fair value and are used by the Group in the management of its short-term commitments.

(o) Revenue recognition

Revenue is recognised to the extent that it is possible that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue earned by the Group and gain / loss on assets are recognised on the following basis:

Income from investment banking services is recognised when the services for the transaction are provided and income is earned. This is usually when the Group has performed all significant acts in relation to the transaction and it is highly probable that the economic benefits from the transaction will flow to the Group.

Management and other fees are recognised as income when earned and the related services are performed and there is no uncertainty on its collectability.

Income from placements financial institutions are recognised on a time-apportioned basis over the period of the related contract using the effective profit rate.

Dividend income from investment securities is recognised when the right to receive is established. This is usually the ex-dividend date for equity securities.

Fair value gain / (loss) on investment securities (recognised gain or loss) is recognised on each measurement date in accordance with the accounting policy for equity-type instruments carried at fair value through income statement (refer note 2 (f)).

Gain on sale of investment securities (recognised gain) is recognised on trade date at the time of derecognition of the investment securities. The gain or loss is the difference between the carrying value on the trade date and the consideration received or receivable.

Income from assets acquired for leasing are recognised proportionately over the lease term.

Gain on sale of development properties is recognised as the difference between the carrying value of the development properties and the considered received or receivable.

Finance income / expenses are recognised using the amortised cost method at the effective profit rate of the financial asset / liability.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Earnings prohibited by Shari'ah

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

(q) Zakah

Pursuant to the decision of the shareholders', Zakah is the responsibility of the shareholders. The Group is also required to calculate and notify, under a separate report, individual shareholders of their pro-rata share of the Zakah payable by them on distributed profits. These calculations are approved by the Group's Shari'a Supervisory Board and provided for in the Bank's website.

(r) Employees benefits

(i) Short-term benefits

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

(ii) Post employment benefits

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

Expatriate and certain Bahraini employees on fixed contracts are entitled to leaving indemnities payable, based on length of service and final remuneration. Provision for this unfunded commitment, has been made by calculating the notional liability had all employees left at the reporting date. These benefits are in the nature of a "defined benefit scheme" and any increase or decrease in the benefit obligation is recognised in the consolidated income statement.

(s) Dividends and other appropriations

Dividends to shareholders and other appropriations are recognised as liabilities in the period in which they are declared.

(t) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

U) Contingent liabilities and contingent assets

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

(v) Leases

Payments under operating lease are recognised in the consolidated income statement on a straight line basis over the term of the lease. Lease incentives are recognised as an integral part of the total lease expense, over the term of the lease.

(w) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from the contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

(x) Trade date accounting

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

(y) Offsetting of financial instruments

Financial instruments comprise of financial assets and financial liabilities. Financial assets include cash and balances with banks, placements with financial institutions, financing receivables, investment securities and other assets. Financial liabilities include due to financial institutions, due to customers, other liabilities and financial guarantees.

Financial assets and financial liabilities are only offset and the net amounts reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to either settle these on a net basis, or intends to realise the asset and settle the liability simultaneously.

(z) The Group's operates under one segment "Investment Banking", therefore no separate operating segment results and other disclosures are provided in these consolidated financial statements.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

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

Judgement

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

Special Purpose Entities
The Group sponsors the formation of special purpose entities (SPE's) primarily for the purpose of allowing clients to hold investments. The Group provides corporate administration, investment management and advisory services to these SPE's, which involve the Group making decisions on behalf of such entities. The Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. The Group does not consolidate SPE's that it does not have the power to control. In determining whether the Group has the power to control an SPE, judgements are made about the objectives of the SPE's activities, its exposure to the risks and rewards, as well as about the Group intention and ability to make operational decisions for the SPE and whether the Group derives benefits from such decisions.

Classification as held-for-sale
The Group classified non-current assets (or disposal group) are held-for-sale when the carrying amount will be recovered principally through a sale transaction rather than continuing use. In such case, the asset is available for immediate sale in its present condition subject to only to terms that are usual and customary for sale of such assets and the sale is highly probable. Further, the asset is actively marketed for sale at a price that is reasonable in relation to its current fair value.

Estimations

Fair value of financial instruments
The Group determines fair value of investments designated at fair value that are not quoted in active markets by using valuation techniques such as discounted cash flows and recent transaction prices. Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events (such as continued operating profits and financial strengths). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments. In case where discounted cash flow models have been used to estimate fair values, the future cash flows have been estimated by the management based on information from and discussions with representatives of the management of the investee companies, and based on the latest available audited and un-audited financial information. The basis of valuation have been reviewed by the Management in terms

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

of the appropriateness of the methodology, soundness of assumptions and correctness of calculations and have been approved by the Board of Directors for inclusion in the consolidated financial statements.

Impairment on investments carried at fair value carried through equity

Equity-type instruments classified as investments at FVTE but carried at cost less impairment due to the absence of reliable measure of fair value are tested for impairment. A significant portion of the Group's equity-type investments comprise investments in long-term real estate and infrastructure development projects. In making an assessment of impairment, the Group evaluates among other factors, liquidity of the project, evidence of a deterioration in the financial health of the project, impacts of delays in execution, industry and sector performance, changes in technology, and operational and financing cash flows. The Group has exposures to investments and projects that operate in countries and geographies where business and political environment are subject to rapid changes. The performance of the investments and recoverability of exposures is based on condition prevailing and information available with management as at the reporting date. It is the management's opinion that the current level of provisions are adequate and reflect prevailing conditions and available information. It is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of the investments within the next financial year due to significant changes in the assumptions underlying such assessments.

Fair value of investment in real estate

The fair value of investment in real estate is determined by independent real estate valuation experts. Having recent experience in the locations and segments of the investment in real estate that is being valued. The determination of the fair value of such assets requires the use of judgment based on estimates by independent valuation experts that are based on local market conditions existing at the reporting date. For all investment in real estate, their current use equates to the highest and best use. Buildings were valued based on capitalization of future rental cash flows, estimated vacancy rates and capitalization rates. The fair value of land was determined based on sales comparison approach taking into consideration comparable properties in close proximity. There is no change in the valuation technique during the year.

Impairment of receivables

Each counterparty exposure is evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently evaluated.

Impairment of non-financial assets

The fair value of non-financial assets are measured using valuation techniques such as discounted cash flow valuations and recent transaction prices.

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5 FINANCING RECEIVABLES

	31 December 2015	31 December 2014
Gross murabaha receivables	17,634	12,180
Less: Deferred profit	(2,823)	(1,163)
Net murabaha receivables	14,811	11,017
Musharaka financing	162	152
	14,973	11,169

Financing receivable is net of impairment allowance of USD 616 thousand (31 December 2014: USD 251 thousand) (refer note 27). The financing receivables are subject to a profit rate of 2.75 - 10% with varying maturity period ranging from 6 months to 4 years.

6 ASSETS AND LIABILITIES HELD-FOR-SALE

Assets held-for-sale includes, the Group's acquisition of 23.3% stake in MENA Energy Limited and four Q400 Bombardier aircrafts acquired during the year through special purpose vehicles where the Group exercises control. These aircrafts are leased to Qazak Airlines and Rwanda Airlines. The income from aircraft leasing operations amounting to USD_3,932 thousand is included in the consolidated income statement under "income from assets held-for-sale". The Group is in the process of down selling these investments to investors.

Restatement

The Group acquired four Bombardier Q400 aircrafts in 2014. These aircrafts were classified as assets held for sale in line with intention of down selling this investment to investors. In the latter part of the 2015, the Group began a sale process with a credible third buyer with the intention of exit from the investment. The sale process is yet to reach advance stage and as such the investment no longer meets the criteria to be classified as held-for-sale, the investment has been reclassified as held for use (note 7).

In accordance with IFRS 5 Non-current assets held-for-sale and discontinued operations, upon reclassification as held-for-use, the special purpose vehicle was consolidated on a line by line basis including earlier periods resulting in restatement of the prior year as if the special purpose vehicle had always been consolidated. The effect of the reclassification resulted in increase of previously reported loss for the year ended 31 December 2014 by USD 1.8 million and decrease in previously reported total equity as at 31 December 2014 by USD 1.8 million.

7 ASSETS ACQUIRED FOR LEASING

Aircraft:	2015	2014
Cost		
At 1 January	93,568	-
Additions during the year	-	93,568
At 31 December	**93,568**	93,568
Accumulated depreciation		
At 1 January	1,791	-
Charge for year	3,583	1,791
At 31 December	**5,374**	1,791
Net book value at 31 December	**88,194**	91,777

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7 ASSETS ACQUIRED FOR LEASING (continued)

Assets acquired for leasing represents 4 Q400 aircraft acquired in 2014 and was previously classified as "held-for-sale" (refer to note 6). The aircrafts were acquired for leasing through a combination of equity and financing (note15) and are leased to Ethiopian Airlines for a period of 12 years. Depreciation on assets acquired for leasing is calculated based on estimated useful life of 25 years and estimated total residual value of USD 4 million estimated at the end of its useful life.

Future minimum rentals for the remaining lease period is as given below:

2015	**Up to 1 year**	**1-5 years**	**Over 5 years**
Future minimum lease rentals	**10,582**	**52,908**	**45,638**

2014	Up to 1 year	1-5 years	Over 5 years
Future minimum lease rentals	10,582	52,908	56,874

Income of assets acquired for leasing:

	2015	2014
Lease rental income	10,586	4,683
Less:		
Finance cost	(3,062)	(1,428)
Depreciation	(3,583)	(1,791)
Other operating expenses	(412)	(578)
Income of assets acquired for leasing, net	**3,529**	886

8 RECEIVABLE FROM IJARAH INVESTORS

Receivable from ijarah investors represent the investors' share of borrowings that was sourced by the bank for participations in the Group's real estate ijarah series products which will be settled in accordance with the respective product structures.

In accordance with the initial agreement, the receivables will be settled through the exit of the underlying properties. As at 31 December 2015, the fair value of the properties based on valuation by independent valuers was USD 32.2 million (2014: USD 31.7 million) and the related borrowings amounts to USD 16.2 million.

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9 INVESTMENT SECURITIES

	31 December 2015	31 December 2014
Debt type instruments		
At amortized cost		
- Quoted sukuk	69,780	65,863
Equity type instruments		
At fair value through income statement		
- Unquoted equity securities	977	9,022
- Quoted sukuk	7,069	13,023
- Quoted equity securities (managed portfolio)	5,622	-
- Unquoted fund	5,099	-
At fair value through equity		
- Quoted equity securities (at fair value)	16,406	20,988
- Quoted sukuk (at fair value)	-	5,699
- Unquoted equity securities (at cost)	90,502	91,557
	195,455	206,152

The Group's investments in sukuk held at amortized cost amounting to USD 69,780 thousand (31 December 2014: USD 66,863 thousand) has a fair value amounting to USD 67,826 thousand (2014: USD 67,436 thousand). During the year the Group did not recognise impairment allowance on the quoted sukuk (31 December 2014: USD 400 thousand). Quoted Sukuk (debt type instrument) with a carrying value of USD 26,263 (31 December 2014: nil) thousand are offered as collateral for the financing facility relating to Group's operations (note 14).

Fair value loss on unquoted equity securities carried at fair value through income statement amounted to USD 8,045 thousand (31 December 2014: USD 10,468 thousand). Fair value loss on quoted equity securities (managed portfolio) carried at fair value through income statement amounted to USD 1,139 thousand (31 December 2014: nil). Fair value gain on unquoted fund carried at fair value through income statement amounted to USD 99 thousand.

Unquoted equity securities of USD 90,502 thousand (31 December 2014: USD 91,557) thousand are carried at cost less impairment in the absence of reliable measure of fair value. During the year, the Group recognised impairment allowances of USD 12,115 thousand (note 22) (31 December 2014: USD 4,938 thousand) (note 22) on unquoted equity securities carried at cost.

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10 EQUITY-ACCOUNTED INVESTEES

Investment in associates comprise:

	Country of incorporation	holding %	Nature of activities
Ali Iskandar Al Ansari and Partners W.L.L.(i)	Qatar	35%	A company operates in earth moving activities
Aqari Real Estate Company B.S.C. (c)	Bahrain	31.88%	Invest in income generating residential, office and commercial real estate assets
Alpha Lease and Finance Holding Company BSC (c) (ii)	Bahrain	30%	Leasing of equipment.
Apex Real Estate Company B.S.C.(c) (i)	Bahrain	30%	Property management company
Skaugen Gulf Petchem Carriers B.S.C. (c)	Bahrain	30%	Petrochemical shipping company with vessels operating through the Norgas Pool

(i) These associates are fully provided for and the financial information below does not include their financial results.

(ii) During the current year, an impairment allowance of USD 2,229 thousand was recognized in the consolidated income statement for the Group's investment in associate.

	2015	2014
At 1 January	12,468	11,372
Capital increase	-	2,503
Share of profit / (loss) of equity-accounted investees	2,261	(1,424)
Share of reserve of equity accounted investees	-	17
Impairment allowance (note 22)	(2,229)	-
At 31 December	**12,500**	12,468

Summarised financial information of associates that have been equity accounted in these consolidated financial statements, not adjusted for percentage of ownership held by the Group and related subsequent acquisition accounting adjustment (based on most recent audited financial statements / most recent management accounts):

	2015	2014
Assets	20,465	69,258
Liabilities	186	26,593
Revenue	(2,440)	7,461
(Loss) / profit for the year	(2,628)	787

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11 INVESTMENT IN REAL ESTATE

	2015	2014
Land	22,980	28,355
Buildings	7,054	14,884
	30,034	43,239

	2015	2014
At 1 January	43,239	44,080
Fair value changes	(1,511)	1,412
Disposals	(11,694)	(2,253)
At 31 December	**30,034**	43,239

12 DEVELOPMENT PROPERTIES

	2015	2014
Land	-	308
Development cost	-	526
	-	834

During the year, the Group sold development properties of carrying value of USD 834 thousand (2014: USD 5,330 thousand) for USD 1,245 thousand (2014: USD 5,730 thousand) resulting in gain of USD_411 thousand (2014: USD 2,701 thousand).

13 OTHER ASSETS

	2015	2014
Project related advances	140	297
Accrued profit on sukuk	568	857
Receivables related to assets acquired for leasing	3,197	2,375
Ijarah muntahia bittamleek receivable	213	1,059
Staff receivable	509	367
Prepaid expenses	236	212
Equipment	361	387
Others	493	449
	5,717	6,003

14 FINANCING LIABILITIES

	2015	2014
Murabaha financing:		
- Related to Ijarah investors (note 8)	16,186	11,671
- Related to Group's operations	10,035	-
	26,221	11,671

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14 FINANCING LIABILITIES (continued)

Murabaha financing of USD 16.19 million (31 December 2014: USD 11.67 million) was borrowed on behalf of Ijarah investors to fund acquisition of properties in 2015. The financing facility carries profit rate of 5.75% and repayable on quarterly installments with final installment due in April 2019 and secured against investment properties of Ijarah investors of carrying value USD 32.2 million (title held by the Bank on behalf of project investors). All costs of the facilities are borne by the Ijarah investors (using cash flows from income generated from the underlying properties).

The remaining murabaha financing related to the Group's operations include a short term facility of USD 20 million (of which USD 10 million were utilized) from a financial institution for a period of 6 months at variable rate. The financing liability is secured against quoted sukuk of carrying amount USD 26,263 thousand as at 31 December 2015 (note 9).

15 LIABILITIES RELATED TO ASSETS ACQUIRED FOR LEASING

This represents four fixed rate note availed in 2014 for financing the acquisition of assets acquired for leasing (note 7). The notes are repayable in quarterly instalments over a period of 12 years with final installment payable in 2016 and carries a profit rate of 4.5% to 4.6%. The assets acquired for leasing are mortgaged towards the repayment of notes payable.

The breakdown of the liabilities is as given below:

	2015	2014
Payable within one year	7,245	7,035
Payable after one year	63,507	68,586
At 31 December	**70,752**	75,621

16 OTHER LIABILITIES

	2015	2014
Accounts payables & Accruals	1,394	1,165
Management and other fee payable	1,076	425
Due to Ijara investors	2,264	1,861
Due to other investors	1,730	2,098
Restructuring provision	315	450
Provision for employee benefits	1,862	1,660
Others	3,122	3,644
	11,763	11,303

17 SHARE CAPITAL

	2015	2014
Authorized:		
500,000,000 (2014: 500,000,000) ordinary shares at USD 1 per share	**500,000**	500,000
Issued, subscribed and paid-up capital		
300,000,000 (2014: 300,000,000) ordinary shares at USD 1 per share	**300,000**	300,000

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17 SHARE CAPITAL (continued)

Share premium
Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue expenses, are treated as share premium. This amount is not available for distribution, but can be utilized as stipulated by the Bahrain Commercial Companies Law and following the approval of the CBB.

Pursuant to the Extraordinary Annual General Meeting held on 16 April 2015, the shareholders approved adjustment of accumulated losses of USD 16,385 thousands against the share premium.

18 INCOME FROM INVESTMENT SECURITIES

	2015	2014
Gain on sale of investment securities	297	1,234
Dividend income	1,093	992
Gain on sale of sukuk	2,330	807
Income from sukuk	4,377	4,870
	8,097	7,903

19 OTHER INCOME

	2015	2014
Rental income from properties	1,052	1,337
Reversal of Accruals	813	-
Miscellaneous	925	816
	2,790	2,153

20 STAFF COST

	2015	2014
Salaries and benefits	6,183	5,532
Social insurance expenses	328	330
Other staff expenses	845	724
	7,356	6,586

21 OTHER EXPENSES

	2015	2014
Professional expenses	1,331	700
Premises cost	451	688
Board of directors remuneration/sitting fee and expenses	1,026	1,041
Travel and accommodation	224	331
Other administrative expenses	2,416	2,387
	5,448	5,147

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22 IMPAIRMENT ALLOWANCES

	note	**2015**	2014
Financing receivables	5	357	36
Investment securities:			
- Unquoted equity securities carried at cost	9	12,115	4,938
- Quoted sukuk	9	-	400
- Equity-accounted investees		2,229	-
		14,701	5,374

23 CONCENTRATION OF ASSETS AND LIABILITIES

(a) Geographic region

The geographical distribution of the Group's assets and liabilities as of 31 December 2015 is as follows:

	Middle East	**Europe**	**Africa**	**South East Asia & Others**	**Total**
31 December 2015					
Assets					
Cash and balances with banks	9,782	3,320	-	117	13,219
Placements with financial institutions	2,002	-	-	-	2,002
Financing receivables	6,811	-	8,000	162	14,973
Asset held-for-sale	86,643	-	25,527	-	112,170
Receivable from Ijarah investors	15,662	-	-	-	15,662
Investment securities	164,907	25,715	3,312	1,521	195,455
Equity-accounted investees	12,500	-	-	-	12,500
Investment in real estate	30,034	-	-	-	30,034
Assets acquired for leasing	88,194	-	-	-	88,194
Development properties	-	-	-	-	-
Other assets	5,313	19	130	255	5,717
Total assets	**421,848**	**29,054**	**36,969**	**2,055**	**489,926**
Liabilities					
Placements from financial institutions	2,662	-	-	1,501	4,163
Financing liabilities	16,185	10,036	-	-	26,221
Liabilities related to assets acquired for leasing	54,379	-	18,671	-	73,050
Liabilities related to assets acquired for leasing	-	-	70,752	-	70,752
Other liabilities	9,751	-	861	1,151	11,763
Total liabilities	**82,977**	**10,036**	**90,284**	**2,652**	**185,949**

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23 CONCENTRATION OF ASSETS AND LIABILITIES (continued)

(a) Geographic region (continued)

	Middle East	Europe	Africa	South East Asia & Others	Total
31 December 2014					
Assets					
Cash and balances with banks	14,684	2,223	-	109	17,016
Placements with financial institutions	4,472	4,504	-	-	8,976
Financing receivables	-	-	11,017	152	11,169
Receivable from Ijarah investors	27,033	-	-	-	27,033
Investment securities	175,235	21,200	7,758	1,959	206,152
Equity-accounted investees	12,468	-	-	-	12,468
Investment in real estate	43,239	-	-	-	43,239
Assets acquired for leasing	-	-	-	91,777	91,777
Development properties	834	-	-	-	834
Other assets	2,080	2	233	3,688	6,003
Total assets	280,045	27,929	19,008	97,685	424,667
Liabilities					
Placements from financial institutions		2,500	-	7,037	9,537
Financing liabilities	11,671	-	-	-	11,671
Liabilities related to assets acquired for leasing	-	-	-	75,621	75,621
Other liabilities	9,644	-	675	984	11,303
Total liabilities	21,315	2,500	675	83,642	108,132

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23 CONCENTRATION OF ASSETS AND LIABILITIES (continued)

(b) Industry sector

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

	Trading and Manufact-uring	Banks and financial institutions	Real estate	Aviation	Others	Total
31 December 2015						
Assets						
Cash and balances with banks	-	13,219	-	-	-	13,219
Placements with financial institutions	-	2,002	-	-	-	2,002
Financing receivables	-	-	6,810	-	8,163	14,973
Asset held-for-sale	-	-	-	100,519	11,651	112,170
Receivable from Ijarah investors	-	-	-	-	15,662	15,662
Investment securities	3,414	51,792	69,396	1,218	69,635	195,455
Equity-accounted investees	-	-	3,640	-	8,860	12,500
Investment in real estate	-	-	30,034	-	-	30,034
Assets acquired for leasing	-	88,194	-	-	-	88,194
Development properties	-	-	-	-	-	-
Other assets	-	186	322	126	5,083	5,717
Total assets	**3,414**	**155,393**	**110,202**	**101,863**	**119,054**	**489,926**
Liabilities						
Placements with financial institutions	-	4,163	-	-	-	4,163
Financing liabilities	-	26,221	-	-	-	26,221
Liabilities related to assets held-for-sale	-	-	-	73,050	-	73,050
Liabilities related to assets acquired for leasing	-	-	-	70,752	-	70,752
Other liabilities	106	-	3,262	2,547	5,848	11,763
Total liabilities	**106**	**30,384**	**3,262**	**146,349**	**5,848**	**185,949**

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23 CONCENTRATION OF ASSETS AND LIABILITIES (continued)

b) Industry sector (continued)

	Trading and Manufact-uring	Banks and financial institutions	Real estate	Aviation	Others	Total
31 December 2014						
Assets						
Cash and balances with banks	-	17,016	-	-	-	17,016
Placements with financial institutions	-	8,976	-	-	-	8,976
Financing receivables	-	-	-	3,740	7,429	11,169
Receivable from Ijarah investors	-	-	-	-	27,033	27,033
Investment securities	1,052	72,119	71,849	2,378	58,754	206,152
Equity-accounted investees	-	1,773	1,886	8,809	-	12,468
Investment in real estate	-	-	43,239	-	-	43,239
Assets acquired for leasing	-	-	-	91,777	-	91,777
Development properties	-	-	834	-	-	834
Other assets	-	279	421	2,777	2,526	6,003
Total assets	1,052	100,163	118,229	109,481	95,742	424,667
Liabilities						
Placements from financial institutions	-	9,537	-	-	-	9,537
Financing liabilities	-	11,671	-	-	-	11,671
Liabilities related to assets acquired for leasing	-	-	-	75,621	-	75,621
Other liabilities	73	-	3,162	1,702	6,366	11,303
Total liabilities	73	21,208	3,162	77,323	6,366	108,132

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24 MATURITY PROFILE OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

31 December 2015	**Up to 3 months**	**3 months to 1 year**	**Total up to 1 year**	**1 to 5 years**	**5 to 10 years**	**No fixed maturity**	**Total**
Assets							
Cash and balances with banks	13,219	-	13,219	-	-	-	13,219
Placements with financial institutions	2,002	-	2,002	-	-	-	2,002
Financing receivables	-	8,000	8,000	6,973	-	-	14,973
Assets held-for-sale	-	112,170	112,170	-	-	-	112,170
Receivable from Ijarah investors	-	-	-	15,662	-	-	15,662
Investment securities	-	10,543	10,543	23,245	30,605	131,062	195,455
Equity-accounted investees	-	-	-	-	-	12,500	12,500
Investment in real estate	-	-	-	-	-	30,034	30,034
Assets acquired for leasing	88,194	-	88,194	-	-	-	88,194
Other assets	3,871	513	4,384	905	-	428	5,717
Total assets (a)	**107,286**	**131,226**	**238,512**	**46,785**	**30,605**	**174,024**	**489,926**
Liabilities							
Placements from financial institutions	1,501	2,662	4,163	-	-	-	4,163
Financing liabilities	10,036	-	10,036	16,185	-	-	26,221
Liabilities related to assets held for sale	-	73,050	73,050	-	-	-	73,050
Liabilities related to assets acquired for leasing	-	70,752	70,752	-	-	-	70,752
Other liabilities	(11)	11,199	11,188	185	-	390	11,763
Total liabilities (b)	**11,526**	**157,663**	**169,189**	**16,370**	**-**	**390**	**185,949**
Commitments (c)	-	12,052	12,052	673	-	-	12,725
Net liquidity gap (a-b-c)	**95,760**	**(38,489)**	**57,271**	**29,742**	**30,605**	**173,634**	**291,252**
Cumulative net liquidity gap	**95,760**	**57,271**	**153,031**	**87,013**	**117,618**	**291,252**	**-**

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24 MATURITY PROFILE OF ASSETS AND LIABILITIES (continued)

31 December 2014	Up to 3 months	3 months to 1 year	Total up to 1 year	1 to 5 years	5 to 10 years	No fixed maturity	Total
Assets							
Cash and balances with banks	17,016	-	17,016	-	-	-	17,016
Placements with financial institutions	8,976	-	8,976	-	-	-	8,976
Financing receivables	7,277	3,740	11,017	152	-	-	11,169
Receivable from Ijarah investors	27,033	-	27,033	-	-	-	27,033
Investment securities	-	4,301	4,301	45,728	15,834	140,289	206,152
Equity-accounted investees	-	-	-	-	-	12,468	12,468
Investment in real estate	-	-	-	-	-	43,239	43,239
Assets acquired for leasing	-	91,777	91,777	-	-	-	91,777
Development properties	834	-	834	-	-	-	834
Other assets	513	2,747	3,260	1,857	216	670	6,003
Total assets (a)	61,649	102,565	164,214	47,737	16,050	196,666	424,667
Liabilities							
Placements from financial institutions	9,537	-	9,537	-	-	-	9,537
Financing liabilities	11,671	-	11,671	-	-	-	11,671
Liabilities related to assets acquired for leasing	-	75,621	75,621	-	-	-	75,621
Other liabilities	1,508	6,288	7,796	2,550	453	504	11,303
Total liabilities (b)	22,716	81,909	104,625	2,550	453	504	108,132
Commitments (c)	-	8,765	-	-	-	-	8,765
Net liquidity gap (a-b-c)	38,933	11,891	59,589	45,187	15,597	196,162	307,770
Cumulative net liquidity gap	38,933	50,824	89,757	96,011	111,608	307,770	-

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25 RELATED PARTY BALANCES AND TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence or joint control over the other party in making financial and operating decisions. Related parties comprise major shareholders, directors, shari'a supervisory board, external auditors and executive management of the Group and/or entities over which they exercise control and/or significant influence.

The related party balances included in these consolidated financial statements are as follows:

	31 December 2015					31 December 2014				
	Associates	**Directors/ key Management personnel Shari'a board members**	**Major shareholders / entities in which directors are interested**	**Assets under management**	**Total**	**Associates**	**Directors/ key Management personnel Shari'a board members**	**Major shareholders / entities in which directors are interested**	**Assets under management**	**Total**
Assets										
Cash and balances with banks	-	-	413	-	413	-	-	4	-	4
Financing receivables	-	-	-	8,000	8,000	-	-	-	7,678	7,678
Assets held-for-sale	11,650	-	-	-	11,650	-	-	-	-	-
Investment securities	-	-	-	977	977	-	-	-	7,104	7,104
Equity-accounted investees	12,500	-	-	-	12,500	12,468	-	-	-	12,468
Other assets	-	-	-	193	193	-	-	-	222	222
Liabilities										
Due to investors	-	-	157	-	157	-	-	157	-	157
Other liabilities	80	876	12	2,040	3,008	80	540	12	1,476	2,108
Off-balance sheet										
Commitments	-	-	-	4,566	4,566	-	-	-	6,290	6,290

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25 RELATED PARTY BALANCES AND TRANSACTIONS (continued)

The related party transactions included in these consolidated financial statements are as follows:

	2015					2014				
	Associates	**Directors / key management personnel Shari'a board members**	**Major shareholders/ entities in which directors are interested**	**Assets under management**	**Total**	Associates	Directors / key management personnel Shari'a board members	Major shareholders / entities in which directors are interested	Assets under management	Total
Income										
Share of profit / (loss) of equity-accounted investees	2,261	-	-	-	2,261	(1,424)	-	-	-	(1,424)
Fair value loss	-	-	(4,725)	-	(4,725)	-	-	9	(8,149)	(8,140)
Income from investment banking services	-	-	-	261	261	46	-	-	261	307
Expenses										
Staff cost	-	611	-	-	611	-	1,667	-	-	1,667
Other expenses	-	1,026	-	-	1,026	-	1,041	-	-	1,041
Impairment allowances	2,229	-	-	376	2,605	-	-	-	-	-

26 COMMITMENTS

	31 December 2015	31 December 2014
Uncalled capital commitments in respect of investment	12,048	8,391
Commitment related to project developments	132	132
Operating lease commitments:		
- Within one year	242	242
- One to three years	303	-
	12,725	8,765

27 FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risks; and
- Operational risk

27 FINANCIAL RISK MANAGEMENT (continued)

The Group has a risk management and governance framework which is intended to integrate risk management in its strategic thinking and business practices.

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

Risk Management and Governance Structure

Board of Directors

The Board of Directors of the Group has overall responsibility for establishing the Group's approach to risk and ensuring that an effective risk management framework is in place. The Board approves and periodically reviews the risk management policies and strategies of the Group.

Audit Committee
The mandate of the Audit Committee requires it to assist the Board in fulfilling its statutory and fiduciary responsibilities with respect to internal controls, accounting policies, auditing and financial reporting practices. The committee is responsible to assist the Board in its oversight of (i) the integrity and reporting of the Group's quarterly and annual consolidated financial statements, (ii) compliance with legal and regulatory requirements; and (iii) the independence and performance of the Group's internal and external auditors. The Committee also reviews the activities and performance of the internal audit function.

Risk Committee
The Risk Committee ("RC") is a sub-committee of the Board of Directors and assists the Board in fulfilling its oversight responsibilities with regards to development of risk management framework across all spectrums of business and operational activities conducted by the Group. The mandate of this committee is to develop and implement risk management strategies and policies. The committee is also responsible for assessment of the efficiency of overall risk management function of the Group and compliance with regulatory requirements relating to risk management. The committee also ensures transparency and timeliness of internal and external disclosures on risk matters.

Shari'a Supervisory Board
The Group's compliance with Shari'a principles is overseen by an external and independent Shari'a Supervisory Board (SSB), fully supported by the Group's other departments. The SSB is responsible for ensuring that there is an ongoing process of reviewing and auditing for Shari'a compliance in accordance with AAOIFI standards for existing and new investments. The SSB ensures that all investments undertaken by the lines of business are structured in such a manner that investments comply strictly with Shari'a principles.

Asset and Liability Committee
The Asset and Liability Committee ("ALCO") establishes policy and objectives for management of the Group's assets and liabilities in terms of structure, distribution, risk and return and its impact on profitability. It also monitors cash flows, tenor and cost/yield profiles of assets and liabilities and evaluates the Group's consolidated statement of financial position both from profit rate sensitivity and liquidity points of view, makes corrective adjustments based upon perceived trends and market conditions, monitors liquidity and foreign exchange exposures and positions.

27 FINANCIAL RISK MANAGEMENT (continued)

Investment, Credit & Risk Committee
The Investment Credit & Risk Committee ("ICRC") comprises of the Chief Executive Officer, Chief Investment Officer and Chief Financial Officer as voting members, in addition to the Heads of Risk Management, Treasury and Legal as non-voting members. In addition to facilitating the credit and investment decisions, the ICRC's mission is to establish and maintain a risk management framework throughout the Group to best manage Bank's shareholders and client interests. Its mandate is to identify, assess and measure risks arising from the Group's activities, and to define the appropriate course of action to mitigate or manage them.

Risk Management Department
The Risk Management Department ("RMD") is responsible for implementing and maintaining risk related policies & procedures to ensure an independent control process. It provides oversight compliance with risk principles, policies and limits across the Group. The department is also responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This department also ensures complete capture of the risks in risk measurement and reporting.

Internal Audit
Internal Audit is responsible for carrying out a risk-based program designed to provide assurance that assets are being safeguarded. This involves ensuring that controls are in place and working effectively in accordance with Group policies and procedures as well as with laws and regulations. The work carried out by Internal Audit includes providing assurance on the effectiveness of the risk management functions as well as that of controls operated by the business units. The Audit Committee approves the annual audit plan and also receives regular reports of the results of audit work.

Risk Management and Reporting Structure
The Group identifies, measures, controls and monitors its material risks on a periodic basis. The Group has established relevant risk limit structures to quantify its risk appetite. RC reviews and recommends the limits, suggested by the ICRC to the Board which is ultimately responsible for the final approval of the limit. The monitoring and controlling of risks is managed through limits set by the ICRC. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept.

The RMD presents reports to the Board of Directors through ICRC and RC. These reports include risk and investment review of Group's portfolio and its impact on Group's capital adequacy, liquidity and profitability.

As part of the Risk Management's reporting framework, tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information. A periodic briefing is given to the Executive Management and all other relevant members of the Group on the utilization of market limits, proprietary investments and liquidity, plus any other risk developments.

(a) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. Being a wholesale investment bank, the Group is involved in investment advisory services and investment

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27 FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

transactions which comply with Islamic rules and principles according to the opinion of the Shari'a Board. Credit risk arises largely through balance with banks, short-term placements with financial institutions, financing receivables, musharaka financing, receivable from ijarah investors, investment in securities and other assets.

The Group manages and controls its credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits. Counterparty limits are established with the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to revision at the time of renewal of the facility.

The Board has delegated responsibility for the management of credit risk to its ICRC. ICRC is the highest management-level authority on all credit exposures. The overall role of ICRC is to facilitate the business of the Group in the most effective and efficient manner within the risk guidelines specified by the Board or its designated RC. Prior to funding a facility, and regardless of its size, the ICRC provides an independent assessment of the opportunity, highlighting key risks prior to commitment.

The RMD regularly monitors the level of risk within the Group's portfolio to ensure that appropriate level of economic capital is maintained. This process ensures that the required risk capital is below the available equity, which results in a positive equity cushion. The RMD ensures that Ibdar maintains appropriate asset diversification by geography, industry and investment type.

Maximum exposure to credit risk
The table below shows the gross maximum exposure to credit risk for the components of the consolidated statement of financial position. The figures represent gross exposure net of any provision for impairment, without taking into account any collateral held and other credit mitigants.

	Maximum exposure	
	31 December 2015	31 December 2014
Balances with banks	13,218	17,015
Placements with financial institutions	2,002	8,976
Financing receivables	14,973	11,169
Receivable from ijarah investors	15,662	27,033
Investment securities (debt type sukuk)	69,780	65,863
Other financial assets	4,972	5,424
	120,608	135,480

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27 FINANCIAL RISK MANAGEMENT (continued)

Credit quality per class of financial assets

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

31 December 2015	Balances with banks	Placements with financial institutions	Financing receivables	Receivable from ijarah investors	Investment securities	Other financial assets	Total
Prime to High grade: AAA – AA-	3,037	-	-	-	-	5	3,042
Medium grade: A+ – BBB-	-	-	-	-	30,840	-	30,840
Non-investment / speculative: BB+ - C	459	-	-	-	4,840	108	5,407
Unrated	9,723	2,002	14,973	15,662	34,100	4,859	81,319
Total	**13,219**	**2,002**	**14,973**	**15,662**	**69,780**	**4,972**	**120,608**

31 December 2014	Balances with banks	Placements with financial institutions	Financing receivables	Receivable from ijarah investors	Investment securities	Other financial assets	Total
Prime to High grade: AAA – AA-	47	-	-	-	-	-	47
Medium grade: A+ – BBB-	-	-	-	-	32,160	-	32,160
Non-investment / speculative: BB+ - C	65	-	-	-	2,996	189	3,250
Unrated	16,903	8,976	11,169	27,033	30,707	5,235	100,023
Total	17,015	8,976	11,169	27,033	65,863	5,424	135,480

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 Group seeks to manage the concentration risk by establishing and constantly monitoring geographic and industry wise concentration limits.

The Group's financial assets with credit risk, before taking into account any collateral held or other credit enhancements, can be analysed by the following industry sector:

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27 FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

31 December 2015	Neither past due not impaired	Past due but not impaired	Individually impaired	Impairment / provisions	Total
Balances with banks	13,219	-	-	-	13,219
Placements with financial institutions	2,002	-	-	-	2,002
Financing receivables	6,810	-	8,779	(616)	14,973
Receivable from Ijarah investors	-	15,662	-	-	15,662
Investment securities (debt type sukuk)	68,272	-	1,908	(400)	69,780
Other financial assets	4,972	-	-	-	4,972
	95,275	**15,662**	**10,687**	**(1,016)**	**120,608**

31 December 2014	Neither past due not impaired	Past due but not impaired	Individually impaired	Impairment / provisions	Total
Balances with banks	17,015	-	-	-	17,015
Placements with financial institutions	8,976	-	-	-	8,976
Financing receivables	11,017	-	403	(251)	11,169
Receivable from Ijarah investors	-	27,033	-	-	27,033
Ijarah muntahia bittamleek	657	-	-	-	657
Investment securities ((debt type sukuk	64,367	-	1,896	(400)	65,863
Other financial assets	5,424	-	-	-	5,424
	107,456	27,033	2,299	(651)	136,137

For exposures that are past due but not impaired, the management has assessed that the value of properties on which finance is provided is higher and these properties are registered in our name/provided as collateral, no impairment allowance was provided.

Aging analysis of past due but not impaired

31 December 2015	90 - 180 days	180-365 days	1-3 years	Over 3 years	Total
Financing receivables	-	-	15,662	-	**15,662**
	-	**-**	**15,662**	**-**	**15,662**

31 December 2014	90 - 180 days	180-365 days	1-3 years	Over 3 years	Total
Receivable from Ijarah investors	-	-	27,033	-	27,033
	-	-	27,033	-	27,033

for the year ended 31 December 2015 USD 000's

27 FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances.

The main action to manage the Group's liquidity is through the adherence to limits on liquidity mismatches. These include the limits of the cumulative excess of maturing liabilities over assets in the short-term and limits on dependence on short-dated funds.

Treasury department is overall responsible for ensuring that the limits enacted are adhered to, on a day-to-day basis and managing excess liquidity of the Group through short term placements and investments. Treasury department maintains a constant communication with the banks which have extended a committed short term financing line to the Group. Treasury department provides a monthly report to the ALCO regarding the dependability and reliability of these banks. Treasury department also monitors the market conditions.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations.

	Gross undiscounted cash flows				Carrying value
	Less than 3 months	3 to 12 months	Over 1 year	Total	
At 31 December 2015					
Placements from financial institutions	1,501	2,662	-	4,163	4,164
Financing liabilities	10,035	-	16,186	26,221	26,248
Liabilities related to assets held-for-sale	-	73,050	-	73,050	73,050
Liabilities related to assets acquired for leasing	-	70,752	-	70,752	70,752
Other financial liabilities	(11)	11,199	575	11,763	11,763
Total financial liabilities	**11,525**	**157,663**	**16,761**	**185,949**	**185,977**
Commitments	**-**	**12,025**	**673**	**12,698**	**12,052**

	Gross undiscounted cash flows				Carrying value
	Less than 3 months	3 to 12 months	Over 1 year	Total	
At 31 December 2014					
Placements from financial institutions	11,671	-	-	11,671	11,671
Financing liabilities	9,546	-	-	9,546	9,537
Liabilities related to assets acquired for leasing	-	75,621	-	75,621	75,621
Other financial liabilities	1,507	6,288	3,508	11,303	11,303
Total financial liabilities	22,715	81,909	3,508	108,132	108,132
Commitments	-	8,765	-	8,765	8,765

27 FINANCIAL RISK MANAGEMENT (continued)

(c) Market risks

Market risk is the risk that changes in market prices, such as profit rates, equity prices, foreign exchange rates and commodity prices will affect the Group's income or the value of its holdings of financial instruments. Market risk comprises equity position risk, profit rate risk, commodities risk, currency risk and other price risk.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group is not exposed to commodities or price risk as there is no commodity holding either in the banking or trading book. Market risk for the Group arises only on account of its foreign exchange exposure and listed equities in the banking book.

The Group manages its market risk exposures by limiting the exposure to listed equities and foreign exchange exposure and evaluating each new product and activity with respect to the market risk introduced by it.

Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Most of the transactions completed by the Group are in US Dollar. However, in the normal course of business certain non-trading monetary assets and liabilities are in other currencies and give rise to currency risk. Positions are monitored regularly and the Group is not exposed to any significant currency risk.

Equity price risk
Equity price risk is the risk that the fair value of equity investments decreases as a result of fluctuations in the respective stock market indices. The Group has investments at fair value through equity quoted on stock exchanges. Based on the values at 31 December 2015, a change in the quoted price of plus or minus 5% would change the value of these investments by plus or minus USD 820 thousand (2014: USD 1,334 thousand) with a corresponding increase or decrease in equity, except in case of impairment which will result in loss being taken to consolidated statement of income.

The Group also has unquoted investments carried at fair value using either net asset value or valuations from independent valuers. Based on the values at 31 December 2015, a change in the valuation of 5% would change the value of these investments by plus or minus USD 4,525 thousand (2014: USD 4,578 thousand) with a corresponding increase or decrease in equity, except in case of further decline on impaired investments which will result in loss being taken to consolidated statement of income.

Prepayment risk
Prepayment risk is the risk that the Group will incur a financial loss because its counterparties repay or request repayment earlier or later than expected. The Group is not exposed to any significant prepayment risk.

Profit rate risk in banking book
Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of return of the sources of finance. The table below analyses the Group's profit rate risk exposure on non-trading financial assets and liabilities. The Group's assets and liabilities are included at carrying amount and categorised based on contractual repayment arrangements:

for the year ended 31 December 2015 USD 000's

27 FINANCIAL RISK MANAGEMENT (continued)

(c) Market risks (continued)

31 December 2015	Up to 3 months	3 months to 1 year	1 to 5 years	Above 5 years	Total
Assets					
Placements with financial institutions	2,002	-	-	-	2,002
Financing receivables	-	8,000	6,973	-	14,973
Investment securities	-	10,543	23,245	35,992	69,780
Total profit rate sensitive assets	**2,002**	**18,543**	**30,218**	**35,992**	**86,755**
Liability					
Placements from financial institutions	10,035	-	16,186	-	26,221
Financing liabilities	1,501	2,662	-	-	4,163
Total profit rate sensitive liabilities	**11,536**	**2,662**	**16,186**	**-**	**30,384**
Profit rate sensitivity gap	**(9,534)**	**15,881**	**14,032**	**35,992**	**56,371**

31 December 2014	Up to 3 months	3 months to 1 year	1 to 5 years	Above 5 years	Total
Assets					
Placements with financial institutions	8,976	-	-	-	8,976
Financing receivables	-	7,277	3,892	-	11,169
Investment securities	-	4,301	45,727	15,834	65,862
Total profit rate sensitive assets	8,976	11,578	49,619	15,834	86,007
Liability					
Placements from financial institutions	9,537	-	-	-	9,537
Financing liabilities	11,671	-	-	-	11,671
Total profit rate sensitive liabilities	21,208	-	-	-	21,208
Profit rate sensitivity gap	(12,232)	11,578	49,619	15,834	64,799

The sensitivity of the Group's consolidated statement of income to a 200 basis points parallel increase (decrease) in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) on floating rate non trading financial assets and liabilities, would be an increase (decrease) of profit by USD 1,127 thousand (2014:USD 1,296 thousand).

(d) Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. It is an inherent risk faced by all business and covers a large number of operational risk events including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets.

27 FINANCIAL RISK MANAGEMENT (continued)

d) Operational Risk (continued)

The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

The Bank applies the Basic Indicator Approach ('BIA') to measure operational risk and has implemented operational risk management framework. The operational risk management framework consists of the following: i) 'Risk Control and Self-Assessment':Self-assess operational risks by going through key business processes end-to-end; ii) Evaluate the adequacy of existing process controls; iii) Implement control modifications to reduce operational risks and determine residual risks; and iv) Monitor and report operational risk events to senior management and the Board.

The Group has developed a Disaster Recovery and Business Continuity Plan ("DR&BCP") to enable the Group to survive a disaster and to reestablish normal business operations. The DR&BCP will enable the Group to minimize interruptions to business service operations, resume critical operations within a specified time after a disaster, minimize financial loss due to disruptions, limit the severity of the disruption, expedite the restoration of services and maintain a positive public image of the Bank.

28 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged or an obligation settled between well informed, willing parties (seller and buyer) in an arm's length transaction. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to curtail materially the scale of its operation or to undertake a transaction on adverse terms. Generally accepted methods of determining fair value include reference to quoted prices and the use of valuation techniques such as discounted cash flow analysis.

Valuation techniques

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

The fair value of unquoted funds are based on net asset values which are determined by the fund manager using the quoted market prices of the underlying assets, if available, or other acceptable methods such as a recent price paid by another investor, the market value of a comparable company or other proprietary valuation models.

The fair value of other financial instruments on the consolidated statement of financial position are not significantly different from the carrying values included in the consolidated financial statements.

for the year ended 31 December 2015 USD 000's

28 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

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

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

31 December 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments carried at				
- fair value through income statement	17,790	-	977	18,767
- fair value through equity	1,368	-	15,038	16,406
	19,158	**-**	**16,015**	**35,173**

31 December 2014	Level 1	Level 2	Level 3	Total
Investments carried at				
- fair value through income statement	13,023	-	9,022	22,045
- fair value through equity	7,233	-	19,454	26,687
	20,256	-	28,476	48,732

Movements in level 3 financial instruments

The following table shows the reconciliation of the opening and closing amount of Level 3 financial assets which are recorded at fair value:

	At 1 January 2015	**Total losses recorded in consolidated income statement**	**Total gains recorded in equity**	**Purchases**	**Sales/ transfers**	**At 31 December 2015**
Investments carried at fair value through:						
- income statement	9,022	(8,045)	-	-	-	977
- equity	19,454	(4,416)	-	-	-	15,038
	28,476	(12,461)	-	-	-	16,051

for the year ended 31 December 2015 USD 000's

28 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	At 1 January 2014	Total losses recorded in consolidated income statement	Total gains recorded in equity	Purchases	Sales/ transfers	At 31 December 2014
Investments carried at fair value through:						
- income statement	17,271	(10,468)	-	-	2,219	9,022
- equity	96,930	(2,935)	-	-	(74,541)	19,454
	114,201	(13,403)	-	-	(72,322)	28,476

Transfers between level 1, level 2 and level 3

There were no transfers between the levels during the year ended 31 December 2015.

For investment securities the Bank adjusted the discount rate ± 1% and carrying values ± 5% where appropriate, which is considered by the Bank to be within a range of reasonably possible alternatives.

29 SHARI'A SUPERVISORY BOARD

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

30 EARNINGS PROHIBITED BY SHARI'A

Earnings prohibited by Shari'a, if earned are set aside for charitable purposes or otherwise dealt with in accordance with directions of the Shari'a Supervisory Board.

31 ASSETS UNDER MANAGEMENT

Proprietary assets are included in the consolidated statement of financial position under "investment securities". Client assets, which represent client investments, are managed in a fiduciary capacity without recourse to the Group and are not included in the consolidated statement of financial position.In 2015 total assets under management amounted to USD 107 million (31 December 2014 USD 138 million). This includes amounts that were previously reported as restricted investment accounts.

Based on an exercise of reassessment of the contractual agreements with investors.

The agreements that do not qualify as restricted investment accounts but qualify as assets under management products are reclassified here including the previous period reported.

32 CAPITAL MANAGEMENT

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

32 CAPITAL MANAGEMENT (continued)

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

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

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

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

The regulatory adjustments are subject to limits prescribed by the CA module, these deductions would be effective in a phased manner through transitional arrangements from 2015 to 2018. The regulations prescribe higher risk weights for certain exposures that exceeds materiality thresholds. These regulatory adjustments required for certain items such as goodwill on mortgage service right, deferred tax assets, cash flow hedge reserve, gain on sale of related securitization transactions, defined benefit pension fund assets and liabilities, investment in own shares and reciprocal cross holdings in the capital of Banking and financial entities, investment in the capital of Banking and financial entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of issued common shares capital of the entity and significant investments in the capital of banking and financial entities that are outside the scope of regulatory consolidation.

As at 31 December the Group has made regulatory adjustments of USD 2,353 in line with the requirements of CA module.

Banking operations are categorised as banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

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

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

for the year ended 31 December 2015 USD 000's

32 CAPITAL MANAGEMENT (continued)

	2015	2014
Total risk-weighted exposures	**585,152**	562,174
CET1 capital	283,473	NA
Tier 1 capital	283,473	301,244
Total Capital	285,639	302,849
% of Total Risk Weighted Exposures (CAR)		
CET1 capital adequacy ratio	**48.44%**	NA
Tier1 capital adequacy ratio	**48.44%**	53.59%
Total capital adequacy ratio	**48.81%**	53.87%

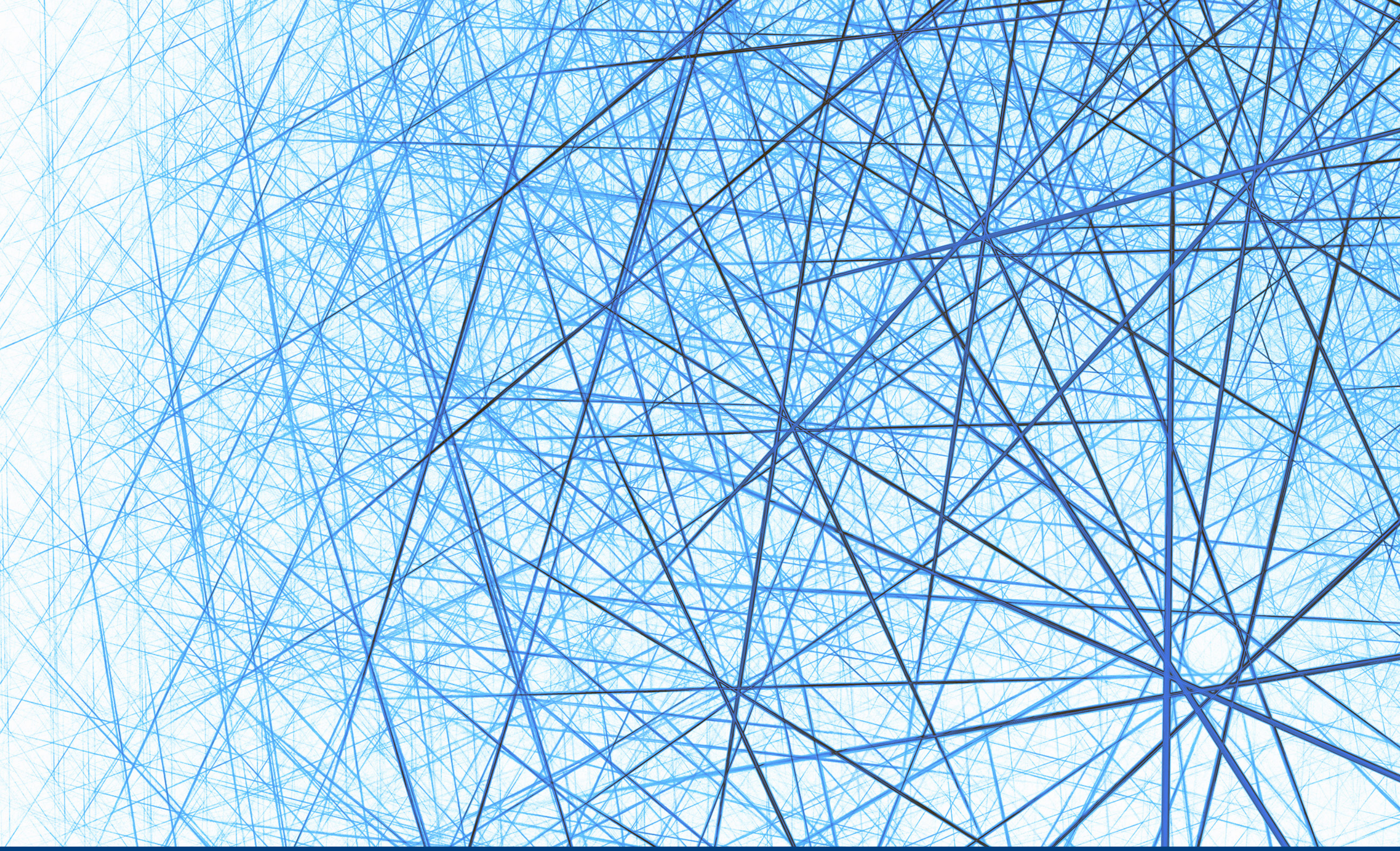
The Group has complied with all externally imposed capital requirements throughout the year.

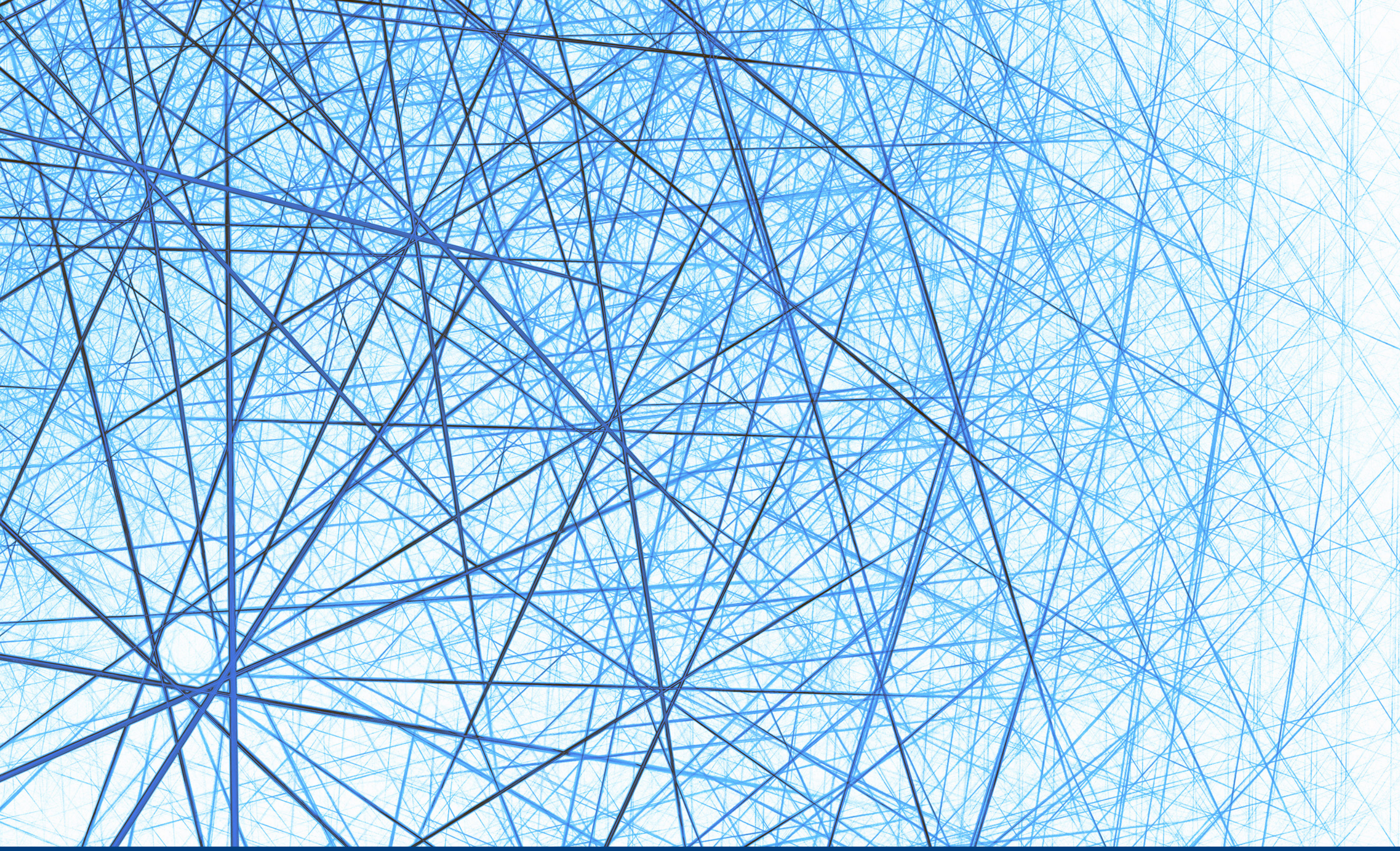
33 SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through donations to charitable causes and organisation.

34 COMPARATIVES

Certain prior year amounts have been regrouped to conform to current year's presentation. Such regrouping did not affect previously reported loss for the year or owners' equity except to the effect of restatement mentioned in note 6.





Basel II, Pillar III Disclosures

Ibdar Bank B.S.C. (c)

DISCLOSURES REQUIRED UNDER PD MODULE OF THE CBB RULEBOOK For The Year Ended 31 December 2015

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1 INTRODUCTION

The disclosures under this section have been prepared in accordance with the CBB requirements outlined for Islamic banks in its Public Disclosure Module, of Volume 2 of the CBB rulebook (the 'PD Module"). Rules concerning the disclosures under this section are applicable to Ibdar Bank B.S.C. (c) (Ibdar/the "Bank") being a locally incorporated Bank with a wholesale Islamic Investment banking license and subsidiaries (together known as "the Group"). This document should be read in conjunction with the consolidated financial statements for the year ended 31 December 2015 and the qualitative disclosures in the annual report for the year ended 31 December 2015. The disclosures in this report are in addition to the disclosures set out in the audited consolidated financial statements of the Bank for the year ended 31 December 2015. Information already included in the consolidated financial statements are not repeated.

The disclosures have been prepared in accordance with the requirements of PD Module. Effective 1 January 2015, the capital adequacy requirements as per the CBB rulebook were amended for compliance with Basel III requirements. Accordingly, the Bank has adopted the amended Capital Adequacy Module ("CA Module") and Credit Risk Management Module ("CM Module") for the purpose of regulatory capital requirements. The information presented in this document were based on the amended CBB rulebook. As a result, comparative information, where presented, are prepared in accordance with the requirements applicable during the respective period and may not be comparable with current year.

1.1 Pillar I – Minimum Capital Requirements

Pillar I deals with the rules for the computation of regulatory capital requirements in respect of credit, market and operational risk. It defines the various classes of assets and the calculation of Risk Weighted Assets (RWAs) in respect of each class of assets. The capital adequacy ratio is calculated as the ratio of the Bank's regulatory capital to its total risk weighted assets. All Bahrain incorporated banks are currently required to maintain a minimum capital adequacy ratio of 12.5%.

1.1.1 Credit risk

The Bank has adopted the standardized approach under which on and off-balance sheet credit exposures are assigned to exposure categories based on the type of counterparty or underlying exposure. Under the standardized approach, the risk weightings are provided by the CBB and are determined based on the counterparty's external credit rating. The external credit ratings are derived from eligible external rating agencies approved by the CBB.

1.1.2 Market risk

The Bank has adopted the Standardized approach for determining the market risk capital requirement.

1.1.3 Operational risk

The Bank has adopted the basic indicator approach for operational risk. It is calculated by applying a co-efficient of 15 percent to the average gross income for the preceding three financial years.

1.2 Pillar II – The Supervisory Review and Evaluation Process

Pillar II involves the process of supervisory review of Bank's risk management framework and capital adequacy. It requires banks to hold additional capital for risks not covered by Pillar I. Other risk types which are not covered by the minimum capital requirements in Pillar I include liquidity risk, interest rate risk in the banking book, business risk and concentration risk.

Pillar II comprises of an Internal Capital Adequacy Assessment Process (ICAAP) and supervisory review and evaluation process.

The ICAAP incorporates a review and evaluation of risk management and capital relative to the risks to which the Bank is exposed. The Bank has established an ICAAP which quantifies the capital requirements for the key risks that the Bank is exposed to including credit, investment, liquidity, strategic, reputation, operational, and concentration risks. The Bank also conducts comprehensive stress tests for various portfolios and assesses the impact on the capital and profitability. In addition, the Bank's stress testing frameworks and models allow for forward looking scenarios, which are considered for business growth strategies. The ICAAP of the Bank is driven by the Board through the Capital Adequacy Strategy and the ICAAP Policy. In case a plausible stress scenario is identified which may severely affect the capital adequacy of the Bank, the senior management decides an appropriate corrective action to be taken under such a scenario.

1 INTRODUCTION (continued)

1.3 Pillar III – Market Discipline

Pillar III is related to market discipline and requires the Bank to publish detailed qualitative and quantitative information of its risk management and capital adequacy policies and processes to complement the first two pillars and the associated supervisory review process.

1.3.1 Pillar II quantitative and qualitative disclosures

For the purpose of computing regulatory minimum capital requirements, the Bank follows the rules as laid out under the CBB Rulebook module CA: Capital Adequacy.

There are no restrictions on the transfer of funds or regulatory capital within the group and all investments are made fully complying with the CBB approval instructions.

1.4 Overall Risk and Capital Management

The consolidated financial statements of the Group has been prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") and the Bahrain Commercial Companies Law.

For the purpose of computing the Capital Adequacy Ratio ("CAR") the Bank is not consolidating subsidiaries that are Commercial Entities.

In the consolidated financial statements, subsidiaries are fully consolidated from the date of acquisition, being the date on which the Bank obtains control, and continues to be consolidated until the date that control ceases.

The Bank does not hold any interest in insurance entities.

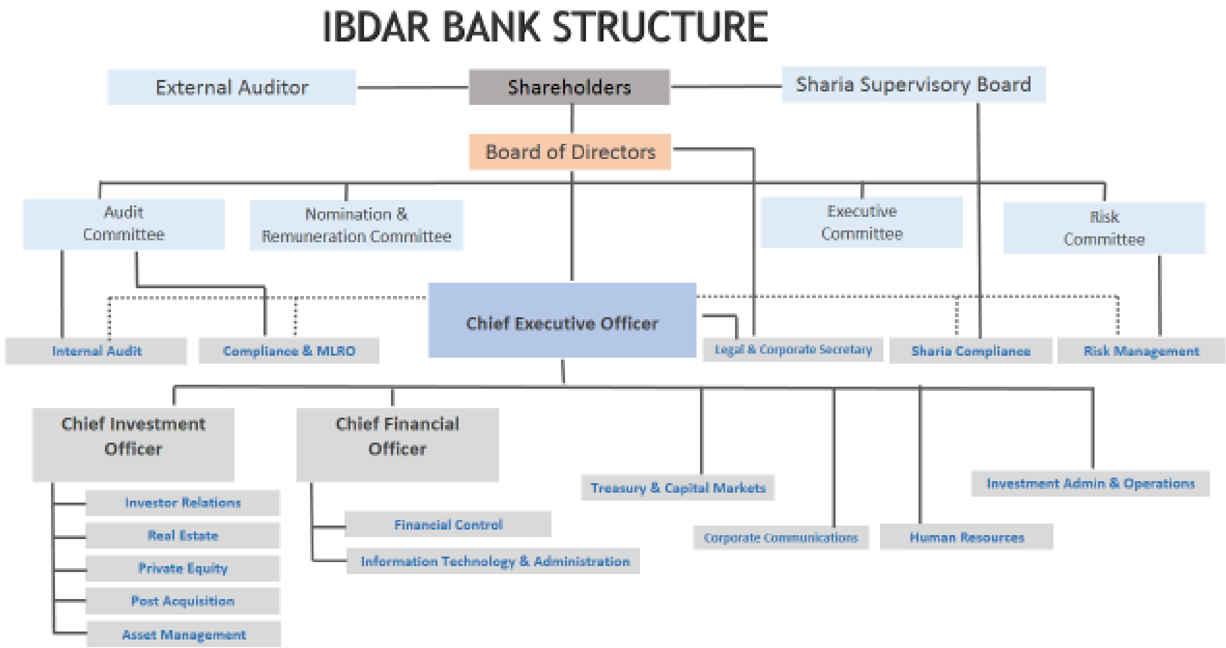
1.5 Compliance with High Level Control (PD-1.3.10(x))

In October 2010, CBB introduced requirements to Module (HC Module) that have to be met by all licensees with respect to, corporate governance principles to be in line with the Principles relating to the Corporate Governance Code issued by the Ministry of Industry and Commerce; International best practice corporate governance standards set by bodies such as the Basel Committee for Banking Supervision; and related high-level controls and policies. The Group made detailed self-assessments on the revised content of HC Module to ensure compliance with the new requirements with specific milestones for implementation of any shortfalls.

2 RISK MANAGEMENT STRUCTURE

The Board has the ultimate responsibility for understanding the nature and level of risk taken by the Bank. The Board is responsible for reviewing the strategy and objectives of the Bank with respect to various risks and ensures that there is a clear guidance regarding the level of risks acceptable to the Bank.

Figure 1 Group Organization Structure (PD-1.3.10(a))



As at 31 December 2015 Chief Executive officer position is vacant.

2.1 Board of Directors (PD - 1.3.10 (n) and PD - 1.3.10 (o))

The Board is responsible for establishing objectives for the Bank and developing the strategies that direct the ongoing activities of the Bank to achieve those objectives. The Board is in process of reviewing and approving the Bank's strategy document which demonstrates that it is able to proactively identify and understand the risks that the Bank faces in achieving its business objectives through its business strategies and plans.

As part of its strategy review process, the Board at the minimum shall: (PD-1.3.10(n, o)):

a. Review major strategy papers and business plans;
b. Set performance objectives;
c. Oversees major capital expenditures and acquisitions;
d. Reassesses annually the Bank's objectives, strategies and plans;
e. Demonstrates its responsibility to supervisors, shareholders, employees & other stakeholders; and
f. Monitors the control environment and risk profile of the Bank.
g. Approved financial statements of the Bank.

Detailed responsibilities of the Board are provided in the Bank's Articles of Association.

The Board has approved authority matrix which authorizes the senior management/committees to approve certain transactions. However, transactions which are beyond the authority matrix require Board or Excom approval.

2 RISK MANAGEMENT STRUCTURE (continued)

The Board of Directors has delegated the management of the Bank to the Executive Management, comprising of Chief Executive Officer, Chief Investment Officer and Chief Financial Officer, who meet on a regular basis to discuss any issues and updates regarding operations and business of the Bank. The following sub-committees of the Board are involved in managing the risk and ensuring the compliance with the Bank's policies and risk management framework.

2.2 Board Committees

2.2.1 Executive Committee

2.2.1.1 Objective/Function

Consider specific matters delegated to it by the full Board and make recommendations thereon to the Board or decisions based on authorities specifically delegated by the Board.

2.2.1.2 Members

Abdullah AlMarzouq	Non-Independent / Executive
Khalid Najibi	Independent / Non-Executive
Saleh AlAfaleq	Independent / Non-Executive
Zeyad AlMukhaizeem	Non-Independent / Executive

2.2.2 Audit Committee

2.2.2.1 Objective/Function

To review the Banks financial reporting process, internal controls, and process for monitoring compliance with policies, procedures, laws and regulations and the Bank’s own Code of Business Conduct.

2.2.2.2 Members

Abdulhakim Aladhamy	Independent / Non-Executive
Khalid AlBassam	Independent / Non-Executive
Mishari AlKhalid	Non-Independent / Non-Executive

2.2.3 Remuneration & Nomination Committee

2.2.3.1 Objective/Function

The Remuneration Committee reviews and approves (according to the guidelines set by the Board) policies and procedures for the remuneration of Board members, Committees members, executive and non-executive employees.

2.2.3.2 Members

Khalid AlAboodi	Independent / Non-Executive
Khalid Najibi	Independent / Non-Executive
Mishari AlKhalid	Non-Independent / Non-Executive

2.2.4 Risk Committee

2.2.4.1 Objective/Function

To assist the Board of Directors in discharging its accountability and responsibility for risk management of the Bank-wide risk management systems, practices, and procedures including Credit, Market, and Operational Risk, and providing recommendations for improvement.

2.2.4.2 Members

Abdulhakim Aladhamy	Independent / Non-Executive
Khalid AlBassam	Independent / Non-Executive
Paul Mercer	Non-Independent / Executive

2 RISK MANAGEMENT STRUCTURE (continued)

2.3 Management Committees

The following committees are the two management committees at Ibdar which are involved in managing and overseeing the Bank's activities, and in proposing new strategies, policies, and procedures to the Board. These Committees are:

2.3.1 Asset and Liability Committee

2.3.1.1 Objective/Function

The Asset and Liability Committee determines the appropriate levels of liquidity, and ensures that all future commitments are funded in the most appropriate and cost-efficient manner. The Committee also ensures that the Bank fully adheres to the requirements of the CBB regarding capital, liquidity, and mismatched risk. It ascertains that approved investment deposits limits are not exceeded, and Treasury management and dealing activities are within the policy guidelines set by the Board. Furthermore, it monitors and supervises the overall balance sheet structure.

2.3.1.2 Members

Chief Executive Officer - (currently vacant)	Chairman
Chief Investment Officer	Member
Chief Financial Officer	Member
Head of Treasury and Capital Market - (currently vacant)	Member
Head of Risk Management	Member

2.3.2 Investment, Credit and Risk Committee

2.3.2.1 Objective/Function

The Investment, Credit and Risk Committee is a senior management committee responsible for managing and supervising all activities related to investments, credit and risk management.

2.3.2.2 Members

Chief Executive Officer - (currently vacant)	Chairman
Chief Investment Officer	Member
Chief Financial Officer	Member
Head of Risk Management	Non Voting Member
Head of Legal	Non Voting Member
Head of Treasury and Capital Market - (currently vacant)	Non Voting Member

3 CAPITAL ADEQUACY

The primary objective of the Group's capital management is to ensure that the Group maintains adequate risk capital, complies with the capital requirements laid down by the CBB and maintains a healthy capital ratio in order to support its business and maximize shareholder value.

The Group manages the capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the CBB in supervising the Bank.

Regulatory capital consists of Common Equity Tier 1 capital ("CET1"), Additional Tier 1 Capital ("AT1") and Tier 2 capital (supplementary capital). The Group's Tier 1 comprises share capital, general reserves, statutory reserves, retained earnings/accumulated losses and unrealized gains and losses arising from fair valuing equities. Tier 2 includes asset revaluation reserve - property, plant and equipment and the general financing loss provisions. From the regulatory perspective, the significant amount of the Bank's capital is in Tier 1 form.

The Group's approach to assessing capital adequacy has been in line with its risk appetite aligned with its current and future activities. To assess its capital adequacy requirements in accordance with the CBB requirements, the Group adopts the Standardized Approaches for its Credit Risk and Market Risk, and the Basic Indicator Approach for its Operational Risk.

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

Further the Bank monitors the CAR against an Internal Trigger Ratio of 20% compared to the required capital of 12.5% under CBB rulebook. If the ICAAP CAR touches the Internal Trigger Ratio, the Bank will initiate action to reduce its risk or increase capital before the Internal Target Ratio is breached.

3 CAPITAL ADEQUACY (continued)

Basis of Consolidation for Accounting and Regulatory Purposes

For the purpose of preparation of consolidated financial statements, the Bank consolidates all subsidiaries which are fully owned or exercises significant control over them. These subsidiaries are consolidated from date of acquisition being the date on which the group obtains control and continues until the control ceases. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. For regulatory purposes the Bank should consolidate all banking and other financial entities which are considered to be subsidiaries of the Bank. The treatment of the Bank's investments in various entities for the purpose of regulatory reporting is as follows:

Entity name	Entity classification as per CBB Rules & Guidelines	Treatment by the Bank
Subsidiaries		
Elaf Corporate Services Limited	Commercial entity	Risk weighting of investment exposure
Tamkeen Investment Company B.S.C. ©	Commercial entity	Risk weighting of investment exposure
Suffun Bahrain W.L.L.	Commercial entity	Investment holding company for Skaugen Gulf Petchem Carriers BSC (c), hence, no impact on regulatory reporting.
Medical Management Group SPC*	Commercial entity	Risk weighting of investment exposure
Palma Ibdar Aviation Limited	Commercial entity	Risk weighting of investment exposure
Q400 Aviation Company II	Commercial entity	Risk weighting of investment exposure
Q400 Aviation Company III	Commercial entity	Risk weighting of investment exposure
Q400 Aviation Company IV	Commercial entity	Risk weighting of investment exposure
Q400 Aviation Company V	Commercial entity	Risk weighting of investment exposure
Associates		
Ali Iskandar Al Ansari and Partners W.L.L.	Commercial entity	Fully provided investment, hence, no impact on regulatory reporting
Aqari Real Estate Company BSC (c)	Commercial entity	Risk weighting of investment exposure
Alpha Lease and Finance Holding Company BSC (c)	Financial entity	Fully provided investment, hence, no impact on regulatory reporting
Apex Real Estate Company	Commercial entity	Fully provided investment, hence, no impact on regulatory reporting
Skaugen Gulf Petchem Carriers BSC (c)	Commercial entity	Risk weighting of investment exposure
MENA Energy Limited	Commercial entity	Risk weighting of investment exposure

* The Bank has a commitment of USD 12 thousands towards the equity shortfall. The Bank is in the process of liquidating this subsidiary.

As per the directive received from CBB on 16 February 2009, the Bank consolidates the properties of Ijarah 9 at fair value for PIR purposes and charges a risk weight of 200% as Holding of Real Estate.

3 CAPITAL ADEQUACY (continued)

Table – 1. Capital structure (PD–1.3.12, PD–1.3.13, PD–1.3.14 and PD–1.3.15)

The following table summarizes the eligible capital after regulatory adjustments for Capital Adequacy Ratio (CAR) calculation as of:

	31 December 2015	
	CET1	*T2*
	(USD '000)	*(USD '000)*
Components of capital		
Core Capital - CET1		
Issued and fully paid ordinary shares	300,000	
General reserves	4,618	
Legal / statutory reserves	676	
Share Premium	-	
Retained earnings	(19,015)	
Current interim cumulative net income / losses	-	
Unrealized gains and losses from fair valuing equities	(108)	
Total CET1 capital prior to regulatory adjustments	**286,171**	**-**
Less: Regulatory Adjustments		
Investment in financial entities where ownership is < 10% of the issued common share capital (amount abov	(2,698)	
Total Common Equity Tier 1 capital after the regulatory adjustments above (CET1 C)	**283,473**	**-**
Other Capital (T2)		
Asset revaluation reserve - Property, plant, and equipment (45% only)		1,826
General financing loss provisions		340
Total Available T2 Capital	**-**	**2,166**
Net Available Capital after Applying Haircut	**283,473**	**2,166**
Total Capital		**285,639**

3 CAPITAL ADEQUACY (continued)

Table – 2. Capital requirement by type of Islamic financing contracts (PD - 1.3.17)

The following table summarizes the capital requirements by type of Islamic financing contracts:

	31 December 2015	
	Risk Weighted Amount (USD '000)	*Capital requirements (USD '000)*
Type of Islamic financing contracts		
Mudaraba	**2,002**	**250**
Murabaha	**8,000**	**1,000**
Musharaka	**162**	**20**
Ijarah muntahia bittamleek	**213**	**27**
Sukuk	**69,780**	**8,723**
	80,157	**10,020**

	31 December 2015	
	Risk Weighted Amount (USD '000)	*Capital requirements (USD '000)*
Claim on banks	**12,263**	**1,533**
Claim on Corporations	**31,133**	**3,892**
Past Due Facilities	**12,162**	**1,520**
Investment in securities	**220,759**	**27,595**
Holding of Real Estate	**269,372**	**33,672**
Other assets	**1,421**	**178**
	547,110	**68,390**

3 CAPITAL ADEQUACY (continued)

Table – 3. Capital requirement for Market risk (PD–1.3.18)

The following table summarizes the amount of exposures subject to the standardized approach of market risk and related capital requirements:

	31 December 2015 (USD '000)
Market Risk - Standardized Approach	
Price Risk	-
Equity Position Risk	-
Sukuk Risk	-
Foreign exchange risk	**1,580**
Commodities Risk	**-**
Total of market risk - standardized approach	**1,580**
Multiplier	**12.5**
Total Market Risk Weighted Exposures	**19,750**
Minimum capital requirement (12.5%)	**2,469**

Table – 4. Capital Requirements for Operational risk (PD–1.3.19 and PD–1.3.30)

The following table summarizes the amount of exposures subject to the basic indicator approach of operational risk and related capital requirements:

			31 December 2015 (USD '000)
Indicators of operational risk			
Year	**2014**	**2013**	**2012**
Gross Income	4,077	13,297	11,893
Average gross income			**9,756**
Multiplier			**12.5**
			121,946
Eligible Portion for the purpose of the calculation			**15%**
Total operational Risk Weighted Exposures			**18,292**
Minimum capital requirement (12.5%)			**2,287**

3 CAPITAL ADEQUACY (continued)

Table – 5. Capital Adequacy Ratios (PD–1.3.20)

The following are capital adequacy ratios for total capital and CET1 capital as of:

	31 December 2015		
	CET1	**T1**	**Total Capital**
Top consolidated group in Bahrain	**48.44%**	**48.44%**	**48.81%**

The Group was in compliance with the externally imposed capital requirements throughout the year.

4 RISK MANAGEMENT

4.1 Overview

4.1.1 Bank-wide Risk Management Objectives

The risk management objective for each area of risk is to adopt the industry best practices and adhere to Basel II and CBB requirements. The Bank identifies, captures, monitors and manages different dimensions of risk with the aim to protect asset values and income streams, and to optimize the Bank's shareholder return, while maintaining its risk exposure within defined parameters. The Bank's management believes in the proactive management of risk in the full cycle of a financial transaction including its operating circumstances from the origination stage to its final disposal from the books of the Bank.

The Bank reviews and redefines its risk appetite according to the evolving business plan of the Bank, which includes fluctuations in economic and market conditions and future forecasts.

4.1.2 Strategies Processes and Internal Controls

The Bank's risk strategy, backed by appropriate limit structures, is articulated through risk management policies and procedures. These policies and procedures are an integral part of an enterprise–wide integrated risk management framework at the Bank. These policies and procedures identify risk objectives, processes, strategies and risk governance both at the board and the management level. The capital management policy is aimed at ensuring financial stability by allocating enough capital to cover unexpected losses. Limit structures serve as a key component in articulating risk strategy in quantifiable risk appetite. In addition, the Bank intends to implement various risk systems to help quantify not just the regulatory capital but also the economic capital allocated to various portfolios.

The Bank is exposed to various types of risk, such as market, credit, profit rate, liquidity and operational, all of which require the comprehensive controls and ongoing oversight. The risk management framework encapsulates the spirit behind Basel II, which includes management oversight & control, risk culture & ownership, risk recognition & assessment, control activities, adequate information & communication channels, monitoring risk management activities and correcting deficiencies.

Credit Risk

The Bank manages its credit risk exposures by assessing the credit worthiness of all customers & counterparties. For each new product & activity, the Bank evaluates credit risk introduced by it. The Bank has established a limit structure to avoid concentration of risks for counterparty, sector and geography.

Market Risk

The Bank is not exposed to significant market risk due to the nature of its activities and its limited market risk exposure is managed through combination of limits, internal controls & processes. The Group manages its market risk exposures by evaluating each new product and activity with respect to the market risk introduced by it.

4 RISK MANAGEMENT (continued)

4.1 Overview (continued)

4.1.2 Strategies Processes and Internal Controls (continued)

Operational Risk

The Bank has established a Risk Control and Self Assessment (“RCSA”) process necessary for identifying and measuring and controlling its operational risks. This exercise covers the Bank’s business lines and associated critical activities, exposing the Bank to operational risks.

Equity Risk in the Banking Book

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group’s investment portfolio. The Group manages and monitors its equity risk using sector, geography and investment type limits.

The strategy used has been effective throughout the year.

Profit Rate Risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Group manages its profit rate risk using various risk management tools and methodologies.

Displaced Commercial Risk

Displaced Commercial Risk (“DCR”) refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitor’s rates.

The Bank's DCR is limited as bank mainly depends on it equity to fund assets. In case DCR arises in some situation the Bank will forego its fee based on executive management decision and on case to case basis.

4.1.3 Risk Measurement and Reporting System

The Group identifies, measures, controls and monitors its material risks on a periodic basis. The Group has established relevant risk limit structures to quantify its risk appetite. Risk Committee (“RC”) reviews and recommends the limits, suggested by the Investment, Credit and Risk Committee (“ICRC”) to the Board which is ultimately responsible for the final approval of the limit. The monitoring and controlling of risks is managed through limits approved by the Board. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept.

The Risk Management Department (“RMD”) presents reports to the Board of Directors through ICRC and RC. These reports include risk and investment review of Group’s portfolio and its impact on Group’s capital adequacy.

As part of the Risk Management reporting framework, risk reports are prepared and distributed in order to ensure that all business divisions have access to necessary and up-to-date information. A periodic briefing is given to the Risk Committee on the utilization of limits, proprietary investments, and liquidity, plus any other risk developments.

4 RISK MANAGEMENT (continued)

4.2 Credit risk

4.2.1 Introduction

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. The Group controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties.
The Group is not involved in the granting of credit facilities in the normal course of its business activities. The credit risk exposures faced by the Group are principally in respect of its placements with other financial institutions and in respect of investment related funding made to projects. The investment related funding exposures arise in the ordinary course of its investment Grouping activities. All such exposures are reviewed periodically for recoverability and specific provisions made where necessary having regard to the nature of the exposure and the assessment of collection. The Group uses the Standardized Approach for measuring its credit risk. The Group uses ratings from External Credit Assessment Institutions recognized by the CBB for its Group counterparty exposures, wherever available.
Counterparty limits are established by the use of a comprehensive approval process. All lines of counterparty credit limits are subject to annual reaffirmation by the Board of Directors. The limits are also reviewed frequently to ensure consistency with the Group's risk appetite and to take into account the latest market developments. Given the nature of the Group's business, the Group uses nominal balance sheet amounts including accrued interest and other receivables as its measure of exposure.

4.2.2 Types of Credit Risk

Financing receivables mainly comprise of Murabaha (International Commodity), Mudaraba and Musharaka.

4.2.2.1 Murabaha (International Commodity)

A commodity Murabaha is a contract between the Bank and its client for the sale of goods at a price plus an agreed profit margin for the Bank. The instrument is called an international commodity Murabaha because the profits are made on the international buying and selling of a commodity, usually metal, such as copper, aluminum or lead.

4.2.2.2 Mudaraba

The Group enters into Mudaraba contracts by investing in funds operated by other banks and financial institutions for a definite period of time.

4.2.2.3 Musharaka

Musharaka financing is partnership in which the Group contributes capital. These are stated at the fair value of consideration given less impairment.

4 RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

4.2.3 Past Due and Impaired Islamic Financing

The Group defines non–performing facilities as the facilities where the principal or profit is overdue for a period of 90 days or more. These exposures are placed on a non–accrual status with income being recognized to the extent that it is actually received. It is the Group's policy that when an exposure is overdue for a period of 90 days or more, the whole financing facility extended is considered as past due, not only the overdue installments and payments.

As a policy, the Group has placed on a non–accrual status any facility where there is reasonable doubt about the collectability of the receivable irrespective of whether the customer concerned is currently in arrears or not.

Financing receivables are stated at cost less impairment allowances. Specific provisions are created for impairment where losses are expected to arise on non-performing contracts. These assets are written off when they are considered to be uncollectable to reduce all impaired assets to their expected realizable values. Deferred income and provision for impairment are netted off against the related receivables. The Group assesses at each financial position date whether there is objective evidence that a financial asset is impaired. In the case of quoted equity securities carried at fair value through equity, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired.

If any such evidence exists for quoted equity securities carried at FVTE, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in consolidated statement of income) is removed from owners' equity and recognized in the consolidated statement of income. Impairment losses recognized in the consolidated statement of income on equity instruments are not subsequently reversed through the consolidated statement of income.

Impairment losses on murabaha receivables and debt-type instruments at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses, if any, are recognized in the consolidated statement of income and reflected in an allowance account against murabaha receivables and debt-type instruments at amortized cost. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the consolidated statement of income.

As of 31 December 2015, an amount of US$ 15,662 thousand has been outstanding for a period of one to three years. This amount is receivable from various individuals and corporates based in the GCC region. Also, an amount of US$ 8,000 thousand relating to the energy industry has been outstanding for a period of three to six months and is receivable from various individuals and corporates based in Africa. In addition, musharaka financing which amounts to US$ 162 thousand is due from a financial institution located in South East Asia and is outstanding for a period of one to three years.

4.2.4 External Credit Assessment Institutions

To assess the creditworthiness of Financial Institutions ("FI") the Group relies on external ratings by external credit assessment institutions like Standard & Poor's, Fitch and Moody's. In case of unrated FIs, the Group will assess the credit risk on the basis of its internally developed approach & methodology. The Bank uses ECAI's for due from financial institutions and its sukuk portfolio.

4.2.5 Definition of Geographical Area

The Group allocates exposures to a particular geographical area based on the risk domicile concept, which could be either the location of the asset or on the location of the counterparty.

4 RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

4.2.6 Concentration Risk

Concentration risk is the credit risk stemming from not having a well diversified credit portfolio, i.e. being overexposed to a single customer, industry sector or geographic region. As per CBB's single obligor regulations, Banks incorporated in Bahrain are required to obtain the CBB's approval for any planned exposure to a single counterparty, or group of connected counterparties, exceeding 15% of the regulatory capital base.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. In case any exposure exceeds the CBB's prescribed limits, Group obtains approval from the CBB.

4.2.7 Credit Risk Mitigation

Credit risk mitigation is defined as the utilization of a number of techniques, such as collaterals and guarantees to mitigate the credit risks that the Group is exposed to. The Group's first priority when establishing Islamic financing is to determine the borrower's capacity to repay and not to rely principally on security or collateral. Nonetheless, the Group is in the process of developing its collateral management policy which would be in line with its business activities.

4.2.8 Counterparty Credit Risk

4.2.8.1 Introduction

A counterparty is defined as an obligor (individual, company, other legal entity), a guarantor of an obligor, or person receiving funds from the Group. It also includes the issuer of a security in case of a security held by the Group, or a party with whom a contract is made by the Group for financial transactions.

The measure of exposure reflects the maximum loss that the Group may suffer in case the counterparty fails to fulfill its commitments. Group exposure is defined as the total exposure to all counterparties closely related or connected to each other. Large exposure is any exposure whether direct, indirect or funded by restricted investment accounts to a counterparty or a group of closely related counterparties which is greater than or equal to 10% of the Group's Capital Base. The Group has adopted Standardized Approach to allocate capital for counterparty credit risk.

4.2.8.2 Credit Limit Structure

The Bank has put in place an internal counterparty limit structure which is based on internal or external ratings for different types of counterparties. The Bank has also set concentration limits as a percentage of shareholders equity. In case of a counterparty rating degrade, the Bank may require further collateral or advise the counter party to reduce its exposure on a case by case basis.

Reporting

The Bank reports large counterparty exposures to CBB and senior management on periodic basis. The Bank reports the exposures on a gross basis without any offset. However, debit balances on accounts may be offset against credit balances where both are related to the same counterparty, provided the Bank has a legally enforceable right to do so.

Early warning indicators

The Bank maintains a strong focus on identification of signs of deterioration in credit quality at an early stage in order to take remedial measures before the facility becomes substandard or doubtful.

4 RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

4.2.8.3 Connected counterparties

Connected counterparties are companies or individuals connected with the Bank or its subsidiaries and associated companies (whether such association is due to control or shareholding or otherwise), Directors and their associates (whether such association is due to control, family links or otherwise), members of the Shari'a Supervisory Board, management and other staff and shareholders holding more than 10% or more of the equity voting rights in the Bank.

As a Bank's strategy exposure to connected counterparties may be undertaken only when negotiated and agreed on an arm's length basis. The Bank shall not assume any exposure to its external auditors or members of Shari'a Supervisory Board. The disclosure relating to related party transactions has been made in the consolidated financial statements. All related party transactions have been made at agreed terms.

4.2.8.4 Highly Leverage Counterparties

The Bank assess counterparties through financial and non-financial due diligence and uses CBB's definition of Highly Leveraged Counterparties to determine exposure to them. The Bank is not exposed to any Highly Leveraged Counterparties.

4.2.8.5 Restructuring of Credit Facilities

During the year ended 31 December 2015, credit facilities amounting to USD 6.8 million were restructured. Restructuring concessions mainly related to deferral of loan installments to realign the repayment with the borrowers'/projects' revised cash flow projections.

4.2.8.6 Recourse Transactions

The Bank does not currently have any obligations with respect to recourse transactions.

4 RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

4.2.9 Credit risk mitigation

The credit exposure information presented in table 6 of this report represents gross exposures prior to the application of any credit risk mitigation techniques. Collateral items and guarantees which can be used for credit risk mitigation under the capital adequacy framework are referred to as eligible collateral. However, extending credit facilities is not a part of the Bank's core business activities. The Bank's credit risk mainly arises from its investment transactions.

Nonetheless, the Bank intends to develop its collateral management policy and provisioning policy which would be in line with its business activities.

Table – 6. Credit Risk Exposure (PD–1.3.23(a))

The following table summarizes the amount of gross funded and unfunded credit exposure and average gross funded and unfunded exposure as of:

	31 December 2015	
	Total gross credit exposure (USD '000)	****Average gross credit exposure over the year (USD '000)***
Funded exposure		
Cash & balances with banks	13,219	16,254
Placements with financial institutions	2,002	3,960
Financing receivables	14,973	24,948
Assets held-for-sale	112,169	58,913
Assets acquired for leasing	88,194	93,974
Receivable from Ijara investors	15,662	19,700
Investment in securities	195,456	196,348
Equity-accounted investees	12,500	12,117
Investment in real estate	30,034	37,338
Other assets	5,717	4,213
Total Funded Exposures	**489,926**	**467,766**
Unfunded exposure		
Uncalled capital commitments in respect of investment	12,047	9,011
Operating lease commitments - expiring within one to three years	303	76
Operating lease commitments - expiring within one year	242	152
Commitment related to project developments	133	133
Total Unfunded Exposures	**12,725**	**9,372**

*Average balances are computed based on quarter-end balances.

4 RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

Table – 7. Credit Risk – Geographic Breakdown (PD–1.3.23(b))

The following table summarizes the geographic distribution of funded and unfunded exposures, broken down into significant areas by major types of credit exposure as of:

	31 December 2015				
	Middle East US$ (USD '000)	*Europe US$ (USD '000)*	*Africa US$ (USD '000)*	*South East Asia & Others US$ (USD '000)*	*Total US$ (USD '000)*
Funded exposure					
Cash & balances with banks	9,782	3,320	-	117	**13,219**
Placements with financial institutions	2,002	-	-	-	**2,002**
Financing receivables	6,811	-	8,000	162	**14,973**
Assets held-for-sale	86,642	-	25,527	-	**112,169**
Assets acquired for leasing	88,194	-	-	-	**88,194**
Receivable from Ijara investors	15,662	-	-	-	**15,662**
Investment in securities	164,908	25,715	3,312	1,521	**195,456**
Equity-accounted investees	12,500	-	-	-	**12,500**
Investment in real estate	30,034	-	-	-	**30,034**
Other assets	2,117	19	3,327	254	**5,717**
Total Funded Exposures	**418,652**	**29,054**	**40,166**	**2,054**	**489,926**
Unfunded exposure					
Uncalled capital commitments in respect of investment	6,666	5,381	-	-	**12,047**
Operating lease commitments - expiring in one to three years	303	-	-	-	**303**
Operating lease commitments - expiring within one year	242	-	-	-	**242**
Commitment related to project developments	133	-	-	-	**133**
Total Unfunded Exposures	**7,344**	**5,381**	**-**	**-**	**12,725**

The Group allocates exposures to a particular geographical area based on the risk domicile concept, which could be either the location of the asset or on the location of the counterparty.

4 RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

Table – 8. Credit risk – Industry Sector Breakdown (PD–1.3.23(c))

The following table summarizes the distribution of funded and unfunded exposure by industry type broken down by major types of credit exposure as of:

	31 December 2015						
	Transport (USD '000)	***Energy (USD '000)***	***Trading and manufacturing (USD '000)***	***Banks and financial institutions (USD '000)***	***Real Estate (USD '000)***	***Others (USD '000)***	***Total (USD '000)***
Funded exposure							
Cash & balances with banks	-	-	-	13,219	-	-	**13,219**
Placements with financial institutions	-	-	-	2,002	-	-	**2,002**
Financing receivables	-	8,000	-	-	6,811	162	**14,973**
Assets held-for-sale	100,519	11,650	-	-	-	-	**112,169**
Assets acquired for leasing	-	-	-	88,194	-	-	**88,194**
Receivable from Ijara investors	-	-	-	-	-	15,662	**15,662**
Investment in securities	1,218	24,968	3,414	51,792	69,396	44,668	**195,456**
Equity-accounted investees	-	-	-	-	3,641	8,859	**12,500**
Investment in real estate	-	-	-	-	30,034	-	**30,034**
Other assets	3,325	230	-	186	322	1,654	**5,717**
Total Funded Exposures	**105,062**	**44,848**	**3,414**	**155,393**	**110,204**	**71,005**	**489,926**
Unfunded exposure							
Uncalled capital commitments in respect of investment	-		-	-	5,381	6,666	**12,047**
Operating lease commitments - expiring in one to three years	-		-	-	-	303	**303**
Operating lease commitments - expiring within one year	-		-	-	-	242	**242**
Commitment related to project developments	-		-	-	-	133	**133**
Total Unfunded Exposures	**-**	**-**	**-**	**-**	**5,381**	**7,344**	**12,725**

4 RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

Table – 9. Maturity breakdown of credit exposures (PD–1.3.23(g))

The residual maturity for financial instruments other than certain investment securities were based on the last date of contractual terms. For certain investment securities, investment in associates (equity accounted) and investment in Real Estate, residual maturity is determined based on expected realization period.

The following table summarizes the residual contractual maturity breakdown of the whole credit portfolio, broken down by major types of credit exposure as of 31 December 2015:

	Up to 3 months (USD '000)	*3 months to 1 year (USD '000)*	*Total up to 1 year (USD '000)*	*1 to 5 years (USD '000)*	*5 to 10 years (USD '000)*	*No fixed maturity (USD '000)*	*Total (USD '000)*
Funded exposure							
Cash & balances with banks	13,219	-	**13,219**	-	-	-	**13,219**
Placements with financial institutions	2,002	-	**2,002**	-	-	-	**2,002**
Financing receivables	-	8,000	**8,000**	6,973	-	-	**14,973**
Assets held-for-sale	-	112,169	**112,169**	-	-	-	**112,169**
Assets acquired for leasing	88,194	-	**88,194**	-	-	-	**88,194**
Receivable from Ijara investors	-	-	-	15,662	-	-	**15,662**
Investment in securities	-	10,543	**10,543**	23,245	30,605	131,063	**195,456**
Equity-accounted investees	-	-	-	-	-	12,500	**12,500**
Investment in real estate	-	-	-	-	-	30,034	**30,034**
Other assets	3,872	513	**4,385**	905	-	427	**5,717**
Total Funded Exposures	**107,287**	**131,225**	**238,512**	**46,785**	**30,605**	**174,024**	**489,926**
Unfunded exposure							
Uncalled capital commitments in respect of investment	-	11,677	**11,677**	370	-	-	**12,047**
Operating lease commitments - expiring in one to three years	-	-	-	303	-	-	**303**
Operating lease commitments - expiring within one year	-	242	**242**	-	-	-	**242**
Commitment related to project developments	-	133	**133**	-	-	-	**133**
Total Unfunded Exposures	**-**	**12,052**	**12,052**	**673**	**-**	**-**	**12,725**

4 RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

Table – 10.1 Breakup of provision by industry for financing receivables exposures (PD-1.3.23(h & i)) and (PD-1.3.24(c))

	Trading & Manufacturing *(USD '000)*	Banks & Financial Institutions *(USD '000)*	Real Estate *(USD '000)*	Aviation *(USD '000)*	Others *(USD '000)*	Total *(USD '000)*
Specific Provision	-	-	-	-	517	**517**
Collective Provision	106	-	231	-	3	**340**

Table – 10.2 Breakup of provision by geographical area for financing receivables exposures (PD-1.3.23(h & i)) and (PD-1.3.24(c))

	Middle East *(USD '000)*	*Europe* *(USD '000)*	*Africa* *(USD '000)*	*South East Asia* *(USD '000)*	Total *(USD '000)*
Specific Provision	-	-	376	141	**517**
Collective Provision	232	-	106	2	**340**

Table – 10.3 Reconciliation of changes in provisions (PD-1.3.23(h & i)) and (PD-1.3.24(c))

	Opening *(USD '000)*	Charged/ (reversed) during the *(USD '000)*	Closing *(USD '000)*
Specific Provision	152	365	**517**
Collective Provision	352	(12)	**340**

Table – 10.4 Past due facilities

As of 31 December 2015, an amount of US$ 15,662 thousand has been outstanding for a period of one to three years. This amount is receivable from various individuals and corporates based in the GCC region. Also, an amount of US$ 8,000 thousand relating to the energy industry has been outstanding for a period of three to six months and is receivable from various individuals and corporates based in Africa. In addition, musharaka financing which amounts to US$ 162 thousand is due from a financial institution located in South East Asia and is outstanding for a period of one to three years.

4.3 Market risk

4.3.1 Introduction

Market risk is defined as the risk of losses in on-balance sheet and off-balance-sheet positions arising from movements in market prices. The risks subject to this requirement are:

• The risks pertaining to profit rate related instruments and equities in the trading book; and

• Foreign exchange risk and commodities risk throughout the Bank.

The Group manages its market risk exposures by evaluating each new product and activity with respect to the market risk introduced by it.

4.3.2 Market Risk Factor

For the Bank, market risk may arise from movements in foreign exchange rates. A single transaction or financial product may be subject to foreign exchange risk.

4.3.3 Market Risk Strategy

The Board is responsible for approving and reviewing the market risk strategy. The Bank's senior management is responsible for implementing the market risk strategy approved by the Board, and continually enhancing the market policies and procedures for identifying, measuring, monitoring and controlling market risks.

In line with the Bank's Risk Management objectives and risk tolerance levels, the specific strategies for market risk management include:

• The Bank will proactively monitor and manage the market risk in its portfolio using a Board approved limit structure;

• The Bank will establish a market risk appetite which will be quantified in terms of a market risk limit structure for monitoring its market risk. This will be approved by the RC and the Board;

• The Bank will at all times hold sufficient capital in line with the Pillar I regulatory capital requirements of the CBB

• The Bank will carry out stress testing periodically to assess the effect of extreme movements in market variables which may expose the Bank to high risks;

• The Bank will clearly identify the foreign currencies in which it wishes to deal in. The Bank will manage its market risk in all foreign currencies in which it has significant exposure; and

• The Bank will manage its market risk exposure by evaluating each new product or activity with respect to the market risk introduced by it.

4 RISK MANAGEMENT (continued)

4.3.4 Market Risk Measurement Methodology

The Group is not exposed to significant market risk due to the nature of its activities and hence uses measurements involving a combination of limits to control market risk exposures. For calculating the market risk capital charge, the Group applies the Standardized Approach.

4.3.5 Market Risk Monitoring & Reporting and Limits Structure

The Bank uses a combination of limits to control its market risk exposures. Positions are monitored on a regular basis to ensure risk is maintained within established limits.

Table – 11. Market Risk Capital Requirements

The following table summarizes the capital requirement for each category of market risk as of:

	31 December 2015	
	Weighted risk exposures (USD '000)	*Market risk capital requirement (USD '000)*
Capital requirements - Price Risk, Equity Position Risk and Foreign Exchange Risk	**19,750**	**2,469**
Maximum value of RWE	25,075	3,134
Minimum value of RWE	13,425	1,678

4.4 Operational risk

4.4.1 Introduction

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. It is an inherent risk faced by all business and covers a large number of operational risk events including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets.

The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

The Board has the ultimate responsibility for operational risk. Oversight rests with the RC, ICRC and RMD. Risk and Control Self Assessment (“RCSA”) is an annual exercise as per Bank’s policy and is a requirement by CBB based on Basel II principles related to operational risk management.

The Group has developed a Disaster Recovery and Business Continuity Plan (“DR&BCP”) to enable the Group to survive a disaster and to re-establish normal business operations. The DR&BCP will enable the Group to minimize interruptions to business service operations, resume critical operations within a specified time after a disaster, minimize financial loss due to disruptions, limit the severity of the disruption, expedite the restoration of services and maintain a positive public image of the Bank.

4 RISK MANAGEMENT (continued)

4.4 Operational risk (continued)

4.4.2 Sources of Operational Risk

The different sources of operational risks faced by the Bank can be classified broadly into the following categories:

People Risk which arise due to staffing inadequacy, unattractive remuneration structure, lack of staff training, lack in procedures for appointment, unhealthy professional working relationship and unethical environment;

Processes Risk which arise due to inadequate general controls, inadequate application controls, improper business and market practices and procedures, inappropriate or inadequate monitoring and reporting; and

Systems (Technology) Risk which arise due to the Integrity of information, hardware failures due to power surge, obsolescence, low quality and software failure due to unauthorized or incorrect modifications to software programs, computer virus, programming bug.

4.4.3 Operational Risk Management Strategy

The Bank's Board is responsible for approving and reviewing (at least annually), the operational risk strategy and significant amendments to the operational risk policies. The Bank's senior management is responsible for implementing the operational risk strategy approved by the Board to identify, measure, monitor and control the risks faced by the Bank. The Bank continuously monitors the process and controls framework surrounding all business units to assess their effectiveness and efficiency.

As a strategy the Bank will identify the sources of operational risks in coordination with each business unit.

Management and Reporting of KRIs

The Bank plans to integrate the process of KRIs into the RCSA process and then start reporting KRIs to senior management.

Incident reporting

An incident is the occurrence of an operational risk event that has caused, or has the potential to cause a financial, reputation or regulatory impact on the Bank. It includes credit or market risk events, which have been caused by an operational risk event, and non–compliance with any legal or regulatory requirement, license, internal policy or procedure or code.

Operational Loss Database

The Operational Loss Database (OLD) is a key component to quantify past operational risk exposures. The OLD contains a subset of the information captured by the incident reporting process since all incidents involving an actual or potential financial impact (including near misses) is captured.

4.4.4 Operational Risk Monitoring and Reporting

The internal monitoring and reporting process ensures a consistent approach for providing pertinent information to Senior Management and the RC for the quick detection and correction of deficiencies in the policies, processes and procedures for managing operational risk through ongoing, periodic reviews.

The objective of the reporting process is to ensure relevant information is provided to senior management and the Board to enable the proactive management of operational risk. The process ensures a consistent approach for providing information that enables appropriate decision making and action taking.

4 RISK MANAGEMENT (continued)

4.4 Operational risk (continued)

4.4.4 Operational Risk Mitigation and Control

Control activities are necessary to address the specific operational risks that the Bank has identified through the RCSA process. For the material risks identified by the Bank, the Bank decides whether to use procedures to control, mitigate, transfer, or accept the risks.

The Bank has several options for controlling and/or mitigating these risks:

• Decline to accept the risk (i.e. by avoiding certain business strategies or customers)

• Accept and retain the risk but introduce mitigating internal or external controls

• Accept the risk and transfer it in part or in whole.

Key controls

The Bank aims to control the operational risks it is exposed to by strengthening its internal controls, continuing its efforts to identify, assess, measure and monitor its risks, evolving in its risk management sophistication and promoting a strong control culture within the Bank.

Each business unit head is responsible for ensuring that the internal controls relevant to its operations are complied with on a day to day basis in spirit as well as in letter. The Bank will furthermore establish control processes and procedures and implement a system for ensuring compliance with these internal risk control processes and procedures.

4.4.5 Disaster Recovery and Business Continuity Plan (“DR&BCP”)

The Bank has developed a Disaster Recovery and Business Continuity Plan (“DR&BCP”) based on risk review of the banks activities. The Bank ensures that business recovery & contingency plans are reviewed and updated periodically. The DR&BCP is in the implementation stage.

In particular, the DR&BCP will satisfy the following:

• it will cover incidents related to IT, communication and premises;

• testing will include critical business processes; and

• testing will cover critical types of plausible scenarios to which the Bank may be vulnerable.

4.5 Equity price risk

4.5.1 Equity price risk management

Equity price risk is the risk that the fair value of equities decreases as the result of adverse changes in equity prices or indices, or fair value in the case of unquoted equities. Equity price risk arises from the Bank’s investment portfolio. The Bank does not have an active trading book and all its equities are in the banking book. A 100% risk weight is assigned to listed equities. Unlisted equities and unrated funds are risk weighted at 150%.

The accounting policies, including valuation methodologies and their related key assumptions, are disclosed in the consolidated financial statements.

An assessment is made at each year-end to determine whether there is any objective evidence that equity investments may be impaired. Any impairment for significant and prolonged decline in the value of investments is reflected as a write down of investments. Any subsequent increase in their fair value is recognized directly in equity. Investments are managed within maximum concentration risk limits, approved by the Board of Directors of the Bank.

4 RISK MANAGEMENT (continued)

4.5 Equity price risk (continued)

Table – 12. Equity Position Risk in the Banking Book (PD-1.3.31(b), (c) & (f))

The following table summarizes the total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 31 December 2015:

	Total gross exposure (USD '000)	** Average gross exposure over the period (USD '000)*	*Publicly Traded (USD '000)*	*Privately held (USD '000)*	*Capital requirement (USD '000)*
Fair value through investment securities carried at income statement	**18,767**	**22,223**	**12,691**	**6,076**	**2,346**
Fair value through equity	**106,908**	**110,614**	**16,406**	**90,502**	**13,364**
Investment in associates	**12,500**	**12,117**	**-**	**12,500**	**1,563**
	138,175	**144,953**	**29,097**	**109,078**	**17,272**

*Average balances are computed based on quarter-end balances.

Table – 13. Equity gains or losses in the Banking Book (PD-1.3.31(d) to (e))

The following table summarizes the cumulative realized and unrealized gains or (losses) during the year ended:

	31 December 2015 USD ('000)
Unrealized gains and losses from fair valuing equities included in CET1 capital	**(108)**
Realized gains arising from liquidation of Sakan Development Company	**411**

4.6 Rate of return risk

4.6.1 Rate of return risk management

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of return of the sources of finance. The table below analyses the Group's profit rate risk exposure on non-trading financial assets and liabilities:

Table – 14. Rate of Return Risk

2015	*Up to 3 Months (USD '000)*	*3 months to 1 year (USD '000)*	*1 to 5 years (USD '000)*	*Above 5 Years (USD '000)*	*No fixed maturity (USD '000)*	*Total (USD '000)*
Assets						
Placements with financial institutions	2,002	-	-	-	-	**2,002**
Financing receivable	-	8,000	6,973	-	-	**14,973**
Investment securities	-	10,543	23,245	35,992	-	**69,780**
Total profit rate sensitive assets	**2,002**	**18,543**	**30,218**	**35,992**	**-**	**86,755**
Liabilities						
Financing liabilities*	10,035	-	16,186	-	-	**26,221**
Placements from financial institutions	1,501	2,662	-	-	-	**4,163**
Total profit rate sensitive liabilities	**11,536**	**2,662**	**16,186**	**-**	**-**	**30,384**
Profit rate sensitivity gap	**(9,534)**	**15,881**	**14,032**	**35,992**	**-**	**56,371**

4 RISK MANAGEMENT (continued)

4.6 Rate of return risk (continued)

4.6.1 Rate of return risk management (continued)

The sensitivity of the Group's consolidated statement of income to a 200 basis points parallel increase (decrease) in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) on floating rate non trading financial assets and liabilities, would be an increase (decrease) of profit by US$ 1,127 thousand (2014:US$ 1,296 thousand).

The rate of return risk is generally associated with overall balance sheet exposures where mismatches arise between assets and balances from fund providers. The Group is not exposed to any significant rate of return risk and is aware of the factors that give rise to rate of return risk. Factors that possibly will affect rate of return may include an increase in long-term fixed rates in the market. The Bank is also aware of the fact that in general, profit rates earned on assets reflect the benchmark of the previous period and do not correspond immediately to changes in increased benchmark rates.

The Bank uses a combination of mismatch gap limits to measure and control its rate of return risk. Mismatched positions are regularly monitored to ensure that mismatch is maintained within established limits.

Displaced commercial risk ("DCR") refers to the market pressure to pay returns that exceed the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitor's rates.

The Bank's DCR is limited as bank mainly depends on it equity to fund assets. In case DCR arises in some situation the Bank will forego its fee based on executive management decision and on case to case basis.

4 RISK MANAGEMENT (continued)

4.7 Liquidity risk

4.7.1 Introduction

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances.

The main action to manage the Group's liquidity is through the adherence to limits on liquidity mismatches. These include the limits of the cumulative excess of maturing liabilities over assets in the short-term and limits on dependence on short-dated funds.

Treasury department is overall responsible for ensuring that the limits enacted are adhered to, on a day-to-day basis and managing excess liquidity of the Group through short term placements and investments. Treasury maintains a constant communication with the banks. The Treasury provides a monthly report to the ALCO regarding the market conditions and the volatilities of the asset prices and as such the exogenous liquidity risk the Group is exposed to.

4.7.2 Sources of Liquidity Risk

Broadly, sources of liquidity risk can be listed as:

Funding Risk – Inability to replace net outflows due to unanticipated withdrawal of capital or deposits;
Call Risk – Crystallization of a contingent liability; and
Event Risk – Rating downgrades or other negative news leading to a loss of market confidence in the Bank.

Liquidity risk may also arise if certain inter-bank funding lines are withdrawn or assets do not realize cash as expected and when anticipated.

4 RISK MANAGEMENT (continued)

4.7 Liquidity risk (continued)

4.7.3 Liquidity Risk Strategy

The Board is overall responsible for approving and reviewing (at least annually), the liquidity risk strategy and significant amendments to the liquidity risk policies. The Bank's senior management is responsible for implementing the liquidity risk strategy to identify, measure, monitor and control the risks faced by the Bank.

The Bank monitors the liquidity positions by comparing maturing assets and liabilities in different time buckets.

To mitigate the liquidity risk, the Group works with diversified funding sources, manages its assets with liquidity in mind and closely monitors periodic cash forecasts which take into account the Group’s maturity profile.

4.7.4 Liquidity Risk Measurement Tools

The Bank has developed risk management policies and procedures including liquidity risk management framework. The Bank will use a combination of techniques for measurement of its liquidity risk. These would include Liquidity Gap Analysis and monitoring of liquidity ratios.

Table – 15. Liquidity ratios (PD-1.3.37)

The following table summarizes the liquidity ratios as of:

	31 December 2015
Liquid assets to total assets	**17.35%**
Short term assets to short term liabilities	**140.97%**

Formula is as follows:

Liquid Assets to total assets = (Cash and bank balances + due from financial institutions)/total assets

Short term assets to short term liabilities = Assets with up to one year maturity/liabilities with up to one year maturity

Table – 16. Quantitative indicators of financial performance and position (PD–1.3.9)

	Dec 2015	*Dec 2014*	*Dec 2013*	*Dec 2012*	*Dec 2011**
Return on average equity (ROAE)	**-3.61%**	-4.75%	0.01%	-5.14%	-2.66%
Return on average assets (ROAA)	**-2.46%**	-3.90%	0.01%	-4.55%	-2.60%
Total operating cost to Income ratio	**50.89%**	96.08%	74.29%	76.73%	92.66%

* Ratios are based on pre-merger financials

Formula is as follows:
ROAE = Net Income (Loss) /Average Equity
ROAA= Net profit (Loss) / Average Assets

4. 7.5 Bank's Financial Performance (PD-1.3.9 (a))

Ibdar reported total revenues of USD 25.6 million for the year, an increase of 88% from USD13.6 for 2014. Profits before impairment charges rose to USD11.3 million compared to USD 0.5 million in 2014. The net loss for the fourth quarter was USD 15.5 million mainly driven by additional provision for impairment compared to USD 15.3 for last quarter in 2014. Impairment and fair value changes for 2015 amounted to USD 23.8 million compared to USD 15.8 million in 2014. The total asset base grew by 15.4% reaching USD 490 million by year end. Improved performance over the prior year was supported by increased income generated from diversified sources of revenue including income from investment banking services and investment securities. Results were also enhanced by strong recurring income generated from existing investments and real estate sectors.

5 LEGAL CONTINGENCIES

The following are the material* current or pending legal actions which involve potential liability to the Bank:

1. Ali Iskandar Ansari and Partners (AIAP) – Ibdar is a defendant to a claim in a suit in Qatar whereby the local promoter is claiming approximately $1 million due as fees relating to the establishment of a joint venture. Ibdar has vehemently argued that the claims are baseless as AIAP have not fulfilled the contractual obligations to earn the fees, and Ibdar has submitted a counterclaim for the loss of its investment. The Court of First Instance gave its ruling in January 2016 rejecting the claims of AIAP. AIAP however has appealed the judgment, and Ibdar will continue to defends its position and assert its counterclaim for loss of investment. AIAP previously raised three other claims in court and all three cases have ended in Ibdar's favor. Our expectation is that the appellate court will uphold the judgment of the Court of First Instance.

*materiality involves disputes involving potential liabilities in excess of $300,000, or 0.1% of our capital.

Table – 17. Maturity Profile (PD–1.3.38)

The maturity profile of the Group's assets and liabilities are based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the financial position date to the contractual maturity date. The consolidated maturity profile at 31 December 2015 was as follows:

2015	*Up to 3 months US$*	*3 months to 1 year US$*	*Sub total US$*	*1 to 5 years US$*	*5 to 10 years US$*	*No fixed maturity US$*	*Total US$*
Assets							
Cash and balances with banks	13,219	-	13,219	-	-	-	13,219
Placements with financial institutions	2,002	-	2,002	-	-	-	2,002
Financing receivables	-	8,000	8,000	6,973	-	-	14,973
Assets held-for-sale	-	112,170	112,170	-	-	-	112,170
Receivable from Ijarah investors	-	-	-	15,662	-	-	15,662
Investment securities	-	10,543	10,543	23,245	30,605	131,062	195,455
Equity-accounted investees	-	-	-	-	-	12,500	12,500
Investment in real estate	-	-	-	-	-	30,034	30,034
Assets acquired for leasing	88,194	-	88,194	-	-	-	88,194
Other assets	3,871	513	4,384	905	-	428	5,717
Total assets	**107,286**	**131,226**	**238,512**	**46,785**	**30,605**	**174,024**	**489,926**
Liabilities							
Placements from financial institutions	1,501	2,662	4,163	-	-	-	4,163
Financing liabilities	10,036	-	10,036	16,185	-	-	26,221
Liabilities related to assets held for sale	-	73,050	73,050	-	-	-	73,050
Liabilities related to assets acquired for l	-	70,752	70,752	-	-	-	70,752
Other liabilities	(11)	11,199	11,188	185	-	390	11,763
Total liabilities	**11,526**	**157,663**	**169,189**	**16,370**	**-**	**390**	**185,949**
Commitments	-	12,052	12,052	673	-	-	12,725
Net liquidity gap	**95,760**	**(38,489)**	**57,271**	**29,742**	**30,605**	**173,634**	**291,252**
Cumulative net liquidity gap	**95,760**	**57,271**	**153,031**	**87,013**	**117,618**	**291,252**	**-**

6 CORPORATE GOVERNANCE AND TRANSPARENCY

The Bank is committed to adopting the best international standards and global leading practices in corporate governance. The Bank has established a strong corporate governance framework that is designed to protect the interests of all stakeholders, ensure compliance with regulatory requirements, and enhance organisational efficiency.

The Bank has established a concrete organisational structure that clearly segregates functions and responsibilities, and reflects a division of roles and responsibilities of the Board of Directors and Management. Clear mandates exist for the Board, Chairman of the Board, Board Committees, Chief Executive Officer, the Management, and Senior Management Committees.

The Bank has only one class of equity shares and the shareholders are from the following nationalities (PD-1.3.10(i)):

Country	Percentage
1- State of Kuwait	50.52%
2- Kingdom of Bahrain	23.44%
3- Kingdom of Saudi Arabia	15.06%
4- Qatar	4.71%
5- United Arab Emirates	4.00%
6- Oman	2.03%
7- Jordan	0.13%
8- Yemen	0.05%
9- Philippines	0.02%
10- Sri Lanka	0.01%
11- Canada	0.01%
12- United Kingdom	0.01%
13- India	0.01%

The distribution of ownership of shares by size of shareholder is provided below (PD-1.3.10(l)):

Size	No. of
More than 10%	1
5 - 10 %	1
1 - 5 %	18
Less than 1 %	217
	237

6.1 Board Members' Profile

The primary responsibility of the Board is to provide effective governance over the Bank’s affairs and promote and achieve sustainable performance that has long-term growth potential for the benefit of its shareholders. The Board also has the duty of balancing interest of all its stakeholders, including its clientele, business partners, correspondents, employees, suppliers and local communities, all the time maintaining standards of transparency and accountability.

In all actions taken by the Board, the Directors are expected to exercise their business judgment in what they reasonably believe to be in the Bank’s best interest. In discharging this obligation, they may rely on the professional integrity of the Bank’s Senior Executives, as well as its external advisors and auditors. The Board of directors members are:

6 Corporate Governance and Transparency (continued)

6.1 Board Members' Profile (continued)

Table – 18. Corporate Governance and Transparency – Board Members' Profile (PD-1.3.10(b,c,p,q))

Ibdar's Board of Directors consists of 9 members as of December 31, 2015.

The following table summarizes the information about the profession, business title, experience in years, start date and the qualifications of the current Board members;

Name of Board Member	*Profession*	*Business Title*	*Executive / Non Executive Independent / Non Independent*	*Experience in years*	*Start date and term*	*Qualification*
Paul Mercer	Lawyer	Executive Manager, Kuwait Finance House – Bahrain	Non-Independent / Executive	Over 18	July 2011, 3 years from January 2013	M.A. Law - Cambridge University
Abdulla A. Al Marzouq	Banker	Deputy General Manager, Group Financial Institutions, Kuwait Finance House - Kuwait	Non-Independent / Executive	Over 19	July 2011, 3 years from January 2013	MBA - MIT Sloan School of Management
Zeyad Tareq Al Mukhaizeem	Banker	Executive Director - International Investments, Aref Investment Group	Non-Independent / Executive	Over 12	January 2013, 3 years	MBA - Depaul University
Mishari Z. Al Khalid	Banker	Deputy Chairman - Kuwait Investment Company	Non-Independent / Non-Executive	Over 29	January 2013, 3 years	Bachelor of Commerce - Business Management - Cairo University
Khalid Mohammed Najibi	Accountant	Executive Director - Najibi Investment Company	Independent / Non-Executive	Over 22	January 2013, 3 years	Bachelor - Schiller International, CPA
Khalid Abdullah Al Bassam	Banker	Chairman - AlBassam Investment Company	Independent / Non-Executive	Over 27	January 2013, 3 years	Bachelor - Eastern New Mexico University
Khalid Mohammed Al Aboodi	Banker	CEO - Islamic Corporation for the Development of the Private Sector	Independent / Non-Executive	Over 27	January 2013, 3 years	Masters - Economics - Northeastern University
Saleh Hassan Al Afaleq	Banker	CEO - AlKifah Holding	Independent / Non-Executive	Over 26	January 2013, 3 years	Masters - Human Resource Development - Seattle University
Abdulhakim Al Adhamy	Accountant	Retired	Independent / Non-Executive	Over 37	September 2013, 3 years	Bachelors - Commerce - Baghdad University, ICA

6 Corporate Governance and Transparency (continued)

6.1 Board Members' Profile (continued)

The Board shall meet on a quarterly basis, or otherwise at least four times in every financial year. During the year ended 31 December 2015, 5 Board meetings were held. The following table summarizes the information about Board of Directors meeting dates and attendance of directors at each meeting;

Table – 19. Corporate Governance and Transparency – Board of Directors meetings in 2014 (PD-1.3.10(t and u))

Date	Names of Directors Present (Physical)	Names of Directors who participated by phone/video link	Names of Directors not Present
18-Feb-15	Paul Mercer Abdullah AlMarzouq Khalid AlAboodi Abdulhakim Aladhamy Saleh AlAfaleq Khalid AlBassam Mishari AlKhalid Zeyad AlMukhaizeem Khalid Najibi	NA	NA
07-May-15	Paul Mercer Abdulhakim Aladhamy Khalid AlAboodi Khalid AlBassam Mishari AlKhalid Khalid Najibi Abdullah AlMarzouq Zeyad AlMukhaizeem	NA	Saleh AlAfaleq
24-May-15	Paul Mercer Khalid AlAboodi Khalid Najibi Saleh AlAfaleq Khalid AlBassam Mishari AlKhalid Abdullah AlMarzouq Abdulhakim Aladhamy	Zeyad AlMukhaizeem	NA
18-Oct-15	Paul Mercer Khalid Najibi Abdulhakim Aladhamy Saleh AlAfaleq Khalid AlBassam Mishari AlKhalid Abdullah AlMarzouq Khalid AlAboodi	Zeyad AlMukhaizeem	NA
09-Dec-15	Khalid Najibi Khalid AlAboodi Abdulhakim Aladhamy Saleh AlAfaleq Khalid AlBassam Mishari AlKhalid Abdullah AlMarzouq	Zeyad AlMukhaizeem	Paul Mercer

6 Corporate Governance and Transparency (continued)

6.2 Changes in Board Structure

The Board was elected on January 29, 2013 during the Ordinary General Meeting for a three (3) year term.

The following table presents the directorships held by the directors in other boards:

Table – 20. Information on the directorships held by the directors on other boards

Name of Board Member	*Directorship in other companies - based outside Bahrain*	*Directorship in other companies - based in Bahrain*
Paul Mercer	Liberty Aerospace, Inc.	Themar Baytik BSC
	Liberty Aerospace Holdings, Inc.	Turkapital Holdings BSC
	Liberty Assets LLC	Menatelecom WLL
	Liberty XL2 Holdings LLC	Bayan Group for Property Investment
	Baytik International Investments Advisory Ltd	
	Fernas Investors Ltd	
	Sunshine Storage Ltd	
	Sinwan Limited	
Abdulla A. Al Marzouq	Hayat Investment Company, Kuwait	Kuwait Finance House - Bahrain
	Saudi Kuwait Finance House	
Zeyad Al Mukhaizeem	Munshaat Real Estate Projects Company	
	Bank of London and Middle East	
Mishari Al Khalid	Kuwait Investment Company	National Hotels Company
	Al-Khaled International Holding Co.	
Saleh Al Afaleq	AlKifah Holding	
	Al-Ahsa Amusement and Tourism Company	
	Arbah Capital	
	Noor Capital	
	Council of Saudi Chambers of Commerce	
	Al-Ahsa Irrigation and Drainage Authority	
Khalid Najibi	Arbah Capital	Najibi Investment Company
		Skaugen Gulf Petchem Carriers
Khalid Al Bassam	Gulf Investment Corporation	AlBassam Investment Company WLL
		Foulath Holding, Bahrain BSC ©
Khalid Al Aboodi	Tamweel Africa, Senegal.	
	Kazakhstan Leasing Company.	
	Tijari Leasing Company, Malaysia.	
	Burj Bank, Pakistan.	
	Saudi SME Fund, Saudi Arabia.	
	Bedaya Home Finance, Saudi Arabia	
	South Europe Investment Company, Bosnia.	
Abdulhakim Al Adhamy	Amwaj Property Limited BVI	Ebrahim Khalil Kanoo BSC
	Golden Light Co WLL	AlKindi Specialist Hospital
		Motor City BSC ©
		Dejlah Real Estate

6.2.2 Auditors' appointment

During the year, the shareholders at the AGM appointed KPMG Fakhro as the external auditors of the bank.

6 Corporate governance and transparency (continued)

6.3 Board Committees

The following tables summarise the information about Board Committee meeting dates and attendance of directors at each meeting;

Table – 21. Corporate Governance and Transparency – Audit Committee meetings in 2015 (PD-1.3.10(w))

Date	Names of Directors Present	Names of Directors Not Present
04-Feb-15	Abdulhakim Aladhamy Khalid AlBassam Mishari AlKhalid	None
29-Apr-14	Abdulhakim Aladhamy Khalid AlBassam Mishari AlKhalid	None
13-Jul-15	Abdulhakim Aladhamy Khalid AlBassam Mishari AlKhalid	None
15-Oct-15	Abdulhakim Aladhamy Khalid AlBassam Mishari AlKhalid	None

6 Corporate governance and transparency (continued)

Table – 22. Corporate Governance and Transparency – Executive Committee meetings in 2015 (PD-1.3.10(w))

Date	Names of Directors Present (Physical)	Names of Directors who participated by phone/video link	Names of Directors not Present
7-Jan-15	Khalid Najibi Abdullah AlMarzouq Zeyad AlMukhaizeem	Saleh AlAfaleq	
11 & 12-Feb-15	Khalid Najibi Saleh AlAfaleq Zeyad AlMukhaizeem Abdullah AlMarzouq		
18 & 19-March-15	Khalid Najibi Zeyad AlMukhaizeem Saleh AlAfaleq Abdullah AlMarzouq		
23-Apr-15	Khalid Najibi Abdullah AlMarzouq Zeyad AlMukhaizeem		Saleh AlAfaleq
17-Jun-15	Khalid Najibi Saleh AlAfaleq Abdullah AlMarzouq	Zeyad AlMukhaizeem	
30-Aug-15	Khalid Najibi Saleh AlAfaleq Abdullah AlMarzouq Zeyad AlMukhaizeem		
26-Nov-15	Khalid Najibi Saleh AlAfaleq Abdullah AlMarzouq Zeyad AlMukhaizeem		
13-Dec-15	Khalid Najibi Saleh AlAfaleq Abdullah AlMarzouq	Zeyad AlMukhaizeem	

6 Corporate governance and transparency (continued)
6.3 Board Committees (continued)
Table – 23. Corporate Governance and Transparency – Risk Committee meetings in 2014 (PD-1.3.10(w))

Date	Names of Directors Present	Names of Directors Not Present
04-Feb-15	Abdulhakim Aladhamy Paul Mercer Khalid AlBassam	None
29-Apr-14	Abdulhakim Aladhamy Paul Mercer Khalid AlBassam	None
13-Jul-15	Abdulhakim Aladhamy Paul Mercer Khalid AlBassam	None
15-Oct-15	Abdulhakim Aladhamy Paul Mercer Khalid AlBassam	None

Table – 24. Corporate Governance and Transparency – Remuneration and Nomination Committee meetings in 2014 (PD-1.3.10(w))

Date	Names of Directors Present	Names of Directors Not Present
05-Feb-15	Khalid AlAboodi Mishari AlKhalid Khalid Najibi	None
09-Apr-15	Khalid AlAboodi Mishari AlKhalid Khalid Najibi	None
07-Jul-15	Khalid AlAboodi Mishari AlKhalid Khalid Najibi	None
13-Aug-15	Khalid AlAboodi Mishari AlKhalid	Khalid Najibi
15-Sep-15	Khalid AlAboodi Mishari AlKhalid Khalid Najibi	None
10-Nov-15	Khalid AlAboodi Mishari AlKhalid Khalid Najibi	None

6.4 Changes in the Corporate Governance Structures (PD-1.3.10(g))

No changes to the Corporate Governance Structures occurred in 2015.

6.5 Remuneration Policy and Aggregate Remuneration Paid to Senior Management and Board (PD-1.3.10(d, ii, jj and kk))

The Bank's remuneration policy for Senior Management is to provide competitive remuneration structure to attract and retain highly skilled personnel.

Aggregate remuneration paid to senior management during 2015 was USD 1,073 thousand (this includes salaries, allowances, other benefit and bonuses paid for the year ended 31 December 2015.

The Bank's remuneration policy for Board Members is to appropriately compensate and remunerate board members for their active participation in board meetings. Based on this policy the Board of Directors remuneration was structured to comprise the following:

(a) Annual Contractual Remuneration
(b) Attendance fees for members attending Board and sub-committee meetings
(c) Daily Allowance
(d) First class air tickets

Aggregate remuneration to be paid to Board members during 2015 is USD 450 thousand (2014 paid was USD 450

6 Corporate governance and transparency (continued)

6.6 A. Ownership of Shares by government (PD-1.3.10(m))

Name of Government Authority	Country	No. of Shares	Percentage %
Social Insurance Organization	Kingdom of Bahrain	4,693,951	1.565%
The Public Authority for Minor Affairs	State of Kuwait	1,642,877	0.548%
Awqaf Public Foundation	State of Kuwait	1,642,877	0.548%
Directorate of Minors Affairs	Kingdom of Bahrain	259,880	0.087%

B. Director's trading of the bank's shares during the year (PD–6.1.1 (c))

Directors have not made any trade of the bank's shares during the year.

6.7 Ownership of Shares by Directors / Senior Managers (PD-1.3.10(k))

Name of Director / Senior Manager	On Behalf of	No. of Shares	Percentage %
Khalid AlBassam	Al-Bassam Investment Company	11,717,524	3.906%
Saleh AlAfaleq	Al-Kifah Holding Company	6,872,503	2.291%
Khalid Najibi	Najibi Investment Co. W.L.L.	5,328,110	1.776%
Mohamed AlJasim*	Individual	322,149	0.107%

* Mohamed AlJasim resigned from the bank, his last day was 18 June 2015.

6.8 Type of Material Transactions that require Board approval (PD-1.3.10(o))

The following types of material transactions require Board approval if suggested by the approved policies:

(a) Conclude loan agreements with certain limit;
(b) Sell the company's assets;
(c) Mortgage the Company's properties;
(d) Grant guarantees to third parties;
(e) Discharge the Company's debts; and
(f) Engage in any other acts which may be integral to the company's objects as set out in the Memorandum of Association.

6.9 Induction, Education and Orientation of New Directors (PD-1.3.10(r))

All new Directors participate in an orientation exercise that is administered by the Directors and members of the Management at Ibdar. This orientation includes presentations by the Chairman and senior management to familiarize new Directors with Ibdar's strategic plans, significant financial, accounting and risk management issues, compliance programs, the Code of Conduct, its principal officers, and internal and independent auditors.

In addition, the orientation includes visits to Ibdar headquarters and, to the extent practical, Ibdar's significant investments. It is emphasized that Directors stay up-to date in relation to matters relevant to the Bank, the industry and the particular areas of expertise for which they have been invited on to the BOD in the first place. In particular the induction/orientation process will aim for a Director to have:

(a) An appropriate level of knowledge of the industry Ibdar operates in.
(b) A clear understanding of Ibdar's business operations.
(c) A clear understanding of Ibdar's financial circumstances.
(d) A clear understanding of Ibdar's strategy and direction.
(e) A high level knowledge of the business risks that may affect its success.
(f) Access to relevant background information on key employees and the other members of the BOD.
(g) In addition, new Directors are provided an Induction Package

6 Corporate governance and transparency (continued)

6.9 Induction, Education and Orientation of New Directors (PD-1.3.10(r)) (continued)

The process of director induction is critical to having the new directors effectively and efficiently contributing to the Board of Directors. As part of this process, specifically, the new director shall:

(a) Be welcomed formally by the Chairman of the Board, who shall brief him generally on the Bank, the Board, the other directors, and the culture and operation of the Board.
(b) Meet with the Chief Executive Officer onsite at the Bank office to discuss the Bank strategy and plan and be introduced to key management staff.
(c) Be briefed on the history and legacy of the Bank and its key shareholders, clients, and partners by the Chief Executive Officer or other member of Senior Management.
(d) Be briefed by the Board Secretary on the general operations of the Board.
(e) Be provided all of the pertinent documentation, including but not limited to:
   i. Applicable laws and regulations, including the Commercial Companies Law, the CBB Rulebook and regulations
   ii. The Memorandum and Articles of Association
   iii. The Corporate Governance Manual
   iv. Organization Chart
   v. Business Plan
   vi. Schedule for Upcoming Board and Committee Meetings
   vii. The Board Minutes for the last 12 months (including the audio recording of the last meeting, if available)
   viii. The Board Packs for the last 12 months
   ix. The Board Committee Minutes for the respective committee he will be appointed to for the last 12 months (including the audio recording of the last meeting, if available)
   x The Annual Reports for the last 2 years
   xi. The Quarterly Financials for the last 12 months
(f) Be provided any other documentation on the Bank, its products, services, market or competition, upon his request.

(g) Be afforded the opportunity to meet with any staff, consultants, or advisors, including the external auditor, upon his request.

6 Corporate governance and transparency (continued)

6.10 Executive Members' Profile

Delegated by the Board with the authority for managing the Bank's operations, the Executive Management Team of the Bank are responsible for implementing decisions, policies, procedures, and strategies approved by the Board of Directors.

Table – 25. Corporate Governance and Transparency – Executive Members' Profile (PD-1.3.10(b))

The following table summarises the information about the profession, business title, experience in years and the qualifications of each Executive member;

Name of Executive Member	Department	Business Title	Experience in year	Qualification
Mr. Ahmed Al-Rayes	Acting Chief Executive Officer	A/CEO	Over 15	BSc in Mechanical Engineering from the University of Bahrain and an MBA from University of Strathclyde in Glasgow, Scotland.
Mr. Janaka Mendis	Chief Financial Officer	CFO	Over 20	MBA from TRIUM, jointly offered by NYU Stern business school, LSE and HEC Paris. He is also a fellow of the Chartered Institute of Management Accountants (UK) and the Institute of Chartered Accountants of Sri Lanka.
Mr. Mohammed Kettani	Private Equity	Executive Director	Over 17	Master of Science in Finance from George Washington University, USA
Mr. Ahmed Al Mohaisen	Investor Relations	Executive Director	Over 10	Finance and Exonomics from King Fahad University of Petroleum & Minerals
Mr. Khalil Al Awadhi	Investor Relations	Executive Director	Over 30	Executive Business Management Degree from the University of Bahrain and Diploma in Economics International Banker.
Ms. Aysha Aljalahma	Compliance	Director	Over 11	Bachelors of Science in Accounting from the University of Bahrain and a Master of Science in International Finance from the University of Westminster, UK.
Mr. Farrukh Zareef	Risk Management	Director	Over 17	Associate Member of Institute of Charterd Accountant of Pakistan (ICAP)
Mr. Sherif M Elkhouly	Legal & Corporate Secretary	Director	Over 15	New York qualified attorney and has graduated from Duke University with an undergraduate degree in Political Science and Arabic and from the University of North Carolina at Chapel Hill School of Law where he obtained his Juris Doctor.
Mr. Abdulla Nima Najem	Shariah	Director	Over 24	Bachelor Degree in Chemical Engineering, – University of Bahrain, Advanced Diploma in Islamic Baking – BIBF, Advanced Diploma in Islamic Commercial Jurisprudence, Jordan & BIBF, High Diploma in Education – University of Bahrain, and High Diploma in Distance Teaching & Training– Arabian Gulf University, Bahrain. He is also Certified Islamic Professional Accountant (CIPA) –

Mr. Yousif Janahi	Information Technology & Administration	Director	Over 28	Master degree in Computer Based Information Systems from University of Sunderland – UK
Mr. Hasan Juma	Asset Management	Director	Over 12	BCs in Accounting from the University of Bahrain and is a Certified Public Accountant (CPA) from the American Institute of Certified Public Accountants (AICPA), New Hampshire, USA and a Certified Islamic Professional Accountant (CIPA) from AAOIFI.
Mr. Arshan Merchant	Internal Audit	Director	Over 17	Associate Chartered Accountant (ACA) from India and hold relevant professional certifications including, Certified Internal Auditor (CIA), Certified Information and System Auditor (CISA), Certified Anti-Money Laundering Specialist (CAMS) and Certification in Risk Management Assurance (CRMA). Arshan is commerce graduate from the Mumbai University, India.
Mr. Bassam Kameshki	Real Estate	Director	Over 13	BSc degree in Civil Engineering from University of Bahrain, Certified Development Manager from George Washington University and MBA with Merit from University of Strathclyde, Scotland.
Mr. Nader AlQassab	Post Acquisition	Director	Over 16	Master of Business Administration from University of Strathclyde, Glasgow – Scotland. He is also a Chartered Fund and Asset Manager
Ms. Sama Al Alawi	Human Resources	Director	Over 25	Master of Science in Human Resources. Chartered Institute of Personnel and Development (level 5). Six Sigma Certificate and Six Sigma Black Belt holder
Mr. Bassam Sami Awdi	Operations & Investment Administration	Director	Over 18	Executive Master in Business Administration and he is a Certified Public Accountant
Mr. Syed Azher	Information Technology	Manager	Over 13	Master of Business Administration - IT. Certified Project Management Professional (PMP). Other qualifications such as ITIL-E, CISSP, CISM, LA, CEH, MCSA, MCSE, CCNA and CCNP.
Mr. Basel Al-Hag-Issa*	Chief Executive Officer	CEO	Over 20	Master degree in Business Administration and Bachelor of Science (Mathematics) from Marshall University, USA.
Mr. Mohamed AlJasim**	Chief Investment Officer	CIO	Over 15	B.A. (Hons) Accounting
Ms. Eridani Tutiana***	Treasury & Capital Markets	Director	Over 19	Masters in Investment Management - Cass Business School, London.
Ms. Najla Abdulaziz****	Corporate Communications	Manager	Over 19	LCCIEB Diploma – London Chamber of Commerce and Industry Examination Board – Marketing and Public Relation. Associate Diploma – University of Bahrain – Chemical Engineering
Mr. Ahmed Ali Albahdahi*****	Operations & Administration	Director	Over 39	Master in Business Administration - AMA International University Of Bahrain - Specialization in Finance.

*Mr. Basel Al-Hag-Issa resigned from the bank effective [30 August 2015]
**Mr. Mohamed AlJasim resigned from the bank effective [18 June 2015]
***Ms. Eridani Tutiana resigned from the bank effective [14 January 2016]
****Ms. Najla Abdulaziz resigned from the bank effective [29 February 2016]
*****Mr. Ahmed Ali Albahdahi resigned from the bank effective [29 February 2016]

6 Corporate governance and transparency (continued)

6.11 Bank's Performance Linked Incentive Structure (PD-1.3.10(d))

The remuneration & incentive structure of the Board Members and Shari'a Members is discussed at the Board level. Remuneration of Board Members is approved in the Annual General Meeting ("AGM"). Bonuses are based on Bank's performance, division or department performance and individual staff performance. The board approves all performance bonus schemes for staff.

6.12 Related Party Transactions (PD-1.3.10(f))

Related party transactions are governed by the Group corporate governance policy. All related party transactions were concluded at arm's length.

Where the Bank proposes to enter into a related party transaction the following procedures apply:

1- The relevant responsible officer involved in the transaction makes appropriate disclosure to the Compliance Officer of the bank. The Compliance Officer will review the transaction and send his/her comments to the Investment, Credit & Risk Committee about the proposed transaction. This disclosure should include the following:

   (a) Details of the proposed transaction;
   (b) Proposed transaction parties and how they are related;
   (c) How arm's length may be evidenced

2- The committee will consider the information provided in order to determine whether and how to proceed with the proposed transaction. The committee may confer with risk management and legal department or may take external legal advice, in reaching this determination.

3- The Committee shall review the material facts of the transactions that require the Committee's approval and either approve or disapprove of the entry into the related party transaction.

For related party transaction and balances, please refer note 25 of the financial statements.

6.13 Assessment of Board of Directors Effectiveness & Contribution (PD-1.3.10(aa))

The Board and the management of the Bank are committed to the highest standards of corporate governance and risk management, therefore the Bank has developed a methodology which incorporates a process to self-assess the performance of the Board by the Board members on ongoing basis. This methodology and performance criteria is developed and recommended in line with the Board approved corporate governance policy and terms of reference. Self assessment shall help the board to establish clear expectations and goals to measure against these standards. The areas covered by the self assessment process are:

- Objective and strategy
- Selecting and retaining competent management
- Monitoring and assessing operations
- Efficient operations
- General assessment

The Board assessment for 2014 were presented and approved in the Board meeting dated May 7, 2015. The Bank is in the process of Board assessment for 2015.

6.14 Review of internal control processes and procedures (PD-1.3.10(y))

Internal control processes and procedures are regularly reviewed by the Bank's Internal Auditor in line with the internal audit plan approved by the Board's Audit Committee.

6 Corporate governance and transparency (continued)

6.15 Governance arrangements, systems and controls employed by the bank to ensure Shari'a compliance (PD-1.3.10(ff))

Shari'a compliance department conducts review of all business financing and investment proposals together with audit of all executed transactions of Ibdar Bank and its affiliates to confirm compliance with Shari'a rules and principles, and also with specific rulings and guidelines issued by the Shari'a Supervisory Board.
The Shari'a review and audit are conducted internally by the Shari'a Compliance Department, which includes examining all transactions without exception, with all its the relevant documentation and execution procedures adopted by Ibdar Bank.

The Shari'a review and audit are planned and performed after obtaining all the information and explanations which are considered necessary to provide sufficient evidence and give reasonable assurance that Ibdar Bank and its affiliates are in compliance with Islamic Shari'a rules and principles.

The findings are reported to the Shari'a Supervisory Board during the periodic meeting, which is held on quarterly basis or at any other time as the case may require. The Shari'a Supervisory Board reviews the review and audit reports of the Shari'a Compliance Department and provides the necessary recommendations in this regard, if needed, and issues the official opinion by means of the Shari'a Compliance Certificate after each meeting.

6.16 Handling of Non Shari'a compliance earnings and expenditures (PD-1.3.10(gg))

Any amount that has been identified as being non Shari'a compliant are fully reimbursed to a charity organization or a Bahraini Non-Profit organization. Income from non islamic sources amounting to USD 30 thousand was given as charity.

6.17 Information on mediation, advise and complaint procedures at the bank (PD-1.3.10(dd))

The investors may use the Bank's website for logging a query or a complaint, which is managed by the Corporate Communications Department ("CCD") through the info@ibdarbank.com or complaint@ibdarbank.com in the "Contact Us" page on the website.
After receiving a query or a complaint through the email address associated with the "Contact Us" page, CCD/Compliance channel the query or the complaint to the concerned department to follow up with a response. The investor's query is addressed accordingly by the appropriate department or person who was asked to handle the issue. An acknowledgement goes to the customer within 5 working days and a full reply within a maximum of 4 weeks.

6.18 Election system of directors and any termination arrangements (PD-1.3.10(s))

As per the Memorandum and Articles of Association of the Bank, the Board shall be elected by the shareholders for a period of three years. The Board shall meet and elect its Chairman and Vice Chairman for a period equivalent to the term of the Board. The termination arrangements of the Board of Directors are as stated in the Memorandum of Articles of Association (Articles 24, 25 & 27).

Article 25-Appointment of Expert Directors:Subject to the approval of the Central Bank of Bahrain, the Ordinary General Meeting may appoint a number of persons with expertise to be members of the Board of Directors who are not founders or shareholders in the Company in such number and with powers as the Board of Directors may deem necessary in order to serve the interest of the Company and provide the necessary technical, administrative and scientific skills and practical experience for the Company and provide the necessary technical, administrative and scientific skills and practical experience for the Company and subject to satisfaction by such members of the requirements of Ministerial Order No.10 for the year 2002 with respect to qualifying conditions required to be met by members of the Board of Directors who are not founders or shareholders, and subject also to the number determined for members of the Board of Directors according to provisions of these Articles of Association.

Article 26-Termination of Membership of Directors: A director's membership of the Board of Directors terminates in the following events:
1. If he was appointed or elected contrary to the provisions of Law of Articles of Association.
2. If he mis-uses his position as director in carrying on business that is competitive to that of the Company or if he causes actual damage to it.
3. If he fails to attend three consecutive meetings of the Board without lawful excuse notified in writing to the Board, and the Board shall resolve on this matter as it may deem fit.
4. If he resigns or withdraws from his office, provided the foregoing shall be done in an opportune time, otherwise he shall be liable to pay damages to the Company.
5. If he occupies any other office in the Company for which he would receive remuneration other than that which the Board of Directors may decide form time to time to remunerate its occupier because of the executive nature of his duties.

Article 27-Removal of Directors:
1. The General Meeting may terminate the membership of all or some of the members of the board Of Directors. Requisition for termination shall be presented to the Board by shareholders representing at least 10% of the capital. The Board shall forward such requisition to the General Meeting within a maximum period of one month from the date of its submission; otherwise the Ministry of Industry and Commerce may issue the notice for the Meeting. The General Meeting may not consider this requisition with respect to the said termination unless the said requisition is on the agenda. Save when serious developments are revealed during the meeting requiring such termination

2. A member of the Board of Directors may resign provided that such resignation is at a suitable time, or else, he may be liable to pay compensation to the Company.

6 Corporate governance and transparency (continued)

6.19 Bank's Communication Strategy (PD-1.3.10(h and cc))

The CCD is responsible for preparing marketing materials in liaison with other Business Departments, which are used to communicate new product information and inform the investors of the Bank's activities. The various channels of communication may include corporate publications, website, direct mailers, electronic mail and local & regional media (through press releases). All marketing materials & corporate documents are approved by Senior Management prior to disclosing to the public.

The Bank adopted an open policy for communication where it uses all available suitable channels to communicate with its stakeholders, in line with the principle of transparency and disclosure that is integral to good corporate governance. This includes wide use of the media for the purposes of providing information on the Bank's progress.

The bank provides investment updates to its client on a semi-annual basis.

Furthermore, the Bank provides information on all events that merit announcement, either on its website or through other communication channels. The Bank's annual report and previous years financial statements are also published on the website, as well as the Corporate Governance reports. The Bank's quarterly results are also published in both Arabic and English newspapers, and are posted on the Bank's website.

The Board attaches a high degree of importance to continuous communication with shareholders, especially direct dialogue with them at the Bank's annual general meetings. Shareholders are therefore encouraged to actively participate at such meetings.

6.20 Bank's Code of Ethical Business Conduct and Conflict of Interest (PD-1.3.10(v) & PD–6.1.1 (j))

The Board establishes corporate values for itself, senior management, and employees. These values have been communicated throughout the Bank, so that the Board and senior management and staff understand their accountabilities to the various stakeholders and fulfill their fiduciary responsibilities to them.

Bank's ethics dictate that a Board Member should:

1 - Not enter competition with the Bank;
2 - Not demand or accept substantial gifts for himself or his associates;
3 - Not take advantage of business opportunities to which the Bank is entitled for himself or his associates;
4 - Report to the Board any conflict of interest in their activities with, and commitments to other organizations. In any case, all Board Members declare in writing all of their other interest in other enterprises or activities (whether as a shareholder, manager, or other form of participation) to the Board (or the Audit Committees / Corporate Officer) on an annual basis;
5 - Absent themselves from any discussions or decision-making that involves a subject where they are incapable of providing objective advise, or which involves a subject or proposed transaction where a conflict of interest exists; and
6 - Ensure, collectively with the Board, that systems are in place to ensure that necessary client confidentiality is maintained and the privacy or the organization itself is not violated, and that clients' rights and assets are properly safeguarded.

During 2015, there has not been any cases of conflict of interest in the Bank.

6 Corporate governance and transparency (continued)

6.21 Monitoring Compliance to and Enforcement of Code of Conduct

The matters covered in the Code of Conduct are of the utmost importance to the Bank, its stakeholders and its business partners and are essential to the Bank's ability to conduct its business in accordance with its stated values. The Bank clearly communicates to all of its employees that they are expected to adhere to these rules in carrying out their duties for the Bank.

The Board, through independent evaluators (i.e. Internal Auditor) and Senior Management, continuously monitor adherence to the set Code of Conduct and take appropriate action against any employee whose actions are found to violate these policies or any other policies of the Bank. Disciplinary actions may include immediate termination of employment or business relationship at the Bank’s sole discretion. Employees are prohibited from participating in or concealing criminal activity or illegal behavior. Periodic reports and assessments of compliance to Code of Conduct will be presented to the board to report any incident of non compliance.

6.22 Auditor's Fees and Non-Audit Services

The details of the audit fees charged and non-audit services provided by the Bank’s external auditors will be made available to the shareholders as and when requested. Such details will be made available to the Bank’s shareholders as per their specific request, provided that these disclosures do not negatively impact the Bank’s interests.

6.23 Social Functions and Charitable contributions of the Bank

The Group discharges its social responsibilities through donations to charitable causes and organizations.

6.24 Penalties or Fines by Central Bank of Bahrain

The bank paid penalties of USD 37,666 to the Central Bank of Bahrain in 2015.

6.25 Penalties charged to Customers for Default

No penalties were charged to customers with regards to defaults during 2015.

7 REMUNERATION RELATED DISCLOSURES

The Bank's total compensation approach, which includes the variable remuneration policy, sets out the Banks's policy on remuneration for Directors and senior management and the key factors that are taken into account in setting the policy.

The Bank adopted regulations concerning Sound Remuneration Practices issued by the Central Bank of Bahrain and has proposed revisions to its variable remuneration framework in 2014. The revised policy framework and incentive components was approved by the shareholders in the Annual General Meeting.

The key features of the proposed remuneration framework are summarised below.

7.1 Remuneration Strategy

It is the Bank's basic compensation philosophy to provide a competitive level of total compensation to attract and retain qualified and competent employees. The Bank's variable remuneration policy will be driven primarily by a performance based culture that aligns employee interests with those of the shareholders of the Bank. These elements support the achievement of our objectives through balancing rewards for both short-term results and long-term sustainable performance. Our strategy is designed to share our success, and to align employees' incentives with our risk framework and risk outcomes.

The quality and long-term commitment of all of our employees is fundamental to our success. We therefore aim to attract, retain and motivate the very best people who are committed to maintaining a career with the Bank, and who will perform their role in the long-term interests of our shareholders. The Bank's reward package is comprised of the following key elements:

1. Fixed pay
2. Benefits
3. Annual performance bonus
4. Long Term Incentives

A robust and effective governance framework ensures that the Bank operates within clear parameters of its compensation strategy and policy. All compensation matters, and overall compliance with regulatory requirements, are overseen by the Board Nomination & Remuneration Committee (NRC).

The Bank's remuneration policy in particular, considers the role of each employee and has set guidance on whether an employee is a Material Risk Taker and/ or an Approved Person in a business line, control or support function. An Approved Person is an employee whose appointment requires prior regulatory approval because of the significance of the role within the Bank and an employee is considered a Material Risk Taker if they are the Head of a significant business line or any individuals within their control who has a material impact on the Bank's risk profile.

In order to ensure alignment between what we pay our people and our business strategy, we assess individual performance against annual and long-term financial and non-financial objectives summarised in our performance management system. This assessment also takes into account adherence to the Bank's values, risks and compliance measures and above all integrity. Altogether, performance is therefore judged not only on what is achieved over the short and long-term but also importantly on how it is achieved, as the NRC believes the latter contributes to the long-term sustainability of the business.

7 REMUNERATION RELATED DISCLOSURES (continued)

7.2 NRC Role and Focus

The NRC has oversight of all reward policies for the Bank's employees. The NRC is the supervisory and governing body for compensation policy, practices and plans. It is responsible for determining, reviewing and proposing variable remuneration policy for approval by the Board. It is responsible for setting the principles and governance framework for all compensation decisions. The NRC ensures that all persons must be remunerated fairly and responsibly. The remuneration policy is reviewed on a periodic basis to reflect changes in market practices, the business plan and risk profile of the Bank.

The responsibilities of the NRC with regards to the Bank's variable remuneration policy, as stated in its mandate, include but are not limited to, the following:

• Approve, monitor and review the remuneration system to ensure the system operates as intended.

• Approve the remuneration policy and amounts for each Approved Person and Material Risk-Taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits.

• Ensure remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees that earn same short-run profit but take different amount of risk on behalf of the bank.

• Ensure that for Material Risk Takers, variable remuneration forms a substantial part of their total remuneration.

• Review the stress testing and back testing results before approving the total variable remuneration to be distributed including salaries, fees, expenses, bonuses and other employee benefits.

• Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The NRC will question payouts for income that cannot be realized or whose likelihood of realization remains uncertain at the time of payment.

• Ensure that for approved persons in risk management, internal audit, operations, financial control and compliance functions the mix of fixed and variable remuneration is weighted in favor of fixed remuneration.

• Recommend Board member remuneration based on their attendance and performance and in compliance with Article 188 of the Bahrain Commercial Companies Law.

• Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use personal hedging strategies or remuneration-and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

Table – 26. NRC Membership

NRC Member Name	Appointment date	Number of meetings attended
Khalid Al Aboodi - Chairman	28-Jan-13	6 meetings attended in 2015
Mishari Al Khalid	28-Jan-13	6 meetings attended in 2015
Khalid Najibi	30-Jan-14	5 meetings attended in 2015

The aggregate remuneration paid to NRC members during the year in the form of sitting fees amounted to USD 43,200 [2014: USD 31,678].

7.3 External Consultants

Consultants were appointed during the year to advise the Bank on administration of variable remuneration policy .

7.4 Scope of Application of the Remuneration Policy

The variable remuneration policy has been adopted on a bank-wide basis.

7 REMUNERATION RELATED DISCLOSURES (continued)

7.5 Board Remuneration

The Bank's Board remuneration is determined in line with the provisions of Article 188 of the Bahrain Commercial Companies Law, 2001. The Board of Directors' remuneration will be capped so that total remuneration (excluding sitting fees) does not exceed 5% of the Bank's net profit after all required deductions as outlined in Article 188 of the Companies law, in any financial year. Board remuneration is subject to approval of the shareholders in the Annual General Meeting. Remuneration of non-executive Directors does not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits.

7.6 Variable Remuneration for Staff

Variable remuneration is performance related and consists primarily of the annual performance bonus award and long term incentives for future performance. As a part of our staff's variable remuneration, the annual bonus rewards delivery of operational and financial targets set each year, the individual performance of the employees in achieving those targets, and their contribution to delivering the Bank's strategic objectives.

The Bank has adopted a Board approved framework to develop a transparent link between variable remuneration and performance. The framework is designed on the basis of meeting both satisfactory financial performance and the achievement of other non-financial factors, that will, all other things being equal, deliver a target bonus pool for employees, prior to consideration of any allocation to business lines and employees individually. In the framework adopted for determining the variable remuneration pool, the NRC aims to balance the distribution of the Bank's profits between shareholders and employees.

Key performance metrics at the bank level include a combination of short term and long term measures and include profitability, solvency, liquidity and growth indicators. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

In determining the amount of variable remuneration, the Bank starts from setting specific targets and other qualitative performance measures that result in a target bonus pool. The bonus pool is then adjusted to take account of risk via the use of risk-adjusted measures (including forward-looking considerations).

The NRC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. NRC demonstrates that its decisions are consistent with an assessment of the Bank's financial condition and future prospects.

The Bank uses a formalized and transparent process to adjust the bonus pool for quality of earnings. It is the Bank's objective to pay out bonuses out of realized and sustainable profits. If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the NRC.

For the overall Bank to have any funding for distribution of a bonus pool; threshold financial targets have to be achieved. The performance measures ensure that total variable remuneration is generally, considerably contracted where subdued or negative financial performance of the Bank occurs. Furthermore, the target bonus pool as determined above is subject to risk adjustments in line with the risk assessment and linkage framework.

7.7 Remuneration of Control Functions

The remuneration level of staff in the control and support functions allows the Bank to employ qualified and experienced personnel in these functions. The Bank ensures that the mix of fixed and variable remuneration for control and support function personnel should be weighted in favor of fixed remuneration. The variable remuneration of control functions is to be based on function-specific objectives and is not be determined by the financial performance of the business areas they monitor.

The Bank's performance management system plays a major role in deciding the performance of the support and control units on the basis of the objectives set for them. Such objectives are more focused on non-financial targets that include risk, control, compliance and ethical considerations as well as the market and regulatory environment apart from value adding tasks which are specific to each unit.

7 REMUNERATION RELATED DISCLOSURES (continued)

7.8 Variable Compensation for Business Units

The variable remuneration of the business units is primarily determined by key performance objectives set through the performance management system of the Bank. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations as well as market and regulatory requirements. The consideration of risk assessments in the performance evaluation of individuals ensures that any two employees who generate the same short-run profits but take different amounts of risk on behalf of the bank are treated differently by the remuneration system.

7.9 Risk Assessment Framework

The purpose of risk linkages is to align variable remuneration to the risk profile of the Bank. In its endeavor to do so, the Bank considers both quantitative measures and qualitative measures in the risk assessment process. Both quantitative measures and human judgment play a role in determining any risk adjustments. The risk assessment process encompasses the need to ensure that the remuneration policy as designed reduces employees' incentives to take excessive and undue risks, is symmetrical with risk outcomes and delivers an appropriate mix of remuneration that is risk aligned.

The Bank's NRC considers whether the variable remuneration policy is in line with the Bank's risk profile and ensures that through the Bank's ex-ante and ex-post risk assessment framework and processes, remuneration practices where potential future revenues whose timing and likelihood remain uncertain are carefully evaluated.

Risk adjustments take into account for all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Bank undertakes risk assessments to review financial and operational performance against business strategy and risk performance prior to distribution of the annual bonus. The Bank ensures that total variable remuneration does not limit its ability to strengthen its capital base. The extent to which capital needs to be built up is a function of the bank's current capital position and it's ICAAP.

The bonus pool takes into account the performance of the Bank which is considered within the context of the Bank's risk management framework. This ensures that the variable pay pool is shaped by risk considerations and Bank-wide notable events.

The size of the variable remuneration pool and its allocation within the bank takes into account the full range of current and potential risks, including:

(a) The cost and quantity of capital required to support the risks taken;
(b) The cost and quantity of the liquidity risk assumed in the conduct of business; and
(c) Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

The NRC keeps itself abreast of the Bank's performance against the risk management framework. The NRC will use this information when considering remuneration to ensure returns, risks and remuneration are aligned.

7 REMUNERATION RELATED DISCLOSURES (continued)

7.10 Risk Adjustments

The Bank has an ex-post risk assessment framework which is a qualitative assessment to back-test actual performance against prior risk assumptions.

In years where the Bank suffers material losses in its financial performance, the risk adjustment framework will work as follows:

• There will be considerable contraction of the Bank's total variable remuneration.
• At an individual level, poor performance by the Bank will mean individual KPIs are not met and hence employee performance ratings will be lower
• Reduction in the value of deferred shares or awards
• Possible changes in vesting periods and additional deferral applied to unvested rewards
• Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or clawback of previous variable awards may be considered.

The NRC, with the Board's approval, can rationalize and make the following discretionary decisions:

• Increase/ reduce the ex-post adjustment
• Consider additional deferrals or increase in the quantum of non-cash awards
• Recovery through malus and clawback arrangements

7.11 Malus and Claw Back Framework

The Bank's malus and clawback provisions allow the Bank's Board of Directors to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited/ adjusted or the delivered variable remuneration recovered in certain situations. The intention is to allow the Bank to respond appropriately if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer term. All deferred compensation awards contain provisions that enable the Bank to reduce or cancel the awards of employees whose individual behavior has had a materially detrimental impact on the Bank during the concerned performance year.

Any decision to take back an individual's award can only be made by the Bank's Board of Directors.

• Reasonable evidence of willful misbehavior, material error, negligence or incompetence of the employee causing the Bank/the employee's business unit to suffer material loss in its financial performance, material misstatement of the Bank's financial statements, material risk management failure or reputational loss or risk due to such employee's actions, negligence, misbehavior or incompetence during the concerned performance year.

• The employee deliberately misleads the market and/or shareholders in relation to the financial performance of the Bank during the concerned performance year.

Clawback can be used if the malus adjustment on the unvested portion is insufficient given the nature and magnitude of the issue.

7.12 Components of Variable remuneration

Table - 27. Variable remuneration has following main components:

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred Cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of 3 years
Upfront share awards	The portion of variable compensation that is awarded and issued in the form of shares on conclusion of the performance evaluation process for each year.
Deferred shares	The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over a period of 3 years
Other Non-Cash Awards	Non-Cash Awards that link rewards to the risk and profitability of individual transactions or transaction portfolios including: - Profit Share in Investments - Carried Interest - Co-Investment in Assets

All deferred awards are subject to malus provisions. All share awards are released to the benefit of the employee after a six month retention period from the date of vesting. The number of equity share awards is linked to the Bank's share price as per the rules of the Bank's Share Incentive Scheme. Any dividend on these shares is released to the employee along with the shares (i.e. after the retention period).

7 REMUNERATION RELATED DISCLOSURES (continued)

7.13 Deferred Compensation

All staff earning in excess of BHD 100,000 are subject to the following rules of deferral:

The CEO and 5 most highly paid business line employees are subject to the following deferral rules:

Table - 28. Deferral Rules - Business Line Employees

Element of variable remuneration	Payout percentages	Vesting period	Retention	Malus*	Clawback *
Upfront cash	40%	immediate	-	-	Yes
Deferred cash	10%	3 years	-	Yes	Yes
Deferred Phantom Shares	10-50%	3 years	6 months	Yes	Yes
Other Non-Cash Awards	0-40%	Transaction linked	6 months	Yes	Yes

All other covered staff are subject to the following deferral rules:

Table - 29. Deferral Rules - Other Covered Staff

Element of variable remuneration	Payout percentages	Vesting period	Retention	Malus*	Clawback *
Upfront cash	50%	immediate	-	-	Yes
Upfront non-cash awards	10%	immediate	6 months	Yes	Yes
Deferred non-cash awards	40%	3 years	6 months	Yes	Yes

The NRC, based on its assessment of role profile and risk taken by an employee could increase the coverage of employees that will be subject to deferral arrangements.

7.14 Details of Remuneration Paid

Table - 30. Board of Directors

	2015	2014
Sitting Fees	335,631	287,836
Remuneration	450,000	475,068
Others	140,136	163,124

Table - 31. Employee Remuneration

	2015					
	Number of Staff	Variable Remuneration		Fixed Remuneration		Total
		Cash	Others	Cash	Others	
Approved Persons-		US$ 000's				
- Business Lines	6	36	36	545	91	636
- Control and Support	13	63	-	530	91	621
Other Material Risk Takers	8	89	-	1,813	60	1,873

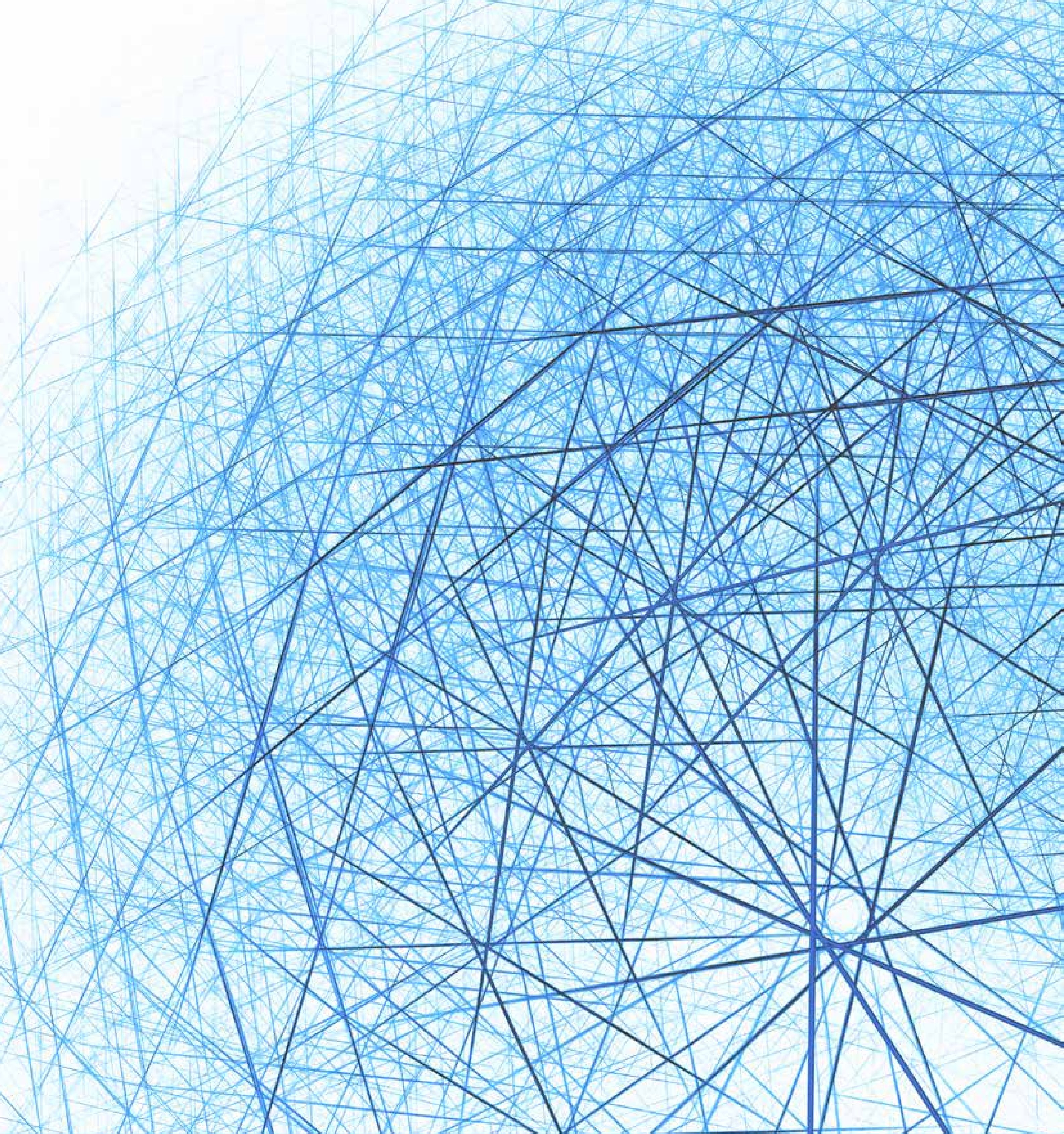
During the year sign-on bonus of USD 66,313 was awarded.

	2014					
	Number of Staff	Variable Remuneration		Fixed Remuneration		Total
		Cash	Others	Cash	Others	
Approved Persons		US$ 000's				
- Business Lines	4	19	-	769	390	1,178
- Control and Support	5	40	-	836	34	910
Other Material Risk Takers	2	21	-	427	215	663

Total deferred awards for 2015 is USD 147,464 (2014 : Nil).

Table - 32. Severance Pay

	2015	2014
Number of Staff	5	1
Severance Pay (USD)	605,821	447,882
Highest such award to a single person (USD)	279,065	447,882



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