بنك البحرين الإسلامي BisB

FOCUSING ON FUNDAMENTALS & TRANSFORMING THE BUSINESS

ANNUAL REPORT 2015

Focusing on Fundamentals

Getting 'Back to Basics' will remain Bahrain Islamic Bank's mantra for the next three years and, with a solid foundation of fundamental banking principles across the entire Bank, sets the stage for a sustainable turnaround and further success. The Bank is underscoring its commitment to delivering banking simply as it should be with a focus on core business activities, the launch of innovative initiatives, services and products, the further development of a state of the art Information and Communication Technology infrastructure and, central to our' Back to Basics' ethos, a continued focus on providing superior customer service and a simply better banking experience.

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Bahrain Islamic Bank
Al Salam Tower
Diplomatic Area
PO Box 5240, Manama
Kingdom of Bahrain

Tel: (+973) 17 546 111
Fax: (+973) 17 535 808
Email: corporate.communications@bisb.com

www.bisb.com

bahrainislamicbank @_bisb @bahrainislamicbank

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

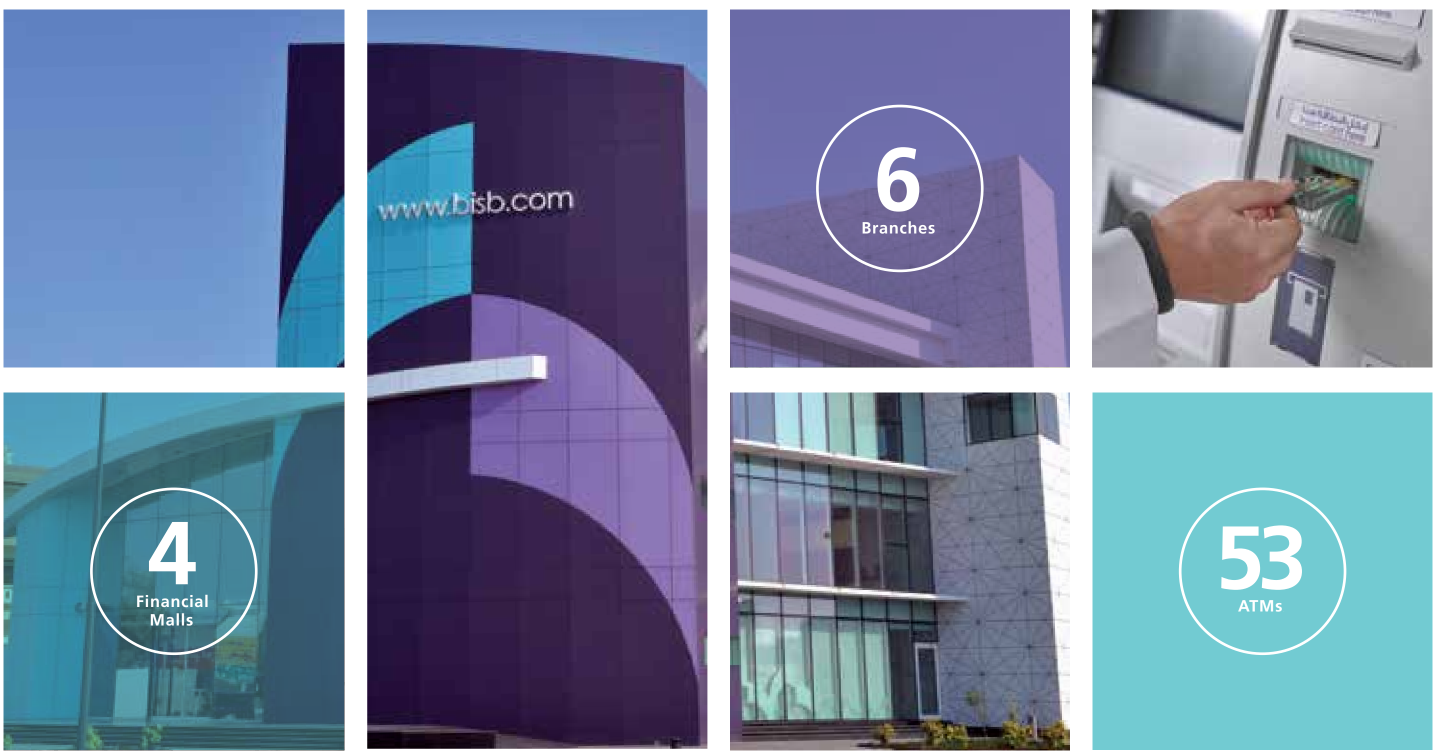
The Crown Prince,
Deputy Supreme Commander
and First Deputy Prime
Minister

CORPORATE PROFILE

The leading Islamic commercial bank in Bahrain.

Incorporated in 1979 as the first Islamic bank in the kingdom of Bahrain, and the forth in the GCC. Bahrain Islamic Bank (BisB) has played a pivotal role in the development of the Islamic banking industry and the Kingdom's economy. The Bank operates under an Islamic Retail banking licence from the Central Bank of Bahrain and is listed on the Bahrain Bourse.

At the end of 2015, the Bank's paid up capital was BD 97 million, while total assets stood at BD 976 million. The Bank's modern branch network comprises 6 branches, 4 innovative financial malls, and 53 ATM's located throughout the Kingdom. A steadfast focus on continuous innovation, strong corporate governance and risk management, employee development, and the use of state of the art technology to deliver superior customer service, has cemented Bahrain Islamic Bank's position as the leading Sharia'a – compliant bank in the Kingdom.



OUR VISION

To be the preferred Islamic Financial Partner going beyond boundaries to grow together.

OUR MISSION

Our mission is to deliver value to:

Customers	Exceed their expectations and build loyalty.
Employees	Nurturing and retaining talent.
Shareholders	Maximising consistent returns.
Community	Honouring our social commitment to society.

FINANCIAL HIGHLIGHTS

Total Assets
BD Million

976m

2015	976
2014	875
2013	910
2012	833
2011	839

Total Financing
BD Million

594m

2015	594
2014	510
2013	437
2012	415
2011	392

Total Operating Income
BD Million

47m

2015	47
2014	50
2013	47
2012	38
2011	41

Investors' Share in Income
BD Million

5.7m

2015	5.7
2014	7.5
2013	11
2012	14
2011	15

Investments
BD Million

202m

2015	202
2014	208
2013	201
2012	210
2011	233

Unrestricted Investment Accounts
BD Million

709m

2015	709
2014	642
2013	713
2012	661
2011	638

Book Value per share
BD Fils

112fils

2015	112
2014	85
2013	84
2012	75
2011	108

Share Price
BD Fils

143fils

2015	143
2014	148
2013	136
2012	82
2011	90

OPERATIONAL HIGHLIGHTS

Retail Banking
Innovation

Aligned with the Bank's customer centric business strategy, BisB's retail banking division launched a number of new initiatives and services, and made further enhancements to its innovative product line in order to offer customers further value added benefits. As a result, the Bank's retail customer base expanded by 8% and the Islamic financing portfolio grew by 12.5%.

Corporate Banking
supports SME's & grows commercial customer base

BisB grew its commercial customer base by an impressive 40% in 2015, substantially reduced non-performing loans and cost of funding, and attracted high quality assets. In addition, the Bank continues its support for (SMEs) through our ongoing robust financing scheme through Tamkeen.

Improving the
Customer Experience

BisB undertook a number of initiatives during 2015 in order to improve the customers' banking experience. These include the opening of a new, larger branch in Zayid Town, Further enhancements were also made to the Bank's diverse array of product offerings such as additional prizes and categories for Tejoori, in addition to more exclusive benefits for MasterCard Titanium cardholders.

Leveraging Technology
IT infrastructure

BisB continued to strengthen its IT infrastructure during 2015. Key achievements include the upgrade of the core banking system. The state-of –the-art system has standardized the entire technological infrastructure of the bank to the latest software versions; enhancing the overall security and performance of the Bank. Back office operational processes and procedures were also further streamlined with advanced systems implemented across a number of functions.

Financial results testament
to disciplined focus on fundamentals

The solid financial performance by Bahrain Islamic Bank in 2015, which saw net profit increase by 52% over the previous year, is testament to a disciplined and relentless approach to strategy implementation; ensuring strategic objectives are translated and implemented across all levels and activities of the Bank. The year witnessed a continued focus on growing core activities and disposing of non-performing investment assets. The Bank relied fully on revenues and fees from financing and major activities, which were responsible for generating 82% of operating revenues. These were free from revaluations or unearned profits, with the exception of the successful exits from some investment portfolios and listed equities, which realised a net gain of BD 6.9 million. Significant developments include a capital increase of BD 20 million which will effectively strengthen the capital base and bolster the liquidity ratio, and a USD$100 million 1 year bilateral syndication between the Bank and its joint majority shareholder National Bank of Bahrain (NBB).

International
recognition

As our financial and operational achievements during 2015 demonstrate, the Bank has made good progress. This success was recognized at the 2015 World Islamic Banking Conference (WIBC) when BisB was awarded one of the Conferences' flagship Performance Awards based on aggregate performance scores against multiple measures on a global, regional and country level, with Bahrain Islamic Bank presented with the 'Best Performing Islamic Bank' in Bahrain.

GROWING CORE BUSINESS ACTIVITIES

Abdul Razak Al Qassim
Chairman of the Board

"Focus on strengthening the Bank's corporate governance and risk management frameworks, enhancing institutional capability through training and development and leveraging state of the art technology to deliver superior products and services"

Net Profit for the year

11,2m

In the name of Allah, the Most Beneficent, the Most Merciful. Prayers and Peace be upon the Last Apostle and Messenger, Our Prophet Mohammed, His Comrades and Relatives.

On behalf of the Board of Directors, it is my privilege to present the annual report and consolidated financial statements of Bahrain Islamic Bank (BisB) for the year ended 31 December 2015. This was a positive year for the Bank, during which we made good progress towards our strategic objectives through a steadfast focus on growing core business activities.

Testament to the success of this disciplined approach, I am delighted to report that BisB achieved an improved financial performance in 2015. Net profit for the year increased by 21 percent to BD 11.2 million from BD 9.3 million in 2014; while total income from core activities grew by 29 percent to BD 40.4 million from BD 31.4 million the previous year. Earnings per share were 14.02 Bahraini fils compared with 11.76 fils in 2014.

BisB continued to maintain a strong balance sheet, with total assets standing at BD 976 million and owners' equity of BD 110 million at the end of 2015, while liquidity remained healthy at BD 134 million. Maintaining our prudent and moderate approach, we made impairment provisions totaling BD 9 million in 2015, in comparison with impairment provisions of BD 11.9 million in 2014. Measures taken by BisB during the year to address non performing investment and financing assets resulted in the reduction of the non performing portfolio to approximately 9% of the Bank's total financing book compared to 13% in 2014.

Despite operating against a backdrop of continued, intense competition and less than ideal market conditions, I am pleased to report that the Bank's retail and corporate banking businesses performed well and increased their respective market share of Bahrain's commercial banking sector during 2015. This reflects on our unrelenting focus to deliver the highest levels of customer care and further improve our wide array of innovative products and services.

The year witnessed an increased focus on strengthening the Bank's corporate governance and risk management frameworks, enhancing institutional capability through training and development and leveraging state of the art technology to deliver superior products and services. Through its comprehensive corporate social responsibility programme, BisB sustained its contribution to the economic and social well-being of the Kingdom of Bahrain and the development of the Islamic banking industry.

In a significant development, the Bank strengthened its capital base by BD 20 million in Q4 of 2015 with 100% of the 170,940,171 ordinary shares subscribed at a share offering price of 117 fils against a nominal value of 100 fils during the period 15 to 29 November 2015. The capital increase has positioned the Bank well in terms of its relationship with regulators and rating agencies and further supported BisB's journey towards profitability. I would like to express my gratitude to the Bank's shareholders for their effective participation, as well as the Ministry of Industry, Commerce & Tourism, the CBB and the Bahrain Bourse for their valuable cooperation.

The share offering further contributes to the successful implementation of BisB's five-year strategy - a comprehensive business plan developed in collaboration with Boston Consulting Group that is now in its 2nd year of implementation. As our financial and operational achievements during 2015 demonstrate, the Bank has made good progress and was awarded the "Best Retail Islamic Bank" from World Finance, UK. This success was also recognized by the Islamic Banking experts at the 2015 World Islamic Banking Conference (WIBC) when BisB was awarded one of the Conferences' flagship Performance Awards based on aggregate performance scores against multiple measures on a global, regional and country level, with Bahrain Islamic Bank presented with the 'Best Performing Islamic Bank' in Bahrain.

Key to this continued strategic success is the creation of a world class management team. Aligned with this endeavor, the Board of Directors appointed Mr. Hassan Amin Jarrar, a prominent leader in the banking sector, as Chief Executive Officer of the Bank effective July 1st 2015. On behalf of the Board of Directors, I welcome Mr. Jarrar and wish him every success in his new position. He has the Board's full support in carrying out his new responsibilities. I would also like to take this opportunity to commend the efforts of Mr. Mohammed Ahmed Janahi during his role as Acting CEO in the previous period and wish him success in his new position as Deputy CEO.

Despite the substantial difficulties faced by the economies of its regional peers, Bahrain has remained resilient thanks to a strong performance in the non-oil sector, and fairly robust construction growth as a result of the GCC-marshal funded projects. The Kingdom remains one of the most cost effective countries in the region to do business and with a number of viable real estate projects ongoing in the Financial Harbor, as well as a reinvigorated Foreign Direct Investment strategy, the outlook for the Kingdom remains positive. We therefore remain cautiously optimistic for the prospects of BisB in 2016 as we focus on fundamentals and transform the business.

The Directors, on behalf of the shareholders, take this opportunity to express their gratitude and sincere appreciation to His Majesty King Hamad bin Isa Al Khalifa - the King of Bahrain, to His Royal Highness Shaikh Khalifa bin Salman Al Khalifa - the Prime Minister, to His Royal Highness Shaikh Salman bin Hamad Al Khalifa - the Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister, and to all Government ministries and authorities - especially the Central Bank of Bahrain and the Ministry of Industry, Commerce & Tourism, for their guidance, kind consideration and support.

The Directors also extend their thanks and appreciation to the Sharia'a Supervisory Board for its advice and supervision; the staff of the Bank whose dedicated service and commitment has played a vital role in the achievements of the Bank and to all our valued customers and friends for their continuous support and the confidence reposed by them in Bahrain Islamic Bank.

Abdul Razak Al Qassim
Chairman of the Board

BOARD OF DIRECTORS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1. Mr. Abdul Razak Abdulla Al Qassim

Chairman

Executive & Non-Independent Director
Appointed on 5 June 2013

Mr. Abdul Razak Al Qassim is the Chief Executive Officer and Director of National Bank of Bahrain (NBB). He is the Chairman of the Board of Directors of Bahrain Islamic Bank (BisB); Chairman of Benefit Company; Chairman of Bahrain Association of Banks; Deputy Chairman, Chairman of Executive Committee and Member of Nomination and Remuneration Committee at Bahrain Telecommunication Company (Batelco); Deputy Chairman of Umniah Mobile Company (Jordan); Deputy Chairman of Dhivehi Raajeyge Gulhn plc. (Dhiraagu), Maldives; Deputy Chairman of Qualitynet, Kuwait, Deputy Chairman of Sure Guernsey Limited, Sure Jersey Limited and of Sure Isle of Man Limited; Board Member of the Crown Prince International Scholarship Programme; Board Member of Deposit and URIA Protection Board at Central Bank of Bahrain. He holds a Master's degree in Management Sciences and a Sloan Fellowship from MIT (Massachusetts Institute of Technology), USA.

2. Brig. Khalid Mohammed Al Mannai

Vice Chairman

Non-Executive &Non-Independent Director
Appointed on 11 June 2013

Brigadier Khalid Mohammed Al Mannai is the General Manager of the Bahrain Military Pension Fund, and one of the co-founders of the GCC Expanded Military Pension Coverage Committee. He joined the Military Pension Fund after spending 31 years with the Bahrain Defense Force. Brigadier Al Mannai is a Board Member of Bahrain Telecommunications Company (Batelco), the Social Insurance Organisation (SIO) and Osool Asset Management Company. He holds a MBA from Sheffield Hallam University, UK; and has over 35 years' professional experience.

3. Mr. Talal Ali Al Zain

Board Member

Non-Executive & Independent Director
Elected on 7 July 2013

Mr. Talal Ali Al Zain was the Chief Executive Officer of PineBridge Investments Middle East BSC (c), and Co-Head of Alternative Investments at PineBridge Investments. Prior to this, he was Board Member and CEO of Bahrain Mumtalakat Holding Company; having previously spent 18 years with Investcorp Bank as Managing Director and Co-Head of Placement & Relationship Management. Talal was Vice President of Private Banking international and Head of Investment Banking Middle East with Chase Manhattan Bank; as well as a Corporate Banker with Citibank Bahrain. Talal Al Zain is a Board Member of the Bahrain Islamic Bank, Alubaf Arab International Bank and the Bahrain Association of Banks. He previously chaired and served as a board member on many corporations including McLaren, the Bahrain Economic Development Board, Gulf Air, and the Bahrain International Circuit. He holds an MBA in Business Administration (majoring in Finance) from Mercer University, Atlanta, USA; a BA in Business Administration (majoring in Accounting) from Oglethorpe University, Atlanta, USA.

4. Mr. Khalil Ebrahim Nooruddin

Board Member

Non-Executive & Independent Director
Elected on 7 July 2013

Mr. Khalil Ibrahim Nooruddin is an experienced banker, at both an executive and board level. Currently, he is the Managing Partner of Capital Knowledge, a consulting and training company. Over the past five years, he has concluded several consulting assignments for financial institutions, working on strategy formulation and implementation. Prior to this, Khalil Nooruddin worked for Investcorp Bank, Bahrain; UBS Asset Management in London and Zurich; and Chase Manhattan Bank in Bahrain. He is an active member of several civil and professional societies in Bahrain. A Chartered Financial Analyst, Mr. Nooruddin holds an MSc in Quantitative Analysis from the Stern Business School at New York University, USA; and a BSc in Systems Engineering from the King Fahd University of Petroleum & Minerals, Saudi Arabia. He has over 30 years' professional experience.

5. Mr. Ebrahim Hussain Ebrahim Aljassmi

Board Member

Non-Executive & Independent Director
Elected on 7 July 2013

Mr. Ebrahim Hussain Ebrahim Aljassmi was the Chief Executive Officer & Board Member of Khaleeji Commercial Bank until June 2012, and continued as Board Member until July 2013, and currently is a board member of Takaful International. Prior to this, he was Chief Executive Officer of the Liquidity Management Centre. Previously, at the Arab Banking Corporation, he held the positions of Vice President-Global Marketing Unit, Vice President-Treasury & Marketable Securities Department, and General Manager-ABC Securities. He has also worked for BBK Financial Services Company, and Shamil Bank. He holds an MBA from the University of Bahrain and a Bachelor's degree in Economics from the University of Kuwait; and has over 34 years' experience in both conventional and Islamic banking.

6. Mr. Othman Ebrahim Naser Al Askar

Board Member

Non-Executive & Independent Director
Elected on 7 July 2013

Mr. Othman Ebrahim Al Askar is the Director of the Investment department of Waqf public foundation of the State of Kuwait. He joined the awqaf foundation 1995, and held various positions before taking up his current post in 2010. Prior to this, he was Head of the Investment and Banks Department at Kuwait Public Transport Company. Othman Al Askar is a Board Member of the Educational Holding Group, Kuwait; and a former Board Member of Rasameel Structured Finance Company, Kuwait. He holds a BSc in Business Administration and Economics from the Washington Center University, USA; and has over 28 years' professional experience.

7. Mrs. Fatima Abdulla Budhaish

Board Member

Executive & Non-Independent Director
Appointed on 5 June 2013

Mrs. Fatima Abdulla Budhaish is Assistant General Manager and heads the Credit Risk Department - Risk Group, National Bank of Bahrain (NBB). Member of Asset/Liability Committee, Business Continuity Planning Committee and Credit Committee. Mrs. Budhaish is a Certified Public Accountant (CPA) from USA. She also holds an Executive MBA and Bachelor in Accounting from University of Bahrain. Mrs. Budhaish also completed an Executive Management Leadership Diploma from Darden Graduate School of Business, University of Virginia (USA). She joined NBB in 2004, and worked in various capacities before taking up her current position as Assistant General Manager. Prior to this, she spent five years with BBK. Mrs. Budhaish Chaired currently Risk Management Committee in Bahrain Islamic Bank board of directors, she is an experienced banker with over 17 years' professional experience.

8. Mr. Mohammed Ahmed Abdulla

Board Member

Non-Executive &Non-Independent Director
Appointed on 11 June 2013

Mr. Mohammed Ahmed is the Head of Asset Management at Osool Asset Management Company. Prior to Osool, he held senior management positions at Credit Suisse AG-Bahrain Branch and Credit Suisse AG-Dubai. He started his career at HSBC Middle East, before moving to Merrill Lynch-Bahrain where he spent 7 years. Mohammed Ahmed is a Board Member, Chairman of the Nomination & Remuneration Committee and Audit Committee Member at both the Medgulf Group and Medgulf Allianz Takaful. Furthermore, he is a Board Member and Vice Chairman of the Audit Committee of Bahrain Commercial Facilities Company. He holds a Bachelor's degree in Accounting from the University of Bahrain, and is accredited to the National Association of Securities Dealers and the National Futures Association. Mr. Mohammed has more than 17 years' professional experience.

9. Muhammad Zarrug Rajab

Board Member

Holds a Bachelors degree in Accountancy and is a fellow member of the Institute of Chartered Accountants in England & Wales. Has held senior posts in Libya including the Auditor General, the Minster of Treasury, Head of Libyan Peoples' Congress, the Prime Minister from 1983 to 1985, Convener of Libyan Central Bank, and Libyan Foreign Investment. Muhammad Rajab has over 45 years' professional experience.

SHARIA'A SUPERVISORY BOARD


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1. Rev. Shaikh
Dr. Abdul Latif Mahmood Al Mahmood
Chairman

Shaikh Al Mahmood is a Member of the Sharia'a Supervisory Board of Takaful International and ABC Islamic Bank, Kingdom of Bahrain; ABC Islamic Bank, London; and the Joint Sharia'a Supervisory Board of AlBaraka Group. He has been a Preacher at a number of Bahrain's mosques since 1973; and a lecturer in Quran interpretation, jurisprudence and preaching. Shaikh Al Mahmood is a regular participant in jurisprudence, educational, economic, intellectual, social and cultural conferences and seminars. He holds a PhD from the Shariah Al-Zaytuna College, Tunisia.

2. Rev. Shaikh
Mohammed Jaffar Al Juffairi
Vice Chairman

Shaikh Aljuffairi is a former Judge of the High Sharia'a Court of Appeal, Kingdom of Bahrain; and seconded as President of the High Sharia'a Court, Ministry of Justice. He is a Friday Imam and speaker.

3. Rev. Shaikh
Adnan Abdullah Al Qattan
Member

Shaikh Al Qattan is a Preacher at the Ahmed Al Fateh Islamic Mosque. He is a Judge of the High Sharia'a, Ministry of Justice, Kingdom of Bahrain; a Puisne Justice of the High Sharia'a Court; and a lecturer at the Islamic Studies Department, University of Bahrain. Shaikh Al Qattan is Chairman of the Orphans and Widows Care Committee of the Royal Court; and the Pilgrimage Mission; and a Member of the Board of Directors of Sanabil for Orphan Care. He is a regular participant in Islamic committees, courses, seminars and conferences.

4. Rev. Shaikh
Dr. Nedham Mohammed Saleh Yacoubi
Member

Shaikh Yacoubi is a Member of several Sharia'a Supervisory Boards around the world, including Bahrain Islamic Bank, Ithmaar Bank, Gulf Finance House and ABC Islamic Bank, Kingdom of Bahrain; Abu Dhabi Islamic Bank and Sharjah Islamic Bank, UAE; ABC Islamic Bank, London; and the Islamic Accounting Standards Organization, Bahrain. He is the recipient of numerous awards in the field of Islamic Finance. He has a doctorate in Islamic studies.

5. Rev. Shaikh
Dr. Essam Khalaf Al Enizi
Member

Shaikh Al Enizi is a Member of Sharia'a and Islamic Studies Faculty at the University of Kuwait. He is a Member of the Sharia'a Supervisory Committee at Boubayan Bank, Al Sham Bank, and Investment Dar, Kuwait; He holds a PhD from the University of Jordan - Specialization Fiqh and the Bahrain-based Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

BACK TO BASICS

Hassan Amin Jarrar
Chief Executive Officer

"'Back to Basics' will remain the Bank's mantra for the next three years"

In the name of Allah, the Most Beneficent, the Most Merciful.

2015 marked a year of positive change for BisB, with the continued implementation of its 5-year strategy reinforcing the planned objectives across all of the Bank's operations.

Getting 'Back to Basics' will remain the Bank's direction for the next three years. This focus on fundamentals sets the stage for a sustainable turnaround and further success, and with a solid foundation of fundamental banking principles across the entire Bank, we are underscoring our commitment to deliver banking simply as it should be.

Aligned with our strategy, the addition of key senior management personnel augmented the on-going building of a top class management team while the new share rights' offering, which was completed in November 2015, strengthened the capital base by BD 20 million.

At a Glance

Assets up 12%

Customer Deposits up 8%

Income from core Activities up 29%

Provisions and impairment down 25%

Net profit up by 21%

EPS up by 19%

Capital Adequacy Ratio, as of 31 December 2015, was a healthy 17.73%

These results were achieved while total expenses remained constant.

Financial highlights

Demonstrating the excellent financial performance by BisB in 2015, net profit increased by a significant 21 percent to BD 11.2 million from BD 9.3 million in 2014; and total income from core activities increased by 29 percent to BD 40.4 million from BD 31.4 million the previous year. Islamic financing witnessed an increase of 16 percent, investments in Sukuk grew by 17 percent, customer investments accounts rose by 8 percent. The Bank maintained a liquid assets ratio of 13.7 percent, while the cost of funding reduced by 24 percent.

Importantly, the Bank relied fully on revenues and fees from financing and major core activities, which were responsible for generating 97 percent of operating income.

Business growth

The Bank's core business activities posted another strong performance in 2015. The launch of innovative initiatives, services and products, together with a continued focus on delivering superior customer service, resulted in the Retail customer base increasing by 7 percent and market share growing by 4 percent. Islamic financing increased by 16 percent, customers investment accounts rose by 8 percent, and the cost of funding reduced by 24 percent. This was achieved against a backdrop of intensified competition in Bahrain's banking sector.

Corporate banking performed well in 2015. Achievements include improving market share by booking substantial new assets, and growing the number of borrowing relationships by 13 percent. BisB contnues to its support for SMEs through our on going robust financing scheme through Tamkeen.

Customer Service

Improved customer service, and the start of revamping almost all of our operational processes remained key features during the year. This included the relocation of certain branches to enhance accessibility and convenience, and the continued development of specialised service offerings.

Central to our' Back to Basics' ethos is a focus on customer service. An intensive review has begun to identify and realign the processes and products that will best deliver value to our customer base. A dedicated Customer Service Quality team is being created, second to none, with its primary mission to ensure superlative service for the Bank's customers.

In consonance with the perceived needs of current and future generations, the Bank will incorporate enhanced delivery channels. This includes improved online banking, and the launch of mobile banking through our first ever-digital branch in Hidd which is scheduled to open in the second quarter of 2016, as well as a fully transactional banking app.

Further investment in state of the art Information and Communication Technology infrastructure has heightened the Bank's ability to serve its operational requirements and delivery of service to its customer base.

Institutional Capabilities

BisB will seek to build long-lasting relationships rather than transactional business. The challenge to keep pace with our broader customer portfolio requirements makes it even more imperative to endorse our 'Back to Basics' philosophy. This entails a complete overhaul of BisB's Risk Management framework, understanding portfolio parameters, and being disciplined in the way we do this. Defined responsibilities at every level of the risk process is paramount. A new Chief Risk Officer has been recruited, and anew Treasurer will be appointed in the very near future.

Focus will be given to capture local business by applying global banking standards. We will seek to expand the corporate client base and further develop BisB's excellent links with local Government accounts.

BisB will be viewed as a bona fide commercial bank without losing the fundamental Islamic principles which have been ingrained in the Bank's heritage as the country's first Islamic bank.

The newly recruited Head of Human Resources has been tasked with establishing modern programs and policies with relevant appraisal systems designed to reward performance. Bearing in mind 'Back to Basics', practical training programs and refresher schedules will be devised for new entrants and existing staff in order to cultivate and anchor the Bank's new philosophy .Succession planning for qualified Bahraini talent is of paramount importance, with the aim of developing the next generation of Bahraini leaders.

Corporate Governance

Management will maintain a proper relationship with the Board of Directors, appreciating their counsel as advisors when we implement our strategies.

BisB will continue to actively engage with our stakeholders and regulators, such as the Central Bank of Bahrain, Bahrain Bourse and Ministry of labour, as well as other relevant regulatory bodies..

With BisB's continuous efforts to enhance its regulatory compliance environment, along with internal control we're proud to highlight that in 2015 BisB managed to adopt effective methods to achieve and maintain regulatory compliance objectives without a single infraction.

We are committed to having open lines of communication with all BisB staff in order to ensure clear understanding and implementation of our 'Back to Basics" messaging.

Corporate responsibility

As a socially responsible corporate citizen, BisB is committed to contributing to the economic development and social well-being of the Kingdom of Bahrain. This includes supporting the development of the Islamic banking industry by sponsoring and participating in a number of key industry events. In 2015, the Bank sponsored the World Islamic Banking Conference and the annual Islamic Banking and Finance Conference organized by the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI). We also maintained our active support for numerous charitable, educational, medical, cultural and social organizations; while encouraging staff to participate in community activities.

Industry recognition

Testament to the success of the Bank's customer centric business strategy and for the second year in a row, the World Finance magazine, a leading UK-based financial publication, awarded BisB the 'Best Islamic Retail Bank in Bahrain' for 2015.
A prestigious judging panel, supported by a research team, reviewed nominations from the magazine's readers as part of the process of selecting winning institutions in the field of Islamic finance and banking.

BisB also received an esteemed accolade from the World Islamic Banking Conference (WIBC), winning the 'Best Performing Islamic Bank' in Bahrain. The WIBC Performance Awards are the flagship awards for the WIBC and are based on weighted scores of 3 metrics - financial stability, financial performance, and Governance and social responsibility.

Future Outlook

In 2016, Bahrain will remain our main market. Expanding beyond that will only be considered once we have settled in place a high calibre management team, and with the guidance of the Board of Directors.
The prevailing difficulties internationally, and uncertain situations in parts of the region, dictate caution in our approach. The pressure on oil prices is projected to remain for the foreseeable future adding strain to the finances of regional governments through its impact on government spending.

Concerns over liquidity, and the likelihood of further upward interest rate moves by the Fed, will likely cause upward pressure on the cost of funds, with the strong possibility of credit tightening

Our overriding priorities will be to offer essential banking services to our local customers while adhering to world class risk under-writing standards, preserve the Bank's Capital, and to return value to our shareholders.

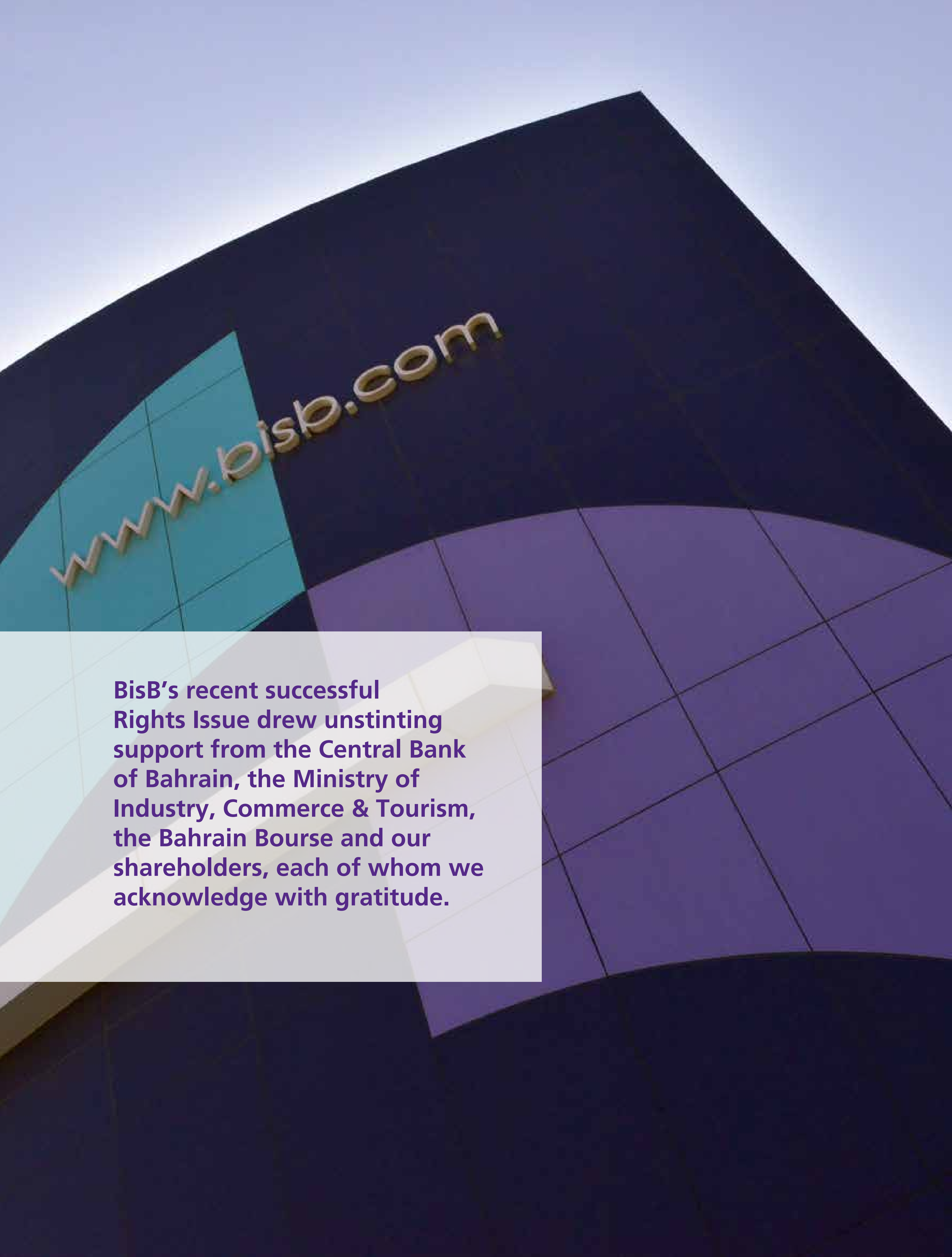
Acknowledgements

BisB's recent successful Rights Issue drew unstinting support from the Central Bank of Bahrain, the Ministry of Industry, Commerce & Tourism, the Bahrain Bourse and our shareholders, each of whom we acknowledge with gratitude.

The advice, encouragement and support of the Board of Directors is highly appreciated, as is the valued guidance and supervision of the Sharia'a Supervisory Board. The continued loyalty and confidence of our customers deserve our thanks, as does the continued support and cooperation of our business partners. The Bank's success owes much to the contributions from our management and staff, whose constant hard work and dedication are the bedrock of our institution.

Allah the Almighty is the Purveyor of all Success.

Hassan Amin Jarrar
Chief Executive Officer



BisB's recent successful Rights Issue drew unstinting support from the Central Bank of Bahrain, the Ministry of Industry, Commerce & Tourism, the Bahrain Bourse and our shareholders, each of whom we acknowledge with gratitude.

EXECUTIVE MANAGEMENT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1. Hassan Amin Jarrar
Chief Executive Officer

Mr. Hassan Amin Jarrar is one of the most prominent banking leaders in the region with more than 27 years of international, regional and local banking experience. Mr. Jarrar's diverse career in Banking includes extensive experience in retail, SME, and corporate banking in the Middle East and the US. Regionally, Mr. Jarrar served as Chief Executive Officer of Standard Chartered Bank, Head of Corporate and SME Banking at Abu Dhabi Commercial Bank, and Head of Corporate Banking, Abu Dhabi at Mashreq bank. Internationally, he has two decades of experience in key management positions in leading banking institutions in the United States; namely with Security Pacific Bank, and Bank of America. Mr Jarrar holds a BSc in Finance from California State University, San Jose, and serves on the Boards of the Bahrain Association of Banks, Bahrain Institute of Banking and Finance (BIBF) and Tamkeen.

2. Mohammed Ahmed Janahi
Deputy Chief Executive Officer

Mr. Mohammed Ahmed Janahi is a veteran banker with a vast experience in banking & financial operations over a span of 46 years. He commenced his career with the Bahrain Islamic Bank (BisB) in 2007 in the position of General Manager Support Services. In September 2014, he assumed his current position. Prior to joining BisB, Mr. Janahi assumed number senior executive positions in Citibank, National Bank of Bahrain NBB, Baraka Islamic Bank and Gulf Air in Bahrain. Mr. Janahi attended numerous courses on administrative sciences, banking and leadership at renowned universities and institutes in Europe and USA. In addition, he also attended a number of intensive and diversified workshops at leading institutions and banks, including Citibank, Financial Times and the Executive Development Institute in London.

3. Abdulrahman Mohammed Turki
General Manager - Retail Banking

Abdulrahman Turki has over 36 years' experience in banking. He took up his current position as General Manger Retail Banking at BisB in 2008. Prior to this, he was Head of Islamic Retail Banking Unit at Commercial Bank of Qatar ; Abdul Rahman held various positions with a number of other prominent regional banks, after starting his career with Aluminium Bahrain. Abdulrahman holds an MBA degree from the University of Strathclyde, Scotland, UK.

4. Fahim Ahmed Shafiqi
Chief Risk Officer

Mr. Fahim Ahmed is an experienced Banker with over 17 years of international experience gained through various roles in corporate banking and risk management spanning the markets of Pakistan, Qatar, Oman, UAE and the UK. Prior to joining BisB, Mr. Ahmed held the position of Chief Risk Officer at Standard Chartered Bank Bahrain. He has a Diploma in Islamic Finance (CDIF), and holds an MBA from the UK's University of Warwick.

5. Khalid Mohammed Al Doseri
Chief Financial Officer

Khalid Al Doseri has over 32 years of professional experience in banking and accountancy. He took up his current position with BisB in 2003. Prior to this, he worked for Ithmar Bank (Formerly Faysal Islamic Bank) for 13 years, and has started his career with Kuwait Asia Bank. Al Doseri is a Board Member of the Liquidity Management Centre, Chairman of Audit Committee and Member of Risk Committee, and was previously a Board Member and Managing Director of Islamic Bank of Yemen for the period from 2007 till 2009. Mr. Al Doseri is a Certified Public Accountant from Oregon Board of Accountancy, USA, he holds an MBA degree from University of Glamorgan, Wales - UK; and a graduate of the Gulf Executive Development Programme at Darden School of Business, University of Virginia, USA.

6. Khalid Mahmood Abdulla
Head of Internal Audit

Khalid Mahmood has over 21 years of experience in Accounting, Auditing, Banking and Sharia. He took up his current position with BisB in 2006. Prior to this, he was Head of Internal Audit at Al Baraka Islamic Bank, having started his career with Arthur Anderson. Khalid is a Certified Public Accountant (CPA) California, USA, and attended the Leadership Development Program at Darden School of Business, University of Virginia, USA.

7. Wesam Abdul Aziz Baqer
Head of Corporate Banking

Mr. Wesam Baqer is an experienced Banking professional with a diverse career covering all facets of Corporate Banking, Private Banking, and Business Development. Mr. Baqer joined BisB in 2008 as Senior Manager of the Corporate Banking. Previously, he held the same post at National Bank of Kuwait. Prior to that, he managed corporate relationships with HSBC for 8 years. Mr. Baqer holds an MSc (Economics) in Finance and Investment Management from the University of Aberdeen, Scotland, and a BS in Business Administration from the University of Bahrain. He is a Certified Financial Adviser (CeFA), and a member of the Chartered Institute of Bankers.

8. Dawood Khalil Al Ashhab
Head of Human Resources & General Services

Mr. Dawood Al Ashhab brings to the Bank a wealth of international banking experience and an in depth knowledge of HR Management best practice. Prior to joining BisB, Mr Al Ashhab managed the human resources team regionally at Standard Chartered Bank, covering the Bank's Bahrain, Oman, Qatar, Jordan and Saudi Arabia offices. Mr. Al Ashhab holds a BS in Public Administration, is a certified coach from the prestigious Gallup University, UK, and is a member of the Society of HR Management (SHRM).

BUSINESS DIVISIONS

Retail Banking

Despite continued competition in the Kingdom's retail banking sector, the Bank's retail banking business posted yet another strong performance in 2015. The Bank outperformed the CBB Consumer Finance Index for the seventh consecutive year with the Bank's Islamic finance portfolio growing by an impressive12.5% compared with a CBB Index of 9%. Key performance indicators included an increased customer base and market share, a substantial reduction in the cost of funding, and growth across a number ofthe main product lines and services.

The Bank successfully grew its retail customer base by 8%, increased its overall market share to 11%, and reduced its cost of funding by 32%. The growth recorded by main products during the year include Tas'heel Personal Finance growing by 14.45%; mortgage financing by 29.44%; credit card accounts and receivables by 12.64%; the Vevo Youth Account by 12%, and the Iqra Investment Scheme by 17.44%; in addition to the Tejoori savings account by 31.83%.

Supporting this robust performance was an unwavering focus on delivering superior customer service and innovative banking products. Aligned with this concentration, BisB undertook a number of initiatives during the year to improve the customers' banking experience. These included the opening of a new, larger branch in Zayid Town offering customers enhanced accessibility and convenience. The consolidated branch network now stands at 6 branches, 4 financial malls, and 55 ATM's conveniently located throughout the Kingdom.

Further highlighting this customer- centric approach, a new 'Meet and Greet' function was introduced at the financial malls that offers personalized guidance to mall visitors on arrival; effectively reducing waiting time and elevating the overall level of customer service.

The Bank also enhanced its diverse array of innovative product offerings. This included more prizes and categories for Tejoori, including a premium Platinum category and exclusive draws for women, the youth, and expats. Enhancements were also made to the MasterCard Titanium which witnessed a 73% growth in usage and 29% growth in card issuance. Improvement to the card included value added benefits such as access to 5 lounges within the Middle East Region and the ability for card users to upgrade their existing Frequent Flyer Program membership from Gulf Air to Gold. The Al Thuraya Visa Signature card, part of the package of Privileged Banking Services for high net worth clients, continued to be extremely well received by customers with usage significantly increasing during the year.

In 2015, 20% of customers migrated to e-banking, (18% in 2014), with 50% of the Bank's e-pin holders using online banking for all their banking needs. This number is expected to grow and, supported by the new core banking system and in line with the Bank's mission to leverage technology to meet the needs of our growing and sophisticated customer base, BisB will implement a fully transactional Mobile Banking service within the first half of 2016.

The Bank is also set to launch its first ultra modern digital branch in Hidd, a new concept of Banking in Bahrain that will serve to elevate the industry and support the bank in its mission to become a state of the art retail bank.

Aligned with the Kingdom's 2030 vision to address social housing needs and BisB's position as a socially responsible corporate

For the seventh consecutive year…

The Bank's retail banking business posted yet another strong performance in 2015

The Bank's Islamic finance portfolio growing by an impressive12.5% compared with a CBB Index of 9%. Key performance indicators included an increased customer base and market share, a substantial reduction in the cost of funding, and growth across a number ofthe main product lines and services.

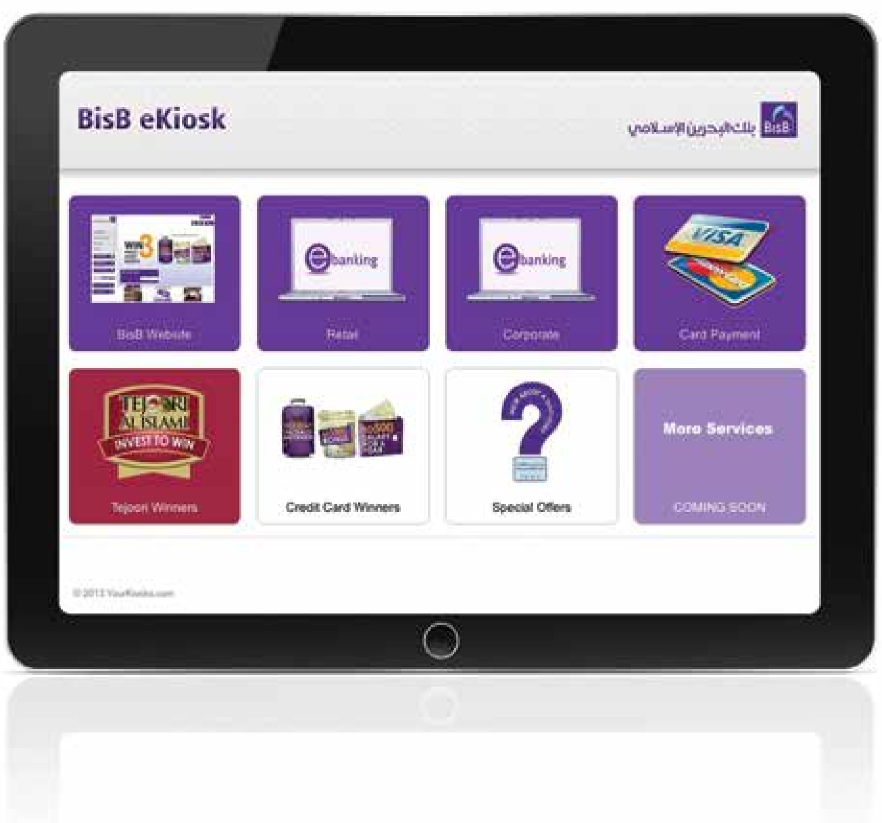
The Bank successfully grew its retail customer base by 7%, increased its overall market share to 11%, and reduced its cost of funding by 32%. The growth recorded by main products during the year.

Opening Zayid Town branch

The opening of a new, larger branch in Zayid Town offering customers enhanced accessibility and convenience. The consolidated branch network now stands at 6 branches, 4 financial malls, and 55 ATM's conveniently located throughout the Kingdom.

Launching the first digital branch

The Bank is also set to launch its first ultra modern digital branch in Hidd, a new concept of Banking in Bahrain that will serve to elevate the industry and support the bank in its mission to become a state of the art retail bank.



entity, BisB in association with Eskan Bank and the Ministry of Housing, facilitated access to subsidized financing for 75 Bahrain Nationals during 2015 as part of the Ministry's Social Housing Financing Scheme. BisB maximized on the business opportunities this scheme has presented to the private sector, whilst supporting the government as it works to address the Kingdom's social housing shortage.

In an increasingly competitive market, BisB remains differentiated by its superior customer service, therefore to enable the Bank's staff to deliver the highest standards of customer service, priority continued to be placed on training and development in 2015. Technical training courses and customer service-oriented sessions as well as regulatory-related training courses for anti- money laundering (AML), Know Your Customer (KYC), and the Foreign Account Tax Compliance Act (FATCA) were held during the year.

Testament to the success of the Bank's customer centric business strategy and for the second year in a row, the World Finance magazine, a leading UK-based financial publication, awarded BisB the 'Best Islamic Retail Bank in Bahrain' for 2015.

Going forward, BisB's retail banking business will continue to grow and nurture its customer base through a customer relationship strategy that thinks hard about all aspects of customer interactions, empowers its employees with the skills to deliver superior banking products and services, and leverages advanced technology in a way that transforms the way we think about Islamic Banking.

Corporate & Institutional Banking

BisB's Corporate & Institutional Banking division performed considerably well during 2015; successfully increasing the corporate and institutional customer base, substantially reducing non-performing loans and cost of funding, while attracting high quality assets.The Bank focused on three key segments – Local blue chip corporate financing, sovereign and quasi-sovereign institutions, as well as small-and-medium enterprises (SMEs).

The Bank managed to attract quality assets and reduce the cost of funding thus enabling the Bank to improve its lending rate and compete more effectively with both Sharia'a- compliant and conventional competitors. The commercial customer base grew considerably with a number of new blue chip companies added on the books.

Attributable to this positive performance was a marketing initiative that enhanced awareness of the Bank in the market, a committed focus on client servicing, and the introduction of value added products such as; Islamic overdrafts and cheque discounting designed to meet the liquidity needs of our corporate and commercial clients.

In addition; the team managed a 34% improvement in delinquent account recoveries and a substantial reduction in non-performing loans. This reflected positively on the bank's bottom line.

Aligned with the Bank's strategy, the provision of trade finance facilities for SMEs increased with an additional BD 20 million being made available to Tamkeen's Enterprise Financing Scheme. This raises the value of the Tamkeen-BisB agreement to BD 60 million, from which over 350 Small to Medium Enterprises benefitted to date.

As we move towards 2016, BisB's Corporate & Institutional Banking division will focus primarily on expanding trade finance activities and growing the corporate customer base in Bahrain. The Bank will maintain a continued concentration on reducing non-performing loans, targeting blue chip local corporate names, and participate in selective regional syndications. The Bank also plans to upgrade the corporate internet banking channel to a full transactional base banking in 2016.

%20 of customers migrated to

e-banking

In 2015, 20% of customers migrated to e-banking, (18% in 2014), with 50% of the Bank's e-pin holders using online banking for all their banking needs.

97% Bahraini workforce

Underlining the Bank's commitment to supporting local talent, the number of Bahraini nationals employed by the Bank remained at 97% of the total workforce of 354 employees one of the highest Bahrainisation level of any bank in Bahrain.

Treasury and Investments

Despite a challenging business backdrop of local and regional liquidity issues, the Bank's Treasury activities had another successful year in 2015; continuing to manage the Bank's liquidity and attract increased deposits while effectively reducing the cost of funding and divesting from non-core and non-performing investments.

Throughout the year, the Treasury team successfully enhanced profitability. Income from the sukuk portfolio increase by approx 44% to BD 3.6 million while was also a major foreign exchange (FX) income a major contributor to fee-based income. Interbank affiliations, which remain essential to managing the Bank's liquidity and short-term funding requirements, were also substantially increased with new lines using both Wakala and International Commodity Murabaha instruments. As per the Bank's strategic mandate, non-performing loans were significantly reduced and, with shareholder support, successfully nullified.

Significant developments include a capital increase of BD 20 million which will effectively strengthen the capital base and bolster the liquidity ratio. This is a positive step as the Bank seeks to enhance compliance with regulators, improve its interbank dealings, and launch a trade finance and cash management platform in order to fund corporate clients and high net worth individuals in Bahrain.

Underscoring shareholder confidence, a bilateral syndication between the Bank and its joint majority shareholder National Bank of Bahrain (NBB) valued at $100 million under Murabaha for a term of 1 year also took place during the year. New product offerings during the year included Islamic foreign exchange swaps and hedging, in addition to investments in sukuk, and balance sheet hedging; allowing the Bank to cater to the needs of both institutional and retail clients.

In 2015, the Bank maintained a moderate approach towards investment, with net income from investments totaling BD 2 million, compared with BD 5 million in 2014. Aligned with executing a key objective of the Bank's new five-year strategy, a number of non-core and non-performing investment assets were exited through a Special Assets division, generating a net gain of BD 1.9 million. This excess liquidity was invested in short- and medium-term fixed income instruments, resulting in the Sukuk portfolio growing by over 17%, and thus enhancing recurring income.

In terms of treasury infrastructure, the Reuters EIKON system upgrade will move onto phase 2. This will see the dealing and data systems consolidated for a faster and more efficient deal workflow.

Moving forward, the Bank will continue on the path of profitability by focusing on achieving capital incretion through a disciplined approach to the quality of assets booked, the divestment from non performing assets, and the reduction of non performing loans.

Human Recourses

2015 was a year of positive change for BisB. Following on from a rationalization of the head count in 2014, the year witnessed the Bank enhance institutional capability through a recruitment campaign that saw the appointment of a number of key positions throughout the Bank. This is a key milestone as the Bank works towards building a best in class executive management team to support the implementation of its new 5-year strategy. Recruitments included, but were not limited to, the appointment of a new Chief Executive Officer, Head of e-Banking, Assistant General Manager of Human Resources & Services and a Chief Risk Officer.

Underlining the Bank's commitment to supporting local talent, the number of Bahraini nationals employed by the Bank remained at 97% of the total workforce of 354 employees one of the highest Bahrainisation level of any bank in Bahrain.

The department also undertook a number of initiatives aimed atattracting, retaining and engaging employees. These included conducting a market salary survey, the development of a 'career path' programme, and the introduction of 'on the spot' rewards aimed at recognising and rewarding exemplary performance. Aligned with an effort to shape a corporate culture that supports open and transparent communication, a monthly 'CEO majlis' was introduced which has provided invaluable in opening up lines of communication between employees and the Bank's leadership.

As part of the transformation of the HR function, Phase 1 of the SAP (Systems, Applications, Products) software platform was implemented. The system, which is set to increase automation of the department by 30%, will facilitate the effective management of all HR products, including performance and talent management, and streamline work processes and procedures for maximum departmental effectiveness and efficiency. The second phase, which will see SAP integrated with other systems in the Bank, is earmarked for implementation in early 2016

As we move into 2016, the Bankwill continue to follow its modern Human Resource strategy shaped on values of equality and diversity. The Bank aims to attract world-class international bankers who can truly bring new leadership and product capabilities to the new BisB, while developing the current human resources by nurturing Bahrain's future leaders.

Training and Development

BisB invested heavily in the training and development of its people during 2015; empowering employees with the skills and qualifications that they need to succeed whilst encouraging an organisational culture that supports continuous learning. More than 6000 hours were devoted to various training initiatives throughout the year with over 65% of BisB staff participating.

In line with the Bank's mission to develop and nurture future leaders, a number of leadership programmes were conducted during the year. These included the 'Leadership Development Skills' programme, conducted by DC Gardener and Euromoney-UK and attended by a number of BisB's middle managers, and the 'Waqf Fund Leadership Grooming Program', an intensive leadership programme conducted by Ivey Business School and held in Hong Kong and Canada. In celebrating the Bahraini Women Day in the Banking and Financial sector, a special 'Leadership Skills for Women' workshop was also organised for 17 selected female employees.

In addition, in-house workshops on Work Ethics, aimed at enhancing awareness of Bahrain's labour law, were attended by more than 150 employees. Further emphasis was also given to improving Islamic Banking & Shari'a knowledge and customer service skills. Regulatory training was also conducted, covering Anti-Money Laundering (AML), Know Your Customer (KYC), Islamic Banking ethics and Financial Advice Programme (FAP). In addition, a number of employees were trained for licensing as Heath and Safety officers to ensure their availability in all branches and departments.

The Bank remained committed to supporting staff in gaining professional qualifications. During the year, one employee achieved certifications in financial services (CFA) while two employees achieved the Advanced Diploma in Islamic Finance (ADIF) certifications with two more employees enrolled. An employee completed the Professional SHRM (Society for human Resource Management) qualification with two Compliance employees nominated to undertake certifications from the Association of Certified Money Laundering (ACAMS) and the International Compliance Association (ICA).

Information Technology

BisB remains an industry leader in leveraging technology to deliver innovative banking products and services and, aligned with the Bank's five-year strategy, major milestones were reached in upgrading the Information and Communications Technology (ICT) infrastructure in 2015.

A key achievement was the upgrade of the core banking system and subsystems. The new 'Ethix' system has greatly improved management of the Bank's transactions, while the more centralised infrastructure has effectively reduced operational costs. The state-of –the-art system has standardized the entire technological infrastructure of the bank to the latest software versions; enhancing the overall security and performance of the Bank.

In addition, back office operational

MORE THAN 6000 TRAINING HOURS

BisB invested heavily in the training and development of its people during 2015; empowering employees with the skills and qualifications that they need to succeed whilst encouraging an organisational culture that supports continuous learning.

processes and procedures were further streamlined. The advanced SAP Products in "ERP" Enterprise resource planning is being under implementation with further system integration earmarked for early 2016. Payment, processes were also automated. The overall automation of the Bank now stands at 80%.

During the year, the Bank complied with CBB regulations and implemented a new Electronic Fund Transfer System (EFTS); in addition to the Anti-Money Laundering (AML) system to support the effective monitoring of all transactions for illicit activity.

Going forward, the ICT division is committed to facilitating the Bank's access to cutting edge technology as an enabler of strategic success. Plans include improving all customer e-channels, comprising the implementation of a fully transactional mobile banking platform, and the adoption of a sophisticated Customer Relationship Management (CRM) programme -set to increase the Bank's overall automation to 95%. The Bank will also adopt a standard methodology ITSM (IT Service Management) system based on ITIL (Information Technology Infrastructure Library) service standards, with the aim to achieve an ISO 20000 certification in the near future.

Central Operations

Central Operations supports the Bank's business lines through four dedicated units covering all transactions for payments, treasury back office, trade finance, and Islamic financing. The year witnessed a solid emphasis on stakeholder management and the enhancement of operational efficiency through the increased automation of Bank processes and procedures.

During the year, the Bank's achievements towards increasing operational efficiency were acknowledged. The Bank won the Best Bank Award in the Middle East and North Africa (MENA) in Straight Through Processing (STP) in recognition of its excellence and high efficiency, with a 94.20% satisfaction, on nomination by Standard Chartered Bank.

In addition to receiving accolades on the international stage, the division successfully carried out testing and market rehearsal for the Bank's state of the art core banking system, and implemented a new Duplicate Detection Application (DDA). The DDA is designed to detect duplicate financial messages and prevent the emission of outgoing payments as well as the processing of incoming duplicate payments.

Further underscoring its commitment to leading the technological advancement of Bahrain's banking industry, BisB was a key player in the initiation of the Electronic Fund Transfer System (EFTS) in collaboration with the CBB and the Benefit Company - A national project that will provide individuals, businesses and government agencies in Bahrain with innovative fund transfer and bill payment services.

A core focus throughout the year was on stakeholder management and engagement, and as a result a number of operational works that were historically conducted in the branches moved to Central Operations. This initiative substantially enhanced transaction turn around time while simultaneously allowing front line staff to fully focus on delivering superior customer service. In addition, and aligned with the Bank's mandate to achieve higher levels of compliance, the division worked closely with the Bank's consultants and Compliance team to review the Bank's operational policies and procedures.

Going forward, emphasis with be given to the further centralization of non customer facing activities, and the introduction of process automation and lean improvements.

General Services

The role of General Services is to ensure the smooth day-to-day functioning of the Bank.

Aligned with the Bank's five-year strategy

BisB remains an industry leader in leveraging technology to deliver innovative banking products and services and, aligned with the Bank's five-year strategy, major milestones were reached in upgrading the Information and Communications Technology (ICT) infrastructure in 2015.

CEO MAJLIS

An unprecedented series of communication initiatives took place between the leadership and staff -highlighting the importance the Bank places on employee feedback and participation as it works towards the successful implementation of its strategy. The new monthly 'CEO Majlis' is one such initiative which provides employees with a platform from which they can openly share their ideas and have their voices heard - testament to the new, innovation driven and transparent face of BisB.

The department's responsibilities cover property management, branch renovations and maintenance, procurement, quality control, utilities, security, transport, mail and archiving, payment process.

Key activities for the division in 2015 included playing a key role the opening the new Zayid Town branch. In addition, good progress was made with respect to electronic archiving of documentation for all transactions, including the archiving of Murabaha files which has greatly enhanced operational efficiency. Aligned with the Bank's aim to continuously streamline processes and procedures, plans are in place to electronically archive other departments in the Bank.

Further enhancements were made to Bank security which comprises a 24-hour security room providing live viewing of CCTV footage from all financial malls, branches and ATMs across Bahrain. In addition to connecting all branches and ATM live feeds in the BisB network directly to the Ministry of Interior.

Inline with the Bank's strategy to reduce operational costs, a number of cost cutting measures were introduced including the installation of Power Reactor Capacitor Panels that have effectively reduced the Bank's electricity usage by more than 20%.

Corporate Communications

BisB substantially enhanced its external and internal communications activities in 2015; promoting the Bank in the public domain, while spearheading intensive internal communication campaigns that work to break down barriers to communication, ignite organisational innovation, and encourage the development of a corporate culture of transparency.

Externally, the Bank nurtured its relationship with the media and other banks and actively participated in a number of symposiums and events, including sponsorship of the AAOIFI and World Islamic Banking Conferences (WIBC).

Internally, an unprecedented series of communication initiatives took place between the leadership and staff -highlighting the importance the Bank places on employee feedback and participation as it works towards the successful implementation of its strategy. The new monthly 'CEO Majlis' is one such initiative which provides employees with a platform from which they can openly share their ideas and have their voices heard - testament to the new, innovation driven and transparent face of BisB.

A number of staff social events, including Labour Day, Annual Ramadan Meeting "Gabga", Bahrain Women Day celebration, National Day, desert camping & other activities were also organized with the aim of building relationships, improving inter-departmental communications, and encouraging a sense of 'community' in the workplace.

In line with the Bank's mission to raise awareness and share knowledge pertaining to Islamic Banking, the Bank published the second version of AlMufeed 'Transactions of Islamic Banks', and is currently working on an updated version of 'Sharia'a Fatawa'. This is in addition to championing the creation, publication and dissemination of marketing collateral such as the 'BisB Annual Report' and 'Annual Calendar'.

'BEST ISLAMIC BANK IN BAHRAIN 2015' AWARD

As our financial and operational achievements during 2015 demonstrate, the Bank has won for the second year the best Islamic Retail Bank in Bahrain for 2015 from the World Finance Magazine.

This success was recognized at the 2015 World Islamic Banking Conference (WIBC) when BisB was awarded one of the Conferences' flagship Performance Awards based on aggregate performance scores against multiple measures on a global, regional and country level, with Bahrain Islamic Bank presented with the 'Best Performing Islamic Bank' in Bahrain.

RISK MANAGEMENT

As an inherent part of the Bank's activities, risk is managed through a process of ongoing identification, measurement, monitoring and reporting in line with the risk appetite of the Bank, which is set and guided by the Board of Directors. This process of risk management is critical to the continued profitability of BisB, and all individuals within the institution are personally accountable for the risk exposures relating to their responsibilities.

The Bank is exposed primarily to credit risk, liquidity risk, market risk (including profit rate, equity price and currency risks), operational risk, reputational risk and Sharia'a-compliance risk.

Risk management philosophy

The risk management philosophy of BisB is to identify, capture, monitor and manage the various dimensions of risk. The objective is to protect asset values and income streams so that the interests of the Bank's stakeholders are safeguarded; while optimising shareholders' returns, and maintaining risk exposure within the parameters set by the Board.

The Bank has defined its risk appetite within the broad framework of its Risk Management Framework. BisB reviews and aligns its risk appetite in line with its evolving business plan, and changing economic and market scenarios. The Bank also assesses its tolerance for specific risk categories and its strategy to manage these risks.

Risk management framework

BisB has in place a comprehensive enterprise-wide integrated Risk Management Framework. This embraces all levels of authorities, organisational structure, people and systems required for the smooth functioning of risk management policies within the Bank.

The Board of Directors retains ultimate responsibility and authority for all risk matters, including establishing overall policies and procedures. The Board is assisted in fulfilling its responsibilities by the Chief Executive, and various Board-level and Management committees.

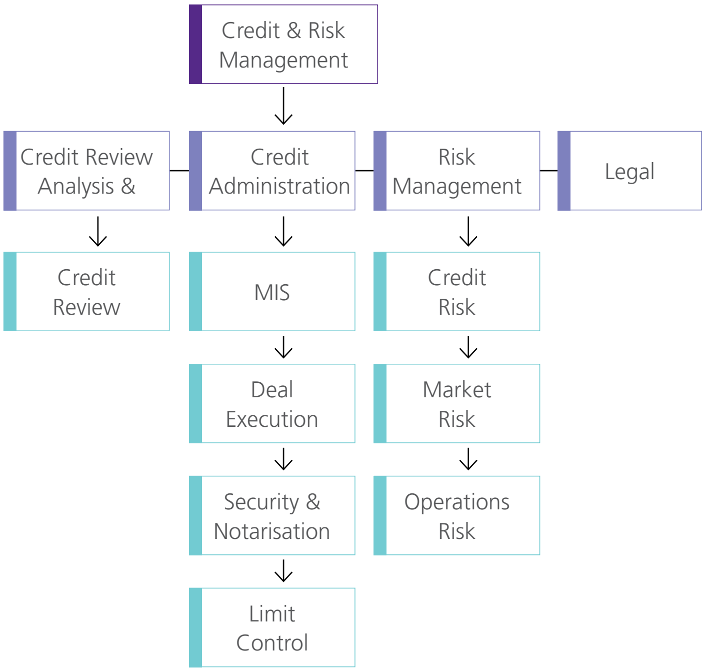
The Credit & Risk Management (C&RM) division – headed by the Chief Risk Officer reporting to the Chief Executive on a day-to-day administrative basis, and to the Board Risk Committee – has day-to-day responsibility for managing the risks involved across all areas of the Bank. C&RM provides independent identification, measurement, monitoring and control of all risk parameters, while liaising with the business divisions that ultimately own the risks. C&RM comprises a number of specialist units, including Risk Management, Credit Review & Analysis, Credit Administration, Benefit Credit Reference Bureau Reporting, and Legal Affairs.

- Taking into consideration the current global and regional market conditions, the Bank continued to place the highest priority on further strengthening its risk management infrastructure during 2015 and as a result the Bank has an improved risk management mechanism in place.

Key developments and initiatives achieved include:

- Amending the Credit Risk Management Policy and Risk Management Framework
- Providing an external training programme to business units and C&RM on Credit review, rating and restructuring
- Ensuring the ongoing compliance with the policies of the Bank, and monitoring the enterprise-wide risk through various systems and processes
- Monitoring Sharia'a-compliant risk as well as the other risks to which BisB is exposed.

Note: Additional information on the Bank's risk management framework, policies, processes and procedures is included in the Notes to the Consolidated Financial Statements and the Basel III Pillar 3 Public Disclosure sections of this annual report.



REMUNERATION DISCLOSURES

The Bank's total compensation approach, which includes the variable remuneration policy and the Share Incentive Scheme, 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. The revised policy framework and incentive components were approved by the Board of Directors and the policy came into effect as of January 2014.

The key features of the remuneration framework are summarized below.

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 the Bank's objectives through balancing rewards for both short-term results and long-term sustainable performance. This strategy is designed to share success, and to align employees' incentives with the risk framework and risk outcomes.

The quality and long-term commitment of all BisB's employees is fundamental to success. The Bank therefore aims 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 shareholders. The Bank's reward package comprises the following key elements:

1. Fixed pay
2. Benefits
3. Annual performance bonus

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 have a material impact on the Bank's risk profile.

In order to ensure alignment between what BisB pays its people and the business strategy, individual performance is assessed against annual and long-term financial and non-financial objectives summarized in the 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.

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 the same short-run profit but take different amounts, 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 realised or whose likelihood of realisation 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 favour 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.
- As outlined in the Corporate Governance section of the Annual Report, the Board is satisfied that all non-executive Directors are independent including the NRC members. The NRC comprises the following members:

Member Name	Appointment date	Number of meetings attended
Abdul Razak Abdulla Hassan Al Qassim	5 June 2013	4
Khalid Mohammed Al Mannai	11 June 2013	4
Mohamed Ahmed Abdulla	11 June 2013	4

The aggregate remuneration paid to NRC members during the year in the form of sitting fees amounted to BHD 12,000 [2014: BHD 12,000].

Scope of application of the remuneration policy

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

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 10% 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 and MOIC approval. 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.

Variable remuneration for staff

Variable remuneration is performance related and consists primarily of the annual performance bonus award. As a part of 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 formalised and transparent process to adjust the bonus pool for quality of earnings. It is the Bank's objective to pay out bonuses out of realised 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.

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 favour of fixed remuneration. The variable remuneration of control functions is to be based on function-specific objectives and is not to be determined by the financial performance of the business area 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.

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.

Risk assessment framework

The purpose of risk linkages is to align variable remuneration to the risk profile of the Bank. In its endeavour 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 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 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 its 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.

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 rationalise 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

Malus and Clawback framework

The Bank's malus and clawback provisions allow the Board of Directors to determine that, if appropriate, unvested elements underthe 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 behaviour 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.

The Bank's malus and clawback provisions allow the Board to determine that, if appropriate, vested / unvested elements under the deferred bonus plan can be adjusted / cancelled in certain situations. These events include the following:

- Reasonable evidence of willful misbehaviour, 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.

Components of Variable remuneration

Variable remuneration has the following main components:

Upfront cash Deferred Cash Upfront share awards deferred shares

The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.

The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of 3 years.

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.

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.

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).

Deferred compensation

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

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

All other covered staff, i.e. Assistant General Manager level and above are subject to the following deferral rules:

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

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

Details of remuneration paid

(a) Board of Directors & committees

BD 000's	2015	2014
Sitting Fees	148,000	224,514
Remuneration	-	368,688

(b) Employee remuneration

2015

BD 000's	Number of staff	Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration					Total
						Upfront		Deferred			
		Cash	Others	(Cash / Shares)	(Cash / Shares)	Cash	Shares	Cash	Shares	Others	
Approved persons											
- Business lines	6	775	-	188	-	92	-	23	115	-	1,193
- Control & Support	6	793	-	-	-	33	5	-	20	-	851
Other material risk takers	-	-	-	-	-	-	-	-	-	-	-
Other staff	342	7,284	-	-	-	735	-	-	-	-	8,091
TOTAL	354	8,852	-	188	-	860	5	23	135	-	10,063

Includes end of service compensations.

2014

BD 000's	Number of staff	Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration					Total
						Upfront		Deferred			
		Cash	Others	(Cash / Shares)	(Cash / Shares)	Cash	Shares	Cash	Shares	Others	
Approved persons											
- Business lines	5	861	-	-	-	50	-	13	63	-	987
- Control & Support	7	569	-	-	-	41	5	-	22	-	637
Other material risk takers	-	-	-	-	-	-	-	-	-	-	-
Other staff	358	8,685	-	-	-	637	-	-	-	-	9,322
TOTAL	370	10,115	-	-	-	728	5	13	85	-	10,946

Deferred awards disclosures

2015

BD 000's	Cash	Shares Number	Shares BD 000's	Total
Opening balance	13	604,751	90	103
Awarded during the period	42	1,510,126	210	252
Paid out / Released during the period	-	-	-	-
Service, performance and risk adjustments	-	-	-	-
Corporate action adjustments	-	(229,533)	(32)	(32)
Closing balance	55	1,885,344	268	323

Number of shares for the 2015 deferred shared awards has been calculated using estimated year end share prices as the award price in accordance with the Share plan policy of the Bank will be determined after 22 March 2016.

2014

BD 000's	Cash	Shares Number	Shares BD 000's	Total
Opening balance	-	-	-	-
Awarded during the period	13	604,751	90	103
Paid out / Released during the period	-	-	-	-
Service, performance and risk adjustments	-	-	-	-
Corporate action adjustments	-	-	-	-
Closing balance	13	604,751	90	103

CORPORATE SOCIAL RESPONSIBILITY REVIEW

As a socially responsible corporate citizen, BisB is committed to contributing to the economic development and social well-being of the Kingdom of Bahrain and this is reflected in our broad corporate social responsibility (CSR) programme. Some of the key activities of the Bank's CSR programme during 2015 are listed below:

Industry Sponsorships

By sponsoring and participating in major financial industry conferences and events, and supporting other initiatives, BisB actively contributes to the development of the global Islamic banking industry and the banking sector in the Kingdom of Bahrain:

- 2015 AAOIFI-World Bank Annual Conference on Islamic Banking & Finance.
- 2015 World Islamic Banking Conference (WIBC).

Developing Local Talent

BisB is a passionate supporter of local talent. In addition to providing employment and career opportunities to Bahraini nationals, who comprise 97% of the Bank's total workforce, BisB encourages entrepreneurship and the development of the kingdom's future tomorrow's business leaders by supporting the following initiatives:

- BIBF Waqf Fund for Islamic Banking Training and Development.
- Enterprise Finance Scheme for SMEs in collaboration with Tamkeen.
- Ministry of Education training initiatives.
- Summer Internship programme for Bahraini university students.
- Students' trips to underdeveloped countries.
- Youth conferences, workshops and camping activities

Enhancing the Awareness of Islam

As a leading Sharia'a-compliant financial institution, BisB is committed to raising awareness of Islam and Islamic Banking and as such during 2015 the Bank supported the following national institutions.

- Rekaaz Bahrain 2015.
- Ministry of Justice & Islamic Affairs Zakat Fund.
- Quran Education Centres.
- Muslim Education Society.
- Discover Islam.

Adding Value to the Community

Through donations and other charitable activities, BisB contributes to improving the well-being and quality of life of the local community through:

- Support for a wide range of charitable, medical, educational, cultural, sporting and community organisations and events, including the Royal Charity Organisation.
- Financial assistance to needy families, individuals and deserving causes.



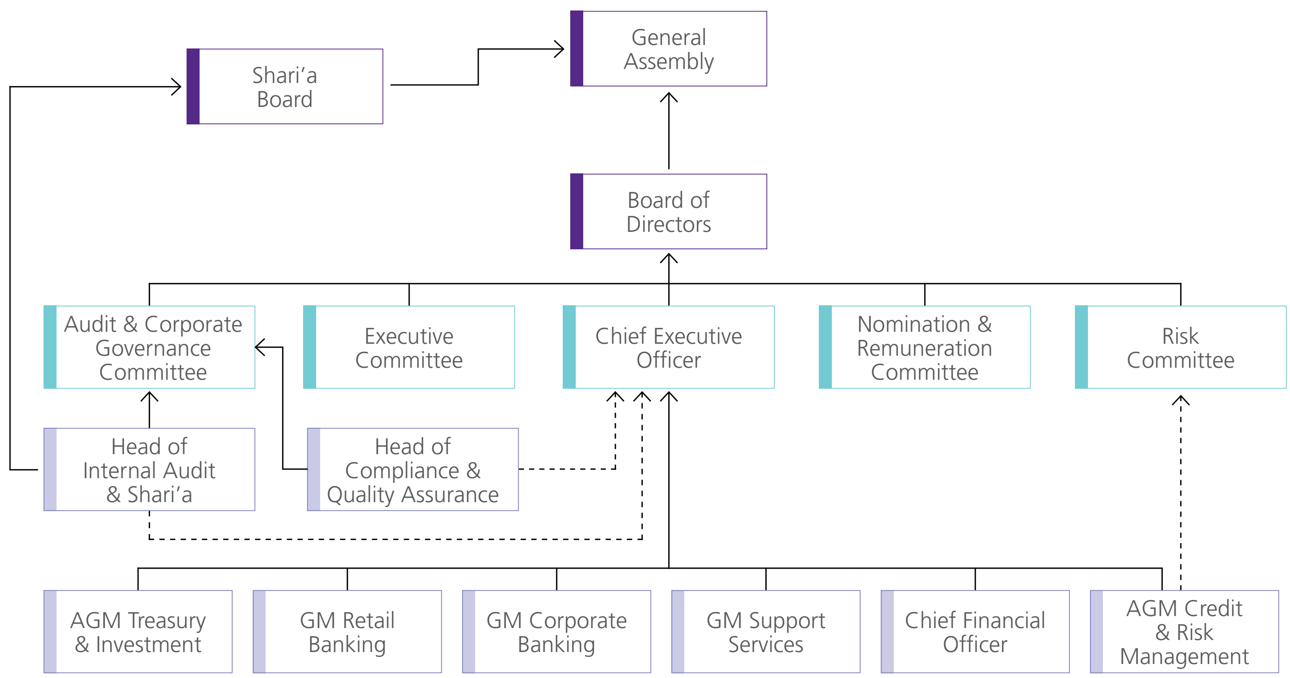


CORPORATE GOVERNANCE REVIEW

As a code of conduct and value driven organization, BisB is committed to uphold the highest standards of corporate governance, and the Central Bank of Bahrain's High- Levels Control Module (and its amendments). The Bank seeks to balance entrepreneurship, compliance and industry best practice, while creating value for all stakeholders. This includes, but is not limited to, conducting the policy and affairs of BisB in compliance with regulatory requirements. It also involves having the right checks and balances in place throughout the organization to ensure that the right things are always done in the right way. Aligned with the Bank's aim to achieve higher standards of compliance, 2015 witnessed a substantial strengthening of the Compliance Division. In addition to the appointment of an external consultant to review Bank policies and procedures, intensive face-to-face Anti Money Laundering (AML) sessions were held for more than 150 employees above and beyond the AML courses available on the new e-learning platform.

The Bank remains unwavering in its commitment to good corporate governance and will consistently and transparently communicate with its regulators, shareholders and stakeholders.

Governance and Organisation Structure



Developments in 2015

- Mr. Hassan Amin Jarrar was appointed as Chief Executive Officer.
- Mr. Mohammed Ahmed Janahi was promoted from General Manager Support to Deputy Chief Executive Officer, a newly created role.
- Mr. Fahim Ahmed Shafiqi was appointed as the bank's Chief Risk Officer, heading the Credit & Risk Management Department.
- Mr. Dawood Khalil Al Ashhab was appointed Assistant General Manager of Human Resources & General Services.
- Mrs. Maisaa Jawdat Al Shannar was appointed Senior Manager - Strategic Planning & Transformation.
- Restructuring of the Bank's management to be a world class management team, in addition to enhancing the current team to achieve this level.
- Appointment of an external consultant to review all compliance related policies and procedures.
- Appointed world class trainers to deliver intensive face to face Anti Money Laundering and Compliance clinics in addition to AML courses on the new e-learning platform.
- Continued implementation of the Bank's new five-year strategy developed in collaboration with the Boston Consulting Group.
- Establishment of a Management Committee (MANCO).
- Establishment of a Credit and Operational Risk Committee (CORC).
- Establishment of a Customer Experience Council.
- Complied with requirements of Security measures relating to ATM's issued by the Central Bank of Bahrain (CBB).
- Complied with Credit Check Reports Requested by Pensioners issued by the CBB.

Developments in 2015 (continued)

- Implemented Amendment of Rule in Module CA issued by the CBB.
- Adopted an Electronic Establishment of Registration Certificate issued by the Ministry of Industry, Commerce & Tourism.
- Complied with ATM precautionary measures During Formula 1 Period issued by the CBB.
- Complied with 'Women in the Financial and Banking Sector 2015 issued by the CBB.
- Submitted the Quarterly Capital Adequacy Form in compliance with regulator rules.
- Participated in the CBB workshop on Stress Testing & Capital Planning.
- Incorporated requirements of The Foreign Account Tax Compliance Act (FATCA) within BisB's customer application form in addition to the Bank's systems. The Policy was approved by the Board in January 2015, and a copy of the training guide is available for reference on the staff intranet.
- Responded to the following CBB Consultation Papers:
  - Revised Form PIRI
  - Basel III Consultation (Leverage Chapter)
  - Proposed Amendments on Module HC for Volume 2 (All Islamic Bank Licensees)
  - Proposed Amendments on the Operational Risk Management Module (OM) for Banks
  - Proposed Amendments on the Credit Risk Management Module (CM) for Banks

Shareholders Ownership (5% and above)

Shareholder	Nationality	Number of Shares	Percentage
National Bank of Bahrain	Bahrain	283,155,923	29.06%
Social Insurance Organization (Military, GOSI & Civil)	Bahrain	283,158,585	29.06%
Islamic Development Bank	Saudi Arabia	140,497,329	14.42%
Kuwait Awqaf Public Foundation	Kuwait	69,932,530	7.18%

Distribution of Ownership of Shares by Nationality

Country	Percentage	Number of Shares
Kingdom of Bahrain	73.03%	711,631,454
Kingdom of Saudi Arabia	15.16%	147,672,696
Kuwait	8.67%	84,463,888
United Arab Emirates	2.94%	28,609,168
Qatar	0.13%	1,292,741
Jordan	0.04%	434,553
Others	0.03%	308,125
Total	**100.000%**	**974,412,625**

Distribution of Ownership shares of Directors and Shari'a Members (As of 31st December 2015)

Directors	Shares as of 31st Dec 2015
Abdul Razak Abdulla Al Qassim	84,658
Khalid Mohamed Al Mannai	No Shares Transferred As of December 2015
Mohammed Ahmed Abdulla	No Shares Transferred As of December 2015
Fatima Abdulla Budhaish	84,658
Talal Ali Al Zain	No Shares Transferred As of December 2015
Khalil Ebrahim Nooruddin	No Shares Transferred As of December 2015
Ebrahim Husain AlJassmi	184,658
Othman Ebrahim Al Askar	84,658
Muhammad Zarrug Rajab	129,070

Shari'a Members	
Shaikh Dr. Abdul Latif Mahmood Al Mahmood	157,035
Shaikh Dr. Nedham Mohamed Saleh Yacoubi	12,123
Shaikh Mohammed Jaffar Al Juffairi	No Shares Transferred as of December 2015
Shaikh Adnan Abdulla Al Qattan	No Shares Transferred as of December 2015
Shaikh Dr. Essam Khalaf Al Enizi	No Shares Transferred as of December 2015

Board of Directors

Role and Responsibilities of the Board

The primary responsibility of the Board of Directors is to provide effective governance over the Bank's affairs for the benefit of the shareholders; and to balance the interests of BisB's diverse constituencies, including associated concerns, employees and other stakeholders. 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 best interests of the Bank.

The Board approves and oversees the implementation of the Bank's strategies; and reviews and approves the Bank's strategic plan. As part of its strategic review process, the Board reviews major plans of action and business plans; sets performance objectives; and oversees major investments, divestitures and acquisitions. Every year, at an annual Board strategy session, the Board formally reassesses the Bank's objectives, strategies and plans. The Board's responsibilities are described in more detail in the Corporate Governance Report published on the Bank's website, and in the Charter of the Board of Directors.

Board Composition

The Board of Directors of BisB comprises nine Executive and Non- Executive Directors, of which four are Independent Directors. Each term of the Board of Directors consists of three years. The last re-election of the Bank's Board of Directors was held at the Bank's Annual General Meeting (AGM) on 7 July 2013. Profiles of Board Members are listed on page 9 of this annual report.

1. Mr. Abdul Razaq Abdulla Al Qassim - Chairman
2. Brig. Khalid Mohammed Al Mannai - Vice Chairman
3. Mr. Talal Ali Al Zain - Member
4. Mr. Khalil Ebrahim Nooruddin - Member
5. Mr. Ebrahim Husain Ebrahim AlJassmi - Member
6. Mr. Othman Ibrahim Al Askar - Member
7. Mr. Mohammed Ahmed Abdulla - Member
8. Mrs. Fatima Abdulla Budhaish - Member
9. Mr. Mohamed Hedi Mejai – Member (Replaced by Muhammad Zarrug Rajab on: 30-12-2015)

Induction of new directors

The Board-approved Corporate Governance Policy requires each new Director to receive a formal and tailored induction from the Chairman and Senior Management, with respect to BisB's vision and strategic direction; core values including ethics; corporate governance practices; and financial matters and business operations.

Board Committees

The Board constitutes four Committees - Executive Committee, Audit and Corporate Governance Committee, Remuneration & Nomination Committee, and Risk Management Committee. Each of these committees has its own Charter that describes the responsibilities of its members.

Board Committee Membership and Objectives

Board Committee	Members	Objectives
Executive Committee	Brig. Khalid Mohammed Al Mannai (Chairman) Mr. Khalil Ebrahim Nooruddin Mr. Talal Ali Al Zain	Review of strategy and performance. Review of new investment proposals, credit proposals and exit strategies. The committee meets at least six times per year.
Audit and Corporate Governance Committee	Mr. Ebrahim Hussain AlJassmi (Chairman) Mr. Othman Ebrahim Al Askar Mr. Mohammed Hedi Mejai	Oversight of integrity and reporting of the Bank's quarterly and annual financial statements. Review of risk, provision and impairment. Compliance with legal and regulatory requirements. Review the Corporate Governance status of the bank. The committee meets at least four times per year.
Nomination and Remuneration Committee	Mr. Abdul Razaq Abdulla Al Qassim (Chairman) Brig. Khalid Mohammed Al Mannai Mr. Mohammed Ahmed Abdulla	Oversight of the compensation and remuneration policy. Oversight of recruitment and promotion of key personnel and Board members The committee meets at least two times per year.
Risk Management Committee	Mrs. Fatima Abdulla Budhaish (Chairman) Mr. Mohammed Ahmed Abdulla	Monitoring the enterprise-wide risk profile independently. Risk guidance to the Board and Management periodically. The committee meets at least four times per year.

Evaluation of the Board and its Committees

The Nomination and Remuneration Committee carried out an evaluation of the Board and its Committees through the distribution of questionnaires to each Board Member, followed by an assessment of the Committees and Members. The Committee expressed its satisfaction with the positive results.

Directors' Remuneration

The aggregate Board sitting fees, including travel expenses, totaled BD 148,000 in 2015.

Directors' Attendance

The Board of Directors met seven times during 2015, details of which are given in the following table. This exceeds the minimum requirement of having at least four meetings in any given year, as stipulated by the Central Bank of Bahrain. The regulatory requirement that individual Board Members must attend at least 75% of all Board meetings in a given financial year to enable the Board to discharge its responsibilities effectively, was met by all Directors during 2015, except for one Board Member representing IDB and was replace by another on 30th December 2015. The table also shows attendance of Directors at Board Committee meetings.

Board Meetings & Attendance in 2015:

Members	14 Jan	11 Feb	23 Mar	12 May	29 Jul	2 Aug	28 Oct
Mr. Abdul Razak Abdulla Al Qassim (Joined on: 05 June 2013)	✓	✓	✓	✓	✓	✓	✓
Brig. Khalid Mohammed Al Mannai (Joined on: 11 June 2013)	×	✓	✓	✓	✓	✓	✓
Mrs. Fatima Abdulla Budhaish (Joined on: 05 June 2013)	✓	✓	✓	✓	✓	✓	✓
Mr. Mohammed Ahmed Abdulla (Joined on: 11 June 2013)	✓	✓	✓	✓	✓	✓	✓
Mr. Talal Ali Al Zain (Joined on: 07 July 2013)	✓	✓	✓	✓	×	✓	✓
Mr. Khalil Ebrahim Nooruddin (Joined on: 07 July 2013)	✓	✓	✓	✓	✓	✓	✓
Mr. Ebrahim Hussain AlJassmi (Joined on: 07 July 2013)	✓	✓	✓	✓	✓	✓	✓
Mr. Othman Ebrahim Al Askar (Joined on: 07 July 2013)	✓	✓	✓	✓	✓	✓	✓
Mr. Mohamed Hedi Mejai (Joined on: 26 Jan 2015) (Replaced by Muhammad Zarrug Rajab on: 30 Dec 2015)	–	✓	✓	×	×	×	✓

Executive Committee Meetings & Attendance:

Members	21 Jan	3 Feb	12 Mar	15 Apr	3 Jun	9 Jun	14 Jul	5 Aug	9 Sep	29 Nov	14 Dec
Brig. Khalid Mohammed Al Mannai	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Khalil Ebrahim Nooruddin	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Talal Ali Al Zain	✓	✓	✓	✓	×	×	✓	✓	×	✓	✓

Audit & Corporate Governance Committee Meetings & Attendance

Members	13 Jan	2 Feb	10 Feb	16 Apr	26 Apr	11 May	28 Jul	27 Oct
Mr. Ebrahim Hussain AlJassmi	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Othman Ebrahim Al Askar	✓	✓	✓	✓	✓	✓	✓	✓
Mr. Mohammed Hedi Mejai	–	–	–	×	✓	×	✓	✓

Risk Management Committee Meetings & Attendance:

Members	27 Jan	22 Mar	5 Apr	8 Apr	24 Jun	13 Jun	7 Oct
Mrs. Fatima Abdulla Budhaish	✓	✓	✓	✓	✓	✓	✓
Mr. Mohammed Ahmed Abdulla	✓	✓	✓	✓	✓	✓	✓

Nomination and Remuneration Committee Meetings & Attendance:

Members	1 Mar	10 Mar	10 Aug	12 Nov
Mr. Abdul Razak Abdulla Al Qassim	✓	✓	✓	✓
Brig. Khalid Mohammed Al Mannai	✓	✓	✓	✓
Mr. Mohammed Ahmed Abdulla	✓	✓	✓	✓

Performance-Linked Management Incentive Structure

BisB implements a Performance Management Scheme, which is linked to incentives and competencies on an annual basis, for management and staff. The Bank pays monthly salaries, allowances and bonuses for the Chief Executive, General Managers, Senior Managers and Managers.

Senior Management Remuneration

The aggregate Senior Management remuneration, including basic salaries and fixed allowances was BD 1 million for 2015.

Management Committees

A number of Management Committees have been established to assist the CEO and Management Team in carrying out their duties, and to ensure that there is adequate supervision on the Bank's activities. A number of new committees were established while others were ended during 2015.

Management Committees - Membership & Objectives

Committee	Members	Objectives
Asset & Liability Committee (ALCO)	Mr. Hassan Ameen Jarrar (Chairman*) Mohammed Ahmed Janahi A. Rahman Turki FahimShafiqi** Khalid Al Doseri Nader AlBastaki * Previous Chairman was Mohammed Ahmed Janahi until 1st July 2015. ** Mohammed Belgami was a previous member until 31st October 2015.	The main objective of ALCO is to manage and monitor the liquidity risk of the Bank on a coordinated and consistent basis.
Credit & Investment Committee (C&IC)	Mr. Mohammed Ahmed Hasan Janahi (Chairman*) Mohammed Ahmed Janahi FahimShafiqi** A. Rahman Turki Nader Al Bastaki * Previous Chairman was Mohammed Ahmed Janahi until 1st July 2015. ** Mohammed Belgami was a previous member until 31st October 2015.	The main objectives of C&IC is to exercise due care, diligence and skill to oversee, direct and review the management of credit risk within the financing portfolio of the Bank and reviewing policies and strategies for achieving investment objectives.
Qard Al Hassan, Donation & Zakah Committee	Mr. Mohammed Ahmed Janahi (Chairman*) Mr. Hamad Farooq Al Shaikh Mr. Khalid Waheeb Al Nasser Mr. Ali Hassan Duaij	The main objective of Qard Al Hassan and Zakah Committee is to discharge the Group's social responsibilities toward its society through distributing zakah, charity funds, donations & good faith Qard for marriage, medical treatments, etc.
Provisioning Committee	Mr. Hassan Amin Jarrar (Chairman*) Mohammed Ahmed Janahi FahimShafiqi** Khalid Al Doseri Khalid Mahmood (observer) * Previous Chairman was Mohammed Ahmed Janahi until 1st July 2015. ** Mohammed Belgami was a previous member until 31st October 2015.	The main objective of Provisioning Committee is to assist the CEO in reviewing the bank's provisions. In addition, the Committee would be responsible in formulating provision policies with a view to maintain the strategic risk level objectives of the bank.

Succession Planning

Succession planning in the bank is driven by our Business strategy and future focused. The primary objective of the plan is to develop our people to meet future demands of the bank. The output is better internally resourcing and highly capable people filling our key positions, our process ensure that we meet our regulatory commitments.

Compliance

In accordance with CBB guidelines, the Bank has a designated Head of Compliance, who is independent and reports directly to the Chief Executive Officer and Board of Directors; and has direct access to Senior Management and all confidential information of the Bank. The Compliance function acts as the central coordinator for all regulatory matters relating to the CBB, Bahrain Bourse, and other regulatory bodies. BisB has in place comprehensive policies and procedures to ensure full compliance with the relevant rules and regulations of the Central Bank of Bahrain, including appropriate anti- money laundering policies.

Anti-Money Laundering

BisB has a designated Money Laundering Reporting Officer (MLRO). The Bank has implemented an anti-money laundering and terrorism financing policy, and annually trains its staff on the identification and reporting of suspicious activities and transactions. BisB follows prudent practices related to 'Customer Due Diligence', 'Beneficial Ownership' and 'Know Your Customer' principles. In accordance with CBB requirements, the MLRO regularly reviews the effectiveness of the Bank's AML/CFT procedures, systems and controls.

Customer Complaints

The Complaints Resolution Unit of the Quality Assurance Department is responsible for managing customer complaints. After receiving

a complaint, the Unit routes it to the concerned department for their response. After analyzing the response, the customer is contacted accordingly. BisB customers may use the Bank's website or the call centre for lodging a complaint. All complaints are logged, monitored and reported to the CBB.

Code of Conduct

BisB conducts itself in accordance with the highest standards of ethical behavior. A Code of Business Conduct has been developed to govern the personal and professional conduct of all stakeholders The Code applies to directors, management, staff and temporary workers; and independent contractors and consultants, whether engaged by or otherwise representing the Bank and its interests.

Disclosure and Communications

BisB conducts all communications with its stakeholders in a professional, honest, transparent, understandable, accurate and timely manner. Main communications channels include an annual report, corporate brochure and website, and regular announcements in the appropriate local media. As part of its disclosure and communication strategy, the Bank's website (www.bisb.com) is the repository of financial information, together with Board of Directors' reports and financial commentary, financial statements, relevant information on BisB such as its key products and services, and press releases.

Note: Additional information is included in the BisB Corporate Governance report 2015, which is posted on the Bank's website: www.bisb.com.

THE SHARIA BOARD HAS REVIEWED THE FINANCIAL STATEMENTS FOR THE YEAR ENDED ON 31ST DECEMBER 2015, THE INCOME STATEMENT, THE ATTACHED NOTES AND THE ZAKAT CALCULATION METHODS

SHARIA'A SUPERVISORY BOARD REPORT
For the year ended 31st December 2015

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

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

Assalam Alaykum Wa Rahmatu Allah Wa Barakatoh.

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

- The Sharia'a Supervisory Board monitored the operations, related to the Bank throughout the year ended on 31st December 2015 to express opinion on the Bank's adherence to the provisions and principles of Islamic Sharia'a in its activities by following the fatwas, decisions and the specific guidelines issued from our side.
- The Sharia'a Supervisory Board believes that ensuring the conformity of Bank's activities and investments with the provisions of Islamic Sharia'a is the sole responsibility of the Management while the Sharia'a Supervisory Board is only responsible for expressing an independent opinion and preparing a report to you.
- We planned with the Sharia'a Internal Audit department to carry out monitoring functions by obtaining all the information and clarifications that were deemed necessary to confirm that the Bank did not violate the principles and provisions of Islamic Sharia'a and Fatwas and decisions of the Sharia'a Board.
- Our supervision constituted of inspection, documenting of policies followed by the Bank on the basis of examining each kind of operation either directly or indirectly by the internal Sharia'a Department in conformity with the methodology approved by the Sharia'a Board.
- The Sharia'a Internal Audit department performed its mission of auditing the transactions executed by the Bank and submitted its periodic reports to the Sharia'a Supervisory Board, which confirmed the Bank's adherence in its dealings and investments with the Sharia'a Board's fatwas and decisions.
- The 27 reports submitted by Internal Sharia Audit Department to the Sharia'a Supervisory Board included results of auditing the files, contracts, executed deals in fulfillment to the Sharia'a Board annual approved audit plan. The Sharia'a Board obtained the requested information and explanations from the departments it deemed necessary to confirm that the Bank did not violate the Sharia principles and Fatwas and decisions of the Sharia'a Board.
- The Sharia Board and its Committees held (11) meetings during the year and issued (95) decisions and fatwas, and approved (34) contracts.
- The Sharia Board has reviewed the financial Statements for the year ended on 31st December 2015, the income statement, the attached notes and the Zakat calculation methods. The Sharia'a Supervisory Board believes that

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

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

Wassalam Alaykum Wa Rahmatu Allah Wa Barakatoh.

Shaikh Dr. Abdul Latif Mahmood Al Mahmood
Chairman

Shaikh Mohammed Jaffer Al Juffairi
Vice Chairman

Shaikh Adnan Abdulla Al Qattan
Board Member

Shaikh Nedham Mohamed Saleh Yacoubi
Board Member

Rev. Shaikh Dr. Essam Khalaf Al Onazi
Board Member

Financial Statements 2015

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Independent Auditors' Report

to the Shareholders of Bahrain Islamic Bank B.S.C.

Report on the consolidated financial statements

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

Respective responsibilities of board of directors and auditors

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

Basis of opinion

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

Opinion

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

Report on other regulatory requirements

As required by the Bahrain Commercial Companies Law and Volume 2 of the Central Bank of Bahrain Rule Book, we report that:

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

KPMG

KPMG Fakhro
Partner Registration No. 100
21 February 2016

Consolidated Statement of Financial Position

As at 31 December 2015

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

Abdulrazaq Al Qassim
Chairman

Khalid Al Mannai
Vice Chairman

Hassan Jarrar
Chief Executive Officer

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

Consolidated Statement of Income

For the year ended 31 December 2015

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

Abdulrazaq Al Qassim
Chairman

Khalid Al Mannai
Vice Chairman

Hassan Jarrar
Chief Executive Officer

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

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

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

Consolidated Statement of Changes in Owners' Equity

For the year ended 31 December 2015

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

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

Consolidated Statement of Sources and Uses of Good Faith Qard Fund

For the year ended 31 December 2015

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

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

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

Consolidated Statement of Sources and Uses of Zakah and Charity Fund

For the year ended 31 December 2015

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

1. INCORPORATION AND ACTIVITIES

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

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

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

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

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

Abaad Real Estate Company B.S.C. (c) ("Abaad")

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting polices applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied by the Group and are consistent with those used in the previous year.

a. New standards, amendments, and interpretations

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

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

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

(a) agreement with the entity's other shareholders or the entity itself;

(b) rights arising from other contractual arrangements;

(c) the IFI's voting rights (de facto power);

(d) potential voting rights; or

(e) a combination thereof.

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

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

New standards, amendments and interpretations issued but not yet effective
The following new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2016 and are expected to be relevant to the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

FAS 27 – Investments Accounts

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

Early adoption

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

b. Statement of Compliance

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

c. Basis of preparation

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

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Management believes that the underlying assumptions are appropriate and the Group's consolidated financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 2 dd.

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December each year.

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

d. Basis of consolidation

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

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

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

e. Cash and cash equivalents

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

f. Placements with financial institutions

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

g. Financing assets

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

h. Murabaha financing

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

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

i. Musharaka financing

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

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

j. Investment securities

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

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

Debt type instruments carried at amortised cost

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

Equity type instruments carried at fair value through equity

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

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

Equity type instruments carried at fair value through statement of income

These are measured at fair value with changes in fair value recognised in the consolidated statement of income.

k. Fair value

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

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

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

l. Investment in associates

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

l. Investment in associates (Continued)

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

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

m. Ijarah Muntahia Bittamleek

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

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

n. Investment in real estate

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

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

o. Property and equipment

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

The calculation of depreciation is on the following basis:

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

p. Equity of investment accountholders

Equity of investment account holders are funds held by the Bank in unrestricted investment accounts, which it can invest at its own discretion. The investment account holder authorises the Bank to invest the account holders' funds in a manner which the Bank deems appropriate without laying down anyrestrictions as to where, how and for what purpose the funds should be invested. The Bank charges management fee (Mudarib fees) to investment account holders. Of the total income from investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions, reserves (Profit equalisation reserve and Investment risk reserve) and deducting the Bank's share of income as a Mudarib. The allocation of income is determined by the management of the Bank within the allowed profit sharing limits as per the terms and conditions of the investment accounts. Administrative expenses incurred in connection with the management of the funds are borne directly by the Bank and are not charged separately to investment accounts.

Investment accounts are carried at their book values and include amounts retained towards profit equalisation and investment risk reserves, if any.

q. Investment risk reserve

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

r. Profit equalisation reserve

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

s. Zakah

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

t. Provisions

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

u. Dividends

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

v. Derecognition of financial assets and liabilities

Financial assets

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

- the right to receive cash flows from the asset have expired;

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset; or

- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement.

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

Financial liabilities

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

w. Treasury shares

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

x. Earnings prohibited by Shari'a

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

y. Joint and self financed

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

z. Offsetting

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

aa. Revenue recognition

Murabaha

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

Musharaka

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

Sukuk

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

Placements with financial institutions

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

Ijarah Muntahia Bittamleek

Income from Ijarah Muntahia Bittamleek is recognised on a time-apportioned basis over the lease term. The Ijarah Muntahia Bittamleek income is net of depreciation. Income related to non-performing (90 days overdue) Ijarah Muntahia Bittamleek is excluded from the consolidated statement of income.

Dividends income

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

Income from Ijarah assets

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

Fee and commission income

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

Group's share as a Mudarib

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

Income allocation

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

bb. Foreign currencies

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

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

cc. Impairment of financial assets

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

cc. Impairment of financial assets (Continued)

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

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

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

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

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

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

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

Going concern

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

Impairment

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

Collective impairment provision

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

Fair valuation of investments

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

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

Classification of investments

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

Fair value of investment in real estate

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

ee. Trade date accounting

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

ff. Customers' current accounts

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

gg. Employees' benefits

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

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

hh. Financial guarantees

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

ii. Repossessed assets

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

jj. Statutory reserve

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

3. CASH AND BALANCES WITH BANKS AND CENTRAL BANK

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

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

4. PLACEMENTS WITH FINANCIAL INSTITUTIONS

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

5. FINANCING ASSETS

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

5.1 Murabaha

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

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

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

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

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

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

5.2 Musharaka

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

6. INVESTMENT SECURITIES

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

7. INVESTMENT IN ASSOCIATES

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

Investments in associates comprise:

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

8. IJARAH MUNTAHIA BITTAMLEEK

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

Non-performing Ijarah Muntahia Bittamleek as of 31 December 2015 is BD 29,754 thousand (2014: BD 24,702 thousand).
Ijarah rental receivable comprises of both rental on Ijarah assets and depreciation charge on Ijarah Muntahia Bittamleek assets which is fully receivable from the customers.

9. PROPERTY AND EQUIPMENT

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

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9. PROPERTY AND EQUIPMENT (Continued)

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

10. INVESTMENT IN REAL ESTATE

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

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

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

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

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11. OTHER ASSETS

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

12. OTHER LIABILITIES

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

13. EQUITY OF INVESTMENT ACCOUNTHOLDERS

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

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

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

13.1 Profit Distribution by Type of Account

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

13. EQUITY OF INVESTMENT ACCOUNTHOLDERS (Continued)

13.2 Equity of investment accountholders balances

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

13.3 Equity of Investment Accountholders Reserves

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

13.4 Return on equity of investment accountholders

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

14. OWNERS' EQUITY

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

Rights issue

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

Capital reduction

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

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14. OWNERS' EQUITY (Continued)

Shares under employee share incentive scheme

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

(ii) Treasury Shares

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

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

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

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

(iii) Reserves

Statutory reserve

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

General reserve

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

Real estate fair value reserve

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

Investment fair value reserve

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

(iv) Additional information on shareholding pattern

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

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

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14. OWNERS' EQUITY (Continued)

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

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

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

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

Categories:

	2015		2014	
	No. of shares	**No. of directors**	No. of shares	No. of directors
Less than 1%	**567,702**	**5**	400,000	4

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

	2015		2014	
	No. of shares	**Percentage of Shareholding**	No. of shares	Percentage of Shareholding
Directors	**567,702**	**0.058%**	400,000	0.043%
Shari'a supervisory members	**169,158**	**0.017%**	199,812	0.021%
Senior management	**603,537**	**0.062%**	-	-
	1,340,397	**0.137%**	599,812	0.064%

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15. COMMITMENTS AND CONTINGENT LIABILITIES

Credit related commitments

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

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

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

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

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

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

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

16. CAPITAL ADEQUACY

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

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

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

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

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16. CAPITAL ADEQUACY (Continued)

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

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

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

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

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

17. INCOME FROM FINANCING

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

18. INCOME FROM INVESTMENT SECURITIES

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

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19. INCOME FROM INVESTMENT IN REAL ESTATE

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

20. OTHER EXPENSES

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

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

21. IMPAIRMENT PROVISIONS

21.1 Impairment provisions on financing assets

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

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21. IMPAIRMENT PROVISIONS (Continued)

The above impairment provision relates to the following:

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

21.2 Impairment provisions on investments

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

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

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

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

22. ZAKAH

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

23. EARNINGS PER SHARE

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

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

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

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24. RELATED PARTY TRANSACTIONS

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

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

2015	**Shareholders BD'000**	**Associates and joint ventures BD'000**	**Directors and related entities BD'000**	**Senior management BD'000**	**Total BD'000**
Assets					
Financing assets	**-**	**-**	**2,074**	**17**	**2,091**
Investment in associates		**28,116**	**-**	**-**	**28,116**
Other assets	**-**	**-**	**-**	**201**	**201**
Liabilities and Equity of investment accountholders					
Placements from financial institutions	**37,700**	**-**	**-**	**-**	**37,700**
Customers' current accounts	**-**	**968**	**520**	**247**	**1,735**
Other liabilities	**-**	**1,844**	**-**	**-**	**1,844**
Equity of investment accountholders	**41,567**	**275**	**1,255**	**917**	**44,014**
Income					
Income from financing	**-**	**4**	**151**	**1**	**156**
Share of results of associates	**-**	**(711)**	**-**	**-**	**(711)**
Return on equity of investment accountholders	**(472)**	**(1)**	**(1)**	**(27)**	**(501)**
Expense on placements from financial institutions	**(248)**	**-**	**-**	**-**	**(248)**
Expenses					
Other expenses	**-**	**-**	**(705)**	**(1,009)**	**(1,714)**

2014	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	Total BD'000
Assets					
Placements with financial institutions	-	4,734	-	-	4,734
Financing assets	-	-	2,339	-	2,339
Investment in associates	-	30,835	-	-	30,835
Other assets	-	-	64	194	258
Liabilities and Equity of investment accountholders					
Customers' current accounts	-	1,277	594	49	1,920
Other liabilities	-	1,928	-	-	1,928
Equity of investment accountholders	45,639	425	457	591	47,112
Income					
Income from financing	-	112	243	-	355
Share of results of associates	-	(1,550)	-	-	(1,550)
Return on equity of investment accountholders	(990)	(7)	(6)	(21)	(1,024)
Expenses					
Other expenses	-	-	(328)	(825)	(1,153)

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24. RELATED PARTY TRANSACTIONS (Continued)

Compensation of the key management personnel is as follows:
Key management personnel includes staff at the grade of assistant general manager or above.

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

25. RISK MANAGEMENT

Introduction

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

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

Risk management objectives

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

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

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

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

Structure and Organization of the Risk Management Function

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

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

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

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

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

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25. RISK MANAGEMENT (Continued)

Risk Measurement and Reporting Systems

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

a) Credit Risk

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

Credit Risk Mitigation

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

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

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

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

a. Collateral security, fully covering the exposure; or

b. Joint and several guarantees of shareholders directly involved in managing the entity as well as of shareholders owing at least 80% of the shares of the entity.

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

(i) Gross maximum exposure to credit risk

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

25. RISK MANAGEMENT (Continued)

a. Credit Risk (Continued)

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

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

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

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

(iii) Credit quality per class of financial assets

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

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

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For the year ended 31 December 2015

25. RISK MANAGEMENT (Continued)

a. Credit Risk (Continued)

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

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

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

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

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

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

b) Liquidity Risk

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

Maturity profile of Group's assets and liabilities

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

25. RISK MANAGEMENT (Continued)

b) Liquidity Risk (Continued)

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

2015	Up to 1 month BD '000	1 to 3 months BD '000	3 to 6 months BD '000	6 months to 1 year BD '000	1 to 3 years BD '000	Over 3 years BD '000	No fixed maturity BD '000	Total BD '000
ASSETS								
Cash and balances with the banks and Central Bank	27,049	-	-	-	-	-	34,065	61,114
Placements with financial institutions	73,150	-	-	-	-	-	-	73,150
Financing assets	25,049	3,532	13,614	27,451	78,663	327,339	-	475,648
Ijarah Muntahia Bittamleek	5,653	-	-	41	9,646	102,721	-	118,061
Investment securities	5,143	16,472	7,793	500	22,524	78,203	-	130,635
Investment in associates	-	-	-	-	-	-	28,116	28,116
Investment in real estate	-	-	-	-	-	-	43,601	43,601
Ijarah rental receivables	406	96	6	-	1,934	13,250	-	15,692
Property and equipment	-	-	-	-	-	-	16,640	16,640
Other assets	4,342	1,324	-	-	2,780	-	5,245	13,691
Total assets	140,792	21,424	21,413	27,992	115,547	521,513	127,667	976,348
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS ACCOUNTHOLDERS								
Placements from financial institutions	63,288	30,228	-	-	-	-	-	93,516
Customers' current accounts	141,244	-	-	-	-	-	-	141,244
Other liabilities	16,616	-	-	-	-	-	-	16,616
Equity of investment accountholders	78,104	119,532	84,330	324,352	5,652	-	3,490	615,460
Total liabilities and equity of investment accountholders	299,252	149,760	84,330	324,352	5,652	-	3,490	866,836
Liquidity gap	(158,460)	(128,336)	(62,917)	(296,360)	109,895	521,513	124,177	109,512
Cumulative liquidity gap	(158,460)	(286,796)	(349,713)	(646,073)	(536,178)	(14,665)	109,512	-

2014	Up to 1 month BD '000	1 to 3 months BD '000	3 to 6 months BD '000	6 months to 1 year BD '000	1 to 3 years BD '000	Over 3 years BD '000	No fixed maturity BD '000	Total BD '000
ASSETS								
Cash and balances with the banks and Central Bank	21,063	-	-	-	-	-	31,055	52,118
Placements with financial institutions	64,865	3,702	-	-	-	-	-	68,567
Financing assets	31,750	26,797	6,968	23,715	60,521	258,270	-	408,021
Ijarah Muntahia Bittamleek	14,573	13	2	7,569	11,451	68,669	-	102,277
Investments securities	24,760	6,933	9,129	-	8,266	53,096	21,377	123,561
Investment in associates	-	-	-	-	-	-	30,835	30,835
Investment in real estate	-	-	-	-	-	-	53,934	53,934
Ijarah rental receivables	-	-	-	14,065	-	-	-	14,065
Property and equipment	-	-	-	-	-	-	17,101	17,101
Other assets	-	-	4,728	-	-	-	-	4,728
Total assets	157,011	37,445	20,827	45,349	80,238	380,035	154,302	875,207
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS ACCOUNTHOLDERS								
Placements from financial institutions	75,185	385	-	-	-	-	-	75,570
Customers' current accounts	137,423	-	-	-	-	-	-	137,423
Other liabilities	16,518	-	-	-	-	-	-	16,518
Equity investment accountholders	127,278	78,299	80,252	271,858	5,931	-	2,983	566,601
Total liabilities and equity of investment accountholders	356,404	78,684	80,252	271,858	5,931	-	2,983	796,112
Liquidity gap	(199,393)	(41,239)	(59,425)	(226,509)	74,307	380,035	151,319	79,095
Cumulative liquidity gap	(199,393)	(240,632)	(300,057)	(526,566)	(452,259)	(72,224)	79,095	-

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

25. RISK MANAGEMENT (Continued)

c) Market Risk

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

(i) Profit rate risk

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

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

(ii) Equity price risk

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

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

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

2015	**Increase in equity price %**	**Sensitivity of profit or loss BD'000**	**Sensitivity of equity BD'000**
Kuwait Stock Exchange	**+10**		**102**
2014	Increase in equity price %	Sensitivity of profit or loss BD'000	Sensitivity of equity BD'000
Kuwait Stock Exchange	+10	-	139

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

iii) Currency risk

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

equity.

25. RISK MANAGEMENT (Continued)

d) Operational Risk

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

26. DEPOSIT PROTECTION SCHEME

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

27. SEGMENTAL INFORMATION

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

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

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

Segment information is disclosed as follows:

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

28. FINANCIAL INSTRUMENTS

Fair value hierarchy

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

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

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

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

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

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

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

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

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

Transfers between Level 1, Level 2 and Level 3

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

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

29. EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

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

30. SHARI'A SUPERVISORY BOARD

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

31. SOCIAL RESPONSIBILITY

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

32. COMPARATIVE FIGURES

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

Basel III, Pillar III Disclosures

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Basel III, Pillar III Disclosures

For the year ended 31 December 2015

1. Background

The Public Disclosures under this section have been prepared in accordance with the Central Bank of Bahrain ("CBB") requirements outlined in its Public Disclosure Module ("PD"), Section PD-1: Annual Disclosure requirements, CBB Rule Book, Volume II for Islamic Banks. Rules concerning the disclosures under this section are applicable to Bahrain Islamic Bank B.S.C. (the "Bank") being a locally incorporated Bank with a retail banking license, and its subsidiaries together known as (the "Group").

The Board of Directors seeks to optimise the Group's performance by enabling the various Group business units to realise the Group's business strategy and meet agreed business performance targets by operating within the agreed capital and risk parameters and the Group risk policy framework.

2. Capital Adequacy

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

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

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

The Group's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of financing facilities growth expectations for each business group, expected growth in off-balance sheet facilities, and future sources and uses of funds. To assess its capital adequacy requirements in accordance with CBB requirements, the Group adopts the Standardised Approach for its Credit Risk, Basic Indicator Approach for its Operational Risk and Standardised Measurement Approach for its Market Risk. All assets funded by profit sharing investment accounts are subject to Board approval.

All transfer of funds or regulatory capital within the Group is carried out after proper approval process.

For the purposes of guidance every table was cross referenced with the relevant paragraph number of the Central Bank of Bahrain's Public Disclosures Module.

Basel III, Pillar III Disclosures

For the year ended 31 December 2015

2. Capital Adequacy (Continued)

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

The following table summarises the eligible capital as of 31 December 2015 after deductions for Capital Adequacy Ratio (CAR) calculation:

	CET 1 BD'000	T2 BD'000
Components of capital		
Issued and fully paid ordinary shares	97,441	-
General reserves	-	-
Legal / statutory reserves	-	-
Share premium	2,794	-
Accumulated losses brought forward	(8,195)	-
Current year profits	11,205	-
Unrealized gains and losses from fair valuing equities	768	-
Less:		
Employee stock incentive program funded by the bank (outstanding)	879	-
Treasury Shares	563	-
Total Common Equity Tier 1 capital after the regulatory adjustments above (CET1 d)	102,571	-
Assets revaluation reserve - property, plant, and equipment		7,088
General financing loss provisions		7,338
Total Available AT1 & T2 Capital		14,426
Total Capital		116,997

	Amount of exposures BD'000
Total Credit Risk Weighted Assets	587,023
Total Market Risk Weighted Assets	15,589
Total Operational Risk Weighted Assets	57,153
TOTAL REGULATORY RISK WEIGHTED ASSETS	659,765
CAPITAL ADEQUACY RATIO	17.73
Minimum requirement	12.5%

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

The following table summarises the amount of exposures as of 31 December 2015 (gross of deductions) subject to standardised approach of credit risk and related capital requirements by type of Islamic financing contracts:

	Risk Weighted Assets BD'000	Capital requirements BD'000
Type of Islamic Financing Contracts		
Placements with financial institutions	11,622	1,395
Financing assets*	199,247	23,910
Investments	288,562	34,627
Ijarah muntahia bittamleek*	49,105	5,893
Ijarah rental receivables	8,398	1,008
	556,933	66,831
Other credit exposures	30,090	3,611
	587,023	70,442

*The risk weighted assets have been allocated on a pro-rata basis due to system limitation.

Basel III, Pillar III Disclosures

For the year ended 31 December 2015

2. Capital Adequacy (Continued)

Table – 3. Capital requirements for market risk (PD-1.3.18)

The following table summarises the amount of exposures as of 31 December 2015 subject to standardised approach of market risk and related capital requirements:

Market Risk - Standardised Approach	
Foreign exchange risk (BD'000)	
	1,247
Total of Market Risk - Standardised Approach	**1,247**
Multiplier	**12.5**
RWE for CAR Calculation (BD'000)	**15,589**
Total Market Risk Exposures (BD'000)	**15,589**
Total Market Risk Exposures - Capital Requirement (BD'000)	**1,871**

Table – 4. Capital requirements for operational risk (PD-1.3.30 (a & b) and PD-1.3.19)

The following table summarises the amount of exposures as of 31 December 2015 subject to basic indicator approach of operational risk and related capital requirements:

Indicators of operational risk	
Average Gross income (BD'000)	**30,482**
Multiplier	**12.5**
	381,021
Eligible Portion for the purpose of the calculation	**15%**
Total Operational Risk Exposure (BD'000)	**57,153**
Total Operational Risk Exposures - Capital Requirement (BD'000)	**6,858**

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

The following are Capital Adequacy Ratios as of 31 December 2015 for total capital and Tier 1 capital:

	Total capital ratio	Tier 1 capital ratio
Top consolidated level	**17.73%**	**15.55%**

3. Risk Management

3.1 Bank-wide Risk Management Objectives

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

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

In addition to satisfying the minimum regulatory capital requirements of CBB, the Group seeks to constantly identify and quantify, to the extent possible, the various risks that are inherent in the normal course of its business and maintain appropriate internal capital levels as per the ICAAP framework. The main objective of the Group's ICAAP is to ensure that adequate capital is retained at all times to support the risks the Group undertakes in the course of its business.

The Group has an established internal capital adequacy assessment process (ICAAP) as per the requirements under Pillar III of Basel III. ICAAP prescribed measures are designed to ensure appropriate identification, measurement, aggregation and monitoring of the Group's risk. It also defines an appropriate level of internal capital in relation to the Group's overall risk profile and business plan.

Basel III, Pillar III Disclosures

For the year ended 31 December 2015

3. Risk Management (Continued)

3.2 Strategies, Processes, and Internal Controls

3.2.1 Group's risk strategy
Capital Management policies and Risk Charter define the Group's risk strategy. Comprehensive Risk Management Policy Framework is approved by the Board. These are also supported by appropriate limit structures. These policies provide an enterprise-wide integrated risk management framework in the Group.

The risk charter identifies risk objectives, policies, strategies, and risk governance both at the Board and management level. The capital management policy is aimed at ensuring financial stability by allocating enough capital to cover unexpected losses.

Limit structures serve as key components in articulating risk strategy in quantifiable risk appetite. They are further supported by a comprehensive framework for various risk silos with its own policies and methodology documents. In addition, the Group is in the process of implementing various risk systems to help quantify not just the regulatory capital but also the economic capital allocated to various portfolios.

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

3.2.2 Credit risk
The Group manages its credit risk exposure by evaluating each new product/activity with respect to the credit risk introduced by it. The Group has established a limit structure to avoid concentration of risks for counterparty, sector, and geography.

3.2.3 Market risk
The Group proactively measures and monitors the market risk in its portfolio using appropriate measurement techniques such as limits on its foreign exchange open positions although they are insignificant. The Group regularly carries out stress testing to assess the impact of adverse market conditions on its market risk sensitive portfolio.

The Group has established a limit structure to monitor and control the market risk in its equity type instruments portfolio. These limits include maximum Stop-loss limits, position limits, VaR limits and maturity limits.

3.2.4 Operational risk
The Group has implemented SunGuard's Operational Risk Management system 'SWORD' for recording the potential risks, controls, and events on a continuous basis. As part of implementation, the Group has carried out Risk Control Self Assessment ("RCSA") exercise on a regular basis. The system also measures the Operational risk appetite based on the predefined limits/thresholds.

The Group has established a clear segregation of duties, through documentation and implementation of policies and procedures. This ensures objectivity, security, and avoids conflicts of interest. Maker checker concept and dual eye principles are applied across the Group, where possible.

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

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

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

Basel III, Pillar III Disclosures

For the year ended 31 December 2015

3. Risk Management (Continued)

3.2 Strategies, Processes, and Internal Controls (Continued)

3.2.7 Displaced Commercial Risk

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 competitors rates.

The Group manages its displaced commercial risk by placing gap limits between the returns paid to investors and market returns.

The Group manages its displaced commercial risk as outlined in the Risk Charter of the Group. The Group may forego its fee in case displaced commercial risk arises. The Group benchmarks its rates with other leading banks in the market.

All the above strategies used have been effective throughout the reporting year.

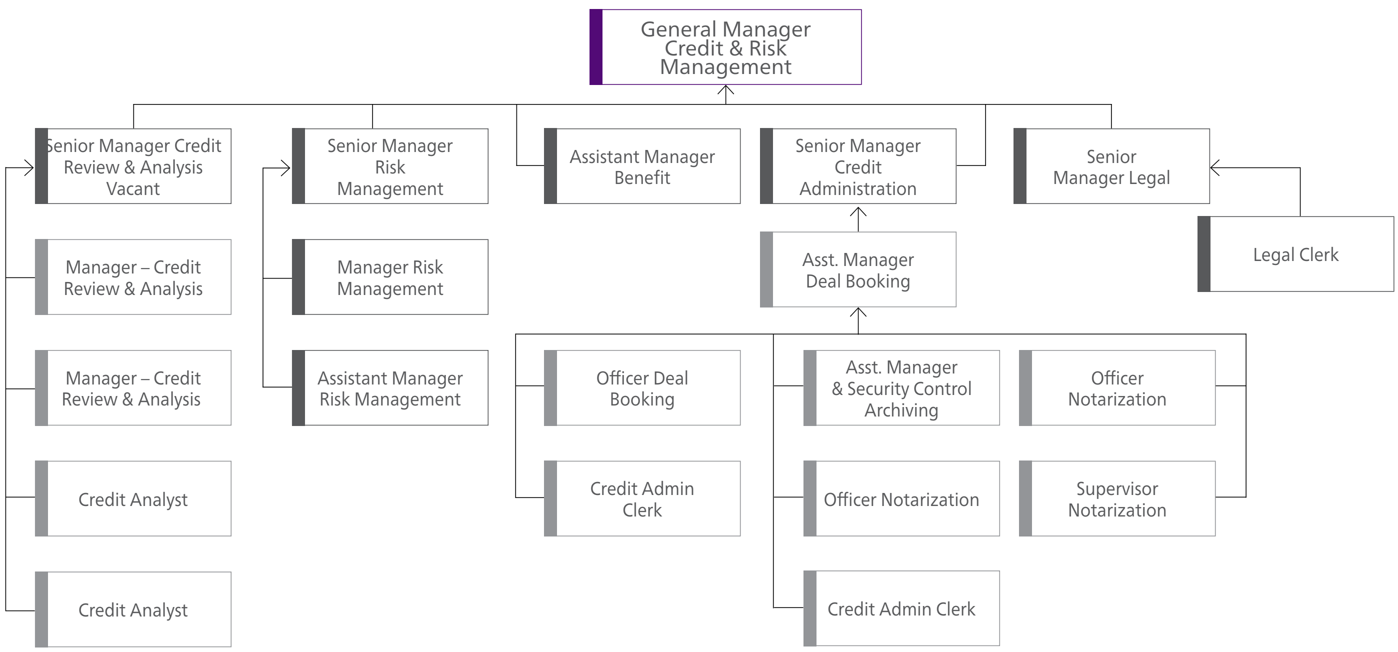
3.3 Structure and Organisation of Risk Management Function

Risk Management Structure includes all levels of authorities (including Board level Risk committee), organisational structure, people, and systems required for the smooth functioning of risk management processes in the Group. The responsibilities associated with each level of risk management structure and authorities include the following:

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

a. Establishing overall policies and procedures, and

b. Delegating authority to Executive Committee, Credit Committee, the Chief Executive Officer and further delegation to management to approve and review.



3.4 Risk Measurement and Reporting Systems

Based on risk appetite of the Group, the Group has put in place various limits. These limits have been approved by the Board of Directors. Any limit breaches are reported to the respective senior management committees and the Board by the Credit and Risk Management Department ("CRMD"). The limits are reviewed and revised at least on an annual basis or when is deemed required.

The Group has developed a risk measurement and reporting system that generates various types of reports which has enhanced the monitoring process of the Group.

Basel III, Pillar III Disclosures

For the year ended 31 December 2015

3. Risk Management (Continued)

3.5 Credit Risk

3.5.1 Introduction

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. It arises principally from lending and investment activities. The Group controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by collateral in the form of mortgage financed or other tangible securities.

The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept in terms of counterparties, product types, geographical area, and industry sector. The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision by the Credit Review and Analysis Department ("CRMAD"). Any changes to the Credit Risk Policy will be approved by the Board.

All credit proposals undergo a comprehensive risk assessment examining the customer's financial condition, trading performance, nature of the business, quality of management, and market position, etc. In addition, the Group's internal risk rating model scores these quantitative and qualitative factors. The credit approval decision is then made and terms and conditions are set.

Exposure limits are based on the aggregate exposure to counterparty and any connected entities across the Group. Corporate contracts/ facilities are reviewed on an annual basis by CRMAD.

3.5.2 Types of credit risk

Financing contracts mainly comprise of due from banks and financial institutions, Murabaha receivables, Musharaka investments, and Ijarah muntahia bittamleek.

Due from banks and financial institutions
Due from banks and financial institutions comprise commodity murabaha receivables and wakala receivables.

Murabaha receivables
The Group finances these transactions through buying the commodity which represents the object of the Murabaha contract and then reselling this commodity to the Murabeh (beneficiary) at a profit. The sale price (cost plus profit margin) is repaid in installments by the Murabeh over the agreed period. The transactions are secured at times by the object of the Murabaha contract (in case of real estate finance) and other times by a total collateral package securing the facilities given to the Murabeh.

Musharaka investments
Musharaka is a form of partnership between the Group and its clients whereby each party contributes to the capital of partnership in equal or varying degrees to establish a new project or share in an existing one, whereby each of the parties becomes an owner of the capital on a permanent or declining basis. Profits are shared in an agreed ratio, but losses are shared in proportion to the amount of capital contributed.

Ijarah Muntahia Bittamleek
The legal title of the assets under Ijarah muntahia bittamleek only passes to the lessee at the end of the Ijarah term, through gift, consideration, or gradual sale, provided that all Ijarah instalments are settled.

3.5.3 Past Due and impaired Islamic financing

The Group defines non-performing facilities as the facilities that are overdue for a period of 90 days or more. These exposures are placed on a non-accrual status with income being recognised 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 non performing, not only the overdue instalments/payments.

As a policy, the Group places on a non-accrual basis 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.

3.5.4 External credit assessment institutions

The Group relies on external ratings for rated corporate customers and counterparties. The Group uses Standard & Poor's, Fitch, Moody's and Capital Intelligence to provide ratings for such counterparties. In case of unrated counterparties, the Group will assess the credit risk on the basis of defined parameters. These ratings are used for risk assessment and calculation of risk weighted equivalents.

Basel III, Pillar III Disclosures

For the year ended 31 December 2015

3. Risk Management (Continued)

3.5 Credit Risk (Continued)

3.5.5 Definition of Geographical distribution

The geographic distribution of the credit exposures is monitored on an ongoing basis by Group's Risk Management Department and reported to the Board on a quarterly basis. The Group's classification of geographical area is according to its business needs and the distribution of its portfolios.

3.5.6 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 prior 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.

3.5.7 Credit risk mitigation

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

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

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

The market value of tangible collateral security are properly evaluated by the Group approved valuers (for properties) or based on publicly available quotations. Only the Loan-able value of such security is taken into account while considering credit facilities.

From time to time, the Credit and Investment Committee reviews and approves the loan-able value of securities. It has also approved a list of acceptable securities.

The majority of the Group's current credit portfolio is secured through mortgage of commercial real estate properties. The Group may dispose off the assets as a last resort after carrying out due legal process.

3.5.7.1 General policy guidelines of collateral management

Acceptable Collaterals: The Group has developed guidelines for acceptable collaterals. Assets offered by customers must meet the following criteria to qualify as acceptable collateral:

a. Assets must be maintaining their value, at the level prevalent at inception, until maturity date of the facility granted;

b. Such assets should be easily convertible into cash, if required (liquidity);

c. There should be a reasonable market for the assets (marketability); and

d. The Group should be able to enforce its rights over the asset if necessary (enforceability).

Ownership: Prior to valuation or further follow up on the offered collateral, Credit Administration ensures satisfactory evidence of the borrower's ownership of the assets.

Basel III, Pillar III Disclosures

For the year ended 31 December 2015

3. Risk Management (Continued)

3.5 Credit Risk (Continued)

Valuation: All assets offered as collateral are valued by an appropriate source either in-house (through another department in the Group) or by an external appraiser (real estate related collateral). The Group maintains a list of independent appraisers, approved by management.

a. **Valuation of shares and goods:** Where competent staff is available within the Group, the valuation is conducted in-house. The Group performs in-house valuation on the following types of securities:

- Pledge of shares of local companies;
- Pledge of international marketable shares and securities; and
- Pledge and hypothecation of goods.

Quoted shares are valued at the quotes available from stock exchanges, periodicals, etc.

b. **Valuation of real estate and others:** Besides assets mentioned above the valuation of following securities are also conducted:

- Real Estate;
- Equipment and machinery; and
- Precious metals and jewels.

The Credit Administration requests the concerned department to arrange for the valuation from approved valuators.

The following additional guidelines are also followed by the Group:

a. No facility should be disbursed until credit documentation is properly signed and security/guarantees required have been signed and registered, where required. Exceptional cases can be considered by sanctioning authorities; and

b. All documents received as security or support for credit facilities will be lodged in the safe custody through the Credit Administration and should be kept under dual control. Group must ascertain that collateral providers are authorised and acting within their capacity.

3.5.7.2 Guarantees

In cases where a letter of guarantee from parent company or a third party is accepted as credit risk mitigants, the Group ensures that all guarantees are irrevocable, legal opinion has been obtained from a legal counsellor domiciled in the country of guarantor (overseas) regarding the enforceability of the guarantee, if the guarantor / prime obligor is domiciled outside Bahrain and all guarantees should be valid until full settlement of the facilities. Also no maturity (negative) mismatch is permissible between the guarantee and exposure.

3.5.7.3 Custody / collateral management

The assets, or title to the asset, will be maintained in the Group's custody or with custodian approved by the Group. The Credit Administration will obtain confirmation of the assets held with each custodian on an annual basis.

The release of collateral without full repayment of all related financial obligations requires authorisation of the same level that originally approved and sanctioned the facility. Substitution of collateral is permitted if the new collateral would further minimise the Group's risk exposure.

When collateral is released to the customer, the Head of Credit Administration obtains and maintains in his records acknowledgement of receipt from the customer or his/her authorised representative.

3.5.8 Counterparty credit risk

The Group has adopted the Standardised Approach to allocate capital for counterparty credit risk. The Group has put in place an internal counterparty limit structure which is based on internal / external ratings for different types of counterparties. The Group has also set concentration limits as a percentage of its capital based on internal and external grades. In case of a counterparty rating downgrade / deterioration, the Group may require further collateral or advise the counterparty to reduce its exposure on a case by case basis.

Basel III, Pillar III Disclosures

For the year ended 31 December 2015

3. Risk Management (Continued)

3.5 Credit Risk (Continued)

3.5.8.1 Exposure

The measure of exposure reflects the maximum loss that the Group may suffer in case counterparty fails to fulfil its commitments. Exposure shall always be calculated on the basis of approved limits or actual outstanding exposure (Financing facilities, Investments or others), whichever is higher.

3.5.8.2 Counterparty

A counterparty is defined as an obligor (individual/company/other legal entity), a guarantor of an obligor, or a person receiving funds from the Group, 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.

3.5.8.3 Group exposure

Group exposure is defined as the total exposure to all counterparties closely related or connected to each other. For this purpose, a Group is two or more counterparties related in such a way that financial soundness of one may affect the financial soundness of the other(s) and one of them has a direct or indirect control over the other(s).

3.5.8.4 Connected counterparties

Connected counterparties are companies or individuals connected with the Group 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 Group.

3.5.8.5 Large exposure

Large exposure is any exposure whether direct, indirect, or funded by equity of investment accountholders to a counterparty or a group of closely related counterparties which is greater than or equal to 10% of the Group's capital base.

Prior written approval from the CBB is required in the following cases:

a. If any counterparty (single/group) exposure exceeds 15% of Group's Capital Base; and

b. If any facility (new/extended) to an employee is equal or above BD100,000 (or equivalent).

3.5.8.6 Maximum exposure

The Group has set an internal maximum exposure limit in the light of CBB guidelines.

3.5.8.7 Reporting

The Group reports large counterparty exposures (as defined above) to CBB on a periodic basis. The Group reports the exposures on a gross basis without any set-off. However, debit balances on accounts may be offset against credit balances where both are related to the same counterparty, provided the Group has a legally enforceable right to do so.

3.5.8.8 Other matters

As a Group's strategy, exposure to connected counterparties may be undertaken only when negotiated and agreed on an arm's length basis.

The Group shall not assume any exposure to its external auditors.

3.5.9 Related party transactions

The disclosure relating to related party transactions has been made in the consolidated financial statements as of 31 December 2015. All related party transactions have been made on arm's length basis.

Basel III, Pillar III Disclosures

For the year ended 31 December 2015

3. Risk Management (Continued)

3.5 Credit Risk (Continued)

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

The following table summarises the amount of gross funded and unfunded credit exposure as of 31 December 2015 and average gross funded and unfunded exposures over the year ended 31 December 2015 allocated to own capital and current account and profit sharing investment account (PSIA):

	Own capital and current account		Profit Sharing Investment Account	
	Total gross credit exposure BD'000	*Average gross credit exposure over the year BD'000	Total gross credit exposure BD'000	*Average gross credit exposure over the year BD'000
Funded				
Cash and balances with banks and central Bank	27,049	27,925	34,065	32,090
Placements with financial institutions	24,789	16,023	48,361	31,259
Financing assets	161,188	150,345	314,460	293,307
Investments securities	67,255	69,473	63,380	63,921
Ijarah muntahia bittamleek	40,008	37,696	78,053	73,541
Ijarah rental receivables	5,317	4,812	10,375	9,388
Investment in associates	28,116	29,912	-	-
Investment in real estate	43,601	46,592	-	-
Property and equipment	16,640	16,991	-	-
Other assets	13,691	6,902	-	-
Unfunded			-	-
Commitments and contingent liabilities	45,127	28,284	-	-
Total	472,781	434,955	548,694	503,506

*Average balances are computed based on month end balances.

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

The following table summarises the geographic distribution of exposures as of 31 December 2015, broken down into significant areas by major types of credit exposure:

	Own capital and current account Geographic area*					Profit Sharing Investment Account Geographic area*				
	North America BD'000	Europe BD'000	Middle East BD'000	Rest of Asia BD'000	Total BD'000	* North America BD'000	Europe BD'000	Middle East BD'000	Rest of Asia BD'000	Total BD'000
Cash and balances with banks and central Bank	5,241	78	21,730	-	27,049	-	-	34,065	-	34,065
Placements with financial institutions	-	-	24,789	-	24,789	-	-	48,361	-	48,361
Financing assets	-	-	161,188	-	161,188	-	-	314,460	-	314,460
Investments securities	-	1,292	65,963	-	67,255	-	2,522	60,858	-	63,380
Ijarah muntahia bittamleek	-	-	40,008	-	40,008	-	-	78,053	-	78,053
Ijarah rental receivables	-	-	5,317	-	5,317	-	-	10,375	-	10,375
Investment in associates	-	-	28,116	-	28,116	-	-	-	-	-
Investment real estate	-	-	43,601	-	43,601	-	-	-	-	-
Property and equipment	-	-	16,640	-	16,640	-	-	-	-	-
Other assets	-	-	13,691	-	13,691	-	-	-	-	-
Total	5,241	1,370	421,043	-	427,654	-	2,522	546,172	-	548,694

* Geographical distribution of exposure into significant areas by major type of credit exposure is based on counterparty's country of incorporation.

Basel III, Pillar III Disclosures

For the year ended 31 December 2015

3. Risk Management (Continued)

3.5 Credit Risk (Continued)

Table – 8. Credit Risk – Industry Sector Breakdown (own capital and current account) (PD-1.3.23(c))

The following table summarises the distribution of funded and unfunded exposures as of 31 December 2015 by industry, broken down into major types of credit exposure:

	Own Capital and Current Account Industry Sector							
	Trading and Manufacturing BD'000	Banks and Financial Institutions BD'000	Real Estate BD'000	Aviation BD'000	Personal & Consumer Finance BD'000	Governmental Organisation BD'000	Others BD'000	Total BD'000
Funded								
Cash and balances with banks and central Bank	-	22,113	-	-	-	4,936	-	27,049
Placements with Financial institutions	-	24,789	-	-	-	-	-	24,789
Financing assets	19,077	1,535	31,420	175	87,566	3,256	18,159	161,188
Investments securities	-	11,196	30,599	-	-	20,654	4,806	67,255
Ijarah muntahia bittamleek	1,158	84	13,196	-	23,051	2,519	-	40,008
Ijarah rental receivables	281	10	3,068	-	1,835	93	30	5,317
Investment in associates	-	8,109	7,479	-	-	-	12,528	28,116
Investment in real estate	-	-	43,601	-	-	-	-	43,601
Property and equipment	-	-	-	-	-	-	16,640	16,640
Other assets	-	2,001	5,245	-	1,337	-	5,108	13,691
Unfunded								
Commitments and contingent liabilities	13,267	646	579	701	1,403	-	28,531	45,127
Total	33,783	70,483	135,187	876	115,192	31,458	85,802	472,781

Table – 9. Credit Risk – Industry Sector Breakdown (profit sharing investment account) (PD-1.3.23(c))

The following table summarises the distribution of funded and unfunded exposures as of 31 December 2015 by industry, broken down into major types of credit exposure:

	Profit Sharing Investment Account Industry Sector							
	Trading and Manufacturing BD'000	Banks and Financial Institutions BD'000	Real Estate BD'000	Aviation BD'000	Personal & Consumer Finance BD'000	Governmental Organisation BD'000	Others BD'000	Total BD'000
Funded								
Cash and balances with banksand central Bank	-	-	-	-	-	34,065	-	34,065
Placements with Financial institutions	-	48,361	-	-	-	-	-	48,361
Financing assets	37,217	2,995	61,296	343	170,840	6,352	35,417	314,460
Investments securities	-	5,556	8,876	-	-	40,293	8,655	63,380
Ijarah muntahia bittamleek	2,259	164	25,744	-	44,971	4,915	-	78,053
Ijarah rental receivables	549	20	5,985	-	3,581	182	58	10,375
Investment in associates	-	-	-	-	-	-	-	-
Investment in real estate	-	-	-	-	-	-	-	-
Property and equipment	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-
Total	40,025	57,096	101,901	343	219,392	85,807	44,130	548,694

Basel III, Pillar III Disclosures

For the year ended 31 December 2015

3. Risk Management (Continued)

3.5 Credit Risk (Continued)

Table – 10. Credit Risk – Financing Facilities to Highly Leveraged or Other High Risk Counterparties (PD-1.3.23(e))

The following balances represent the financing facilities to highly leveraged or other high risk counterparties as of 31 December 2015:

	Own Capital and Current Account BD'000	Profit Sharing Investment Account BD'000	Total BD'000
Counterparties			
Counterparty # 1	156	309	465
	156	309	465

Table – 11. Credit Risk – Concentration of Risk (PD-1.3.23(f))

The following balances represent the concentration of risk to individual counterparties as of 31 December 2015:

	Own capital and current account BD'000	Profit Sharing Investment Account BD'000	Total BD'000
Counterparties			
Counterparty # 1	12,529	-	12,529
	12,529	-	12,529

Table – 12. Credit Risk – Residual Contractual Maturity Breakdown (Own Capital and Current Account) (PD-1.3.23(g) PD-1.3.38)

The following table summarises the residual contractual maturity of own capital and current account breakdown of the whole credit portfolio as of 31 December 2015, broken down by major types of credit exposure:

	Own capital and current account										
	Up to One month BD'000	1-3 months BD'000	3-6 months BD'000	6-12 months BD'000	1-3 years BD'000	3-5 years BD'000	5-10 years BD'000	10-20 years BD'000	Over 20 years* BD'000	No fixed maturity BD'000	Total BD'000
Assets											
Cash and balances with banks and central Bank	27,049	-	-	-	-	-	-	-	-	-	27,049
Placements with financial institutions	24,789	-	-	-	-	-	-	-	-	-	24,789
Financing assets	8,488	1,197	4,613	9,304	26,657	34,809	60,175	9,765	6,180	-	161,188
Investments securities	1,741	5,582	2,641	169	7,633	3,016	44,889	-	1,584	-	67,255
Ijarah muntahia bittamleek	1,916	-	-	14	3,269	1,605	6,246	12,219	14,739	-	40,008
Ijarah rental receivables	138	32	2	-	654	732	1,008	1,869	882	-	5,317
Investment in associates	-	-	-	-	-	-	-	-	-	28,116	28,116
Investment real estate	-	-	-	-	-	-	-	-	-	43,601	43,601
Property and equipment	-	-	-	-	-	-	-	-	-	16,640	16,640
Other assets	4,342	1,324	-	-	2,780	-	-	-	-	5,245	13,691
Total Assets	68,463	8,135	7,256	9,487	40,993	40,162	112,318	23,853	23,385	93,602	427,654

* All non performing facilities have been classified as over 20 years.

Basel III, Pillar III Disclosures

For the year ended 31 December 2015

3. Risk Management (Continued)

3.5 Credit Risk (Continued)

Table – 13. Credit Risk – Residual Contractual Maturity Breakdown (Profit Sharing Investment Account) (PD-1.3.23(g) PD-1.3.38)

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

	Profit Sharing Investment Account										
	Up to One month BD'000	1-3 months BD'000	3-6 months BD'000	6-12 months BD'000	1-3 years BD'000	3-5 years BD'000	5-10 years BD'000	10-20 years BD'000	Over 20 years* BD'000	No fixed maturity BD'000	Total BD'000
Assets											
Cash and balances with banks and central Bank	-	-	-	-	-	-	-	-	-	34,065	34,065
Placements with financial institutions	48,361	-	-	-	-	-	-	-	-	-	48,361
Financing assets	16,561	2,335	9,000	18,148	52,006	67,909	117,395	19,051	12,055	-	314,460
Investments securities	3,401	10,890	5,153	330	14,891	5,883	19,745	-	3,087	-	63,380
Ijarah muntahia bittamleek	3,738	-	-	27	6,378	3,133	12,184	23,839	28,754	-	78,053
Ijarah rental receivables	268	64	4	-	1,278	1,427	1,966	3,646	1,722	-	10,375
Total Assets	**72,329**	**13,289**	**14,157**	**18,505**	**74,553**	**78,352**	**151,290**	**46,536**	**45,618**	**34,065**	**548,694**

* All non performing facilities have been classified as over 20 years.

Table – 14. Credit Risk – Impaired Exposures, Past Due Exposures and Allowances (Own capital and current account by industry sector) (PD-1.3.23(h) PD-1.3.24(b) PD-1.3.24(d))

The following table summarises the impaired facilities, past due facilities, and allowances financed by own capital and current account disclosed by major industry sector as of 31 December 2015:

	Own capital and current account											
		Aging of non-performing or past due or impaired Islamic financing contracts				Specific allowances				* General allowances		
	Non-performing or past due or impaired Islamic financing contracts BD'000	Less than 3 months** BD'000	3 months to 1 year BD'000	1 to 3 years BD'000	Over 3 years BD'000	Balance at the beginning of the year BD'000	Charges during the year BD'000	Charge-offs during the year BD'000	Balance at the end of year BD'000	General allowances beginning balance BD'000	General allowances movement BD'000	General allowances ending balance BD'000
Trading and Manufacturing	3,273	2,976	107	161	29	1,343	749	1,913	179	-	-	-
Real Estate	24,517	4,335	4,009	1,918	14,255	9,148	1,258	835	9,571	-	-	-
Banks and Financial Institutions	-	-	-	-	-	-	-	-	-	-	-	-
Personal / Consumer Finance	11,034	8,460	1,106	879	589	191	73	145	119	-	-	-
Others	3,851	672	3,061	46	72	19	286	297	8	-	-	-
No specific sector	-	-	-	-	-	-	-	-	-	3,666	172	3,838
Total	42,675	16,443	8,283	3,004	14,945	10,701	2,366	3,190	9,877	3,666	172	3,838

* General allowance represents collective impairment provision against exposures which, although not specifically identified, have a greater risk of default than when originally granted.

** This includes amounts not due and amounts past due less than 90 days relating to non-performing or past due or impaired Islamic financing contracts.

The Group's collective retail model uses the net flow rate method, where probability of default is calculated on an account level segregated by buckets of number of days past due. Loss given default is at annual average recovery rates, which is reviewed annually.

The Group's collective corporate model uses the expected loss method. Data is grouped in economic sectors and probability of default and loss given default is calculated for these sectors.

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Table – 15. Credit Risk – Impaired Exposures, Past Due Exposures and Allowances (profit sharing investment account by industry sector) (PD-1.3.23(h))

The following table summarises the impaired facilities, past due facilities, and allowances financed by profit sharing investment account disclosed by major industry sector as of 31 December 2015:

	Profit Sharing Investment Account											
	Non-performing or past due or impaired Islamic financing contracts	Aging of non-performing or past due or impaired Islamic financing contracts				Specific allowances				* General allowances		
	BD'000	Less than 3 months** BD'000	3 months to 1 year BD'000	1 to 3 years BD'000	Over 3 years BD'000	Balance at the beginning of the year BD'000	Charges during the year BD'000	Charge-offs during the year BD'000	Balance at the end of year BD'000	General allowances beginning balance BD'000	General allowances movement BD'000	General allowances ending balance BD'000
Trading and Manufacturing	6,384	5,805	208	314	57	2,621	1,461	3,731	351	-	-	-
Real Estate	47,830	8,456	7,822	3,743	27,809	17,846	2,454	1,629	18,671	-	-	-
Banks and Financial Institutions	-	-	-	-	-	-	-	-	-	-	-	-
Personal / Consumer Finance	21,525	16,505	2,158	1,714	1,148	373	142	282	233	-	-	-
Others	7,513	1,310	5,972	90	141	37	580	604	13	-	-	-
No specific sector	-	-	-	-	-	-	-	-	-	7,152	336	7,488
Total	83,252	32,076	16,160	5,861	29,155	20,877	4,637	6,246	19,268	7,152	336	7,488

* General allowance represents collective impairment provision against exposures which, although not specifically identified, have a greater risk of default than when originally granted.

** This includes amounts not due and amounts past due less than 90 days relating to non-performing or past due or impaired Islamic financing contracts.

The Group's collective retail model uses the net flow rate method, where probability of default is calculated on an account level segregated by buckets of number of days past due. Loss given default is at annual average recovery rates, which is reviewed annually.

The Group's collective corporate model uses the expected loss method. Data is grouped in economic sectors and probability of default and loss given default is calculated for these sectors.

Although the above table shows the portion of impairment provision related to PSIA, the Group has taken all the provision to their own capital. Hence the PSIA were not charged for any of the impairment provision.

Table – 16. Credit Risk – Impaired Exposures, Past Due Exposures and Allowances (own capital and current account and profit sharing investment account by geographic area) (PD-1.3.23(i) PD-1.3.24(c))

The following table summarises the past due facilities and allowances financed by own capital and current account and profit sharing investment account disclosed by geographical area as of 31 December 2015:

	Own capital and current account			Profit Sharing Investment Account		
	Non-performing or past due or impaired Islamic financing contracts BD'000	Specific Impairment provision BD'000	Collective Impairment provision BD'000	Non-performing or past due or impaired Islamic financing contracts BD'000	Specific Impairment provision BD'000	Collective Impairment provision BD'000
Middle East	42,675	9,877	3,838	83,252	19,268	7,488
Total	42,675	9,877	3,838	83,252	19,268	7,488

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3. Risk Management (Continued)

3.5 Credit Risk (Continued)

Table – 17. Credit Risk – Restructured Financing Facilities (PD-1.3.23(j))

The following table summarises the aggregate amount of restructured financing facilities during the year financed by own capital and current account and profit sharing investment account as of 31 December 2015:

	Own capital and current account Aggregate amount BD'000	Profit Sharing Investment Account Aggregate amount BD'000
Restructured financing facilities	1,464	2,855
Total	1,464	2,855

	Current Balance	Deferred Profit	Provision	PayOff
Total Islamic Financing	766,485	132,305	40,471	593,709
Restructured financing facilities	5,092	773	530	3,789
Percentage	0.66%	0.58%	1.31%	0.64%

The provision on restructured facilities is BD 529 Thousand and the impact on present and future earnings is not significant.

Table – 18. Credit Risk Mitigation (PD-1.3.25 (b) and (c))

The following table summarises the exposure as of 31 December 2015 by type of Islamic financing contract covered by eligible collateral:

	Total exposure covered by Eligible collateral	
	BD'000	Guarantees BD'000
Financing assets	13,068	11,753
Ijarah muntahia bittamleek	49,760	1,113
Total	62,828	12,866

Type of Guarantees	Guarantees BD'000	Risk Weighted BD'000
Tamkeen Guarantee	11,866	6,508
Bank Guarantee	1,000	535
Total	12,866	7,043

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3. Risk Management (Continued)

3.5 Credit Risk (Continued)

Table – 19. Counterparty Credit (PD-1.3.26 (b))

The following table summarises the counterparty credit risk exposure covered by collateral after the application of haircuts as of 31 December 2015:

	BD'000
Gross positive fair value of contracts	
Netting Benefits	128,183
Netted current credit exposure	128,183
Collateral held:	
- Cash	15,042
- Shares	758
- Real Estate	454,799
Total	470,599

A haircut of 30% is applied on the Real Estate collateral.

3.6 Market Risk

3.6.1 Introduction

The Group has accepted the definition of market risk as defined by CBB as "the risk of losses in on- and off-balancesheet positions arising from movements in market prices.

3.6.2 Sources of market risk

For the Group, market risk may arise from movements in profit rates, foreign exchange markets, equity markets, or commodity markets. A single transaction or financial product may be subject to any number of these risks.

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

Foreign exchange risk is the sensitivity of financial products to changes in spot foreign exchange rates. The value of the Group's portfolio which is denominated in a number of currencies may be exposed to these risks when converted back to the Group's base currency.

Equity price risk is the sensitivity of financial products to the changes in equity prices. Equity risk arises from holding open positions in equities or equity based instruments, thereby creating exposure to a change in the market price of the equity. In addition to Group performance expectations, equity prices are also susceptible to general economic data and sector performance expectations.

Commodity risk is defined as inhernt risk in financial product arising from their sensitivity to changes in commodity prices. Since prices in commodity markets are determined by fundamental factors (i.e. supply and demand of the underlying commodity) these markets may be strongly correlated within particular sector and less correlated across sectors.

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3. Risk Management (Continued)

3.6 Market Risk (Continued)

3.6.3 Market risk strategy

The Group's Board is responsible for approving and reviewing (at least annually) the risk strategy and significant amendments to the risk policies. The Group's senior management is responsible for implementing the risk strategy approved by the Board, and continually enhancing the policies and procedures for identifying, measuring, monitoring and controlling risks.

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

1. The Group will manage its market risk exposure by evaluating each new product / activity with respect to the market risk introduced by it;
2. The Group will proactively measure and continually monitor the market risk in its portfolio;
3. The Group will at all time hold sufficient capital in line with the CBB Pillar 1 regulatory capital requirements;
4. The Group will establish a market risk appetite which will be quantified in terms of a market risk limit structure;
5. The Group will establish a limit structure to monitor and control the market risk in its portfolio. These limits will include position limits, maximum/stop loss limits, factor sensitivity limits, VaR limits and maturity limits;
6. The Group will carry out stress testing periodically using the worst case scenarios to assess the effects of changes in the market value due to changing market conditions;
7. The Group will periodically carry out back testing of market risk assessment models in order to evaluate their accuracy and the inherent model risk;
8. The Group will match the amount of floating rate assets with floating rate liabilities; and
9. The Group will clearly identify the foreign currencies in which it wishes to deal in and actively manage its market risk in all foreign currencies in which it has significant exposure.

3.6.4 Market risk measurement methodology

Market risk measurement techniques include the use of a number of techniques for market risk measurement. The risk measurement techniques mentioned in this section are used for measuring market risk in both trading book as well as banking book.

The various techniques which are used by the Group for the measurement, monitoring and control of market risk are as follows:

a. Overnight open positions;

b. Stop loss limits;

c. Factor sensitivity limits;

d. VaR limits; and

e. Profit rate risk gap analysis.

3.6.5 Market risk monitoring and limits structure

The Asset and Liability Committee (ALCO) proposes through the Executive Committee and Board the tolerance for market risk. Based on these tolerances, Risk and Compliance Unit and Treasury have established appropriate risk limits that maintain the Group's exposure within the strategic risk tolerances over a range of possible changes in market prices and rates.

3.6.6 Limits monitoring

The Treasury Department and Risk and Compliance Unit monitor the risk limits for each transaction, ensure that the limits are well within set parameters, and report periodically to top management.

3.6.7 Breach of limits

In case a limit is breached, an approval from the CEO is required to continue with the transaction. An immediate report is provided to the ALCO after every significant limit breach. This breach is also reported to and approved by the Executive Committee (EXCOM). The limits are revised at least bi-annually or when deemed required.

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3. Risk Management (Continued)

3.6 Market Risk (Continued)

3.6.8 Portfolio review process

On a monthly basis, Risk and Compliance Unit reviews the Group's assets and liabilities portfolio to evaluate the overall corporate exposure to market risk. As part of the review, Risk and Compliance Unit also monitors the Group's overall market exposure against the risk tolerance limits set by the Board. Risk and Compliance Unit also reviews the adherence to approved limits to control the market risk. Changes, if any, in market risk limits are communicated to business units after review by the GM-C&RM/CEO and approval by the ALCO or EXCOM, as per the delegated authorities approved by the Board. Balance sheet exposure is being reviewed on a quarterly basis by the Board level Audit and Risk committees.

3.6.9 Reporting

Risk and Compliance Unit generates at regular periodic intervals market risk management reports. These reports aim to provide the Group's senior management with an up-to-date view of its market risk exposure.

3.6.10 Stress testing

Stress tests produce information summarising the Group's exposure to extreme, but possible, circumstances and offer a way of measuring and monitoring the portfolio against extreme price movements of this type. The Group's Risk and Compliance Unit employs four stress categories: profit rates, foreign exchange rates, equity prices, and commodity prices. For each stress category, the worst possible stress shocks that might realistically occur in the market are defined.

3.6.11 Foreign subsidiary

The Group does not have any foreign subsidiary.

Table – 20. Market Risk Capital Requirements (PD-1.3.27 (b))

The following table summarises the capital requirement for foreign exchange risk as of 31 December 2015:

	Foreign exchange risk BD'000
Foreign exchange risk	**15,589**
Foreign exchange risk capital requirement	**1,871**
Maximum value capital requirement	**1,871**
Minimum value capital requirement	**1,247**

3.7 Operational Risk

3.7.1 Introduction

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

3.7.2 Sources of operational risk

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

1. People risk which arises due to staffing inadequacy, unattractive remuneration structure, lack in staff development policies, lack in procedures for appointment, unhealthy professional working relationship, and unethical environment;

2. Processes risk which arises due to inadequate general controls, inadequate application controls, improper business and market practices and procedures, inappropriate/inadequate monitoring and reporting; and

3. Systems (Technology) risk which arise due to integrity of information - lacking in timelines of information, omission and duplication of data; hardware failures due to power surge, obsolescence or low quality.

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3. Risk Management (Continued)

3.7 Operational Risk (Continued)

3.7.3 Operational risk management strategy

As a strategy, the Group will identify the sources of operational risks in coordination with each business unit. The Group carried out Risk Control Self-Assessments ("RCSA"), and plans to do a continuous and on-going exercise to identify the operational risks it is exposed to.

The Group on a continuous basis will:

a. assess the effectiveness of controls associated with identified risks;

b. regularly monitor operational risk profiles and material exposures to losses; and

c. identify stress events and scenarios to which it is vulnerable and assess their potential impact, and the probability of aggregated losses from a single event leading to other risks.

3.7.4 Operational risk monitoring and reporting

The internal monitoring and reporting process ensures a consistent approach for providing pertinent information to senior management 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.

3.7.5 Operational risk mitigation and control

The business units, in consultation with Risk and Compliance Units determine all material operational risks and decide the appropriate procedures to be used to control and/or mitigate the risks.

For those risks that cannot be controlled, the business units in conjunction with Risk and Compliance Unit will decide whether to accept the risks, reduce the level of business activity involved, transfer the risk outside the Group or withdraw from the associated activity completely. Risk and Compliance Unit facilitates the business units in co-developing the mitigation plans.

3.7.6 Business Continuity Plan (BCP)

The Group has also developed a comprehensive business continuity plan detailing the steps to be taken in the event of extreme conditions to resume the Group's operations with minimum delay and disturbance. The plan is in implementation stage. Elements of contingency plans and disaster recovery processes include operating systems, physical space, telecommunications and resources.

3.7 Operational Risk

Table - 21. Operational Risk Exposure (PD-1.3.30 (a), (b) & (c))

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

	Gross income		
	2014	2013	2012
	BD'000	BD'000	BD'000
Total Gross Income	32,290	35,375	23,780
Indicators of operational risk			
Average Gross income (BD'000)			30,482
Multiplier			12.5
			381,021
Eligible Portion for the purpose of the calculation			15%
TOTAL OPERATIONAL RISK WEIGHTED EXPOSURE (BD'000)			57,153

Risk and Compliance Unit ensures that the BCP is kept up to date and tested once a year in a simulated environment to ensure that it can be implemented in emergency situations and that the management and staff understand how it is to be executed. Results of this testing conducted by Risk and Compliance Unit is evaluated by the GM-C&RM and presented to the EXCOM/Board for evaluation.

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3. Risk Management (Continued)

3.8 Equity Position in the Banking Book

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio.

The accounting policies, including valuation methodologies and their related key assumptions, are disclosed in the consolidated financial statements as of 31 December 2015. Equity type instruments carried at fair value through equity and investment properties are kept for capital gain purposes, all other investments including investments in associates are kept for strategic long term holdings.

Table – 22. Equity Position Risk in Banking Book (PD-1.3.31 (b) (c) & (f))

The following table summarises the amount of 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 BD'000	* Average gross exposure BD'000	Publicly traded BD'000	Privately held BD'000	Risk weighted assets BD'000	Capital Requirements BD'000
Sukuk	95,867	93,368	-	95,867	13,759	1,651
Equity investments	20,564	21,344	1,019	19,545	52,256	6,271
Funds	14,204	14,345	-	14,204	55,876	6,705
Total	130,635	129,057	1,019	129,616	121,891	14,627

*Average balances are computed based on month end balances.

Table – 23. Equity Gains or Losses in Banking Book (PD-1.3.31 (d) & (e))

The following table summarises the cumulative realised and unrealised gains or (losses) during the year ended 31 December 2015:

	BD'000
Cumulative realised gain arising from sales or liquidations in the reporting period	(596)
Total unrealised losses recognised in the consolidated statement of financial position but not through consolidated statement of income	-
Unrealised losses included in Tier 1 Capital	768
Unrealised gains included in Tier 2 Capital	7,088

3.9 Equity of Investment Accountholders ("IAH")

The Group may require to decrease or increase loses or profit on certain IAH accounts for the purpose of income smoothing. Thus the Group is exposed to some of the price risk on assets funded by equity of Investment Accountholders ("IAH"). The CBB requires the Group to maintain capital to cover the price risk arising from 30% of assets funded by IAH on a pro-rata basis.

The Group is authorised by the IAH to invest the account holder's funds on the basis of Mudaraba contract in a manner which the Group deems appropriate without laying down any restrictions as to where, how, and for what purpose the funds should be invested. Under this arrangement the Group can commingle the equity of investment accountholders investment funds with its own funds (owner's equity) or with other funds the Group has the right to use (e.g. current accounts or any other funds which the Group does not receive on the basis of Mudaraba contract). The IAH and the Group generally participate in the returns on the invested funds. In such type of contract, the Group is not liable for any losses incurred on the joint pool other than the loss resulting from gross negligence or wilful misconduct on the part of the Group or due to the Group's violation of the terms and conditions as agreed between the Group and the IAH.

The amount received from the customer on account of equity of investment accountholders is not invested completely in the portfolio of selected investments as the Group is required to maintain a cash reserve with CBB. In addition, the Group requires to set aside certain amount to meet operational requirements. The income allocated to the equity of investment accountholders deposits being received is in accordance with the utilisation of such deposits. The utilisation rate is determined by the ALCO with the approval of Shari'a Supervisory Board.

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3. Risk Management (Continued)

3.5 3.9 Equity of Investment Accountholders ("IAH") (Continued)

If at any point of time in a particular pool the funds of IAH exceed the assets, the excess amount shall be treated to be invested in commodity Murabaha and earn the average rate of profit on Commodity Murabaha earned during the excess period. There should be no inter-pool financing at any point of time. The Group should establish a control to avoid excess fund in any pool to be used in other pool.

Proposal for new products is initiated by the business lines within the Group and ALCO review such proposal to ensure that the new product is in line with the Group's business and risk strategy. All new products require the approval of the Shari'a Supervisory Board of the Bank. The business lines of the Group have expertise in creating high end value added products offering a wide range of products, expected return, tenors, and risk profile. Information on new products or any change in the existing products will be placed on the Group's website or published in the media.

The Group has designed special quality assurance units whom reports complaints directly to the CEO. The complaints are investigated by personnel not directly related to the subject matter of the complaints.

The Group offers equity of investment accountholders in different currencies for maturity periods ranging from 1 month, 3 months, 6 months, 9 months, 12 months and 36 months. The customer signs a written contract covering all terms and conditions of the investment, including tenor, basis of profit allocation, and early withdrawaln.

Because equity of investment accountholders is a significant funding source for the Group, the Group regularly monitors rate of return offered by competitors to evaluate the expectation of its IAH. The Group's policy provide whole or partial waiver of the Mudarab share of income from investment in order to provide a reasonable return to its investors.

The Group comingles its own funds and equity of investment accountholders funds which are invested together. The Group has identified two pools of assets where the equity of investment accountholders funds are invested and income from which is allocated to such is account.

The Group has already developed a written policies and procedures applicable to its portfolio of equity of investment accountholders. equity of investment accountholders funds are invested and managed in accordance with Shari'a requirements.

- Pool A: Low risk assets or generating low yield.
- Pool B: High risk assets or generating high yield.

Profits of an investment jointly financed by the Group and the equity of investment accountholders holders shall be allocated between them according to the contribution of each of the Group and the IAH in the jointly financed investment separately for each Joint pool A and B. Operating expenses incurred by the Group are not charged to investment account. In case of the loss resulting from the transactions in a jointly financed investment, such loss shall first be deducted from undistributed profits, if any. Any excess of such loss shall be deducted from Investment Risk Reserve (IRR). Any remaining of such loss shall be deducted from the total balance of fund available in the Joint pool, as at that date, in the respective ratio of the Group's and IAH's respective contribution to the joint fund. Impairment provisions shall only be allocated to Pool B in the ratio of capital contribution by Bank and IAH of Pool B. The reversal of this provision in future years shall be allocated between Bank and IAH of Pool B in the ratio of capital contribution at the time the reversal is made. The loss can be entirely borne by the shareholders of the Group subject to the approval of the Board. Equity of investment accountholders deposits are measured at their book value.

In case of early withdrawal of IAH fund before completion of the term, the effective utilisation method will be applied.

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3. Risk Management (Continued)

3.9 Equity of Investment Accountholders ("IAH") (Continued)

Table – 24. Equity of Investment Accountholders by Type (PD-1.3.33 (a))

The following table summarises the breakdown of equity of investment accountholders accounts as of 31 December 2015:

	BD'000
Customers	614,436
Financial institutions' investment accounts	1,024
Total	615,460

Table – 25. Equity of Investment Accountholders Ratios (PD-1.3.33 (d) & (f))

The following table summarises the return on average assets and mudarib share as a percentage of the total investment profit for the year ended 31 December 2015;

Profit Paid on Average IAH Assets *	0.95
Mudarib Fee to Total IAH Profits	65.00%

* Average assets funded by IAH have been calculated using month end balances.

Table – 26. Equity of Investment Accountholders Ratios (PD-1.3.33 (e) & (g))

The following table summarises the profit distributed to IAH and financing ratios to the total of IAH by type of investment account holder for the year ended 31 December 2015:

Account Type	Profit distributed to total IAH	Percentage to total IAH
Saving accounts (including VEVO)	2.92%	20.47%
Defined accounts - 1 month	0.85%	0.79%
Defined accounts - 3 months	0.30%	0.29%
Defined accounts - 6 months	0.50%	0.44%
Defined accounts - 9 months	0.00%	0.00%
Defined accounts - 1 year	2.86%	2.16%
Investment certificates	0.67%	0.10%
IQRA Deposits	1.30%	0.73%
Tejoori Deposit	3.00%	22.82%
Customer's deposits	78.07%	39.01%
Bank's deposits	9.53%	13.19%
	100%	100%

The calculation and distribution of profits was based on average balances.

Table – 27. Equity of Investment Accountholders to Total Financing (PD-1.3.33 (h) & (i))

The following table summarises the percentage of counterparty type to total financing for each type of Shari'a-compliant contract to total financing as of 31 December 2015:

	Percentage of Financing to Total Financing
Placements with financial institutions	9.40%
Financial institutions	61.10%
Investment in Sukuk	12.32%
Ijarah muntahia bittamleek	15.17%
Ijarah rental receivables	2.02%

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3. Risk Management (Continued)

3.9 Equity of Investment Accountholders ("IAH") (Continued)

	Percentage of Counterparty Type to Total Financing						
	Trading and Manufacturing	Banks and Financial Institutions	Real Estate	Aviation	Personal & Consumer Finance	Governmental Organisation	Others
Placements with financial institutions	0.00%	9.40%	0.00%	0.00%	0.00%	0.00%	0.00%
Financial Assets	7.23%	0.58%	11.91%	0.07%	33.06%	1.23%	7.02%
Investment in Sukuk	0.00%	1.08%	1.72%	0.00%	0.00%	7.83%	1.68%
Ijarah muntahiabittamleek	0.44%	0.03%	5.00%	0.00%	8.74%	0.95%	0.00%
Ijarah rental receivables	0.11%	0.00%	1.16%	0.00%	0.70%	0.04%	0.01%
	7.78%	11.09%	19.80%	0.07%	42.49%	10.05%	8.71%

Table – 28. Equity of Investment Accountholders Share of Profit (PD-1.3.33 (l) (m) & (n))

The following table summarises the share of profits earned by and paid out to profit sharing investment accounts and the Group as Mudarib for the year ended 31 December 2015:

Share of profit earned by IAH before transfer to/from reserves - BD '000	21,582
Percentage share of profit earned by IAH before transfer to/from reserves	24.03%
Share of profit paid to IAH after transfer to/from reserves - BD '000	5,187
Percentage share of profit paid to IAH after transfer to/from reserves	34.28%
Share of profit paid to Bank as mudarib - BD '000	16,395

Table – 29. Equity of Investment Accountholders Percentage Return to Profit Rate of Return (PD-1.3.33 (q))

The following table summarises the average distributed rate of return or profit rate on profit sharing investment accounts for the year ended 31 December 2015:

	3 months	6 months	12 months	36 months
Percentage of average distributed rate of return to profit rate of return	0.64%	0.73%	0.86%	3.50%

Table – 30. Equity of Investment Accountholders Type of Assets (PD-1.3.33 (r) & (s))

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets for the year ended 31 December 2015:

	Opening Actual Allocation BD'000	Movement During the Period BD'000	Closing Actual Allocation BD'000
Cash and balances with banks and central Bank	52,118	8,996	61,114
Placements with financial institutions	68,567	4,583	73,150
Financing assets	408,021	67,627	475,648
Investment in sukuk	81,834	14,033	95,867
Ijarah muntahia bittamleek	102,277	15,784	118,061
Ijarah rental receivables	14,065	1,627	15,692
Total	726,882	112,650	839,532

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3. Risk Management (Continued)

3.9 Equity of Investment Accountholders ("IAH") (Continued)

Table – 31. Equity of Investment Accountholders Profit Earned and Paid (PD-1.3.33 (w))

The following table summarises the amount and rate of return of profits earned by the Group and paid out to equity of investment accountholders over the past five years:

	Profit Earned		Profit Paid	
	(jointly financed) BD'000	%age	to (IAH) BD'000	%age
2015	**37,188**	**4.85%**	**5,733**	**0.75%**
2014	23,491	3.55%	7,539	1.14%
2013	32,849	4.98%	11,124	1.69%
2012	30,662	5.21%	13,993	2.38%
2011	33,029	5.53%	14,742	2.31%

Table – 32 Treatment of assets financed by IAH (PD-1.3.33 (v))

	Assets BD'000	RWA BD'000	RWA for Capital Adequacy Purposes BD'000	Capital Requirements BD'000
Cash and balances with banks and central Bank	**34,065**	**-**	**-**	**-**
Placements with financial institutions	**48,572**	**14,418**	**4,325**	**519**
Financing assets*	**315,830**	**215,313**	**64,594**	**7,751**
Investment in sukuk	**63,656**	**17,070**	**5,121**	**615**
Ijarah muntahia bittamleek*	**78,392**	**82,057**	**24,617**	**2,954**
Ijarah rental receivables	**10,419**	**10,419**	**3,126**	**375**
	550,934	**339,277**	**101,783**	**12,214**

*The amounts have been allocated on pro-rata basis due to system limitation.

3.10 Liquidity Risk

3.10.1 Introduction

Liquidity risk is defined as "the risk that the Group will be unable to meet its obligations as they come due because of an inability to obtain adequate funding or to liquidate assets".

3.10.2 Sources of liquidity risk

The sources of liquidity risk can broadly be categorised in the following:

a. Funding risk is the risk of not being able to fund net outflows due to unanticipated withdrawal of capital or deposits;

b. Call risk is the risk of crystallisation of a contingent liability; and

c. Event risk is the risk of rating downgrades or other negative public news leading to a loss of market confidence in the Group.

3.10.3 Bank's funding strategy

The Board reviews the funding strategy on an annual basis and amends the existing strategy, as deemed necessary. For this purpose, all business units advise the Treasurer of their projected liquidity requirements and contributions at the start of each year as part of annual budgeting process.

The funding strategy highlights any anticipated liquidity shortfalls, the funding requirements to finance these shortfalls and their impact on the statement of financial position. The Group's Risk Charter and Liquidity Policy address liquidity contingency plan to deal with stressed scenarios and outline an action plan that can be taken in the event of liquidity stress situation.

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3. Risk Management (Continued)

3.10 Liquidity Risk (Continued)

3.10.4 Liquidity risk strategy

The Group monitors the liquidity position by comparing maturing assets and liabilities over different time buckets of up to 1 month, 1-3 months, 3-6 months, 6 months to 1 year, 1-3 years, and over 3 years. The Group carries out stress testing periodically using the worst case scenarios to assess the effects of changes in market conditions on the liquidity of the Group. As a strategy the Group maintains a large customer base and good customer relationships.

The Treasury Department, in conjunction with Risk and Compliance Unit periodically reviews/updates (at least annually) the liquidity risk strategy which is evaluated by ALCO before presenting to the EXCOM and the Board for approval.

3.10.5 Liquidity risk measurement tools

The Group is monitoring the liquidity risk through ALCO

3.10.6 Liquidity risk monitoring

The Group has set the tolerance for liquidity risk which are communicated to the Risk and Compliance Unit and Treasury Department. Based on these tolerances, Risk and Compliance Unit and Treasury have established appropriate risk limits that maintain the Group's exposure within the strategic risk tolerances over a range of possible changes in liquidity situations.

3.10.7 Liquidity limits structure

The Group uses a combination of different limits to ensure that liquidity is managed and controlled in an optimal manner. The Group has set the following limits for monitoring liquidity risks:

a. Liquidity Gap limits;

b. Liquidity Ratio limits; and

c. Minimum Liquidity Guideline ("MLG").

3.10.8 Liquidity risk stress testing

To evaluate whether the Group is sufficiently liquid, behavior of the Group's cash flows under different conditions are observed.

3.10.9 Contingency funding plan

The Group does contingency funding exercises which details procedures to be followed by the Group, in the event of a liquidity crisis or a situation where the Group faces stressed liquidity conditions. The contingency funding plan will be an extension of day to day liquidity management and involves maintenance of an adequate amount of liquid assets and management of access to funding resources. The ALCO members discuss and monitor the situation over regular time-intervals to ensure sufficient liquidity in the Group.

Table – 33. Liquidity Ratios (PD-1.3.37)

The following table summarises the liquidity ratios for the past five years:

	2015	2014	2013	2012	2011
Due from banks and financial institutions / Total Assets	**7.49%**	7.83%	20.28%	15.90%	17.73%
Islamic Financing / Customer Deposits excluding banks	**78.46%**	72.48%	70.80%	72.32%	114.41%
Customer Deposits / Total Assets	**77.50%**	64.74%	67.83%	68.87%	63.08%
Liquid Assets / Total Assets	**13.75%**	13.79%	25.86%	21.17%	22.70%
Growth in Customer Deposits	**7.48%**	(8.24%)	7.66%	8.36%	(11.71%)

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3. Risk Management (Continued)

3.11 Profit Rate Risk

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of funding due to the sources of finance.

Senior management identifies the sources of profit rate risk exposures based upon the current as well as forecasted balance sheet structure of the Group. The profit rate risk in the Group may arise due to the following transactions:

a. Murabaha transactions;
b. Wakala transactions;
c. Ijarah muntahia bittamleek;
d. Sukuk; and
e. Musharaka investments.

The Group's management believe that the Group is not exposed to material profit rate risk as a result of mismatches of profit rate repricing of assets, liabilities and equity of investment accountholders as the repricing of assets, liabilities and equity of investment accountholders occur at similar intervals. The profit distribution to equity of investment accountholders is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

3.11.1 Sources of Profit Rate Risk

The different profit rate risks faced by the Group can be classified broadly into the following categories.

a. Re-pricing risk which arises from timing differences in the maturity (for fixed rate) and re-pricing (for floating rate) of assets, liabilities and off balance sheet positions. As profit rates vary, these re-pricing mismatches expose the Group's income and underlying economic value to unanticipated fluctuations;
b. Yield curve risk which arises when unanticipated shifts of the yield curve have adverse effects on the Group's income and/or underlying economicvalue;
c. Basis risk which arises from imperfect correlation in the adjustment in the rate earned on products priced and the rate paid on different instruments with otherwise similar re-pricing characteristics. When profit rates change, these differences can give rise to unexpected changes in the cash flows and earnings spread between assets, liabilities, and off balance sheet instruments of similar maturities or re-pricing frequencies; and
d. Displaced Commercial Risk 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 competitors rates.

3.11.2 Profit rate risk strategy

The Group is not exposed to interest rate risk on its financial assets as no interest is charged. However, the fair value of financial assets may be affected by current market forces including interest rates. The Group recognises income on certain of its financial assets on a time-apportioned basis. As a strategy the Group:

a. has identified the profit rate sensitive products and activities it wishes to engage in;
b. has established a limit structure to monitor and control the profit rate risk of the Group;
c. measures profit rate risk through establishing maturity/re-pricing schedule that distributes profit rate sensitive assets, liabilities and off-balance sheet items in pre-defined time bands according to their maturity; and
d. makes efforts to match the amount of floating rate assets with floating rate liabilities in the banking book.

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3. Risk Management (Continued)

3.11 Profit Rate Risk (Continued)

3.11.3 Profit rate risk measurement tools

The Group uses the following tools for profit rate risk measurement in the banking book:

a. Re-pricing gap analysis which measures the arithmetic difference between the profit-sensitive assets and liabilities of the banking book in absolute terms; and

b. Basis Point Value ("BPV") analysis which is the sensitivity measure for all profit rate priced products and positions. The BPV is the change in net present value of a position arising from a 1 basis point shift in the yield curve. This quantifies the sensitivity of the position or portfolio to changes in profit rates.

3.11.4 Profit rate risk monitoring and reporting

The Group has implemented information systems for monitoring, controlling and reporting profit rate risk. Reports are provided on a timely basis to EXCOM and the Board of Directors. The Risk and Compliance Unit monitors these limits regularly. GM-C&RM reviews the results of gap limits and exceptions, if any, and recommends corrective action to be taken which is approved by ALCO or EXCOM, according to authority parameters approved by the Board.

Table – 34. Profit Rate Risk in Banking Book (PD-1.3.40 (b))

The following table summarises the effect on the value of assets, liabilities and economic capital for a benchmark change of 200 bp in profit rates as of 31 December 2015:

	Effect on value of Asset BD'000	Effect on value of Liability BD'000	Effect on value of Economic Capital BD'000
Upward rate shocks:	**(3,533)**	**3,533**	**-**
Downward rate shocks:	**10,344**	**(10,344)**	**-**

Table – 35. Quantitative Indicators of Financial Performance and Position (PD-1.3.9 (b) PD-1.3.33 (d))

The following table summarises the basic quantitative indicators of financial performance for the past 5 years:

	2015	2014	2013	2012	2011
Return on average equity	**11.88%**	11.80%	8.26%	(42.31%)	(17.23%)
Return on average assets	**1.21%**	1.00%	0.70%	(4.33%)	(1.96%)
Cost to Income Ratio	**51.68%**	55.10%	53.44%	80.14%	74.89%

Table – 36. The following table summarises the historical data over the past five years for the following (PD-1.3.4)

	2015	2014	2013	2012	2011
Mudarabah profit / Mudarabah assets	**2.83%**	4.73%	5.54%	5.14%	5.44%
Mudarabah profit paid / Mudarabah assets	**0.68%**	1.14%	1.61%	2.34%	2.43%
PIRI & IRR Movment	**584**	(155)	233	63	-
Rate of Return on IAH	**0.64%**	1.12%	1.52%	2.11%	2.31%

CBB Penalties (PD-1.3.44)

There were no penalties imposed by the CBB or paid to the CBB during the year.

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