KHALEEJI
COMMERCIAL
BANK

المصرف
الخليجي
التجاري

Annual Report 2015

Paving the way
Forward

بسم الله الرحمن الرحيم

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 of the Kingdom of Bahrain

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Licensed by the Central Bank of Bahrain as a Retail Islamic Bank

FINANCIAL HIGHLIGHTS

BD 000's

	Total Assets	Total Equity	Total Income	Net Profit / (Loss)	Earning Per Share (Fils)
2015	653,975	107,903	21,304	8,021	7.30
2014 (Restated)	596,648	103,104	15,371	3,823	3.19
2013	542,242	100,011	19,696	(19,209)	(17.11)
2012	473,159	119,448	19,817	751	0.67
2011	447,515	118,923	22,929	518	0.46

BOARD OF DIRECTORS

Dr. Ahmed Khalil Al Mutawa
Chairman

Mr. Abdulrahman Mohammed Jamsheer
Vice Chairman

Mr. Abdulla Abdulkarim Showaiter
Board Member

Mr. Bashar Mohammed Al Mutawa
Board Member

Mr. Hisham Ahmed Al Rayes
Board Member

Mr. Khalid Rashid Al Thani
Board Member

Mr. Mohammed Barrak Al Mutair
Board Member

Mr. Mosobah Saif Al Mutairy
Board Member

Mr. Tariq Qasim Fakhroo
Board Member

SHARI'A SUPERVISORY BOARD

Khaleeji Commercial Bank is guided by a Shari'a Supervisory Board consisting of three distinguished scholars. This Board reviews the bank's activities to ensure that all products and investment transactions comply fully with the rules and principles of Islamic Shari'a, and consists of:

Sh. Dr. Fareed Yaqoob Al-Miftah
Chairman

Experience
- Member of the Supreme Council of Islamic Affairs.
- Undersecretary of the Ministry of Justice & Islamic Affairs - Bahrain.
- Former judge of the high Shari'a Court.
- Former Lecturer at the University of Bahrain.

Qualification
- Ph.D. from the University of Edinburgh - United Kingdom.

Sh. Dr. Fareed Mohammed Hadi
Executive Member

Experience
- Assistant Professor of Jurisprudence (Fiqh) and Hadeeth at the College of Arts, Department of Arabic and Islamic studies, University of Bahrain.
- Bachelor program Manager in Shari'a for Banking and Finance, University of Bahrain.
- Vice President of the Association of Shari'a scholars in GCC.
- Member of Shari'a Supervisory Board of a number of Islamic banks.

Qualification
- Ph.D. in Ibn Hazm's Methodology of Jahala, University of Edinburgh - UK.
- Ph.D. in Al-Bukhari's Methodology, University of Mohammed V - Morocco.

Sh. Nizam Mohammed Saleh Yaqoobi
Member

Experience
- Member of the Shari'a council of Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI).
- Member of the Shari'a Board of the Central Bank of Bahrain - Bahrain.
- Member of Shari'a Supervisory Board of the Dow Jones Islamic index.
- Member of Shari'a Supervisory Board of a number of Islamic banks & insurance companies.

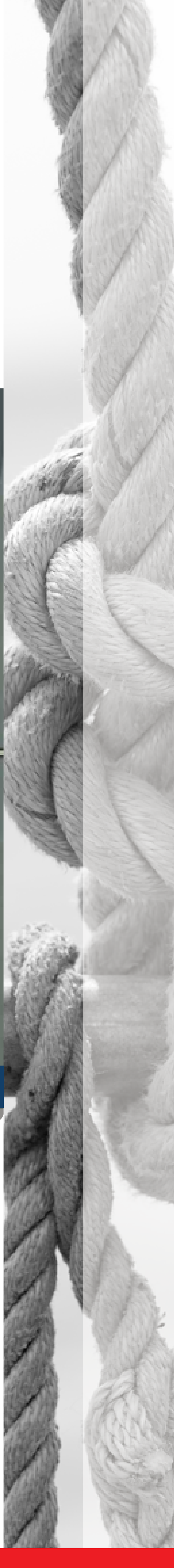
CHAIRMAN’S REPORT

Dr. Ahmed Khalil Al Mutawa
Chairman

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

On behalf of the Board of Directors, it is my pleasure to present the annual financial statements of Khaleeji Commercial Bank for the year ended 31 December 2015.

This year has noticed significant economic variations and geopolitical developments. The continuation of decrease in oil prices and regional uncertainty that overshadow the global economic environment (which is linked to the US Fed rate hike, the Chinese economic market slowdown/crash and removal of



the Iranian sanctions among other factors) have adversely affected the economic growth potential, and as expected, the growth and performance of global/GCC stock markets and financial institutions. This has furthermore had significant effect on the regional annual consumer spending leading to governments taking several corrective measures directed towards revision of policies and re-alignment of government subsidies in order to support the continuation of economic growth and achieve economic growth figures that surpass inflation rates.

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

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

OVERALL PERFORMANCE

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

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

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

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

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

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

The Bank has further introduced a new product (It'eman) aimed for financing corporates and institutions. The Corporate Banking Team was able during 2015 to execute transactions with large cap corporates and developers in relation to major projects in addition to expansion of the "Tamkeen" portfolio for financing companies. From another standpoint, the Bank's Investment Banking Team has been actively managing the portfolio of investment products and Restricted Investment Accounts (RIA's), to enhance the value of the assets held in those products and to work towards potential exits.

ORGANISATIONAL DEVELOPMENT

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

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

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

CORPORATE SOCIAL RESPONSIBILITY

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

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

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

LOOKING AHEAD

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

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

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

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

APPRECIATION

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

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

Allah the almighty is the purveyor of all success.

Dr. Ahmed Khalil Al Mutawa
Chairman

EXECUTIVE MANAGEMENT REPORT

Mr. Khalil Ismaeel Al Meer
Chief Executive Officer

In the ensuing backdrop of a subdued world economy with significant economic variations, low oil prices and geopolitical crisis, the GCC remained a hub of constructive activity. The effects of the crisis had no solid bearing on the progress of the GCC economy. They were prudent and insightful to take corrective measures which helped them in good stead amidst the turmoil.

The GCC's diversification into the non-oil sector coupled with government support and spending on major infrastructure projects, steadied its economic ship across rough waters in the region, absorbing the overload caused by the global meltdown.

In this context, Bahrain's outlook remained steady. Bahrain's non-oil growth was underpinned by growth in the construction sector of 7% in the first half of 2015. It is estimated that the total non-oil growth was in the vicinity of 4.5 to 5%. The recent

oil prices have indeed slowed growth in every business sector, although the banking and the financial sector remained sound and sturdy - the Islamic banking industry in particular continued to achieve positive results overall.

Notwithstanding the harsh economic environment, KHCB performed well in 2015 achieving positive results while continuing in its endeavors to fine-tune its strategic focus.

The new strategy laid emphasis on expanding its local branch network, diversifying its business and customer base, ensuring and maintaining strong liquidity and capital position. Focus on speed of service and turn-around-time, distribution network and new product offerings were some of the key milestones achieved during the first year of our new three years strategy, which hopefully will pave the way forward to achieving our objectives in the consecutive two years to come.

Many key objectives were achieved in the first year of the new strategy, both in terms of outstanding results; and adding value to its customers and shareholders.

The customer base has also increased showing that our customers are happy with the services we are offering and is a reflection of their satisfaction with products and quality services.

The key performance figures show a growth of 9.6% in total assets from BD 597 million in 2014 to BD 654 million in 2015.

The total net income increased by 38.6% reaching BD 21.3 million compared with BD 15.4 million achieved in year 2014.

The net income increased by 109.8% to reach BD 8 million compared with BD 3.8 million recorded in 2014.

Total financing assets have grown by 14.2% reaching BD 388 million, compared to BD 340 million reported in 2014.

Total customer deposits have also increased by 12.8% from BD 430 million in 2014 to BD 485 million in 2015; this is in spite of the fact that we have reduced the weighted average profit sharing rate distributed to the depositors.

RETAIL BANKING

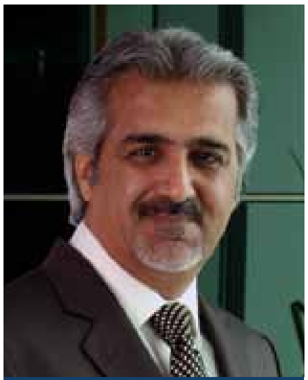
2015 continued as a year of expansion and growth in the retail division. The focus was on increasing the customer experience with product innovation with the new strategic direction of geographical extensions. New products for consumer financing were launched, which included mortgage finance, auto finance, Visa credit cards, and Easy 36 installment card.

Key milestones were achieved with the bank opening two new branches in selected locations to service new geographical locations

MANAGEMENT TEAM

Mr. Khalil Ismaeel Al Meer
Chief Executive Officer

Mr. Mahdi A. Nabi Mohammed
DGM - Support Services



Mr. Tawfeeq Mohamed Bastaki
Chief Risk Officer

Mr. Hussam Ghanem Saif
Head of Treasury and Capital Markets

Mr. Yaser Ismaeel Mudhafar
Chief Financial Officer

Mr. Mohammed Abdulla Saleh
Head of Human Resources and Corporate Secretary

Sh. Abdulnaser Omar Al Mahmood
Head of Shari'a Compliance

Mr. Talal Nabeel Al Mahroos
Head of Investments

Mr. Mohammed Abdulla Al Tamimi
Head of Compliance and MLRO

of the country. In the first quarter, a new branch in Hamad Town (Souq Waqef), and in the third quarter of 2015 another branch in Isa Town was opened bringing the total branch network to 10. The Bank also revamped its EBanking application by adding extra security features and launched its new mobile banking application.

Moreover, the Bank's Al-Waffer account continued its steady growth with new clients subscribing for the product. The Bank will continue to enhance and improve the new cycle which will incorporate bigger prizes and greater chances for clients during the year 2016.

There is a sustained focus on increasing the retail foothold in the local market by offering innovative products and services to our customers. Innovation with speed of service and quick turn-around-times will further ease their reach to the Bank with the deployment of new electronic channels.

KHCB undertook a series of advertising and promotional activities in line with its new and diverse product offerings. The focus on PR and Social Media also added value in educating and increasing awareness. The activities have allowed the Bank to expand its consumer finance asset portfolio including Ijara, personal and auto finance growing 50% from 79 million in 2014 to 123 million in 2015.

The Bank's customer base has also increased showing that its customers are happy – an endorsement of their satisfaction with the Bank's products and quality services. We believe 2016 will be a good year, despite the markets under-performing.

CORPORATE BANKING

The Corporate Banking division witnessed positive growth in 2015. The Bank continued to maximize on the opportunities presented. The Strategy to increase the business and our customer base was twofold - to enhance service and value with existing relationships and build new relationships with new and exciting product offerings.

KHCB launched a new product in 2015; the I'teman (an Islamic Overdraft Facility) for financing corporations and institutions.

The Corporate Banking Team was able to execute transactions with large cap corporate and developers in relation to major projects in addition to expansion of the Tamkeen portfolio for financing companies . The bank continued to actively promote Tamkeen's financing scheme facilitating the opening of new opportunities. The portfolio under the Tamkeen scheme reached BD 342.5 million in the year 2015.

New business was booked in 2015 and the bank achieved a net growth in assets totaling BD 654 million increased by 9.6% compared to 2014. Return on average assets reached 1.3%. The bank undertook a review of the financial portfolio in order to identify assets that are impaired in the short to medium term. Based on this review, the management and Board adopted a conservative view and made provisions for all identified assets, resulting in a substantial increase in impairment provisions. Total assets also grew to BD 654 million,

In addition the bank continued its relationship with Tamkeen adding 10 million to the scheme's enterprise financing portfolio to bringing the value to 342.5 million - a scheme that will ensure low cost financial solutions for the kingdom's small and medium enterprises. This is in line with its support to the economic growth of the nation by fueling the Industry.

In this regard, the Bank signed a number of Memorandum of Associations with a number of developers in the Kingdom of Bahrain, to provide credit facilities for their potential buyers.

INVESTMENT BANKING

The Investment Banking Division has been fundamental to the Bank's Growth ever since its inception. However the recent global economic crisis has adversely dampened its progress with the unfavorable impact felt on its business environment and valuations of investments. In lieu of this fact, a conservative approach has been adopted by the management in managing the portfolio of investment products and restricted Investment Accounts (RIA's) thereby enhancing the value of the assets held in those products and working towards potential exits.

The prudent sustaining of portfolios that add value whilst executing big deals has been the focus of the Investment Banking team.

The major developments are:

- Global Logistix - Completion of the revised exit strategy by executing the Joint Development Agreement (JDA) with the developer.
- Exit of RIA 4 - Janayen Product (Sale of Labour Camp and exit of Madaen Al Luzi investment).
- Commencement of the Islamic Listed Equity investment
- Completion of RIA 5 Buy-back exercise and completion of 5.6% principal redemption.
- Continuation of Oryx Hills campaign for sale of villas. 10 villas sold during 2015 following increase in prices of the units. 21 villas remaining to exit the project/product.

TREASURY

The fundamental contributor to the Bank has been the Treasury department. During 2015 the total Sukuk portfolio increased by 77% on the previous year. Yield on Sukuk was 4.55% by end of the year and total placements with FI's were reduced by 73% from BD 76 million in December 2014 to BD 44 million in December 2015. Yield was 1.22% as of December 2015 while total placements from FI's were increased by 26.5% from BD 24.2 million as of December 2014 to BD 30.5 million in December 2015. Cost was 0.27% as of December 2015. FX gain was reported BD 595 Thousand in 2015 compared to BD 435 Thousand in 2014.

SUPPORT SERVICES

Year 2015 witnessed the achievement of many initiatives that forms an integral part of the new strategy which are mostly focused on streamlining the work flow to reduce the turn-around-time to our customers.

One of the major projects was the implementation of the Electronic Funds Transfer System that was mandated by the Central Bank of Bahrain and through BENEFIT. The bank has achieved the set deadlines and has successfully launched the system through its branches and electronic channels. Many other process and functions were automated and centralized at the Operations.

The bank leveraged state of the art technology in order to build the business and improve the customer experience. During 2015, The IT improved the bank's information technology infrastructure by upgrading the Middleware Application to the latest version, which provided additional functionalities as well as improved performance.

KHCB received the "Straight-Through-Processing" Award from Standard Chartered Bank with 96.4% efficiency in the execution of electronic payments.

The bank achieved significant operational progress which included the opening of branches in strategic locations and in order to strengthen its reach of contact, the bank has revamped its eBanking application and launched its new Mobile Banking application.

Nine key processes related to trade finance, the sale and purchase of commodities, account blocking, and the issuance of various consumer finance letters was automated, while new upload features for inward salary and bulk payments were implemented. A number of other enhancements were also in development that will further streamline the Bank's processes and procedures.

The year saw the Support Services play a key assistance role in the successful completion of significant projects.

The operation division will continue to play an invaluable role in supporting the Bank in the achievement of its goals. The division will be actively involved in the upgrade operations of Internet banking services as well as the monitoring of transactions through this channel of distribution

ORGANIZATIONAL DEVELOPMENT

The bank believed that to remain competitive in the long run, building of organizational capacity is imperative along with human capital. The belief that a committed and a well-trained workforce is a key enabler in achieving the Bank's long-term objectives, the Bank continues to impart training and improving the human resource aspect through various external and in-house training programs in addition to training new university graduates. In addition the bank has conducted specific workshops through Ernst and Young which include 'Advanced Female Leadership' and 'Constructive Feedback' provided to top management and division heads. Focus on improving the human resource aspect will continue.

The Bank hired 44 employees during the year in order to achieve its expansion targets. These employees were hired based on relevant experience, qualifications backed by a University degree.

KHCB prides itself that 97% of the Bank's employees are Bahrainis and understand that organizational effectiveness and efficiencies, fuel the growth of the organization whereby it should be harnessed and nurtured with care,

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

CONCLUSION

The year 2015 has been challenging for many banks the world over. However, we have performed considerably well with the backdrop of discouraging business climate. The Board and Management are confident that the bank is well positioned to capitalize on opportunities available locally and regionally and take a leadership position in the industry.

Based on our new corporate strategy, the focus continues to be on geographical expansion through a strong local branch delivery network, diversifying our business and customer base, enhancing our product and service offerings while ensuring strong liquidity and capital position are well maintained. We will constantly be on the lookout for opportunities in regional markets and beyond the borders of Bahrain.

I take this opportunity to express my gratitude to the Board of Directors for their continued support and guidance, the Central Bank of Bahrain and the Bahrain Bourse, our customers for their loyalty and continued confidence. I also express my sincere gratitude to our dedicated staff, your hard work, creativity and commitment is a key part of our success and a vital component of our success as we move forward towards a bright and prosperous tomorrow.

Khalil Ismaeel Al Meer
Chief Executive Officer

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE STRUCTURE

The Bank's corporate governance framework focuses on Board responsibility, oversight and management accountability vis-à-vis governing regulations and better practices. The framework is in line with global best practices and regulatory requirements which seek to balance entrepreneurship, control and transparency, while creating value for all stakeholders.

Corporate governance, the way the Board and Management is organized and how they operate in practice ultimately aims at leading the Bank towards successfully meeting its strategic objectives. The Board of Directors is accountable to the Bank's shareholders for the creation and delivery of strong sustainable financial performance and long-term shareholder value. To achieve this, the Board approves and monitors the Bank's strategy and financial performance, within a framework of sound corporate governance and effective risk management.

The Bank is in compliance with the Corporate Governance Code (CGC), the Public Disclosure Module and the Stock Exchange Disclosure Standards set by the CBB. The corporate governance philosophy of the Bank is to be fully ethical and transparent in all dealings. In pursuit of this goal the Board of Directors have approved a Corporate Governance Framework, Director's Conflict of Interest Policy, and the Bank Key Persons' Dealing Policy. The Bank, through its Board and Committees, endeavors to deliver the highest governing standards for the benefit of its stakeholders.

The Bank is committed to continuously reviewing and developing its corporate governance standards to ensure compliance with the requirements of the revised corporate governance framework being implemented by the Central Bank of Bahrain and other regulatory bodies, and also to keep abreast with international best practice.

BOARD OF DIRECTORS

The Board of Directors comprises of 9 members. The chairman of the Board of Directors is charged with regular supervision and assessment of executive management and is responsible for leading the Board, ensuring its effectiveness, monitoring the performance of the CEO and maintaining a dialogue with the Bank's stakeholders. The Board has constituted certain committees with specific delegated authorities to oversee and guide the management in specific areas of the Bank's operations and decision-making. The Board, either directly or through its various committees, will oversee the management of the Bank.

BOARD COMMITTEES STRUCTURE

The Board of Directors has constituted three committees with specific delegated authorities.

- Board Audit and Risk Management Committee (BARMC), which is responsible for internal and external audit, compliance and anti-money laundering. Beside its responsibility in ensuring that the Bank's overall risk management framework is effective and that key risks are managed within parameters established by the Board (During the year, the Board Audit Committee (BAC) and the Board Risk Management Committee (BRMC) were merged into one committee Board Audit and Risk Management Committee (BARMC).

- Board Investment & Credit Committee (BICC), which is responsible for investment and credit approvals, setting limits and tolerances for different risks, asset liability management, monitoring asset impairment and creation of loss provisions, maintaining banking relationships, as well as for the oversight of the off-balance sheet vehicles.

- Board Nominations, Remunerations and Governance Committee (BNRGC), which is responsible for setting policies for compensation and incentives, human resources and administration. It is also responsible for the corporate governance framework of the Bank.

The Chairman, the Board of Directors and the Board Committees have direct access to the heads of Internal Audit, Risk Management, Regulatory Compliance and Shari'a Compliance.

Meetings of the Board and its committees are held as and when required but in accordance with the Regulations the Board meets at least once a quarter. The Board of Directors met five times in 2015. The Bank held its AGM on 30 March 2015. In addition to physical meetings, several written resolutions were circulated to the Directors during 2015 for approval by mail and facsimile.

During the year, the Board Audit and Risk Management Committee (BARMC). held 4 meetings, the Board Investment and Credit Committee (BICC) held 4 meetings, and the Board Nominations, Remunerations and Governance Committee (BNRGC) held 3 meetings.

EXECUTIVE MANAGEMENT COMMITTEES

The Board of Directors delegates the authority for day-to-day management of the business to the Chief Executive Officer (CEO) who is responsible for implementing the Bank's strategic plan. The CEO manages the Bank through the following management committees:

BOARD OF DIRECTORS COMMITTEE

BOARD NOMINATIONS, REMUNERATIONS & GOVERNANCE COMMITTEE (BNRGC)

- Human Resources
- Compensation & Incentives
- Administration
- Corporate Governance

BOARD AUDIT AND RISK MANAGEMENT COMMITTEE (BARMC)

- Internal Audit
- External Audit
- Compliance
- Anti Money Laundering
- Risk Management
- Policies related to Risk Management

BOARD INVESTMENT & CREDIT COMMITTEE (BICC)

- Investment & Credit Approval
- Setting limits
- Investment policies
- Asset Liability Management
- Banking relationship
- Oversight of Off-Balance
- Sheet Vehicles

EXECUTIVE MANAGEMENT COMMITTEE

MANAGEMENT COMMITTEE

- Strategy
- Performance Review
- Budget
- Human Resources
- Administration

ASSET LIABILITY MANAGEMENT COMMITTEE

- Balance Sheet Management
- Funding
- Liquidity
- Banking Relationships

EXECUTIVE CREDIT & INVESTMENT COMMITTEE

- Review of Investments, Exit and Credit Proposals
- Monitoring of Investments

EXECUTIVE RISK MANAGEMENT COMMITTEE

- Risk Management Policies
- Risk Review
- Provision and Impairment

RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK

Risk is inherent in the Bank's business and effective management of risk is seen as a core requirement to create shareholder value. It is a process by which the Bank identifies key risks, sets consistent understandable risk measures, chooses which risk to mitigate, transfer, avoid or accept and by what means and to establish procedures to monitoring the resulting risk position. Effective risk management is the cornerstone of sound operating performance and capital structure. The Board of Directors of the Bank has an overall responsibility for establishing the Bank's risk culture and ensuring that an effective risk management framework is in place. The Board approves and periodically reviews the risk management policies and risk strategies of the Bank. Risk Management Is a process by which the Bank identifies key risks, sets risk measures and establishes procedures to monitor the residual risk and is driven by the objective of controlling risk to ensure that value is created for shareholders.

The Bank is exposed to risks, which include, but not limited to, credit, market, liquidity, reputational and operational risk. The bank's aim is to achieve an appropriate balance between risk and return and minimise any potential adverse impact on its financial performance.

The assumption of risks by the Bank is guided by certain fundamental principles such as protection of investor and shareholder funds by the adoption of sound credit and investment analysis, adoption of effective "risk reward" strategy to optimize stakeholders' returns, and adherence to prudent levels of exposure concentration.

The Board has established an Executive Risk Management Committee (ERMC), which is responsible for developing and implementing the Bank's risk management policies and procedures in all areas of the Bank's operations. The committee consists of Heads of Business units and other functional/support units in the Bank, meets on a monthly basis and reports regularly to the Board Audit & Risk Management Committee.

The Risk Management Department of the Bank, independent of the business units, is responsible for the day to day oversight and management of the various risks faced by the Bank. Head of Risk Management directly reports to the Board Audit & Risk Management Committee and administratively to the Chief Executive Officer. The Risk Management Department, together with the Internal Audit and Compliance Departments, provides independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors.

RISK MANAGEMENT POLICIES

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor adherence to such limits. The Bank's risk policy as approved by the Board of Directors, analyses and sets out the risk appetite by way of limits for Credit Risk, (includes concentration risk) liquidity risk, market risk (Including profit rate risk and currency risk) and Capital Adequacy. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, as well as products and services offered. The Bank, through its training, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and responsibilities and their accountability. The Bank's risk management policies identify approval authorities, reporting requirements, and the procedures for referring risk related issues to executive management, ERMC and the Board, as appropriate. Policies are in place to address all major categories of risk including liquidity, investment and credit, market ,currency, operational, legal, Reputational, and regulatory risks.

CREDIT AND INVESTMENT RISK

The Bank has well defined policies for managing credit and investment risks These include delegated approval authority limits, concentration limits, maximum exposure limits, etc. Credit and investment risk is defined as the potential that the counter party will fail to meet its obligations in accordance with the agreed terms. Credit and investment limits to clients are approved after thorough assessment of counterparty's past track record and financial position as well as legal and market risks associated with it. In most cases exposures are fully or partially secured by acceptable collateral securities. The Board of Directors has delegated the responsibility for the management of Credit and Investment risk to its Executive Risk Management Committee (ERMC). A separate Risk Management Department independent of the business units are responsible for the oversight of Bank's Credit and Investment risk. The Risk Management Department reviews every credit and investment proposal and records its recommendation before the same is submitted for approval. Fair valuation of the investments are reviewed by the Investment and Financial Control departments along with Risk Management and impairment tests done for credit exposures systematically and periodically as per the Bank's approved policies. It is the Bank's policy to ensure that adequate provisions are made for expected credit or investment losses. The Bank's policy on Impairment & Provisioning lays down guidelines for the creation of adequate allowance for impairment losses that represents the estimated future loss on its portfolio. Cross border exposures, exposures to sovereigns, banks and other financial institutions are guided by risk limits set for these entities and approved by the Board of Directors based on various risk factors. The exposures are regularly monitored by the management to ensure that they remain within the set risk appetite.

The Credit Management department ensures that credit facilities are only released upon obtaining the required approvals and documentation. Exceptions if any are duly approved by the appropriate approval authority. It also monitors excess over limits, past dues, overdue reviews and exceptions to the policy and escalates to the relevant committee. It also follows up on all pending documentation, irregularity if any, and monitoring of non performing accounts and for the purpose of provisioning. All relationships and investments are reviewed annually and non performing accounts are reviewed more often. Problematic accounts are reviewed regularly to evaluate and 'work out' strategy adopted.

ECAI RATINGS

The Bank has adopted CBB guidelines for utilization of external ratings, where available, by External Credit Assessment Institutions (ECAI) for the purpose of risk assessment. In case of multiple ECAI rating of a single counterparty, the lowest of all is taken to assign the relevant risk category. The Bank complies with all the qualitative requirements stipulated by CBB for the recognition process and eligibility criteria of ECAI rating in the credit risk management policy of the Bank. ECAI ratings are applied, where applicable to all financing exposures with counterparty credit risks.

MARKET RISKS

Market risk is the risk that changes in market parameters, such as profit rates, equity prices, foreign exchange rates and credit spreads, (not relating to changes in the obligor's / issuer's credit standing), will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimizing the return on risk.

LIQUIDITY RISK

Liquidity risk is defined as the risk of failure in meeting liquidity requirement to the Bank's customers and investors when they fall due (i.e. funds not available to meet liabilities). The policy guidelines for the management of liquidity risk are laid down by the Board of Directors. The Treasury Department of the Bank is responsible for liquidity management in the Bank on a daily basis under the guidance and supervision of Asset Liability Management Committee (ALCO). The liquidity risk policy sets liquidity limits, targets, and ratios to aid a strong liquidity management. In compliance with Basel Accord requirements and CBB guidelines, the Bank's liquidity limit management includes Liquidity Coverage Ratios (LCR) and Net Stable Funding Ratios (NSFR). Any breaches or deviations are reported to the ALCO, which is chaired by the CEO and has senior executives of the Bank as members. The ALCO committee periodically monitors the level of liquid assets maintained by the Bank and follows a maturity laddered approach for managing liquidity risk in the short and long term of business cycle. The Bank's approach to managing liquidity is to ensure that it will always have sufficient liquidity, adequate product mix and the right maturity profile to meet its liabilities under both normal and stressed conditions, without incurring unacceptable losses or causing damage to the Bank's reputation. The Bank's main source of funding is from customer deposits, and Interbank deposits and financings. The bank also monitors for any concentration of customer deposit base. Contingency plans are in place to withstand any specific or incidental market crisis and are reviewed by the ALCO periodically.

PROFIT RATE RISK

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair value of financial instruments due to changes in market profit rates. The Bank's policy on profit rate risk management aims to enable identification, measurement, monitoring, control and reporting of profit rate risks in a timely manner. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for re-pricing bands. The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and nonstandard profit rate scenarios. Positions are monitored on a periodic basis to ensure they are maintained within the established limits.

FOREIGN EXCHANGE RISK

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank's foreign exchange risk is managed on the basis of limits on net open positions set by the Board of Directors and a continuous assessment of current and expected exchange rate movements. The management of foreign exchange risk against net exposure limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various foreign exchange scenarios. The Bank does not engage in foreign exchange trading and, where possible, matches currency exposures inherent in certain assets with liabilities in the same or correlated currency. The Risk Management Department in association with the Treasury Department is responsible for all operations related to foreign exchange risk management in the Bank.

OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failures in systems processes, people or those related to external events. It is inherent in every business organisation and covers a wide range of issues. Failure to manage operational risk can result in to financial, reputational losses as well as legal, compliance and regulatory consequences. The Bank manages operational risk through on-going monitoring of the control environment that the Bank operates in. This includes maintenance of well-defined policies and standard operating procedures; continuous monitoring of predefined risk triggers and immediate escalation of operational risk incidents reporting to the management. The Bank ensures operational risk is thoroughly and closely managed on daily basis. As part of the operational risk assessment, the Bank also manages its Information Security risk through the Risk Management department. The bank has a dedicated staff for Information security Management to manage the Information security posture of the bank and its process to comply with regulatory, legal and business requirements.

The Risk Management Department is responsible for the identification monitoring and management of operational risk in the Bank through the operational risk management system. A Board approved operational risk framework is also in place. The operational Risk management framework is guided by the following principles:

- Management of operational risk is the responsibility of the senior management of each segment of business;
- Appropriate and regular management reports;
- Risk assessment of critical businesses to identify risks facing each department and the risk inherent in its process and products. Periodic reviews to ensure that the circumstances under which they were identified have not changed significantly,
- Collection of operational risk loss data and reporting individual cases to senior management.
- All risks are identified and loss data reported are analysed for underlying causes and mitigants put in place.

The Risk Management Department on periodic basis conducts operational risk assessment on each department of the Bank and provides recommendation for process enhancements. The Risk Management department also provides ongoing awareness on operational risks to all staff members. Operational risks findings are periodically reported to the ERMC and the Board.

Management of operational risk is the responsibility of Senior Management of each segment of business unit. While the responsibility of overseeing the process lies with Operational Risk Unit in accordance with the Operational Risk Management Framework. Internal Audit independently reviews effectiveness of the Bank's internal controls and its ability to minimize the impact of operational risks.

BUSINESS CONTINUITY MANAGEMENT

Within the Bank is the implementation and management of preventative measures, planning and preparation to ensure the Bank can continue to operate following an incident, significant unplanned event or major operational disruption. The Bank ensures that its systems and procedures are resilient to ensure business continuity through potential situations of failure. The Bank has put in place Business Continuity Plans (BCP) to ensure that its business runs effectively in the event of most unforeseen disasters as required by the Central bank Business Continuity Guidelines. The Bank continuously strengthens and enhances its existing plans by implementing a robust business continuity framework to ensure that its systems and procedures are resilient and ready to meet 'emergency situations.'

LEGAL AND REGULATORY RISK

Legal risk includes the risk of unexpected loss from transactions and/or contracts not being enforceable under applicable laws or from unsound documentation. Legal and regulatory risk may also arise from litigation initiated by clients against the Bank on certain transactions. The Bank has a full-fledged legal department which provides necessary inputs and guidance to all other departments on any legal issues that may arise. The Bank also hires external legal advisors for advice when necessary, and to handle litigations. Regulatory risk includes the risk of non-compliance with regulatory and legal requirements. The Bank has an independent compliance department which monitors the level of compliance with regulatory requirements by other departments of the Bank. It also acts as the focal point in all interaction with the Central Bank of Bahrain. The Compliance Department is also responsible for the Bank's anti-money laundering initiatives.

CAPITAL ADEQUACY & THE INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

The Bank successfully completed complying with Basel III requirements for capital measurements in accordance with CBB rules. Under this the Bank is expected to maintain a minimum prescribed ratio of total capital to total risk weighted assets. The CBB also requires the Bank to establish a process to monitor the overall capital adequacy of the Bank, taking into account all relevant risk factors. The Board of Directors has approved an Internal Capital Adequacy Assessment Process (ICAAP) to satisfy this requirement. The ICAAP is a requirement under Pillar 2 of the Basel accord in line with the CBB requirements which seeks to ensure appropriate identification, measurement, aggregation and monitoring of all risks the Bank is exposed to and to relate the level of internal capital of the Bank to its overall risk profile and business plan. The Bank has adopted a structured approach for identifying and assessing capital required for each of the major risk categories by employing appropriate methodologies. The total of such individual risk capitals is taken as the overall capital requirement. The ICAAP also incorporates guidelines to assess the future capital needs of the Bank in line with its business plans over its strategic time horizon.

STRESS TESTING

Regulatory and internal capital adequacy computations are based on past data. While future projections are done, these are on the assumption that the business environment continues to be normal. It is essential for the Bank to measure sensitivity of its capital to serious adverse changes in external and internal risk environment and changes in business cycles. The Bank has developed a stress testing model for the purpose which provides an estimate of capital adequacy under a variety of stress scenarios. The first step in the process is identifying relevant stress factors that can affect the bank's revenues, liquidity, asset quality, business growth etc. Each item in the Bank's balance sheet is then revalued on the basis of different combinations of these risk factors and at various levels of severity. The capital adequacy levels at these stress scenarios are computed on current as well as forecasted balance sheets to identify the likely worst case scenarios which will help the Bank identify preventive management actions where necessary. The Risk Management Department conducts such stress tests twice in a year and the results are reported to the Board of Directors along with suggested remedial actions if necessary.

REPUTATIONAL RISK

Reputational risk arises when a business practice or an event has the potential to materially and negatively influence the public and stakeholder's trust and confidence in the whether the perception is true or no. Reputation may be intangible but It is a highly prized asset. Failure to manage this risk, can have serious impact on the Bank's business which may also lead to costly litigation that would in turn have an adverse impact on liquidity and capital adequacy of the Bank. Strong corporate reputation is an invaluable asset to any organization and if ever diminished, it's the most difficult to restore among all the other assets of the organization. Reputation has a vital impact on the long term prosperity of the organization. The senior management, through the relevant committees, examines issues that can have adverse impact on the Bank's reputation and issues guidelines to address these. The Bank also under its ICAAP provides separate capital against this risk.

DISCLOSURES

The Bank recognizes its continuous disclosure obligations set forth by the Central Bank of Bahrain (CBB), Bahrain Stock Exchange and other relevant regulatory bodies. The Bank has approved policies related to external communications & disclosures in line with Basel II & CBB requirements which ensure disclosure of all relevant information to stakeholders in a timely manner. The Pillar 3 disclosure and Corporate Governance Code requirements prescribed by the Central Bank of Bahrain (CBB) are part of this annual report.

SHARI’A SUPERVISORY BOARD REPORT

FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2015

In the name of Allah, the Beneficent, the Merciful

Prayers and Peace Upon the Last Apostle and Messenger, Our prophet Mohammed, His Family and companions.

The Shari’a Supervisory Board (“SSB”) of Khaleeji Commercial Bank has reviewed the Bank’s activities and its subsidiaries which includes the Bank investments, contracts, agreements, structures, products, the consolidated financial statement as of 31st December 2015 and the sources and uses of charity and zakah fund and compared them with the previously issued fatwas and rulings and found them compatible with the already issued fatwas and rulings.

The “SSB” in collaboration with the Shari’a Compliance Department has audited the Shari’a aspects on the Bank’s activities based on the Shari’a audit plan, and discuss its report and approved it.

Respective responsibilities of Board of Directors and “SSB”

The “SSB” believes that it has expressed its opinion in respect of the activities carried on by the Bank and it is the responsibility of the management to ensure the implementation of such decisions. It is the duty of the “SSB” to express an independent opinion on the basis of its control and review of the Bank’s operations and to prepare a report about them.

Basis of opinion

We have conducted our audit and review in accordance with the Auditing Standards for Islamic Financial Institutions issued by “AAOIFI” which required planning and performing the audit through the Shari’a Compliance Department to obtain reasonable assurance about the Bank activities through the examination of documents and transactions by conducting tests of the samples, and that the distribution of profits and loss ‘if any’ on investment accounts is compatible with what has been approved. The “SSB” is further satisfied that any income that is not in compliance with the Glorious Islamic Shari’a has been dispersed to charity account and that the responsibility of the payment of the Zakat lies with the shareholders in their shares.

Opinion

The “SSB” is satisfied that the Bank’s activities and services are in compliance with the Islamic Shari’a rules and principles

Prayers on Prophet Mohammed (Peace Be Upon Him), all his Family and companions.

Dr. Fareed Yaqoob Al-Miftah
Chairman

Dr. Fareed Mohammed Hadi
Executive Member

Shaikh Nizam Mohammed Saleh Yaqoobi
Member

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Report on the consolidated financial statements

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

Respective responsibilities of board of directors and auditors

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

Basis of opinion

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

Opinion

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

Report on other regulatory requirements

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

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

KPMG

KPMG Fakhroo
Partner Registration No. 137
4 February 2016

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015 | BD 000's

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

The consolidated financial statements, which consist of pages 26 to 78, were approved by the Board of directors on 04 February 2016 and signed on its behalf by:

Dr. Ahmed Khalil Al Mutawa
Chairman

Abdulrahman Mohamed Jamsheer
Vice-Chairman

Khalil Ismaeel Al-Meer
Chief Executive Officer

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

KHALEEJI COMMERCIAL BANK المصرف الخليجي التجاري

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2015 | BD 000's

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2015 | BD 000's

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(CONTINUED)*

for the year ended 31 December 2015 | BD 000's

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2015 | BD 000's

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

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

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS

for the year ended 31 December 2015 | BD 000's

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

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

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

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

CONSOLIDATED STATEMENT OF SOURCES AND USES OF CHARITY AND ZAKAH FUND

for the year ended 31 December 2015 | BD 000's

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

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

1 INCORPORATION AND PRINCIPAL ACTIVITY

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

for the year ended 31 December 2015 | BD 000's

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

ii) Impact of changes in accounting policies:

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

for the year ended 31 December 2015 | BD 000's

2 SIGNIFICANT ACCOUNTING POLICIES (continued)
a) New standards, amendments and interpretations effective from 1 January 2015 (continued)
ii) Impact of changes in accounting policies (continued)

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

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

New standards, amendments and interpretations issued but not effective

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of preparation

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

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

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

(d) Basis of consolidation

(i) Subsidiaries

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

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

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

(ii) Associates

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

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

(iii) Transactions eliminated on consolidation

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

(e) Foreign currency transactions

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Foreign currency transactions (continued)

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

(f) Investment securities

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

(i) Classification

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

Debt-type Instruments:

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

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

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

Equity-type investments:

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

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

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

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

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

ii) Recognition and de-recognition

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

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

(iii) Measurement

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Investment securities (continued)

(iii) Measurement (continued)

statement of changes in equity and presented in a separate fair value reserve within equity. The fair value gains/losses are recognised taking into consideration the split between portions related to owners' equity and equity of investment account holders. When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in equity is transferred to the income statement.

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

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

(iv) Measurement principles

Amortised cost measurement

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

Fair value measurement

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

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

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

(g) Financing assets

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

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

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

(i) Cash and cash equivalents

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

(j) Assets acquired for leasing

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

(k) Investment property

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Development properties

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

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

(m) Property and equipment

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

(n) Impairment of assets

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

Financial assets carried at amortised cost

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

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

Equity investments carried at fair value through equity (FVTE)

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

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

Other non-financial assets

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Customers' current accounts

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

(p) Equity of investment account holders

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

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

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

(q) Restricted investment accounts

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

(r) 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.

(s) Treasury shares

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

(t) 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.

(u) Revenue recognition

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Revenue recognition (continued)

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

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

(v) Earnings prohibited by Shari'a

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

(w) Zakah

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

(x) Employee benefits

(i) Short-term benefits

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

(ii) Post-employment benefits

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

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

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

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

(iii) Share-based employee incentive scheme

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

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

(y) Dividends and board remuneration

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

(z) 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.

(aa) Offsetting

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

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2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

3. CASH AND BANK BALANCES

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

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

4. PLACEMENTS WITH FINANCIAL INSTITUTIONS

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

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

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5. FINANCING ASSETS

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

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

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

The movement in impairment allowances are as follows:

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

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

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6. INVESTMENT IN SUKUK

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

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

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

7. ASSETS ACQUIRED FOR LEASING

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

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

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

8. INVESTMENT IN EQUITY SECURITIES

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

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8. INVESTMENT IN EQUITY SECURITIES (continued)

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

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

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

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

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

9. INVESTMENT IN ASSOCIATES

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

Investment in associates comprise:

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

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

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

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KHALEEJI COMMERCIAL BANK المصرف الخليجي التجاري

10. INVESTMENT PROPERTY

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

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

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

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

11. DEVELOPMENT PROPERTY

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

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

Movement of provision for decline in net realisable value:

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

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11. DEVELOPMENT PROPERTY (continued)

Movement of provision for decline in net realisable value: (continued)

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

12. OTHER ASSETS

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

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

13. PROPERTY AND EQUIPMENT

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

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14. PLACEMENTS FROM NON-FINANCIAL INSTITUTIONS AND INDIVIDUALS

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

These represent placements in the form of Murabaha contracts.

15. OTHER LIABILITIES

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

16. EQUITY OF INVESTMENT ACCOUNT HOLDERS

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

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

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

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

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

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17. SHARE CAPITAL

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

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

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

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

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

* Expressed as a percentage of total outstanding shares of the Bank.
** Includes treasury shares and unvested employee incentive scheme shares.

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

	Nationality	Number of shares	% of total outstanding shares
GFH Financial Group *	Bahrain	469,991,351	47.00
Al Imtiaz Investment Company KSCC	Kuwait	140,101,761	14.01
Emirates Islamic Bank PJSC	UAE	86,186,596	8.61
Khaleeji Commercial Bank B.S.C	Bahrain	63,223,797	6.30

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

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18. INCOME FROM SUKUK

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

19. INCOME FROM EQUITY SECURITIES

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

20. STAFF COST

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

21. OTHER EXPENSES

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

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22. IMPAIRMENT ALLOWANCES

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

23. SHARE-BASED EMPLOYEE INCENTIVE SCHEME

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

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

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

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

24. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Judgements

Classification of investments

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

Special purpose entities

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

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

Estimations

Impairment of equity investments

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

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

Estimations (continued)

Impairment of equity investments (continued)

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

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

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

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

Fair value of unquoted equity securities

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

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

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

Impairment of financing assets

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

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

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

25. ASSETS UNDER MANAGEMENT

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

26. RELATED PARTY TRANSACTIONS

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

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

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

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

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

Compensation of key management personnel

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

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

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

Transactions with restricted investment accounts

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

26. RELATED PARTY TRANSACTIONS (continued)

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

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

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

26. RELATED PARTY TRANSACTIONS (continued)

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

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

27. EARNINGS PER SHARE

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

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

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

28. SHARI'A SUPERVISORY BOARD

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

29. ZAKAH

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

30. SEGMENT REPORTING

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

Corporate and retail banking

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

Investment banking

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

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

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

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

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

30. SEGMENT REPORTING (continued)

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

30. SEGMENT REPORTING (continued)

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

30. SEGMENT REPORTING (continued)

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

30. SEGMENT REPORTING (continued)

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

31. MATURITY PROFILE

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

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

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31. MATURITY PROFILE (continued)

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

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

(a) Industry sector

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

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

(a) Industry sector (continued)

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

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

(b) Geographic sector

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

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

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

(b) Geographic sector (continued)

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

33. FAIR VALUE

a) Fair value of financial instruments

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

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

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

b) Fair value hierarchy

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

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

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

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

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

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

34. RISK MANAGEMENT

Introduction and overview

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

- credit risk
- liquidity risk
- market risks
- operational risks

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

Risk management framework

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

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

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

CREDIT RISK

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

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

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

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements and submitting the same for approval to the Board of Directors.

- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are not at present allocated to business units. Smaller exposures are approved by the Executive Credit & Investment Committee. Larger facilities require approval by the Chief Executive Officer, Board Investment and Credit Committee or the full Board, as the case may be.

- Reviewing and assessing credit risk. RMD assesses all credit exposures and signs off on the relevant proposals prior to approval of the facilities by the appropriate authorities. Renewal and review of facilities are subject to the same process.

- Limiting concentrations of exposure to counterparties, countries and industries in respect of financing assets, assets acquired for leasing as well as investments.

- Developing and maintaining the Bank's risk gradings in order to categorise exposures according to the degree of probable risk of financial loss to focus management on the attendant risks. The risk grading system is also used to identify specific exposures for which impairment provisions may be required. The risk grading framework for the Bank's financing portfolio consists of ten grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive/committee as appropriate on the recommendations of the RMD. Risk grades are subject to regular reviews by RMD.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product

34. RISK MANAGEMENT (continued)

CREDIT RISK (continued)

types. Regular reports are submitted to the Board on the compliance levels. RMD also provides advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

- Each business unit is required to implement the Bank credit policies and procedures in respect of exposures assumed by them and are responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, irrespective of the approving authority for the exposure. Regular audits of business units and Bank credit processes are undertaken by Internal Audit.

Exposure to credit risk

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

34. RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Exposure to credit risk (continued)

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

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

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

34. RISK MANAGEMENT (continued)

CREDIT RISK (continued)

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

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

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

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

During the year, the Bank enforced collaterals of three non-performing financing facilities by transfer of ownership of three land plots and thirteen villas in the name of the Bank (refer note 9). Two of the three facilities were fully settled and one facility was rescheduled.

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

34 RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Collaterals (continued)

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

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

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

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

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

Settlement risk

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

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

LIQUIDITY RISK

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

Management of liquidity risk

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

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

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

34. RISK MANAGEMENT (continued)

LIQUIDITY RISK (continued)

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

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

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

For maturity profile of assets and liabilities refer note 28.

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

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

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

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

34. RISK MANAGEMENT (continued)

MARKET RISK (continued)

Exposure to profit rate risk–non–trading portfolios

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

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

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

34. RISK MANAGEMENT (continued)

MARKET RISK (continued)

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

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

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

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

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

34. RISK MANAGEMENT (continued)

MARKET RISK (continued)

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

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

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

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

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

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

Exposure to other price risks–non–trading portfolios
Credit spread risk on debt securities is subject to regular monitoring by RMD, but is not currently significant in relation to the overall financial position of the Bank.

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

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

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

34. RISK MANAGEMENT (continued)

CAPITAL MANAGEMENT

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

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

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

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

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

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

As at 31 December the Bank has made regulatory adjustments of BD 10,229 thousand. In line with the CBB requirements.

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

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

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

	31 December 2015	31 December 2014
Total risk weighted assets	**600,835**	450,894
Tier 1 capital		
- CET 1 capital prior to regulatory adjustments	116,070	102,133
- Less: regulatory adjustments	(10,324)	-
CET 1 after regulatory adjustments	**105,746**	102,133
AT 1	-	-
Tier 2 capital	4,181	2,997
Total regulatory capital	**109,927**	105,130
Total regulatory capital expressed as a percentage of total risk weighted assets	**18.30%**	23.32%
Liquidity coverage ratio	**96.45%**	N/A
Net stable funding ratio	**76.14%**	N/A
Leverage ratio	**22.83%**	N/A

31. RISK MANAGEMENT (continued)

CAPITAL MANAGEMENT (continued)

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

Capital allocation

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

35. PROPOSED APPROPRIATIONS

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

36. COMMITMENTS

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

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

Performance obligations

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

37. SOCIAL RESPONSIBILITY

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

38. COMPARITIVES

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

These disclosures have been prepared in accordance with the Public Disclosure Module ("PD"), Section PD-1.3: Disclosures in Annual Reports, CBB Rule Book, and Volume II for Islamic Banks. To avoid any duplication, information required under PD module but already disclosed in other sections of annual report has not been reproduced. These disclosures are part of the annual report for the year ended 31 December 2015 and should be read in conjunction with the consolidated financial statements for the year ended 31 December 2015 and other sections of the annual report.

EXECUTIVE SUMMARY

The Central Bank of Bahrain's ("CBB") Basel III guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1 January 2015. The banks are required to maintain minimum capital adequacy ratio of 12.5% on a consolidated basis [i.e. CET1 – 6.5%, AT1-1.5%, Tier 2 – 2% and CCB – 2.5%] and a capital adequacy ratio of 8% on a solo basis [i.e. CET1 – 4.5%, AT1 – 1.5% and Tier 2 – 2%]. These disclosures have been prepared in accordance with the CBB requirements outlined in the Public Disclosure Module ("PD"), Section PD-1.3: Disclosures in Annual Reports, of the CBB Rule Book, Volume II for Islamic Banks. Section PD-1.3: Disclosures in Annual Reports. Section PD-1.3 reflects the requirements of Basel II - Pillar III and the Islamic Financial Services Board's ("IFSB") recommended disclosures for Islamic banks and PD 3.1.6 highlights the requirement to make quantitative disclosures described in PD-1.3 on their web site along with the yearly financial statements.

The disclosures in this report are in addition to or in some cases, serve to clarify the disclosures set out in the consolidated financial statements for the year ended 31 December 2015, presented in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"). To avoid any duplication, information required under PD module but already disclosed in other sections of the annual report has not been reproduced in these disclosures.

All figures presented in this section are reported in Bahraini Dinars (in thousand) and are as of 31 December 2015 unless otherwise stated.

Khaleeji Commercial Bank BSC ("the Bank" or "KHCB") has adopted the Standardised Approach for Credit Risk and Market Risk and the Basic Indicator Approach for Operational Risk to determine its capital requirements, details of which are given in section 2. This section contains a description of the Bank's risk management and capital adequacy policies and practices including detailed quantitative information on risk components and capital adequacy.

The Bank's common equity tier I (CET1), Additional tier I (AT1) and total capital adequacy ratios comply with the minimum capital requirements under the CBB's Basel III framework.

The Banks total risk weighted assets as at 31 December 2015 amounted to BD 600,836 thousand. Credit risk accounted for 91.2%, market risk 2.6% and operational risk 6.2% of the total risk weighted assets. Common equity tier I and total regulatory capital were BD 105,746 and BD 109,928 thousand respectively as at 31 December 2015.

At 31 December 2015, Bank's CET1, AT1 and total adequacy ratios were 17.60% and 18.30% respectively.

1 GROUP STRUCTURE

The Bank operates under a retail banking license granted by the CBB on 20 October 2003. The Bank has 5 subsidiaries. These are not significant to the Bank. The subsidiaries set-up are primarily special purpose entities with nominal capital to execute specific investment transactions. The subsidiaries qualify as commercial entities as per the CBB guidelines and are risk weighted as investments for capital adequacy computation purposes.

2 INTRODUCTION TO BASEL III & RISK MANAGEMENT

The CBB has mandated that the Basel Committee on Banking Supervision's ("Basel Committee"). Basel III capital adequacy framework is applicable to all banks incorporated in the Kingdom of Bahrain from 1 January 2015. The Bank has accordingly taken steps to comply with these requirements. The Basel III framework is intended to strengthen risk management practices and processes within the financial institutions.

CBB's capital adequacy framework is based on three pillars, consistent with the Basel III framework adopted by the Basel Committee, as follows:

- Pillar I: calculation of the risk weighted assets ("RWA" or "RWA's") and capital requirement.
- Pillar II: the supervisory review process, including the Internal Capital Adequacy Assessment Process ("ICAAP").
- Pillar III: rules for disclosure of risk management and capital adequacy information.

Pillar I

Pillar I defines the regulatory minimum capital requirements for each bank to cover the credit risk, market risk and operational risk inherent in its business model. It also defines the methodology for measurement of these risks and the various elements of qualifying capital. The capital adequacy ratio is calculated by dividing the regulatory capital base by total RWA's. CBB has mandated that the ratio be maintained at a minimum of 12% and has set a trigger ratio of 12.5%. If the capital adequacy ratio falls below 12.5%, additional prudential reporting requirements apply, and a formal action plan to restore the ratio above the trigger level is to be formulated and submitted to the CBB.

The table below summarizes the Pillar I risks and the approach used by the Bank to calculate the RWA's in each case in accordance with the CBB's Basel III capital adequacy framework:

Risk Type	Approach used by the Bank
Credit Risk	Standardised Approach
Market Risk	Standardised Approach
Operational Risk	Basic Indicator Approach

Pillar II

Pillar II defines the process of supervisory review of an institution's risk management framework and, ultimately its capital adequacy.

Pillar II comprises two processes:

- An Internal Capital Adequacy Assessment Process ("ICAAP"), and
- A supervisory review and evaluation process.

The Bank has in place ICAAP procedures for computation of economic capital for all risks including those not covered under Pillar I. The Bank regularly monitors its internal capital adequacy ratio to ensure that there is adequate cover for all risks faced by the Bank.

2 INTRODUCTION TO BASEL III & RISK MANAGEMENT (CONTINUED)

Pillar III

Pillar III complements the other two pillars and focuses on enhanced transparency in disclosure of information by the Banks to promote better market discipline. The information to be disclosed covers all areas including business performance, capital adequacy, risk management, etc. The disclosures are designed to enable stakeholders and market participants to assess an institution's risk appetite and risk exposures and to encourage all banks, via market pressures, to move towards more advanced forms of risk management.

In April 2008, CBB published a paper covering the detailed disclosure requirements to be followed by licensed banks in Bahrain to be in compliance with Pillar III under the Basel II framework. This document is prepared in accordance with these directives.

2.1 The risk management function

The Board of Directors has overall responsibility for risk management in the Bank. The Board lays down the risk management policies of the Bank and quantifies its risk appetite through appropriate definitions of various risk limits and tolerances. The Board discharges its risk management responsibilities through the Board Audit & Risk Management Committee ("BARMC").

The Board has established an Executive Risk Management Committee ("ERMC"), which is responsible for developing and monitoring Bank risk management policies in the specified areas. The committee consists of heads of business and other functional units in the Bank and reports regularly to the BARMC. The committee meets on a monthly basis as per set agenda and its Terms of Reference covering all risk issues and policy matters.

The day to day risk management functions are performed by the Risk Management Department ("RMD") of the Bank. RMD is responsible to ensure that the policies laid down by the Board are consistently implemented across the Bank and to review the adequacy of these policies periodically. It monitors all risk taking activities and ensures that the risk limits defined by the Board are complied with. The department has specialized personnel dealing with Credit, Market, and Operational Risks. It is independent of all risk taking functions in the Bank and reports to the BARMC through the ERMC chaired by the CEO.

The Asset Liability Management Committee ("ALCO") of the Bank acting through the Treasury Department monitors the Bank's liquidity position and recommends appropriate action to the Board where necessary. There is a high level of coordination between the RMD, ERMC and ALCO.

The RMD prepares a risk overview report on a quarterly basis which covers in detail the various risks faced by the Bank and the same is discussed at the ERMC, BARMC and the Board on a quarterly basis.

The Bank considers that its overall risk management strategies have been effective throughout the reporting period.

All policies having significant impact on the overall internal control framework existing in the Bank are subject to periodic review and approval by the Board of Directors.

The RMD, together with the Internal Audit and Compliance Departments, provides independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors.

3 CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO

3.1 Capital management

The Bank's policy is to maintain a strong capital base to develop and retain investor, creditor and market confidence and to sustain business growth. The Bank recognises the impact of a high level of capital on shareholders' returns, while not losing sight of the security and market confidence afforded by a sound capital base. The Bank aims to maintain a minimum total capital adequacy ratio significantly in excess of that mandated by the CBB.

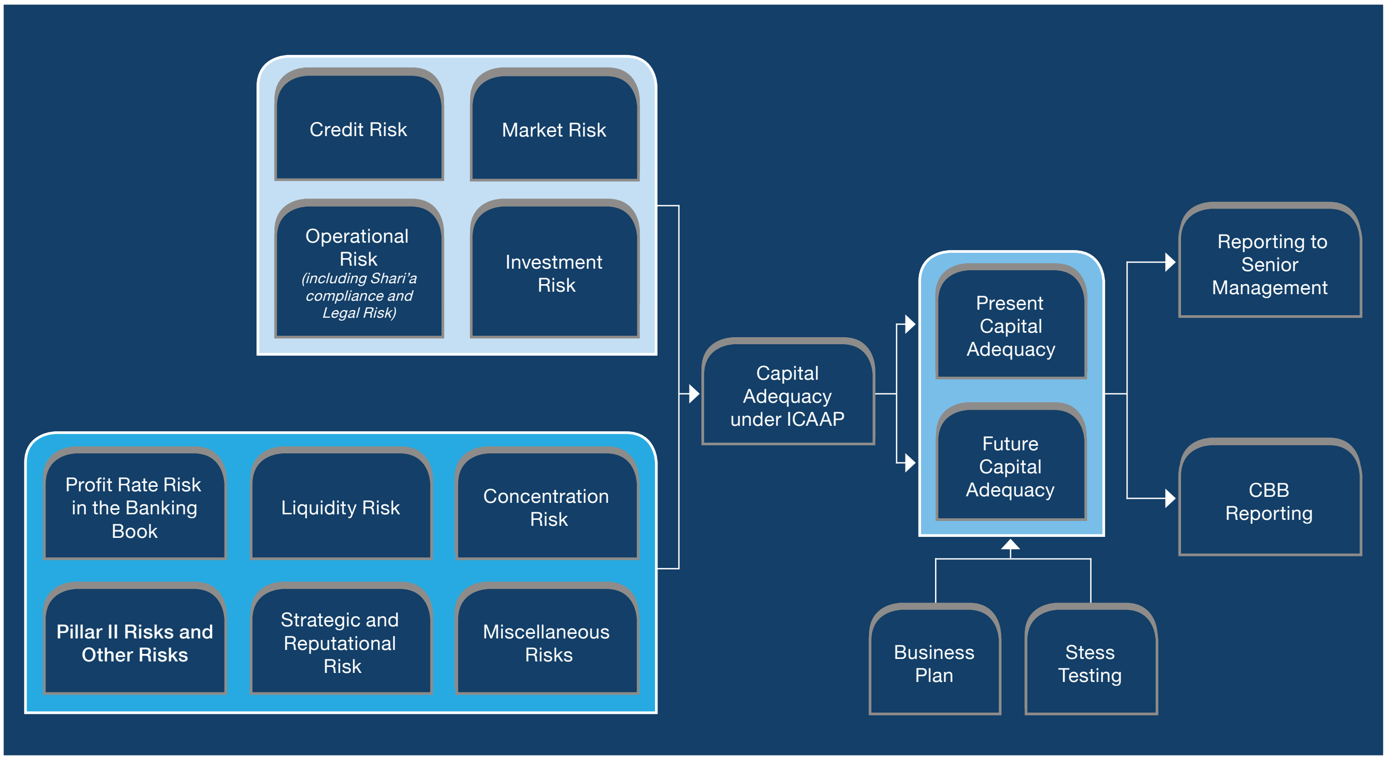
3.2 Internal Capital Adequacy Assessment Process ("ICAAP")

The Bank has an established ICAAP as per the requirements under Pillar II of Basel II. ICAAP prescribes procedures and measures designed to ensure appropriate identification, measurement, aggregation and monitoring of the Bank's risks. It also defines an appropriate level of internal capital in relation to the Bank's overall risk profile and business plan.

3 CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO (CONTINUED)

3.2 Internal Capital Adequacy Assessment Process ("ICAAP") (continued)

ICAAP framework at the Bank



3.2.1 Risk addressed by the ICAAP

Risk Type	Metrics based on which internal capital is allocated
Credit risk Market risk Investment risk Operational risk	Regulatory capital adequacy guidelines to be used as proxy for internal capital for Pillar I risks
Liquidity risk	Maximum cumulative maturity gap, Liquidity ratio, Financing to deposit ratio
Profit rate risk (banking book)	Revaluation / sensitivity of the re-pricing gaps
Credit concentration risk	Thresholds for counterparty, country, sector exposures
Fiduciary Risk	Size of off balance sheet special purpose vehicles (RIA's) & Large Investment Products
Reputational risk	Credit quality, Operational risk, Reputation related loss
Other Risks (strategic, Shari'a / regulatory compliance, business cycle)	Additional capital based on Pillar I risk weighted exposures

BD 000's

3 CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO (CONTINUED)

3.3 Capital structure, minimum capital requirements and capital adequacy

Eligible capital	31 December 2015
Common Equity Tier 1 (CET1)	
Issued and fully paid ordinary shares	100,000
Statutory reserve	7,411
Retained earnings	8,745
Unrealized gains and losses on available for sale financial instruments	(86)
Total CET1 capital prior to the regulatory adjustments	**116,070**
Less: Investment in own shares	(8,555)
Less: Investments in financial entities where ownership is < 10% of the issued common share capital (amount above 10% CET1a)	(1,769)
Total Common Equity Tier 1 capital after the regulatory adjustments	**105,746**
Other Capital	
AT1	-
General financing loss provision - (Tier 2)	4,182
Total available AT1 & T2 Capital	**4,182**
Total Capital	**109,928**

RISK WEIGHTED ASSETS	31 December 2015
Credit risk weight exposures	547,967
Market risk weight exposures	15,763
Operational risk weight exposures	37,106
Total risk weighted assets	**600,836**
Capital adequacy ratio (CET1 and T1)	**17.60%**
Capital adequacy ratio (Total capital)	**18.30%**

The above capital adequacy ratios are calculated by dividing the respective regulatory capital base by the total RWA's.

Risk weighted assets
Credit risk
For regulatory reporting purposes, the Bank calculates the capital requirements for credit risk based on the standardised approach. Under this approach, the on and off-balance sheet credit exposures are assigned risk weights based on the type of counterparty, type of the exposure, and source of funding (equity of investment account holders ("IAH") or own funds). Further for capital adequacy computations, 100% of the RWA's is reckoned for self-financed assets while only 30% is considered for assets funded through equity of IAH. The risk weights for types of counterparties and exposures are prescribed by CBB.

BD 000's

3 CAPITAL MANAGEMENT & CAPITAL ADEQUACY RATIO (CONTINUED)

3.3 Capital structure, minimum capital requirements and capital adequacy (continued)

Market risk

The Bank uses the standardised approach to measure market risk. Market risk for the Bank is primarily on account of the foreign exchange exposures that are considered as specific risks. As per the CBB guidelines, capital for foreign exchange risk is computed at 8% of overall net open foreign currency positions of the Bank and this is multiplied by 12.5 to derive the market RWA's.

Operational risk

The Bank adopts the Basic Indicator Approach to evaluate operational risk charge in accordance with the CBB Capital Adequacy Module for Islamic Banks. According to this approach, the Bank's average gross income for the past three financial years is multiplied by a fixed coefficient alpha of 15% set by the CBB to arrive at the capital required and a multiple of 12.5 is used to arrive at the RWA's that are subject to capital charge.

Break-up of capital requirement in accordance with the Capital Adequacy Module of the CBB for the year ended 31 December 2015 is as follows:

Exposure classification	Exposure			Risk Weighted Assets *			Capital requirement @ 12.5%		
	Self-financed	IAH	Total	Self-financed	IAH	Total	Self-financed	IAH	Total
Cash and collection items	6,518	-	6,518	-	-	-	-	-	-
Sovereigns	6,013	71,419	77,432	-	-	-	-	-	-
Bahraini PSEs	-	5,654	5,654	-	-	-	-	-	-
Banks	-	53,392	53,392	-	4,902	4,902	-	613	613
Corporates	87,267[1]	217,797[2]	305,064	103,248	65,339	168,587	12,906	8,167	21,073
Residential mortgage	-	-	-	-	-	-	-	-	-
Past due facilities	37,364	-	37,364	53,241	-	53,241	6,655	-	6,655
Investment in equities / sukuks	38,713	-	38,713	133,134	-	133,134	16,642	-	16,642
Holdings of real estate	52,957	-	52,957	173,906	-	173,906	21,738	-	21,738
Other assets	2,367	5,330	7,697	2,367	11,830	14,197	296	1,479	1,775
Credit Risk	**231,199**	**353,592**	**584,791**	**465,896**	**82,071**	**547,967**	**58,237**	**10,259**	**68,496**
Market Risk	**15,763**	**-**	**15,763**	**15,763**	**-**	**15,763**	**1,970**	**-**	**1,970**
Operational Risk	**37,106**	**-**	**37,106**	**37,106**	**-**	**37,106**	**4,638**	**-**	**4,638**
Total	**284,068**	**353,592**	**637,660**	**518,765**	**82,071**	**600,836**	**64,845**	**10,259**	**75,104**

[1] Excludes credit risk mitigants of BD 75,619 thousand.

[2] Excludes credit risk mitigants of BD 17,678 thousand.

* For capital adequacy computations, 100% of the RWA's is reckoned for self-financed assets while only 30% is considered for assets funded through equity of IAH.

BD 000's

KHALEEJI COMMERCIAL BANK المصرف الخليجي التجاري

4 CREDIT RISK

4.1 Credit risk management

Credit Risk is the risk that counterparty fails to meet its obligations in accordance with agreed terms and conditions. The major sources of credit risk in the Bank are under the following classes of assets:

- Placements with financial institutions,
- Financing assets,
- Assets acquired for leasing (including lease rentals receivable), and
- Investments in Sukuk.

For the purpose of capital adequacy computation (as well as certain other tables below) the following have also been considered as a part of credit risk:

- Investments in quoted and unquoted equity,
- Investment in associates,
- Investment property, and
- Other assets (including property and equipment).

The Bank has the necessary internal processes for assessing, monitoring and controlling credit risk both at the individual credit and portfolio levels. Credit limits are approved after a thorough assessment which takes into account the financial strength of the counterparty, the technical feasibility and economic viability of the business being financed, the adequacy and quality of the cash flow available for repayment, etc. in addition to availability of collateral security by way of physical assets or guarantees. The RMD reviews every credit proposal and incorporates its remarks on the proposal before the same is considered by the appropriate authority as per delegated approval levels granted by the Bank's Board of Directors.

At the portfolio level, the Board has established risk concentration limits for single counterparties and related counterparties forming a business group, geographical and economic sectors as well as exposures to counterparties related to the Bank and/or its major shareholders. The RMD regularly monitors compliance with these limits and deviations if any are reported regularly to the Senior Management, Risk Management Committees and the Board of Directors.

4.2 Levels of exposure

The table below shows gross credit exposure along with average credit exposure broken down under different exposure classes as at 31 December 2015:

Gross / Average Credit Exposures	Average Exposure [1]	Gross Exposure		
		Self-financed	IAH	Total
Cash and bank balances [2]	44,062	12,030	29,256	41,286
Placement with financial institutions	52,415	-	43,953	43,953
Financing assets	304,857	87,669	234,529	322,198
Investment in sukuk	70,790	-	63,533	63,533
Assets acquired for leasing	54,537	68,509	-	68,509
Lease rentals receivable	4,819	1,289	-	1,289
Investment in equity securities	68,335	67,801	-	67,801
Investments in associates	2,590	2,605	-	2,605
Investment property	19,008	19,071	-	19,071
Development property	6,788	6,952	-	6,952
Other assets, including property and equipment	19,373	20,960	-	20,960
Total funded exposures	**647,574**	**286,886**	**371,271**	**658,157**
Financial guarantees	7,090	7,427	-	7,427
Undrawn commitments to extend finance	20,652	24,182	-	24,182
Total unfunded exposures [3]	**27,742**	**31,609**	**-**	**31,609**

[1] Represents quarterly average balances for the year ended 31 December 2015.
[2] Represents unfunded exposures amounts after considering their credit conversion factors.
[3] Gross of collective provision.

BD 000's

4 CREDIT RISK (CONTINUED)

4.3 Concentration of credit risk

4.3.1 Geographic distribution

The geographical exposure profile as at 31 December 2015 was as follows:

31 December 2015	GCC Countries	Europe	America	Asia	Australia	Total
Assets						
Cash and bank balances	33,825	1,495	5,928	38	-	41,286
Placements with financial institutions	43,953	-	-	-	-	43,953
Financing assets	299,006	19,708	-	-	-	318,714
Investment in sukuk	63,533	-	-	-	-	63,533
Assets acquired for leasing (including lease rentals receivable)	69,100	-	-	-	-	69,100
Investment in equity securities	43,754	-	-	20,379	3,668	67,801
Investment in associates	2,605	-	-	-	-	2,605
Investment property	19,071	-	-	-	-	19,071
Development property	6,952	-	-	-	-	6,952
Other assets	11,180	900	-	595	-	12,675
Property and equipment	8,285	-	-	-	-	8,285
Total funded exposures	**601,264**	**22,103**	**5,928**	**21,012**	**3,668**	**653,975**
Financial guarantees	19,984	-	-	-	-	19,984
Undrawn commitments to extend finance	60,747	247	-	-	-	60,994
Total unfunded exposures	**80,731**	**247**	**-**	**-**	**-**	**80,978**

4.3.2 Industry / sector-wise distribution

The Board of Directors has stipulated maximum exposures to various industry sectors. The industry / sector wise exposure as at 31 December 2015 was as follows:

31 December 2015	Banks and financial institutions	Real estate	Others	Total
Assets				
Cash and bank balances	41,286	-	-	41,286
Placements with financial institutions	43,953	-	-	43,953
Financing assets *	27,708	87,964	203,042	318,714
Investment in sukuk	1,889	1,640	60,004	63,533
Assets acquired for leasing (including lease rentals receivable)	-	68,093	1,007	69,100
Investment in equity securities	22,471	37,892	7,438	67,801
Investment in associates	-	2,605	-	2,605
Investment property	-	19,071	-	19,071
Development property	-	6,952	-	6,952
Other assets	1,261	2,510	8,904	12,675
Property and equipment	-	6,722	1,563	8,285
Total funded exposures	**138,568**	**233,449**	**281,958**	**653,975**
Financial guarantees	608	2,554	16,822	19,984
Undrawn commitments to extend finance	-	18,389	42,605	60,994
Total unfunded exposures	**608**	**20,943**	**59,427**	**80,978**

* Financing asset exposures have been classified based on the purpose of financing.

BD 000's

4 CREDIT RISK (CONTINUED)

4.3 Concentration of credit risk (continued)

4.3.3 Transactions with related counterparties

Related counterparties are those entities which are related to the Bank through significant shareholding, control, or both. Wherever the Bank has entered into business transactions with such counterparties, such transactions have been done at an arm's length basis and on commercial terms that bring no disadvantage to the Bank. For the purpose of identification of related counterparties, the Bank strictly follows the guidelines issued by CBB.

Detailed break up is presented in note 26 of the consolidated financial statements for the year ended 31 December 2015.

4.3.4 Exposures exceeding materiality thresholds

The Bank is required to carry out capital adjustments (deduction) for its exposure to significant investments in capital of banking and financial entities subject to certain materiality thresholds as defined in the Capital Adequacy Module ("CA Module") of the CBB Rule Book.

Further, the exposures in excess of limits prescribed by Credit Risk Management Module ("CM Module") (single obligor limit of 15% of total capital and aggregate limit for connected counterparty exposure of 25% of total capital) are subject to risk weight of 800%. The following table summarises the exposures exceeding regulatory limits as of 31 December 2015:

Counterparty	Exposure type	Total exposure	Exposure as a % of eligible capital	Risk weighted @800%
Connected counterparties	Investments, financing and other assets	41,582	37.93%	13,382
Investment in financial entities	Investment in financial entities <10%	19,598	17.88%	8,847*

*In line with the transitional provisions of CA module 20% of the exposure exceeding materiality threshold (BD 1,769 thousand) has been considered for regulatory capital adjustment.

4.3.5 Exposures in highly leveraged counterparties

The Bank has no exposure to highly leverage and other high risk counterparties as per definition provided in the PD module of CBB rulebook paragraph PD 1.3.24.

4.3.6 Residual contractual maturity of the credit portfolio and investment in sukuks

The Bank's policy allows exposures up to a maximum period of 7 years for corporate customers and 25 years for retail customers with any exceptions to be approved by the Board of directors. The Bank constantly monitors the residual maturity profile of its assets to ensure that any mismatch with the maturity of its liabilities is kept within acceptable limits. The contractual residual maturity profile by type of financing contract of the Bank's credit portfolio and investment in sukuks is given in the table below:

Maturity Scale	< 1 M	1 - 3 M	3 - 6 M	6M - 1Y	1 - 3Y	3 - 5Y	5 - 10Y	10 - 20Y	Over 20Y	Total
Credit portfolio:										
Murabaha	13,718	19,086	12,546	29,896	50,778	62,569	77,247	-	-	265,840
Musharaka	1,038	2,389	-	4,010	13,047	1,342	481	-	-	22,307
Mudharaba	-	-	-	-	-	-	-	1,239	-	1,239
Wakala	4,224	6,223	4,392	410	14,044	-	-	-	-	29,293
Istisna	35	-	-	-	-	-	-	-	-	35
Ijarah	-	533	-	-	472	1,915	12,102	42,661	11,417	69,100
Total	**19,015**	**28,231**	**16,938**	**34,316**	**78,341**	**65,826**	**89,830**	**43,900**	**11,417**	**387,814**
Investment in Sukuk	63,533	-	-	-	-	-	-	-	-	63,533
Grand Total	**82,548**	**28,231**	**16,938**	**34,316**	**78,341**	**65,826**	**89,830**	**43,900**	**11,417**	**451,347**

The Board approved internal cap for real estate exposure at 40% of total assets. The Bank's real estate exposure as of 31 December 2015 and 2014 are within the policy limit.

4.4 Equity risk in banking book

The Bank has certain equity investments classified in the banking book and are subject to credit risk weighting under the capital adequacy framework. For regulatory capital computation purposes, the Bank's equity investments in the banking book include quoted/unquoted equity investments, and investments in associates being non-financial entities.

Please refer to notes 2 and 22 of the consolidated financial statements for policies covering the accounting of equity holdings, including the accounting policies and valuation methodologies used, key assumptions and practices affecting valuation.

BD 000's

4 CREDIT RISK (CONTINUED)

4.4 Equity risk in banking book (continued)

The RMD works alongside the Investment Department at all stages of the deal cycle, from pre-investment due diligence to exit, and provides an independent review of every transaction. An impairment assessment of investments takes place every quarter with inputs from the Investment department and RMD. Quarterly updates of investments are reviewed by the Board of Directors and are submitted to the CBB.

The Bank's equity investments are predominantly in its own products, which includes private equity and infrastructure development projects. The intent of such investments is a later stage exit along with the investors, by means of strategic sell outs at the project level or through initial public offerings. The Bank also has a strategic investment portfolio which is aligned with the long term investment objectives of the Bank.

Information on equity investments

Privately held	64,247
Listed equity securities	3,554
Dividend income	538
Realised gain during the year	339

The following are the categories under which equity investments are included in the capital adequacy computations as per the requirements of the CBB rules:

Equity investments in banking book	Gross exposure		Risk weighted exposure		Capital charge @12.5%	
	Self-financed	IAH	Self-financed	IAH	Self-financed	IAH
Listed	3,492	-	3,492	-	437	-
Unlisted	23,404	-	35,106	-	4,388	-
Investments in unlisted real estate companies	28,513	-	114,052	-	14,257	-
Unquoted equity investment	10,623	-	84,984	-	10,623	-
Capital deduction (no RW)	1,769	-	-	-	-	-
Total	**67,801**	**-**	**237,634**	**-**	**29,705**	**-**

4.5 Risk grading of exposures

The Bank has an internal risk grading system for credit exposures based on a 10 point scale in which grades 8 through 10 are non-performing with grades 9 and 10 classified as impaired exposures. Each counterparty credit exposure is assigned a risk grade based on several quantitative and qualitative factors, including financial strength, past record and availability of collateral security. The grading is done at the time of assuming an exposure and on each renewal of the same. The grading sheets are prepared by the Business Department and reviewed by the RMD. Grades are continuously monitored by the Bank's Credit Administration Unit within RMD and exposures are downgraded as and when the quality of the exposure is found to have deteriorated, based on clear criteria laid out in the Bank's credit policy. Further, the grading for corporate customers is also subject to review at least on an annual basis. Movement of grades for credit exposures is reported quarterly to the Board.

For exposures or potential exposures on banks and financial institutions, the Bank has established internal ratings with a six point scale from A to F, in descending order of creditworthiness. These ratings are derived on the basis of the external credit ratings provided by Moody's, Standard & Poor (S&P), Capital Intelligence (CI) & Fitch. When the ratings of S&P and/or Moody's are available, those ratings will be used. In case of differences in ratings from these agencies, the more conservative rating is used for classification. The ratings of these agencies have been mapped to internal categories as follows:

BD 000's

4 CREDIT RISK (CONTINUED)

4.5 Risk grading of exposures (continued)

<table>
<tr><th rowspan="2">External rating agencies</th><th colspan="6">Internal Rating</th></tr>
<tr><th>A</th><th>B</th><th>C</th><th>D</th><th>E</th><th>F</th></tr>
<tr><td>S & P</td><td>>= AA-</td><td>>=A-</td><td>>=BBB-</td><td>>=B-</td><td>Below B-</td><td rowspan="4">Unrated</td></tr>
<tr><td>Moody's</td><td>>=aa3</td><td>>=A3</td><td>>=Baa3</td><td>>=B3</td><td>C & D</td></tr>
<tr><td>CI</td><td>>= AA-</td><td>>=A-</td><td>>=BBB-</td><td>>=B-</td><td>C & D</td></tr>
<tr><td>Fitch</td><td>>= AA-</td><td>>=A-</td><td>>=BBB-</td><td>>=B-</td><td>Below B-</td></tr>
</table>

Please refer to note 34 of the consolidated financial statements for the year ended 31 December 2015, for details of the grading profile of credit exposures of the Bank.

4.6 Past dues, impaired accounts, provisions

Customers may occasionally fail to meet their obligations to the Bank on due dates. Any amount not paid when due is classified as past due and the Bank initiates focused recovery efforts on such accounts. Any account which is past due for 30 days or more is classified as "Watch List"/ Grade 7 and clearly defined procedures are in place for follow-up and monitoring of such accounts.

However, if the account remains past due for a continuous period of 90 days it is considered as non-performing and classified as Grade 8. The Bank conducts a comprehensive review of all such accounts on a quarterly basis and where provisions are necessary; those exposures are classified as impaired (Grade 9/10). Provisions are created through income statement where necessary. Such provisions are made on the basis of expected shortfall in present value of projected future cash flows from the assets / securities and the estimates of such cash flows are done on a conservative basis.

On each year-end, the Bank reviews all financial assets classified at fair value through equity for any objective evidence that the financial assets are impaired. In case of any such evidence, the asset is revalued at lower of cost of acquisition and its estimated recoverable amount and a provision is created for the difference amount through the income statement.

For a detailed policy on impairment of financial assets, please refer to note 2 (m) of the consolidated financial statements for the year ended 31 December 2015.

For the quantitative disclosures relating to exposures which were past due or impaired as of 31 December 2015, please refer to note 34 of the consolidated financial statement for the year ended 31 December 2015.

During the year 2015, the Bank has undertaken a detailed assessment of its credit portfolio and has considered specific impairment allowances where necessary. In addition, the Bank has maintained a collective provision at a certain percentage of unimpaired assets based on the internal risk grades assigned to counterparties. The total collective provision thus maintained works out to approximately 1% of its financing assets, assets acquired for leasing, and lease rentals receivable. This practice is in line with the CBB requirements and the industry best practice in Bahrain.

For break-up of provisions on financing assets, sukuk and equity securities, please refer to notes 5, 6 and 8, respectively, of the consolidated financial statement for the year ended 31 December 2015.

BD 000's

4 CREDIT RISK (CONTINUED)

4.6 Past dues, impaired accounts, provisions (continued)

4.6.1 Geographical and sector-wise break-up of impairment allowances and impaired / past due accounts (financing facilities)

	GCC Countries	Europe	Asia	Total
Impaired:				
3 months to 1 year	2,799	-	-	2,799
1 year to 3 years	2,341	-	-	2,341
More than 3 years	10,064	-	-	10,064
	15,204	-	-	15,204
Less: specific impairment allowance:				
At 1 January 2015	10,192	-	-	10,192
Charge during the year	2,232	-	-	2,232
Write back during the year	(1,182)	-	-	(1,182)
Write off during the year	(933)	-	-	(933)
	10,309	**-**	**-**	**10,309**
Carrying amount	**4,895**	**-**	**-**	**4,895**
Past due but not impaired, including substandard:				
Up to 3 months	34,901	707	-	35,608
3 months to 1 year	25,110	-	-	25,110
More than 1 year	40	-	-	40
	60,051	**707**	**-**	**60,758**
Collective impairment allowance *	**3,973**	**137**	**72**	**4,182**

* Collective impairment allowance is allocated based on exposure excluding impaired exposures on which specific provision is maintained.

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4 CREDIT RISK (CONTINUED)

4.6 Past dues, impaired accounts, provisions (continued)

4.6.1 Geographical and sector-wise break-up of impairment allowances and impaired / past due accounts (Continued)

	Banks and financial institutions	Real estate	Others	Total
Impaired:				
3 months to 1 year	-	2,140	659	2,799
1 year to 3 years	-	703	1,638	2,341
More than 3 years	-	5,908	4,156	10,064
		8,751	**6,453**	**15,204**
Less: specific impairment allowance:				
At 1 January 2015	1,175	3,796	5,221	10,192
Charge during the year	-	1,519	713	2,232
Write back during the year	(767)	(208)	(207)	(1,182)
Write off during the year	(408)	-	(525)	(933)
	-	**5,107**	**5,202**	**10,309**
Carrying amount	**-**	**3,644**	**1,251**	**4,895**
Past due but not impaired, including substandard:				
Up to 3 months	-	14,854	20,754	35,608
3 months to 1 year	8,515	8,214	8,381	25,110
More than 1 year	-	-	40	40
	8,515	**23,068**	**29,175**	**60,758**
Collective impairment allowance *	**294**	**1,729**	**2,159**	**4,182**

* Collective impairment allowance is allocated based on exposure excluding impaired exposures on which specific provision is maintained.

4.7 Renegotiated facilities

For disclosure of renegotiated facilities, please refer to note 34 of the consolidated financial statements for the year ended 31 December 2015.

4.8 Legal action and write-off of exposures

The Bank has policy for initiation and prosecution of legal action when all amicable avenues for settlement of dues from a customer have been exhausted. As of 31 December 2015, the Bank was involved in Twenty Seven litigations for recovery of dues from clients amounting to BD 1,452,200 in addition, there were claims by seven of the clients against the Bank amounting to BD 1,128,900 in relation to restricted investment accounts and customer accounts.

The Bank has a policy that permits write-off of exposures when there is no possibility of recovery of the dues through legal and other means.

4.9 Penalties for delayed payments

In cases where customers delay the payment of dues to the Bank, the Bank has the right to collect penalties, subject to the provisions of the agreement between the customer and the Bank. The Bank recovers such penalties from customers when the amounts are significant. As per policy, such penalties are maintained in a separate account and used for charity purposes approved by the Bank's Shari'a Board.

The Bank has a policy of creating a contribution for Charity and Zakah fund for any non-Islamic income earned. During the year ended 31 December 2015, an amount of BD 61 thousand was thus transferred to Charity and Zakah fund.

For quantitative disclosures, please refer to consolidated statement of sources and uses of charity and Zakah fund in the consolidated financial statements for the year ended 31 December 2015.

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4 CREDIT RISK (CONTINUED)

4.10 Credit risk mitigation

The Bank uses a variety of tools to mitigate its credit risk, the primary one being that of securing the exposure by suitable collateral security. While existence of collateral security is not a policy precondition for financing, in practice a large part of existing exposures are at least partially supported by collateralised security. The Bank has clear policies on the type of assets that can be accepted as collateral security and the mode of valuation of these assets. In general, all assets accepted as collateral are valued at least once in a year. The legal validity and enforceability of the documents used for creating these collaterals have been established by external legal experts.

The position of collateral cover for all credit exposures categorised on the basis of the type of security as on 31 December 2015 is given in the table below:

Collateral Type	Murabaha	Musharaka	Mudharaba	Wakala	Istisna	Ijara	Value of collateral[1]	Gross Exposure[2]	% of cover	% of Total
Real estate	177,072	46,410	-	6,125	2,844	136,781	369,232	222,858	166%	85%
Listed securities	542	-	-	-	-	-	542	298	182%	0%
Unlisted securities	-	-	-	-	-	-	-	-	-	0%
Bank guarantee	15,954	-	-	-	-	-	15,954	4,412	362%	4%
Cash collateral	26,431	-	-	616	-	36	27,083	49,298	55%	6%
Others	-	-	-	-	-	-	-	106,469	-	0%
Unsecured	22,606	-	-	-	-	-	22,606	25,367	89%	5%
Total	**242,605**	**46,410**	**-**	**6,741**	**2,844**	**136,817**	**435,417**	**408,702**	**107%**	**100%**

[1] Represents collateral values based on the last valuation carried out based on the Bank's valuation policy including collaterals which exceed the book value of facility.

[2] The amounts are gross of collective impairment allowance of BD 4,182 thousand and specific impairment allowance of BD 10,309 thousand.

Real estate properties are reckoned at values certified by qualified valuators. Other physical assets like machinery are valued at book value, invoice value or as certified by an outside expert. Listed securities are valued at market price while un-listed ones are carried at cost less impairment. The Bank has an approved panel of valuators for real estate property. Valuation exercise is supervised by RMD, independent of the business units.

Facilities are also often secured by personal/ corporate guarantees, joint ownership of vehicles, assignment of contract proceeds, assignment of insurance policies, etc. However under the Bank's credit policy these are not treated as tangible securities and the value of such guarantees/ assignments, though significant in many cases, are taken as nil for the purpose of the above analysis.

Assets financed under Ijara Muntahia Bittamleek are considered at par with physical collateral and included under Real Estate or Others in the above calculations.

The declared value of exposures in all cases is the gross exposure before any provisions. The Bank does not carry out any on or off balance sheet netting for the securities held. The Bank has claimed any capital relief for Credit Risk Mitigation under Section CA 4.7 of the Capital Adequacy Module of CBB rule book and hence all exposures are risk weighted at their gross values for the purpose of computation of capital adequacy ratio.

The Bank has a policy of disposal of asset held as collateral not readily convertible into cash, after completion of necessary legal formalities.

4.11 Regulatory capital requirements by type of financing contracts

Financing contract	Exposure		Credit Risk Weighted Assets		Capital Requirement @ 12.5%	
	Self-financed	IAH	Self-financed	IAH	Self- financed	IAH
Murabaha	64,223	205,778	70,662	56,430	8,833	7,054
Ijara assets (including lease rentals receivable)	69,100	-	404	-	51	-
Musharaka	22,171	-	22,171	-	2,771	-
Mudharaba	1,188	-	1,188	-	149	-
Wakala	3,000	28,716	3,000	8,615	375	1,077
Istisna	-	35	-	11	-	1
Total	**159,682**	**234,529**	**97,425**	**65,056**	**12,179**	**8,132**

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5 MARKET RISK

5.1 Market risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates, profit rates, equity prices, and commodity prices will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

CBB rules require that the Bank separates its exposure to market risk between trading and non-trading portfolios. The Bank has no trading positions in equity or commodities and the main source of market risk for the Bank is its foreign exchange exposure and sukuk exposure, although this is quite limited. There is also an extent of profit rate risk arising out of mismatches in its asset liability structure. The Bank has well-defined policies approved by the Board with clear risk limits and thresholds to effectively manage its market risk.

In 2012, the Bank had commenced trading in Sukuks on a very selective basis. To begin with trading will be restricted to listed and traded sukuks issued by sovereign/ quasi sovereign entities or by other GCC issuers with an investment grade rating from Moody's or S&P. The size of the trading book at the end of the year was Nil.

The sukuk risk is monitored by marking to market of the portfolio on a daily basis. The size of the portfolio and more importantly the number of instruments is too small for any statistical model to be reliable.

The Bank has formulated a comprehensive Sukuk Trading and Sukuk Fund Participation policy duly approved by the Board of Directors. The primary objective being trading in Sukuks and participation in Sukuk funds and or other fixed income Shari'a compliant structured products as a part of Treasury Business. The policy sets clear guidelines for Sukuk Trading and participation in Sukuk funds, limits, Target market, sectors, country, tenor, Stop loss triggers and actions and reporting. The portfolio is monitored on a mark to mark basis and reported to the ALCO.

In 2014, the Board of Directors have approved a comprehensive policy for Investments in listed Equity through managed third party funds or discretionary portfolio with the aim of maximizing return within certain set parameters and limits. Such investments are governed by the overall risk appetite of the bank, regions, acceptable returns, target markets, sectors, stop loss limits and triggers.

The ALCO committee reviews these investments as part of the overall monitoring of cash management and treasury and investment activities of the Bank.

These sukuks are measured at fair value for the purpose of financial reporting and for trading on a mark to market basis and likewise for investments in listed equity portfolio through managed funds or discretionary portfolio.

For the purpose of computing capital charge for market risk for regulatory reporting, these sukuks form part of trading books and are subject to specific market risk (based on external ratings) and general market risks (based on residual maturity).

Details on market risk management, net exposures and sensitivities are given as part of note 34 of the consolidated financial statements for the year ended 31 December 2015.

5.2 Regulatory capital allocation against market rate risk

The table below shows the market risk position for each category of the market risk as at 31 December 2015 along with the maximum and minimum values during the period:

	As at 31 December	Max	Min
Equity position risk	-	-	-
Market risk on trading positions in sukuk *	-	253	11
Foreign exchange risk	1,261	1,291	1,109
Commodity risk	-	-	-
Total (A)	**1,261**	**1,544**	**1,120**
Risk Weighted Assets (A x 12.5)	15,763	19,300	14,000
Capital requirement @ 12.5%	1,970	2,413	1,750

* represents 30% of the exposure since these sukuk investments are allocated from IAH pool.

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6 OPERATIONAL RISK

6.1 Operational risk management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, systems, and/ or from external events which includes but is not limited to, legal risk and Shari'a compliance risk. Operational risk is an inherent part of normal business operations. Whilst operational risk cannot be eliminated entirely, the Bank endeavors to minimise it by ensuring that a strong control infrastructure is in place throughout the organisation. Various procedures and processes used to manage operational risk including effective staff training, appropriate controls to safeguard assets and records, regular reconciliation of accounts and transactions, close monitoring of risk limits, segregation of duties, and financial management and reporting.

Details on operational risk management are given as part of note 34 of the consolidated financial statements for the year ended 31 December 2015.

RMD monitors all operational processes to ensure that the Board directives are fully implemented and deviations are reported if any to the Senior Management and to the Board. The department has specialised personnel engaged in this process. The Bank has implemented an Operational Risk Management System which monitors Key Risk Indicators and controls across all major areas of operation and generates appropriate triggers as and when pre-defined risk events occur (through breach of triggers set) and also generates periodical update report to the Board and to the Management. In addition, the Bank's policy dictates that the operational functions of booking, recording and monitoring of transactions are carried out by staff that are independent of the individuals initiating the transactions.

The Bank's operational risk management framework includes components such as Key Risk Indicators ("KRI's"), operational loss data and Risk & Control Self-Assessment across the Bank. These are monitored periodically which helps in quickly detecting and correcting deficiencies in processes and procedures. The collected data is maintained to create a loss database which could be the starting point for a more advanced operational risk measurement approach in future.

6.2 Litigation

5As of the reporting date, the Bank has no material legal contingencies including pending legal actions except as reported in Para 4.8 above. The Bank has a dedicated legal team which provides legal advice and services to all business units of the Bank.

6.3 Shari'a compliance

The Shari'a Supervisory Board ("SSB") is entrusted with the duty of directing, reviewing and supervising the activities of the Bank in order to ensure that they are in compliance with the rules and principles of Islamic Shari'a. The Bank also has a dedicated internal Shari'a reviewer, who performs an ongoing review of the compliance with the fatwas and rulings of the SSB on products and processes and also reviews compliance with the requirements of the Shari'a standards prescribed by AAOIFI. The SSB reviews and approves all products and services before launching and offering to the customers and also conducts periodic reviews of the transactions of the Bank. An annual audit report is issued by the SSB confirming the Bank's compliance with Shari'a rules and principles.

6.4 Regulatory capital allocation against operational risk

The Bank uses the Basic Indicator Approach in calculating its regulatory capital requirement for operational risk.

The risk weighted assets and capital requirement for operational risk as at 31 December 2015 is as given below:

Average gross income for 3 years (A)	19,790
Operational Risk Weighted Assets (B) = A x 15% x 12.5	37,106
Capital requirement = B x 12.5%	4,638

7 OTHER RISKS

7.1 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting its financial obligations on account of a maturity mismatch between assets and liabilities. The Bank's approach to manage liquidity is to ensure that it will always have sufficient funds to meet its liabilities when due without incurring unacceptable losses or risking damage to the Bank's reputation.

The Bank has a liquidity risk policy in place, which describes the roles and responsibilities of the Asset Liability Management Committee ("ALCO"), Treasury and other concerned departments in management of liquidity. It also stipulates various liquidity ratios to be maintained by the bank, as well as gap limits under each time bucket of the maturity ladder. It is the Bank's policy to keep adequate level of high quality liquid assets such as inter-bank placements and sukuks to ensure that funds are available to meet maturing Mudharaba deposits and other liabilities, as and when they fall due.The day to day management of liquidity risk is the responsibility of the Treasury Department, which monitors the sources and maturities of assets and liabilities closely, and ensures that limits stipulated by the ALCO are complied with. RMD and Financial Control Department ("FCD") monitors the liquidity position and any violations are reported to ALCO, ERMC and the Board of Directors.

For maturity profile of assets and liabilities, please refer to note 31 of the consolidated financial statements for the year ended 31 December 2015.

The following are the key liquidity ratios which reflect the liquidity position of the Bank:

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7 OTHER RISKS (CONTINUED)

7.1 Liquidity risk (continued)

	Figures in %				
	2015	**2014**	**2013**	**2012**	**2011**
Interbank assets to interbank liabilities	115.60	176.87	222.39	95.70	189.43
Liquid assets to total assets	22.75	25.23	27.80	19.81	27.06
Liquid assets to total deposits	30.65	34.69	38.46	33.33	43.65
Net liquid assets to total deposits	20.96	23.03	27.50	9.25	27.27

7.2 Profit rate risk in the banking book

The other principal risk to which the banking book is exposed, is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market profit rates. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for re-pricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by the RMD in its day-to-day monitoring activities.

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis points (bps) parallel fall or rise across all yield curves and a 50 bps rise or fall of all yield curves. An analysis of the Bank's sensitivity to an increase or decrease in market profit rates has been disclosed in note 34 of the consolidated financial statements for the year ended 31 December 2015.

7.3 Counterparty credit risk

Counterparty credit risk is the risk that a counterparty to a contract in the profit rate, foreign exchange, equity and credit markets defaults prior to maturity of the contract. The Bank does not engage in proprietary trading of equity, foreign exchange or its derivatives. However, the Bank enters into Shari'a compliant foreign exchange risk/ profit rate risk transactions to hedge its risks arising out of mismatch in its asset liability portfolios. Clear policies for such transactions are in place. For other credit market transactions (primarily interbank placements), the Bank has established a matrix of counterparty limits based on external credit rating of such counterparties. Such limits are constantly monitored by the RMD. As at 31 December 2015, the Bank did not have any open position in foreign currency risk management instruments.

7.4 Concentration risk

Concentration risks arises when a number of obligors, counterparties or investees 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. Accordingly, such concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or region. To manage this risk, the Bank has established exposure limits to various geographic regions and industry sectors. Such limits are monitored by the RMD and deviations, if any, are reported to the Board on quarterly basis. As at 31 December 2015, there has been no violation of the Board approved limits under any head. For break-up of exposure geography and industry/ sector wise, please refer to notes 4.3.1 and 4.3.2 above.

7.5 Reputational risk

Reputation risk is the risk that negative perception regarding the Bank's business practices or internal controls, whether true or not, will cause a decline in the Bank's investor base that could have an adverse impact on liquidity or capital of the Bank. This may also lead to litigation against the bank which apart from avoidable legal expenses will also damage Bank's credibility which in turn will adversely affect business growth and profitability. Being an Islamic Bank, reputation is an important asset and one of the issues that could affect the Bank's reputation is the inability to exit from investments, lower than expected returns on investments, growth of non-performing asset portfolio and poor communication to investors. The Bank has a well-developed and coherently implemented communication strategy to cover such contingencies. The Bank also allocates additional capital for such risks under its ICAAP.

7.6 Displaced commercial risk

Displaced commercial risk refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by equity of investment account holders. This can be due to the return on such assets being lower than that of competitors. The Bank has adequate policies and procedures in place to identify, monitor and address all potential risks that may arise from such activities. Please refer to the section on IAH for further details.

7.7 Other risks

Other risks include strategic risk, fiduciary risks, and regulatory risks, etc. which are inherent in all business and are not easily measurable or quantifiable. The Bank's Board has overall responsibility for approving and reviewing the risk strategies and amendments to the risk policies. The Bank senior management is responsible for implementing the risk strategy approved by the Board. The management also ensures that internal systems of corporate governance and regulatory compliance for management of fiduciary and reputational risks are robust and effective. The Bank also allocates additional capital for such risks under its ICAAP.

8 PRODUCT DISCLOSURES

8.1 Product descriptions & consumer awareness

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

The Bank offers a comprehensive mix of Shari'a compliant commercial and investment banking products. This include, apart from traditional financing products, a range of innovative structured investment products like funds, repackaged investments and restricted Mudharaba's. The Investment Department of the Bank has expertise in creating innovative high-end and value added products offering a wide range of structures, expected returns, tenors and risk profiles.

Proposal for any new product is initiated by individual business lines within the Bank. The Executive Risk Management Committee ("ERMC") of the Bank reviews such proposal to ensure that the new product / business are in line with the Bank's business and risk strategy. All new products will need the approval of the Board of Directors and the Shari'a Supervisory Board of the Bank.

Information on new products or any change in existing products will be placed on the Bank's website ***www.khcbonline.com*** and / or published in the media. Product details are also shared with customers and the general public through brochures and / or, advertisements.

8.2 Complaint handling

The Bank takes disputes and complaints from all customers very seriously. These have the potential for a breakdown in relationships and can adversely affect the Bank's reputation. Left unattended these can also lead to litigation and possible censure by the regulatory authorities. The Bank has a comprehensive policy on handling of external complaints, approved by the Board. All employees of the Bank are aware of and abide by this policy.

The Bank has a designated an officer for handling of all external complaints and his contact details are displayed on the website and also at the Branch and in all printed publicity materials. Complaints are normally investigated by persons not directly related to the subject matter of the complaint. The Bank endeavors to address all complaints within five working days. Wherever this is not possible, the customer is contacted directly and a time frame for rectification of his complaint is advised. A periodical report on status of complaints is also submitted to the Board.

8.3 Equity of investment account holders (IAH's)

The Bank accepts funds in the form of Mudharaba from small investors and high net worth individuals. Equity of investment account holders ("IAH") represents funds offered by customers to the Bank to be invested in a Shari'a compliant manner, at the Bank's discretion as Mudharib. All IAH accounts are on profit sharing basis, but the Bank does not guarantee any particular level of return. Any loss arising from the investment will be borne by the customer except in the case of the Bank's negligence. The Bank charges a Mudharib fee as its share of profit.

The Bank accepts IAH funds in Bahraini Dinar, US Dollar and other international and GCC currencies for maturity periods ranging from 1 month to 24 months. The Bank completes its full range of KYC due diligence prior to accepting any investment. The customer also signs a written agreement covering all terms and conditions of the investment including tenor, basis of profit allocation, early withdrawal, etc.

Since 2009, the Bank offers a savings account product called "Al-Waffer" which entitles the investors to certain prizes in cash and in kind, decided based on a raffle draws held on monthly, quarterly and annual basis apart from the normal share of profits declared and distributed after reducing the Mudharib fees.

IAH is a significant funding source for the Bank and the returns offered to investors are in line with the market. However, any shortfall in yield on the investments made out of these funds exposes the Bank to displaced commercial risk. The Bank regularly monitors rate of return offered by competitors to evaluate the expectations of its IAH's. Bank's policy also provides for whole or partial waiver of the Mudharib share of income from investments due to it, to provide a reasonable return to its investors.

The Bank comingles its own funds and IAH funds and these are invested together. The Bank has identified two pools of assets where the IAH funds are invested and the income from which is allocated to such accounts. One pool is short term in nature to meet IAH short term investment requirements. The other pool is long term in nature to meet their long term investment requirements. Out of the gross income the investor's share is computed after deducting the Mudharib share. The profit allocation schedule signed by the customer prior to investment contains the scheme of allocation of the Mudharib share. Administrative expenses incurred for management of the funds are borne directly by the Bank and are not charged separately to investment accounts. Equity of IAH's are carried at their book value.

Subject to the provisions thereof, deposits held with the Bank are covered by the Deposit Protection Scheme established by the CBB regulation concerning the establishment of a Deposit Protection Scheme and a Deposit Protection Board.

The details of income distribution to IAH holders for the last five years are given below:

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8 PRODUCT DISCLOSURES (CONTINUED)

8.3 Equity of investment account holders (IAH's) (continued)

	2015	2014	2013	2012	2011
Allocated income to IAH	16,933	12,843	13,315	9,923	9,022
Distributed profit	7,382	8,841	8,719	6,297	6,629
Mudharib fees *	9,551	4,002	4,596	3,626	2,393
As at 31 December					
IAH [1]	378,596	336,010	260,609	193,245	183,915
Profit Equalisation Reserve (PER)	-	-	-	-	-
Investment Risk Reserve (IRR)	-	-	-	-	-
Profit Equalisation Reserve-to-IAH (%)	-	-	-	-	-
Investment Risk Reserve-to-IAH (%)	-	-	-	-	-

[1] Represents average balance.
* Includes contribution towards deposit protection scheme.

Ratio of profit distributed to PSIA by type of IAH (based on tenor):

Mudharaba Tenor	Profit distribution amount in BD					Ratio of profit paid as a percentage of total				
	2015	2014	2013	2012	2011	2015	2014	2013	2012	2011
1 Month [1]	1,009	1,304	1,488	1,629	1,824	13.7	14.7	17.1	25.9	27.5
3 Months	350	380	680	655	1,489	4.7	4.3	7.8	10.4	22.5
6 Months	1,330	1,455	1,100	474	764	18.0	16.5	12.6	7.5	11.5
12 Months	3,667	4,179	3,606	2,998	2,014	49.7	47.3	41.4	47.6	30.4
18 Months	2	1	-	-	-	-	-	-	-	-
24 Months	5	75	228	30	-	0.1	0.8	2.6	0.5	-
VIP	1,019	1,447	1,617	511	707	13.8	16.4	18.5	8.1	10.7
PER and IRR Expenses	-	-	-	-	(169)	-	-	-	-	(2.6)
Total	**7,382**	**8,841**	**8,719**	**6,297**	**6,629**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

[1] Includes saving account, Al-Wafer account and Call Mudharaba accounts.

Distribution of profits by type of IAH products:

Year	Avg. profit earned from IAH assets (%age of asset)	PER set aside as a %age of IAH assets	IRR set aside as a %age of IAH assets	Mudharib fees as a %age of IAH assets	Profit paid as a %age of IAH assets
2015	1.95	-	-	2.57	1.99
2014	3.82	-	-	1.19	2.63
2013	5.11	-	-	1.76	3.35
2012	5.13	-	-	1.88	3.26
2011	4.99	-	-	1.22	3.69

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8 PRODUCT DISCLOSURES (CONTINUED)

8.3 Equity of investment account holders (IAH's) (continued)

Following are the average profit rates declared and distributed to the investors by the Bank:

	2015	2014	2013	2012	2011
1 Month Mudharaba [1]	0.78%	1.15%	1.12%	2.25%	2.51%
3 Months Mudharaba	1.75%	2.19%	2.98%	3.08%	4.25%
6 Months Mudharaba	2.69%	3.08%	3.64%	3.55%	4.52%
12 Months Mudharaba	2.75%	3.39%	4.27%	4.46%	5.01%
18 Months Mudharaba	2.80%	3.30%	-	-	-
24 Months Mudharaba	2.91%	4.92%	5.07%	5.07%	-
VIP Mudharaba	2.00%	3.49%	4.09%	2.79%	3.67%

[1] Includes saving account, Al-Wafer account and Call Mudharaba accounts.

The Bank refers to the group of commercial Islamic banks incorporated in the Kingdom of Bahrain so as to benchmark the rate of return on IAH.

IAH account by type of assets:
The following table summarises the movement in type of assets in which the IAH funds are invested and allocated among various type of assets for the year ended 31 December 2015:

Particular	Allocation at 1 January 2015	Movement	Allocation at 31 December 2015	Proportion of total assets (%)
Cash and bank balances	29,674	(418)	29,256	70.9%
Placements with financial institutions	76,006	(32,053)	43,953	100%
Financing assets [1]	197,276	37,253	234,529	73.6%
Investment securities - Sukuk	35,978	27,555	63,533	100%
Total	**338,934**	**32,337**	**371,271**	

[1] Includes Murabaha, Wakala and Istisna contracts.

8.4 Restricted Investment Accounts (RIA's)

The Bank offers Restricted Investment Accounts ("RIA's") to both small investors and high net worth individuals in the GCC. The Bank structures its RIA products to offer its customers an opportunity to choose from a wide range of returns, maturity periods, sectors, asset classes and risk levels. No RIA product was introduced/ marketed by the Bank in 2014.

All RIA offering documents ("Offering Document") are drafted and issued with input from the Bank's Investment Banking, Shari'a, Financial Control, Legal and Risk Management Departments to ensure that the Investors have sufficient information to make an informed decision after considering all relevant risk factors.

The Board of Directors is responsible for providing clear guidelines for the development, management and risk mitigation of its RIA investments and to ensure that there exist sound management and internal control systems to ensure that the interests of the IAH's are protected at all times. Wherever it is necessary for the Bank to establish Special Purpose Vehicles ("SPV's") for management of the investment, the Board ensures that the management of such SPV's is conducted in a professional and transparent manner by a duly appointed Board.

The Bank is aware of its fiduciary responsibilities in management of the RIA investments and has clear policies on discharge of these responsibilities. The Bank's Policy regarding its fiduciary responsibilities to the RIA investors and their funds, includes the following:

- Ensuring that the investment structure, Offering Documents and the investment itself are fully compliant with Islamic Shari'a principles and the CBB regulations;
- Appropriately advising investors, as part of the RIA Offering Document, of all the relevant and known risk factors and making it clear that the investment risk is to be borne by the investor before accepting the investment funds;
- Completing all necessary legal and financial due diligence on investments undertaken on behalf of the investors with the same level of rigor as the Bank requires for its own investments;

8 PRODUCT DISCLOSURES (CONTINUED)

8.4 Restricted Investment Accounts (RIA's) (continued)

- Ensuring that the funds are invested strictly in accordance with the provisions outlined in the Offering Documents;
- Putting in place suitable resources and systems to manage and administer the investment and any necessary RIA SPV(s) and to proactively manage all risks;
- Preparing and disseminating periodical investment updates to investors on a regular basis during the tenor of the investment;
- Distributing the capital and profits to the investor in a just and equitable manner as Mudarib; and
- In all matters related to the RIA, RIA SPV(s) and the investment, act with the same level of care, good faith and diligence as the Bank would apply in managing its own investments.

Within the Bank, the above mentioned responsibilities and functions are provided, managed and monitored by qualified and experienced professionals from the Investment Banking, Shari'a, Financial Control, Legal, Investment Administration and the Risk Management Departments.

Investment update reports are prepared and disseminated by the Bank to the RIA Investors on a periodic (at least on a half yearly) basis outlining any material contracts / decisions, investment performance, distribution (if any) or exit criteria / information.

RIA name	Details	Launch date	Projected returns	Return frequency	Return annualized (%)				
					2015	2014	2013	2012	2011
RIA 1 - Safana	An investment structure designed to participate in the equity interest of Safana Investment WLL. A company established for the purpose of acquiring reclaimed land to subdivide and sell. In 2011, the Bank made an offer to buy back < BD 20,000 of each investors funds in RIA 1 at par. This offer was formalized in a letter to investors dated 25 May 2011. A total of 74 of the 95 RIA 1 investors accepted the offer at a cost of BD 1,220,000 to the Bank and resulting in a total of 39 investors being fully exited from the RIA. As a result, total investors funds have reduced to BD 8.34 million.	2007	61.78% over product tenor	Bullet payment on maturity	-	-	-	-	-
RIA 4 - Janayen	A restricted investment product designed to invest in growth and income generating real estate assets in the GCC and MENA regions. . To date, RIA4 has made distributions and redemptions to depositors amounting to approximately 29.8% of the Depositors' initial capital. These distributions were in the form of yields amounting to ≈ 21.1% plus 8.74% of redeemed capital.	2007	44.33%	Quarterly	-	-	-	-	-

8 PRODUCT DISCLOSURES (CONTINUED)

8.4 Restricted Investment Accounts (RIA's) (continued)

RIA name	Details	Launch date	Projected returns	Return frequency	Return annualized (%)				
					2015	2014	2013	2012	2011
RIA 5 - North Gate	A restricted investment product which owns a 6.0% stake in Shaden Real Estate Investment WLL which in turn (through its subsidiaries), holds a parcel of reclaimed land measuring approximately 3.875 million Sq. Meters (located in Al-Hidd, Muharraq). The mixed-use plot will be sold to end users subsequent to the completion of infrastructure works. During Q1 2015, the Bank effected a buy-back option to all RIA investors for up to an amount of BD 30,000 plus 5% premium for all investors. RIA investors holding BD 30,000 and below will be exited in full. A detailed letter was sent to all RIA investors in this regard. The offer was made valid up to 15 June 2015 AND during Q3 2015 the Bank paid 5.62% as partial redemption to the remaining investors.	2008	90.66% over product tenor	Bullet return at maturity	-	-	-	-	-
RIA 6 - Locata	A Restricted Mudaraba product which entitles the investors beneficial ownership of 25% equity share capital of Locata Corporation Pty Ltd., a company incorporated in Australia. The Company has invented a new and patented wireless radiolocation technology and shall use this funding to scale up its production capacity, sales / marketing channels and further product enhancement capabilities. During the year, 479 shares were bought back from investors.	2009	110.54% over product tenor	Bullet return at maturity	-	-	-	-	-

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES

9.1 Corporate governance structure

The Bank is governed by the Commercial Companies Law No. 21 of 2001 (the "Companies Law"), the Kingdom of Bahrain Corporate Governance Code (the "CGC"), volume 2 and volume 6 of the Rulebook of the CBB (and in particular the High-Level Controls ("HC Module")), and the Bahrain Stock Exchange Law of 1987 (collectively, the "Regulations").

The Bank has adopted the CGC which was effective from January 2011. The corporate governance policies of the Bank are aligned with the requirements of HC Module of the CBB Rulebook.

The Bank acknowledges its responsibility to all of its stakeholders and is committed to the highest standards of corporate governance. The Bank believes good corporate governance enhances stakeholder value and provides an appropriate guidance to the Board, its committees, and the Bank's executive management to carry out their duties in the best interest of the Bank and its stakeholders. The Bank maintains the highest levels of transparency, accountability and good management through the adoption and monitoring of corporate strategies, goals and policies to comply with its regulatory and ethical responsibilities.

9.2 Code of conduct

The Board has approved a code of conduct for all staff of the Bank and the Board members. The Code includes the process of dealing with conflict of interests. It also binds the Directors, Executive Management and staff to the highest standard of professionalism and diligence on discharging their duties. All Board members and senior management of the Bank have affirmed compliance with the Code of Conduct. A declaration is made by the Board members prior to each Board meeting confirming that they have disclosed all external appointments and notified the Chairman if there have been any changes to their external appointments since the previous meeting. Board members are excluded from dealings in matters related to an external entity where they hold an appointment at that entity.

9.3 Compliance with regulations

The Bank ensures compliance with the regulations applicable to an Islamic licensed bank at all times. It would report any non-compliance with the guidelines should there be any. The Bank's obligations to comply with the Regulations have been addressed through following a Corporate Governance Handbook in accordance with the corporate governance ("CG") and the High-Level Controls Module of the CBB Rulebook. The CG Handbook was developed to manage the Board and committees Charter, Management Committee Charters, Board and Management Code of Conduct, Conflict of Interest Policy, Whistle Blowing Policy, Corporate Governance Guidelines, Social Responsibility, Directors' Appointment Agreement, Board and Directors' Evaluation, and a Key Persons' Dealing Policy.

The Bank is committed to continuously review and develop its corporate governance policies to ensure compliance with the changing requirements of the Regulations and to ensure compliance with the international corporate governance best practice. The Bank, through its Board and Board Committees, endeavors to deliver the highest standards of governance for the benefit of its stakeholders.

9.4 Board of directors

As at 31 December 2015, the Board of the Bank comprise nine members. Members of the Board were elected for a three year renewable term during the Annual General Meeting ("AGM") meeting held on March 2014. The current composition of the Board complies with the requirements of the Regulations, except one requirements stated in paragraph 9.15 below.

The Board Nominations, Remunerations and Governance Committee ("BNRGC") reviews the skills and qualifications required of directors on periodic basis for potential nominee director. A nominee director may be elected by the shareholders upon receiving majority of votes during the election process. Positions at the Board are filled in compliance with the Bank's Articles of Association and the Commercial Companies Law. A Director's membership to the Board shall terminate in the event that, amongst other things, the Director is convicted of an offence of dishonor or breach of trust or is declared bankrupt.

The Chairman of the Board of Directors is charged with regular supervision and assessment of executive management and is responsible for leading the Board, ensuring its effectiveness, monitoring the performance of the CEO and maintaining a dialogue with the Bank's stakeholders. The Board has constituted certain committees with specific delegated authorities to oversee and guide the management in specific areas of the Bank's operations and decision-making. The Board, either directly or through its various committees, will oversee the management of the Bank.

The Board has formalized the division of work responsibilities between the Board and the Bank's management. Working in consultation with the Bank's management team, the Board provides oversight for the overall management of the Bank's business. The Board reviews and approves the corporate strategy for the Bank and has overall responsibility for risk management, financial reporting and corporate governance issues. Matters that specifically require Board approval include, amongst other things, the financial statements and the acquisition and disposal of companies. The Board also ensures that the Bank upholds the Bank's core values including the values set out in the Bank's internal policies.

The Board Audit and Risk Management Committee ("BARMC") in addition to the functions of control, ensures that all policies prescribed are reviewed and updated on annual basis. The Risk management department in conjunction with the Internal Audit and Control unit ensures the policies and procedures are updated and adhered to under the oversight of the related management committees. The Board is also responsible for approving any related party transaction as per the Bank's authority matrix. Related party transactions concerning a Board member should be minimally approved by the Board Investment and Credit Committee ("BICC"). In addition, any material transaction defined by the Bank (10% of the Banks' capital) should be approved by the Board. The preparation of the consolidated financial statements of the Bank and the Group's undertaking to operate in accordance with Islamic Sharia rules and principles is the responsibility of the Board of Directors. The duties, functions, and responsibilities are detailed in the Bank's Corporate Governance Framework.

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

9.4 Board of directors (continued)

Members of the Board have access to the Bank's management at all times. The CEO together with the Bank's senior management monitors the Bank's performance against pre-set corporate objectives and manages the Bank's day-to-day affairs based upon the policies, objectives, strategies and guidelines lay down and approved by the Board from time to time.

The Board of Directors of the Bank comprises of Executive and Non-Executive Directors. The Board has four independent members (out of a total of nine Directors). This is to ensure compliance with the CGC requirement that requires at least one third of the Bank's Board to comprise independent and non-executive Directors.

Upon appointment, each Director is provided with a comprehensive, formal and tailored induction which includes, amongst other things, a review of the Board's role and duties and the relevant Director's roles and duties to the Bank; meetings with the bank's senior management; visits to the Bank's branches and other sites; presentations to explain the Bank's strategic plans and significant financial, accounting, risk and legal issues and compliance programs; and meetings with internal and external auditors and legal counsel. In accordance with paragraph 1.9.1 of the HC module of CBB Rulebook, the Board and its committees are also individually evaluated and assessed for their performance effectiveness. The Board has conducted an evaluation of its performance and the performance of each committee and each individual director during the year 2015.

Each independent Director of the Bank is a professional in their field and possesses a background in the financial and banking field.

The names, title, and other positions held by the Board of Directors are set out below:

Dr. Ahmed Khalil Al-Mutawa
Chairman
Experience:
- Director since June 2012 (Non-Independent and Non-Executive).
- Over 18 years of experience in economics and financial sector.
- Nominated by GFH Financial Group BSC.
- Chairman of GFH Financial Group BSC.
- Board Member of Dubai University College - UAE.
- Board Member of Dunia Finance - UAE.

Qualification:
- Ph.D. in Economics from Georgetown University - USA.
- Master in Economics from University of North Carolina - USA.
- Bachelor in Economics from University of Cairo - Egypt.

Abdulrahman Mohammed Jamsheer
Vice Chairman
Experience:
- Director since March 2011 (Independent and Non-Executive).
- Shura Council member.
- Over 44 years of experience in financial and commercial sector.
- Chairman of Delmon Poultry Company.
- Chairman of Fortuna Co. W.L.L.
- Vice Chairman of Lona Real Estate BSC Closed.
- Vice Chairman of United Cement Company.
- Vice Chairman of Esterad Investment Company.
- Board Member of Banz Group Company.
- Board Member of Daih Real Estate Development Co. W.L.L.
- Board Member of Sanad Investment Company BSC. (CLOSED).

Qualification:
- Bachelor of Science in Engineering Agricole from the American University of Beirut - Lebanon.

Abdulla Abdulkarim Showaiter
Board Member
Experience:
- Director since February 2008 (Independent and Non-Executive).
- Over 37 years of experience in the banking industry.
- Deputy CEO, Wholesale Banking, Emirates Islamic Bank - Dubai.
- Board Member of First Energy Bank - Bahrain.
- Board Member of Al-Mahraab Real Estate Company - Kuwait.

Qualification:
- Attended several courses in the field of banking and finance.

Bashar Mohammed Al-Mutawa
Board Member
Experience:
- Director since March 2014 (Non-Independent and Non-Executive).
- Over 17 years of experience in Financial and Investment sector.
- Nominated by GFH Financial Group BSC.
- Board member of GFH Financial Group BSC.
- Board Member of Al Jazeera Tourism Company.
- Board Member of Naseej BSC. (CLOSED)
- Board Member of AMA University.
- Board Member of Bahrain Film Production Company BSC. (CLOSED).
- Board Member of Sanad Investment Company BSC. (CLOSED).
- Board Member of Noon investment Co. W.L.L.
- Board Member of Vaidyaratnam Ayurvedic Health Center.

Qualification:
- B.Sc. in Finance and Economic from Babson College, MA.
- International bachelorette (IB) diploma.

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

9.4 Board of directors (continued)

Hisham Ahmed Al-Rayes
Board Member
Experience:
- Director since June 2012 (Non-Independent and Executive).
- Over 18 years of experience in the financial and banking sector.
- Nominated by GFH Financial Group BSC.
- Chief Executive Officer of GFH Financial Group BSC.
- Managing Director of GFH Capital Limited.
- Chairman Tunis Bay Project Co. - Tunisia.
- Chairman Gulf Holding Company K.S.C.C. - Kuwait.
- Chairman of BFH Real Estate SPC - Bahrain.
- Chairman of Morocco Gateway - Cayman Island / Marakesh
- Chairman of Balexco - Bahrain.
- Vice Chairman of Falcon Cement Co.

Qualification:
- Master in Business Administration from University of DePaul - USA.
- Bachelor of Science in Electrical / Electronic Engineering from University of Bahrain.

Khalid Rashid Al-Thani
Board Member
Experience:
- Director since February 2009 (Independent and Non-Executive).
- Over 24 years of experience in Financial and Commercial sector.
- Deputy General Secretary of Awqaf and Minors Affairs Foundation - Dubai.
- Board Member of Noor Awqaf, Dubai.
- Head of Finance Department, Dubai Land Department, from 1999 to 2004 - Dubai.
- Board Member of Dubai International Holy Quran Award 1997 to 2004 - Dubai.

Qualification:
- Bachelor in Business Accounting from University of United Arab Emirates.

Mohammed Barak Al-Mutair
Board Member
Experience:
- Director since August 2010 (Non-Independent and Non-Executive).
- Over 17 years of experience in Government & Business sector.
- Nominated by Al-Imtiaz Investment Group Company KSC - Kuwait.
- Chairman of Kuwait Real Estate Holding Company - Kuwait.
- Board member of Gulf Real Estate Development Co. - KSA.

Qualification:
- Bachelor Degree in Business Administration from San Diego University - USA.

Mosobah Saif Al-Mutairy
Board Member
Experience:
- Director since March 2011 (Non-Independent and Non-Executive).
- Over 19 years of experience in Financial and Investment sector.
- Nominated by GFH Financial Group BSC.
- Board member of GFH Financial Group BSC.
- Accounts Manager of Royal Guards of Oman.
- Acting Manager of Royal Guards of Oman Pension Fund.

Qualification:
- Master in Business Administration from University of Lincolnshire & Humberside - UK.
- Postgraduate qualification in Accounting from South Bank University, London - UK.
- Degree in Accounting from South West College, London - UK.
- National Diploma in Business and Finance from Bradford & Ilkley Community College - UK.

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

9.4 Board of directors (continued)

Tariq Qassim Fakhroo
Board Member
Experience:
- Director since March 2011 (Non-Independent and Non-Executive).
- Over 18 years of experience in Business, Commercial, Telecom & IT sector.
- Deputy Chief Executive, Mohammed Fakhroo & Bros. - Bahrain.
- General Manager, Fakhroo IT Services - Bahrain.
- General Manager, Fakhroo IT Services Company - KSA.
- Board Member of Qasim Mohammed Fakhroo W.L.L.
- Board Member of Fakhroo International Trading Agencies - KSA.

Qualification:
- Master of Science in Electrical Engineering from University of Central Florida - USA.
- Master in Business Administration from University of Bahrain.
- Bachelor of Science in Electrical Engineering from University of Bahrain.

* The qualifying criteria for 'Independent Directors' are as per the Corporate Governance guidelines of the CBB.

The Chairman, the Board of Directors, and the Board Committees have direct access to the heads of Internal Audit, Risk Management, Regulatory Compliance and Shari'a Compliance.

9.5 Board of directors' interests

The members of the Board collectively held 7,371,806 shares in the Bank as of the year ended 31 December 2015 (2014: 8,508,249 shares). The difference is due to the capital reduction approved by the Bank's Extraordinary General Assembly held on March 2015.

Director's name	No. of Shares as of December 2014	No. of shares as of December 2015	Movement during the year	% of Sub total shares
Dr. Ahmed Khalil Al-Mutawa	-	-	-	-
Abdulrahman Mohamed Jamsheer	-	-	-	-
Abdulla Abdulkarim Showaiter	1,155,000	1,000,727	(154,273)	0.10%
Bashar Mohammed Al Mutawa	-	-	-	-
Hisham Ahmed Al-Rayes	-	-	-	-
Khalid Rashid Al-Thani	100,000	86,644	(13,356)	0.01%
Mohammed Barak Al-Mutair	7,103,249	6,154,470	(948,779)	0.62%
Mosobah Saif Al-Mutairy	-	-	-	-
Tariq Qassim Fakhroo	150,000	129,965	(20,035)	0.01%
Total	**8,508,249**	**7,371,806**	**(1,136,443)**	**0.74%**

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

9.6 Distribution of ownership shares by nationality

The Bank's Register of Shareholders as at 31 December 2015 indicates a total of 543 shareholders who collectively owned 1,000,000,000 (One Billion) share with a nominal value of BD 0.100 (One Hundred Fils) each. The breakdown of shareholders in the Bank by nationality is as follows:

Nationality	No. of equity shares held	No. of shareholders	% of shareholders
Bahraini	628,036,994	425	62.80
Non-Bahraini	371,963,006	118	37.20
Total	**1,000,000,000**	**543**	**100.00**

As at 31 December 2015, none of the Bank's shares were held by the Government of the Kingdom of Bahrain.

9.7 Board committees

The Board of Directors has constituted three Committees with specific delegated authorities.

Committee	Members	Primary responsibilities
Board Nominations, Remunerations and Governance Committee (BNRGC)	• Abdulrahman Mohamed Jamsheer • Bashar Mohammed Al Mutawa • Mohammed Barrak Al-Mutair • Khalid Rashid Al-Thani • Sh. Dr. Fareed Yaqoob Al Muftah	• Human Resources. • Compensation and incentives. • Administration. • Corporate Governance.
Board Audit and Risk Management Committee (BARMC)	• Khalid Rashid Al-Thani • Abdulrahman Mohamed Jamsheer • Tariq Qassim Fakhroo	• Internal Audit. • External Audit. • Compliance. • Anti-Money Laundering. • Risk management. • Policies related to risk management.
Board Investment and Credit Committee (BICC)	• Dr. Ahmed Khalil Al-Mutawa • Abdulla Abdulkarim Showaiter • Mohammed Barrak Al-Mutair • Mosobah Saif Al-Mutairy • Hisham Ahmed Al-Rayes • Khalil Ismaeel Al Meer	• Investment & credit approval. • Setting limits. • Investment policies. • Asset Liability Management. • Banking relationship. • Oversight of Off-Balance Sheet Vehicles.

Meetings of the Board and its committees are held as and when required but in accordance with the Regulations the Board meets at least once a quarter. The Board of Directors met five times in 2015. The Bank held its AGM and EGM on 30 March 2015. In addition to physical meetings, several written resolutions were circulated to the Directors during 2015 for approval by mail and facsimile.

During the year, the Board Audit and Risk Management Committee (BARMC) held 4 meetings, the Board Investment and Credit Committee (BICC) held 4 meetings, and the Board Nominations, Remunerations and Governance Committee (BNRGC) held 3 meetings.

The Board of Directors and its committees receive regular reports on various aspects of the Bank's business from senior management as well as from Internal Audit, Risk Management, Financial Control, and Operations Departments.

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

9.8 Board committees meeting dates

- Board meetings: a total number of 5 meetings were held.

Director's name	Meeting dates during the year 2015					
	4th Feb	6th May	29th July	9th Sep	4th Nov	Attendance %
Dr. Ahmed Khalil Al-Mutawa	✓	✓	✓	✓	✓	100%
Abdulrahman Mohamed Jamsheer	✓	✓	✓	✓	✓	100%
Bashar Mohammed Al Mutawa	✓	-	✓	✓	✓	More than 75%
Abdulla Abdulkarim Showaiter	✓	✓	✓	✓	✓	100%
Mohammed Barak Al-Mutair	✓	✓	✓	-	✓	More than 75%
Mosobah Saif Al-Mutairy	✓	✓	✓	✓	✓	100%
Tariq Qasim Fakhroo	✓	✓	✓	✓	✓	100%
Khalid Rashid Al-Thani	✓	✓	✓	✓	✓	100%
Hisham Ahmed Al Rayes	✓	✓	-	✓	✓	More than 75%

- BICC meetings: a total number of 4 meetings were held (minimum of 4 meetings a year).

Director's name	Meetings dates during the year 2015			
	4th Feb	6th May	9th Sep	4th Nov
Dr. Ahmed Khalil Al-Mutawa	✓	✓	✓	✓
Abdulla Abdulkarim Showaiter	✓	✓	✓	✓
Mohammed Barak Al-Mutair	✓	✓	-	✓
Mosobah Saif Al-Mutairy	✓	✓	✓	✓
Hisham Ahmed Al Rayes	✓	✓	✓	✓
Khalil Ismaeel Al Meer	✓	✓	✓	✓

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

9.8 Board committees meeting dates (continued)

- BNRGC meetings: a total number of 3 meetings were held (minimum 2 meetings a year).

Director's name	Meetings dates during the year 2015		
	4th Feb	5th May	8th Sep
Abdulrahman Mohamed Jamsheer	✓	✓	✓
Bashar Mohammed Al Mutawa	✓	-	✓
Mohammed Barak Al Mutair [1]	✓	-	-
Khalid Rashid Al Thani	✓	✓	✓
Sh./Dr. Fareed Yaqoob Al Muftah	✓	✓	✓

[1] Mr. Mohammed Al Mutair resigned from the Committee effective 5th February 2015.

- BARMC meetings: a total number of 4 meetings were held (minimum of 4 meetings a year).

Director's name	BARMC Meetings dates during the year 2015			
	3rd Feb	5th May	8th Sep	3rd Nov
Khalid Rashid Al Thani	-	✓	✓	✓
Abdulrahman Mohammed Jamsheer	✓	✓	✓	✓
Tariq Qassim Fakhroo	✓	✓	-	✓

9.9 Shari'a Supervisory Board

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

Sh. Dr. Fareed Yaqoob Al-Miftah
Chairman
Experience:
- Member of the Supreme Council of Islamic Affairs.
- Undersecretary of the Ministry of Justice & Islamic Affairs - Bahrain.
- Former Judge of the High Shari'a Court.
- Former Lecturer at the University of Bahrain.

Qualification:
- Ph.D. from the University of Edinburgh - UK.

Sh. Dr. Fareed Mohammed Hadi
Executive Member
Experience:
- Assistant Professor of Jurisprudence (Fiqh) and Hadeeth at the College of Arts, Department of Arabic and Islamic studies, University of Bahrain.
- Bachelor program Manager in Shari'a for Banking and Finance, University of Bahrain.
- Vice President of the Association of Shari'a scholars in GCC.
- Member of Shari'a Supervisory Board of a number of Islamic banks.

Qualification:
- Ph.D. in Ibn Hazm's Methodology of Jahala, University of Edinburgh - UK.
- Ph.D. in Al-Bukhari's Methodology, University of Mohammed V - Morocco.

Sh. Nizam Mohammed Saleh Yaqoobi
Member
Experience:
- Member of the Shari'a council of Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI).
- Member of the Shari'a Board of the Central Bank of Bahrain - Bahrain.
- Member of Shari'a Supervisory Board of the Dow Jones Islamic index.
- Member of Shari'a Supervisory Board of a number of Islamic banks & insurance companies.

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

9.10 Executive management committees

The Board of Directors delegates the authority for day-to-day management of the business to the Chief Executive Officer (CEO) who is responsible for implementing the Bank's strategic plan. The CEO manage the Bank through the following management committees:

Committee	Primary responsibilities
Management Committee	Strategy, Performance review, Budget, Human Resources, Administration
Asset Liability Management Committee	Balance sheet management, Funding, Liquidity, Banking Relationships
Executive Credit & Investment Committee	Review of investments, Exit and credit proposals, Monitoring of investments
Executive Risk Management Committee	Risk Management policies, Risk review, Provisions and impairment

9.11 Executive management & other senior management

During 2015, the following changes were carried out in the executive management: the appointment of Mr. Tawfeeq Bastaki as a Chief Risk Officer, Mr. Mohammed Saleh as a Head of Human Resources, Mr. Talal Al Mahroos as a Head of Investments, and Mr. Mohammed Al Tamimi as Head of Compliance & MLRO. Besides, and the resignation of Mr. Fuad Taqi, Deputy General Manager, Commercial Banking, and Mr. Salah Khalifa, Head of Corporate Banking.

The names and title of each member of executive and other Senior Management are set out below:

Khalil Al-Meer
Chief Executive Officer
Experience:
- Over 30 years of experience in Corporate and Retail banking that he gained from his work in the leading banks in the Kingdom of Bahrain.
- Joined the Bank in 2013.
- Chairman of Capital Real Estate Co. B.S.C. (CLOSED).
- Board member of Gulf Real Estate Development Co. - KSA.
- Board member of Naseej B.S.C. (CLOSED).

Qualification:
- B.Sc. in Business Administration from the University of Bahrain.
- Attended the Gulf Executive Development Program at Darden Graduate School of Business in University of Virginia - USA.
- Attended the Senior International Bankers Program from the International Centre for Banking and Finance Services at Manchester Business School - UK.

Mahdi Abdulnabi Mohammed
Deputy General Manager, Support Services
Experience:
- Over 35 years of banking experience.
- Joined the Bank in 2005.

Qualification:
- Certified Diploma in Accounting & Finance from The Chartered Association of Certified Accountants (ACCA).
- MBA from the University of Strathclyde - UK.

Tawfeeq Mohamed Bastaki
Chief Risk Officer
Experience:
- Over 35 years of Islamic and Conventional banking experience in Corporate Banking, Structured Finance, Retail Banking, Risk, Governance, and Compliance.
- Joined the Bank in 2015.

Qualification:
- B.Sc. in Islamic Financing from University College of Bahrain - Bahrain.
- Advanced Banking Diploma from Bahrain Institute of Banking and Finance (BIBF).
- Executive Diploma "Post Graduate" in Business Management from the University of Bahrain.
- Currently attempting Masters in Finance at DePaul University.

Ahmed Ali Bucheeri
Head of Internal Audit
Experience:
- Over 27 years of experience in both internal and external audit mainly in banks.
- Joined the Bank in 2007.

Qualification:
- Certified Internal Auditor (CIA) from the Institute of Internal Audit - USA.
- B.Sc. in Accounting from King Fahad University of Petroleum and Minerals - KSA.

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

9.11 Executive management & other senior management (continued)

Hussam Ghanem Saif
Head of Treasury & Capital Markets
Experience:
- Over 26 years of experience in treasury and Islamic banking.
- Joined the Bank in 2007.

Qualification:
- Graduate with a degree in Business Administration & Management from Western International University, London - UK.

Yaser Ismaeel Mudhafar
Chief Financial Officer
Experience:
- Over 18 years of extensive experience in the Islamic banking industry and audit.
- Joined the Bank in 2006.

Qualification:
- Certified Public Accountant (CPA) from the American Institute of Certified Public Accountants.
- Certified Islamic Professional Accountant (CIPA) from the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).
- Executive MBA from University of Bahrain.
- Advanced Diploma Executive Leadership (University of Virginia - Darden Business School).

Mohammed Abdulla Saleh
Head of Human Resources and Corporate Secretary
Experience:
- Over 14 years of experience in Management, Islamic Banking, Corporate Governance, Compliance and Anti-money laundering.
- Joined the Bank in 2009.

Qualification:
- Master's in IT, Media and E-Commerce Law from the University of Essex - UK.
- B.Sc. in Law from Dubai Police Academy - UAE.
- Advanced Diploma in Islamic Finance from Bahrain Institute of Banking and Finance (BIBF).
- Diploma in Business Management from the University of Bahrain.
- ICA International Diploma in Compliance from the International Compliance Association ICA.
- Attended the Waqf Fund - Leadership Grooming Program for Islamic Banks at Ivey Business School in Western University (Canada & Hong Kong).

Abdulnaser Omar Al-Mahmood
Head of Shari'a Compliance
Experience:
- Over 25 years of experience in Shari'a Audit and Islamic banking.
- Joined the Bank in 2008.

Qualification:
- Master's in Business Administration with thesis in Shari'a Control and Review in Islamic banks.
- B.Sc. in Shari'a and Islamic Studies.
- Associate Diploma in Shari'a Control.

Talal Nabeel Al-Mahroos
Head of Investments
Experience:
- Over 11 years of experience in Investments and Islamic banking.
- Joined the Bank in 2006.

Qualification:
- B.Sc. in Banking & Finance - University of Bahrain.
- Advanced Diploma Executive Leadership (University of Virginia - Darden Business School).

Mohammed Abdulla Al-Tamimi
Head of Compliance and MLRO
Experience:
- Over 8 years of experience in Compliance, Anti-money Laundering, Banking Supervision, Islamic Banking, and Corporate Governance.
- Joined the Bank in 2013.

Qualification:
- B.Sc. in Banking and Finance from the University of Bahrain.
- Advanced Diploma in Islamic Finance from Bahrain Institute of Banking and Finance (BIBF).
- ICA International Diploma in Compliance from the International Compliance Association ICA.
- Certified Anti-money Laundering Specialist (CAMS) from the Association of Certified Anti-money Laundering Specialist (ACAMS).

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

9.12 Executive and senior management interests

The following table indicates the executive and senior management shareholding as 31 December 2015:

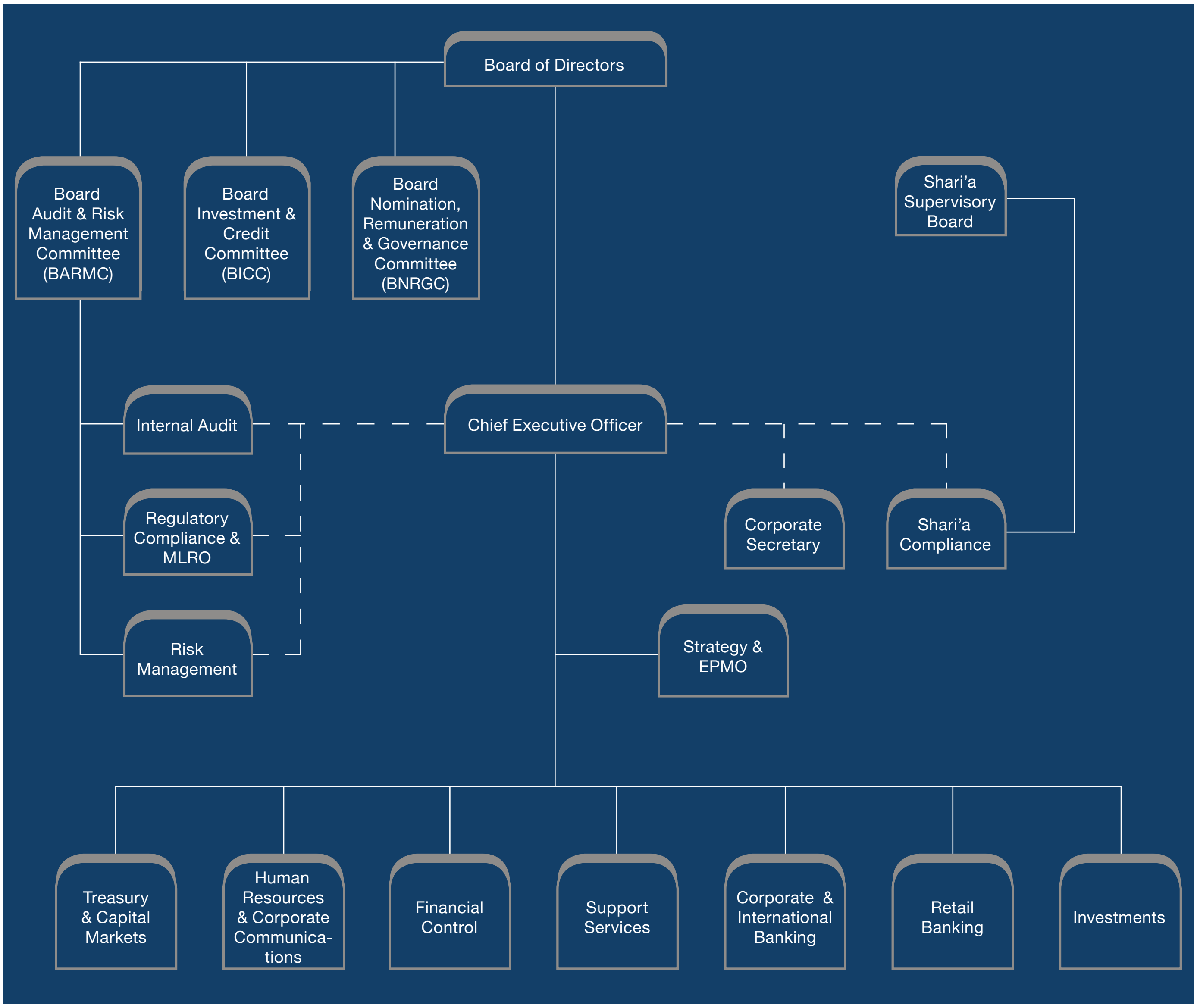
Executive and senior management	Number of outstanding shares at 31 December 2014	Number of outstanding shares at 31 December 2015
Khalil Al Meer	Nil	Nil
Mahdi Abdulnabi Mohammed	1,639,397	1,420,424
Tawfeeq mohammed Bastaki	Nil	Nil
Ahmed Ali Bucheeri	500	434
Hussam Ghanem Saif	679,565	588,797
Yaser Ismail Mudhafar	526,438	487,282
Mohammed Abdulla Saleh	Nil	Nil
Abdul-Nasser Omar Al-Mahmood	Nil	Nil
Talal Nabeel Al Mahroos	Nil	Nil
Mohammed Abdulla Al Tamimi	Nil	Nil
Total	**2,845,900**	**2,496,937**

The change in the above number of shares is mainly due to the capital reduction approved by the Bank's Extraordinary General Assembly held on March 2015, and the vesting of shares under the share-based employee incentive scheme during the year.

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

9.13 Organizational chart

Set out below is the Bank's organization chart, which outlines the different committees and the lines of reporting.



9.14 Executive compensation

The Bank has both a short-term and long-term compensation structure for its executive management which has been developed based on current market surveys and industry norms. The Bank also had an incentive scheme where in eligible employees were awarded a combination of shares and cash incentives on achievement of pre-determined performance targets. For further details please refer note 23 of the consolidated financial statements for the year ended 31 December 2015. The Board of Directors is entitled to sitting fees and their annual remuneration is subject to the approval of the shareholders at the end of each year.

9.15 Shari'a compliance, regulatory compliance and anti-money laundering

Compliance with Shari'a laws, regulatory and statutory requirements is an ongoing process and the Bank is conscious of its responsibilities in observing all applicable provisions and best international practices in its functioning. The Bank has established the Shari'a Compliance Function and the Regulatory Compliance Function in keeping with Basel and CBB guidelines. The respective units act as a focal point for all Shari'a and regulatory compliance and for adapting other best practice compliance principles.

Anti-Money Laundering measures form an important area of the Compliance Function. The Bank has an Anti-Money Laundering and Combating Terrorist Financing Policy and Procedure approved by the Board, which contains sound Customer due diligence

9 CORPORATE GOVERNANCE & OTHER DISCLOSURES (CONTINUED)

measures, procedure for identifying and reporting suspicious transactions, a program for periodic awareness training to staff, record-keeping, and a designated Money Laundering Reporting Officer (MLRO). The Bank's Anti-Money Laundering measures are reviewed by independent external auditors every year and their report is submitted to the CBB. The Bank is committed to combating money laundering and is in compliance with the guidelines issued by the CBB in relation to Anti-Money Laundering requirements.

The Bank is in compliance with the requirements of the HC Module of the CBB Rulebook, except for the following:

- HC 1.4.6: that requires the chairman of the Board to be an independent director.

9.16 Audit fees charged by the external auditor and other non-audit services provided by the external auditor and fees paid

The audit fees charged and non-audit services provided by external auditors will be made available to the shareholders as and when requested. Such details will be made available to the Bank's shareholders as per their specific request provided that these disclosures would not negatively impact the Bank's interest and its competition in the market.

9.17 Penalties paid to the Central Bank of Bahrain

During the year, there was no penalty imposed by the CBB on the Bank.

10 FINANCIAL PERFORMANCE

Following are basic quantitative indicators of the financial performance:

	2015	2014	2013	2012	2011
Return on average equity	7,48%	3.00%	-16.06%	0.64%	0.44%
Return on average assets	1,27%	0.53%	-3.69%	0.18%	0.13%
Finance income to finance expense	227.55%	197.05%	147.77%	201.89%	208.06%
Cost-to-income *	50.75%	75.80%	156.56%	84.54%	72.11%

* Cost excludes impairment allowances.

For detailed discussion on the performance for the year, kindly refer to Chairman's report on the consolidated financial statement for the year ended 31 December 2015.

11 REMUNERATION RELATED DISCLOSURES

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

In 2014, the Bank has adopted the Sound Remuneration Practices issued by the Central Bank of Bahrain and has proposed revisions to its variable remuneration framework. The revised policy framework and incentive components were approved by the shareholders in the annual general meeting held on March 2015. The policy is effective starting 2014 annual performance incentives and would be fully implemented for future periods.

The key features of the proposed remuneration framework have been summarized below.

11.1 Remuneration strategy

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

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

1. fixed pay;
2. benefits;
3. annual performance bonus; and
4. the long term performance incentive plan

11 REMUNERATION RELATED DISCLOSURES (CONTINUED)

11.1 Remuneration strategy (continued)

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 Nomination, Remuneration and Governance Committee of the Board (BNRGC).

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

In order to ensure alignment between what we pay our people and our business strategy, we assess individual performance against annual and long-term financial and non-financial objectives summarised in line with our performance management system. This assessment also takes into account adherence to the Bank's values, risk and compliance measures above all and acting with 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 BNRGC believes the latter contributes to the long-term sustainability of the business.

11.2 BNRGC role and focus

The BNRGC has oversight of all reward policies for the Bank's employees. The BNRGC 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 BNRGC 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 and the business plan and risk profile of the Bank.

The responsibilities of the BNRGC as regards the variable compensation policy of the Bank, as stated in its mandate, include, but are not limited to, the following:-

- Approve, monitor and review the remuneration system to ensure the system operates as intended.
- Approve the remuneration policy and amounts for each Approved Person and Material Risk-Taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits.
- Ensure remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees that earn same short-run profit but take different amount of risk on behalf of the bank.
- Ensure that for Material Risk Takers, variable remuneration forms a substantial part of their total remuneration.
- Review the stress testing and back testing results before approving the total variable remuneration to be distributed including salaries, fees, expenses, bonuses and other employee benefits.
- Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The BNRGC will question payouts for income that cannot be realized or whose likelihood of realization remains uncertain at the time of payment.
- Ensure that for approved persons in risk management, internal audit, operations, financial controls and compliance functions the mix of fixed and variable remuneration is weighted in favor of fixed remuneration.
- Recommend Board member remuneration based on their attendance and performance and in compliance with Article 188 of the Bahrain Commercial Companies Law.
- Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use personal hedging strategies or remuneration-and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

As outlined in the Corporate Governance section of the Annual Report, the Board is satisfied that all non-executive directors are independent including the BNRGC members. The BNRGC comprises of the following members:

BNRGC member name	Appointment date	Number of meetings attended
Abdulrahman Mohammed Jamsheer	May 2013	3
Bashar Mohammed Al-Mutawa	April 2014	2
Khalid Rashid Al-Thani	April 2011	3
Mohammed Barak Al-Mutair [1]	April 2011	1
Sh. Dr. Fareed Yaqoob Al Muftah	February 2015	3

[1] Mr. Mohammed Barak Al Mutair resigned from the Committee effective 5 Feb. 2015.

The aggregate remuneration paid to the BNRGC members during the year in the form of sitting fees amounted to BHD 4,524 thousand [2014: BHD 7 Thousand].

11 REMUNERATION RELATED DISCLOSURES (CONTINUED)

11.3 External consultants

Consultants were appointed to advise the Bank on amendments to its the variable remuneration policy to be in line with the CBB's Sound Remuneration Practices and industry norms. This included assistance in designing an appropriate Share-based Incentive Scheme for the Bank. The BNRGC also appointed consultants during the year to perform a pay benchmarking exercise to assist them in reviewing the total compensation offered by the Bank.

11.4 Scope of application of the remuneration policy

The remuneration policy has been adopted on a bank-wide basis and shall not apply to its non-banking subsidiaries and operations.

11.5 Board remuneration

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

11.6 Variable remuneration for staff

The variable remuneration is performance related and consists primarily of the annual performance bonus award. As a part of the 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 that the combination of meeting both satisfactory financial performance and achievement of other non-financial factors, would, all other things being equal, deliver a target bonus pool for the employees, prior to consideration of any allocation to business lines and employees individually. In the framework adopted in determining the variable remuneration pool, the BNRGC aims to balance the distribution of the Bank's profits between shareholders and employees.

The 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 would result in a target top-down 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 BNRGC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. BNRGC demonstrates that its decisions are consistent with an assessment of the Bank's financial condition and future prospects.

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

For the overall Bank to have any funding for distribution of bonus pool; thresholds of financial targets have to be achieved. The performance measures ensure that the 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 adjustment 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 favor of fixed remuneration. The variable remuneration of control functions is be based on function-specific objectives and is not be determined by the individual 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 compensation for the business units is primarily decided by the 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 environment. The consideration of risk assessment in the performance evaluation of individuals ensures that any two employees who generate the same short-run profit but take different amounts of risk on behalf of the bank are treated differently by the remunerations system.

11 REMUNERATION RELATED DISCLOSURES (CONTINUED)

11.7 Risk assessment framework

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

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

Risk adjustments take into account for all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Bank undertakes risk assessment to review financial and operational performance against the business strategy and risk performance prior 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 a 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 BNRGC keeps itself abreast with the Bank's performance against the risk management framework. The BNRGC will use this information when considering remuneration to ensure the return, risk 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 risk assumptions.

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

- There would be considerable contraction of the Bank's total variable remuneration.
- At the individual level, poor performance by the Bank would mean individual KPIs are not met and hence employee performance ratings would be lower.
- Reduction in 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 bonus awards may be considered.

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

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

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

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

11 REMUNERATION RELATED DISCLOSURES (CONTINUED)

11.7 Risk assessment framework (continued)

The Bank's malus and clawback provisions allows the Bank's 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 misbehavior, material error, negligence or incompetence of the employee causing the Bank / the employee's business unit to suffer material loss in its financial performance, material misstatement of the Bank's financial statements, material risk management failure or reputational loss or risk due to such employee's actions, negligence, misbehavior or incompetence during the concerned performance year.
- The employee deliberately misleads the market and / or shareholders in relation to the financial performance of the Bank during the concerned performance year.
- Clawback can be used if the malus adjustment on the unvested portion is insufficient given the nature and magnitude of the issue.

11.8 Components of Variable remuneration

Variable remuneration has following main components:

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of 3 years.
Upfront share awards	The portion of variable compensation that is awarded and issued in the form of shares on conclusion of the performance evaluation process for each year.
Deferred shares	The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over a period of 3 years.

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).

11.9 Risk assessment framework

All employees above the grade of a Senior Manager shall be subject to deferral of variable remuneration as follows:

CEO, Deputy and other 5 most highly paid business line employees

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

Other Covered Staff

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

The BNRGC, based on its assessment of role profiles and risk taken by an employee could increase the coverage of employees that would subject to deferral arrangements.

BD 000's

11 REMUNERATION RELATED DISCLOSURES (CONTINUED)

11.10 Details of remuneration paid

(a) Board of directors

	2015	2014
• Sitting Fees	180	201
• Remuneration	Nil	Nil
• Others *	16	15

* This represents airfare, accommodation, transportation and food and beverages paid on behalf of the Board members.

(b) Employee remuneration

2015

	Number of staff	Fixed remuneration		Variable remuneration					Total
				Upfront		Deferred			
Approved persons		Cash	Others	Cash	Shares	Cash	Shares	Others	
- Business lines	6	692	15	73	-	15	76	-	871
- Control & support	12	740	27	55	6	3	40	-	871
Other material risk takers	5	247	13	23	-	3	17	-	303
Other staff	220	3,116	278	409	-	-	-	-	3,802
TOTAL	**243**	**4,795**	**333**	**560**	**6**	**21**	**133**	**-**	**5,847**

2014

	Number of staff	Fixed remuneration		Variable remuneration					Total
				Upfront		Deferred			
Approved persons		Cash	Others	Cash	Shares	Cash	Shares	Others	
- Business lines	7	654	423	42	-	9	44	-	1,172
- Control & support	12	602	269	42	6	2	34	-	955
Other material risk takers	6	271	169	31	-	2	11	-	484
Other staff	178	2,234	1,120	283	-	-	-	-	3,637
TOTAL	**203**	**3,761**	**1,981**	**398**	**6**	**13**	**89**	**-**	**6,248**

BD 000's

11 REMUNERATION RELATED DISCLOSURES (CONTINUED)

(c) Deferred awards

	2015				
	Cash	Shares		Others	Total
	(Amount)	(Number)	(Amount)	(Amount)	(Amount)
Opening balance	13	2,089,839	94	-	107
Awarded during the period	21.5	2,551,770	163	-	185
Paid out / released during the period	-	(123,464)	(5)	-	(5)
Service, performance and risk adjustments	(0.1)	(28,902)	1	-	1
Changes in value of unvested opening awards	-	-	-	-	-
Closing balance	**34.4**	**4,489,243**	**253**	**-**	**288**

	2014				
	Cash	Shares		Others	Total
	(Amount)	(Number)	(Amount)	(Amount)	(Amount)
Opening balance	-	-	-	-	-
Awarded during the period	13	2,089,839	94	-	107
Paid out / released during the period	-	-	-	-	-
Service, performance and risk adjustments	-	-	-	-	-
Changes in value of unvested opening awards	-	-	-	-	-
Closing balance	**13**	**2,089,839**	**94**	**-**	**107**

(d) Severance pay

During 2015, Bank paid BD 52 thousand as ex-gratia to one employee. In 2014, the Bank paid BD 652 thousand as ex-gratia to 10 employees and the highest amount paid to a single person was BD 161 thousand for 2014.