BANK ALKHAIR B.S.C. (c)

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

Commercial registration:	53462 (registered with the Central Bank of Bahrain as a wholesale Islamic bank).
Registered Office:	26thFloor, West Tower, Bahrain Financial Harbour Building No. 1459, Road 4626, Manama, Sea Front 346 PO Box 31700, Manama, Kingdom of Bahrain
Directors:	Yousef A. Al-Shelash, *Chairman* Hethloul Saleh Al-Hethloul Abdullatif Abdullah Al-Shalash Ayman Ismail Abudawood Abdulaziz Naif Al Orayer Ahmed Saleh Dehailan Khaled Shaheen Saqer Shaheen Khaled Abdulla Mohammed Ateeq Abdullah Ali Al Dubaikhi Majed Abdulrahman Al Qasem Sultan Abdulrahman Abalkheel Abdulrazaq Mohamed Al Wohaib Ali Saleh Al Othaim Khalid Mohamed Abdulrahim Hamad Abdulrazaq Al-Turkait
Chief Executive Officer:	Ayman Sejiny
Auditors:	KPMG Fakhro

BANK ALKHAIR B.S.C. (c)

CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2015

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CHAIRMAN'S REPORT
For the year ended 31 December 2015

In the name of Allah, the Beneficent, the Most Merciful, Prayers and Peace be upon our Prophet Mohammed, His Companions and Relatives.

On behalf of the Board of Directors, it is my privilege to present the annual report and consolidated financial statements of Bank Alkhair for the year ended 31st December 2015 after eleven illustrious years of operation.

I am pleased to report that Bank Alkhair, by the grace of Allah the Almighty, has been able to achieve organisational synergies and financial efficiencies across our geographies of Bahrain, KSA, UAE, Turkey and Malaysia as well as managing to safeguard the interests and investments of our shareholders and investors.

In spite of a very challenging 2015 for the banking industry with a global economic slowdown driven in no small measure by falling oil prices, market volatility and reduced liquidity, Bank Alkhair remained focused on enhancing the value of our investments and took a pragmatic stance through providing Islamic capital market advisory services entrenched in our track record of successful sukuk issuances. Allied to this, throughout the year, we worked to secure debut issuances for non-conventional sovereign and corporate sukuk. Enabled by our geo-offices, we were well positioned to provide buy-side advisory work through originating attractive private equity investments on behalf of our institutional client base.

In terms of economic landscape and in relation to previous years, 2015 witnessed a downturn on lending and M&A activity regionally, with further pressure applied by central banks through issuing sukuk at attractive yields. The global economic slowdown perpetuated consolidation in the investment banking and private equity sectors in order to adapt to the increasingly competitive economic environment.

In spite of Bank Alkhair and its subsidiaries making considerable progress during the year, the Group reported a net loss of USD2.5 million for the year, ended 31 December 2015. However, this compared favourably to the net loss of USD16.9 million in 2014 and should be considered in conjunction with the phenomenally challenging global economic conditions for 2015. The improvement the Bank has shown has been in no small measure attributable to significant improvements in our underlying investments. While the year provided many challenges for Bank Alkhair, I am gratified to report that the Bank has not resorted to selling any assets below their intrinsic value. Moreover, we continued to maximise the value of our investments and enhance the saleability prospects of those investments as required.

I am further heartened to report that the Bank, through its perpetual diligence and application of intelligence, continues to achieve organic growth in our investee companies. As evidence of this, the Bahrain Financing Company investment has proved to be one of the largest Money Service Businesses in the region, with additional expansion expected. Furthermore, Taj Mall, our premier shopping mall and entertainment complex, has not only become fully operational and achieved 96% leasing at premium rates; it has now emerged as one of the highest-yielding shopping malls in the GCC, with footfall more than doubling since inauguration.

During the past year, we moved our headquarters to the renowned and prestigious address at the Bahrain Financial Harbour, affording the Bank an excellent opportunity to establish roots in a relevant and respected environment and, importantly in the process, helping to elevate the Bank Alkhair brand.

Looking forward, for the short term, Bank Alkhair is focused on providing capital markets and corporate finance advisory, as well as exiting mature investments at fair value to our investors and shareholders at the most propitious time. Taking the longer-term perspective, the Bank foresees market stability and increased liquidity accrued from the near term enabling the Bank to realise potential in private equity and capital market transactions.

To conclude, on behalf of the Bank's Board of Directors and Executive Management Team, I would like to extend our sincere appreciation to our valued Shareholders for their unwavering support and confidence, our exceptional Shari'ah Supervisory Board for its proactive involvement in our product development and investment decisions, our dedicated and motivated employees across our geographies for the achievements of the past year and to all of the above for their enduring commitment to our progress.

Bank Alkhair wishes to extend appreciation to the governments of the countries in which our associates and subsidiaries operate for the honour of conducting our businesses therein. We also forward our appreciation to the Government of Bahrain for its unwavering support of the financial services industry and in particular the perpetual development of Islamic finance, and to the Central Bank of Bahrain for its prudent regulation and valuable direction.

May Allah guide us on the proper path, and lead us to the realisation of our goals for the future success of the Bank.

Yousef Abdullah Al-Shelash
Chairman of the Board

30 March 2016

BANK ALKHAIR

SHARI'AH SUPERVISORY BOARD REPORT

TO THE SHAREHOLDERS OF BANK ALKHAIR B.S.C. (c)

السلام عليكم ورحمة الله وبركاته

In compliance with the terms of our letter of appointment, we are required to report as follows:

The Shari'ah Board, through the Shari'ah department, and under its direct supervision, reviewed the principles and the contracts relating to the transactions conducted by Bank Alkhair B.S.C. (c) ("the Bank") and its subsidiaries (together "the Group") during the year ended 31 December 2015. The review was conducted in order to form an opinion as to whether the Group has complied with rules and principles of Islamic Shari'ah and also with the specific fatwa's, rulings and guidelines issued by us.

Based on the Articles of Association of the Bank, the Group's management is responsible for ensuring that the Group conducts its business in accordance with the rules and principles of Shari'ah while the Shari'ah Board's responsibility is to form an independent opinion, based on our review of the operations of the Group, and to report this to you.

We conducted our review through the Shari'ah department and under our supervision which included examining, on a test basis, each type of transaction and the relevant documentation and procedures adopted by the Group. We performed our review so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to give assurance that the Group has not violated any rules and principles of Shari'ah.

In our opinion:

a) The contracts, transactions and dealings entered into by the Group during the year ended 31 December 2015 are in compliance with the rules and principles of Shari'ah except part of the investment in Taj Mall project, Open Silicon and Logistics & Warehousing which were not submitted to the Shari'ah Board for approval before its execution, and appear later to be having explicitly non-Shari'ah Compliance issues.

b) The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shari'ah rules and principles.

c) The Shari'ah Board resolved that all earnings that have been realized from sources or by means prohibited by rules and principles of Shari'ah shall be disposed of and given to charity under the supervision of the Shari'ah Board.

d) The calculation of Zakah is in compliance with the rules and principles of Islamic Shari'ah and as per AAOIFI's Shari'ah standard No.35 and Accounting standard No.9.

We supplicate to Allah the Almighty to grant us success and a straight path.

والسلام عليكم ورحمة الله وبركاته

Dr. Khalid Mathkoor Al Mathkoor	**chairman**	....
Sh. Nizam M. Yaqouby	**vice –Chairman**	....
Dr. Abdul Sattar Abu Ghuddah	**member**	....
Dr. Ali M. Al Qaradaghi	**member**	
Dr. Mohamed Daud Bakar	**member**	....

23rd Jumada Al-Ula / 3rd March 2016

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CR No. 6220

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Bank Alkhair BSC (c)
Manama, Kingdom of Bahrain

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

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

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

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

Emphasis of matter
Without qualifying our opinion, we draw attention to note 2 (b) to the consolidated financial information which discusses certain matters relating to the Group's liquidity position and regulatory capital adequacy requirements, implications of these matters for the basis of preparation of these consolidated financial statements and management's action plans to deal with these matters.

Report on other regulatory requirements
As required by the Bahrain Commercial Companies Law and Volume 2 of the Rule Book issued by the Central Bank of Bahrain (CBB), 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) As disclosed in note 33, the Bank's capital adequacy ratio as of 31 December 2015 was below the minimum regulatory requirement. Except for this, we are not aware of any other violations during the year of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2, applicable provisions of Volume 6 and CBB directives) 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;
d) Except for the matters discussed in the Shari'a Supervisory Board Report dated 3 March 2016, we are not aware of any other breaches of the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank; and
e) satisfactory explanations and information have been provided to us by management in response to all our requests

KPMG

KPMG Fakhro
Partner Registration no. 100
30 March 2016

BANK ALKHAIR B.S.C. (c)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2015

US$ 000's

	note	31 December 2015	31 December 2014 (Restated- note 34)
ASSETS			
Cash and balances with banks	4	17,021	22,898
Placements with financial institutions		9,648	42,250
Financing receivables	5	66,713	9,151
Investment securities	6	64,930	85,323
Equity-accounted investees	7	139,658	121,974
Investment property	8	241,466	256,571
Other assets	9	32,313	14,243
Equipment		13,274	14,501
TOTAL ASSETS		**585,023**	**566,911**
LIABILITIES AND EQUITY			
LIABILITIES			
Due to financial institutions	10	123,252	106,987
Due to customers	11	208,250	197,552
Other liabilities	12	28,727	32,999
TOTAL LIABILITIES		**360,229**	**337,538**
EQUITY			
Share capital	13	207,962	207,962
Statutory reserve		664	664
Fair value reserve		(249)	(185)
Foreign currency translation reserve		(15,290)	(13,333)
Accumulated losses		(58,478)	(52,479)
Equity attributable to the shareholders of the Bank		**134,609**	**142,629**
Non-controlling interests		90,185	86,744
TOTAL EQUITY (page 7)		**224,794**	**229,373**
TOTAL LIABILITIES AND EQUITY		**585,023**	**566,911**

The consolidated financial statements consisting of pages 5 to 51 were approved by the Board of Directors on 30 March 2016 and signed on its behalf by:

Yousef Abdullah Al-Shelash
Chairman

Hethloul Saleh Al-Hethloul
Board Member

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

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2015

US$ 000's

	note	2015	2014 (Restated- note 34)
Income from investment securities	14	(3,371)	2,054
Finance income		4,321	2,342
Fees and commission income	15	5,383	5,093
Share of profit of equity-accounted investees	7	5,253	5,769
Income from non-banking operations	16	32,389	26,626
Rental income		3,361	3,361
Other income		2,661	547
Total income		**49,997**	45,792
Staff cost		14,112	12,771
Finance expense		10,967	9,445
Legal and professional expenses		7,150	2,431
Premises cost		1,205	1,580
Business development expenses		510	469
Depreciation		2,919	2,698
Expense of non-banking operations	16	23,823	20,949
Other operating expenses		4,285	4,189
Total expenses		**64,971**	54,532
Loss for the year before impairment allowance		**(14,974)**	(8,740)
Reversal of impairment allowance/(charge) for the year	17	12,474	(8,181)
Loss for the year		**(2,500)**	(16,921)
Attributable to:			
Shareholders of the Bank		(5,999)	(18,744)
Non-controlling interests		3,499	1,823
		(2,500)	(16,921)

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

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

US$ 000's

2015		Attributable to the shareholders of the Bank						
	Share capital	Statutory reserve	Fair value reserve	Foreign currency translation reserve	Accumulated losses	Total	Non-controlling interests	Total equity
As at 1 January 2015	207,962	664	(185)	(13,333)	(52,479)	142,629	86,744	229,373
(Loss) / profit for the year	-	-	-	-	(5,999)	(5,999)	3,499	(2,500)
Foreign currency translation differences	-	-		(333)	-	(333)	(58)	(391)
Share of changes in reserves of equity-accounted investees	-	-	(64)	(1,624)	-	(1,688)	-	(1,688)
Total recognised income and expense for the year	**-**	**-**	**(64)**	**(1,957)**	**(5,999)**	**(8,020)**	**3,441**	**(4,579)**
As at 31 December 2015	**207,962**	**664**	**(249)**	**(15,290)**	**(58,478)**	**134,609**	**90,185**	**224,794**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*
for the year ended 31 December 2015

US$ 000's

		Attributable to the shareholders of the Bank						
2014 (Restated)	Share capital	Statutory reserve	Fair value reserve	Foreign currency translation reserve	Accumulated losses	Total	Non-controlling interests	Total equity
As at 1 January 2014	207,862	664	117	(12,784)	(34,516)	161,343	78,461	239,804
Prior year adjustments (note 36)	-	-	-	-	781	781	752	1,533
Restated balance at 1 January 2014	207,862	664	117	(12,784)	(33,735)	162,124	79,213	241,337
(Loss) / profit for the year	-	-	-	-	(18,744)	(18,744)	1,823	(16,921)
Foreign currency translation differences	-	-	-	(863)	-	(863)	61	(802)
Share of changes in reserves of equity-accounted investees	-	-	(302)	314	-	12	-	12
Total recognised income and expense for the year	-	-	(302)	(549)	(18,744)	(19,595)	1,884	(17,711)
Capital increase	100	-	-	-	-	100	-	100
Non-controlling interests on acquisition of a subsidiary	-	-	-	-	-	-	5,176	5,176
Changes in non-controlling interests	-	-	-	-	-	-	471	471
As at 31 December 2014	207,962	664	(185)	(13,333)	(52,479)	142,629	86,744	229,373

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

BANK ALKHAIR B.S.C. (c)

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2015

US$ 000's

	2015	2014 (Restated)
OPERATING ACTIVITIES		
Loss for the year	**(2,500)**	(16,921)
Adjustments for:		
Gain on sale of investment securities	(1,510)	(646)
Fair value changes in investment securities	5,220	(546)
Share of profit of equity-accounted investees	(5,253)	(5,769)
Depreciation and amortisation	2,919	2,698
Sukuk amortisation	141	11
Gain on sale of investment property	(721)	-
Impairment allowance	(12,474)	8,181
	(14,178)	(12,992)
Changes in:		
Financing receivables	(61,361)	39,449
Other assets	(18,100)	2,616
Due to financial institutions	24,617	(16,560)
Due to customers	10,696	(20,042)
Other liabilities	(4,170)	78
Net cash used in operating activities	**(62,496)**	(7,451)
INVESTING ACTIVITIES		
Payment for purchase of equipment	(157)	(389)
Proceeds from sale of investment securities	86,342	18,003
Purchase of investment securities	(69,794)	(30,174)
Investment property sale proceeds/(additions)	14,523	(714)
Dividends received from equity-accounted investees	2,168	2,168
Net cash on acquisition of subsidiary	-	1,317
Net cash generated from / (used) in investing activities	**33,082**	(9,789)
FINANCING ACTIVITIES		
Repayment of bank financing	(8,351)	(7,216)
Net cash used in financing activities	**(8,351)**	(7,216)
Net decrease in cash and cash equivalents during the year	**(37,765)**	(24,456)
Effect of exchange rate changes on cash and cash equivalents	(714)	(2,068)
Cash and cash equivalents at the beginning of the year	65,148	91,672
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**26,669**	65,148
Cash and cash equivalents comprise:		
Cash and balances with banks	17,021	22,898
Placements with financial institutions	9,648	42,250
	26,669	65,148

for the year ended 31 December 2015 US$ 000's

1. REPORTING ENTITY

Bank Alkhair B.S.C. (c) ("the Bank") was incorporated in the Kingdom of Bahrain and registered with the Ministry of Industry and Commerce under Commercial Registration No. 53462 on 29 April 2004 and operates under a wholesale Islamic banking license granted by the Central Bank of Bahrain (CBB). The Bank's registered office is at the 26th floor, West Tower Bahrain Financial Harbour, Building No. 1459, Road No. 4626, Manama Sea Front 346, Kingdom of Bahrain.

The Bank and its subsidiaries (together referred to as "the Group") aim to provide a full range of investment banking products and services that are compliant with Shari'ah principles. The principal products and services offered by the Group are:

- financial advisory services;
- private equity, equity structuring, private placements and initial public offerings;
- facility structuring, restructuring and placement including project finance, securitisation and Sukuk;
- structuring and marketing of both open and closed end mutual funds as well as client portfolio management and brokerage services that aim to meet investor driven return and asset criteria;
- advisory and investment services for takaful (Islamic insurance) and retakaful (Islamic reinsurance) providers; and
- mergers and acquisitions, including deal sourcing, structuring, valuations and advisory.

Consolidated financial statements

The consolidated financial statements comprise the results of the Bank and its subsidiaries.

The following are the principal subsidiaries of the Bank that are consolidated:

Subsidiary	Ownership 2015	Ownership 2014	Year of incorporation / Acquisition	Country of incorporation	Principal activity
Alkhair International Islamic Bank Malaysia Berhad	100%	100%	2004	Malaysia	Alkhair International Islamic Bank Malaysia Berhad was established in 2004 to source investment opportunities in the Far East and monitor the performance of the acquired companies on behalf of the Bank and investors and to establish distribution channels for the Group. In 2007, Alkhair International Islamic Bank Malaysia Berhad was granted an investment banking license by Bank Negara Malaysia to carry out investment banking activity in currencies other than the Malaysian Ringgit.
Alkhair Capital Menkul Degerler A.S.	91.9%	91.9%	2007	Turkey	The main activities of Alkhair Capital Menkul Degerler A.S. are to provide investment consultancy and asset management.
Alkhair Portföy Yönetimi A.Ş.	96.4%	96.4%	2007	Turkey	The main activities of Alkhair Portföy Yönetimi A.Ş. are to provide investment consultancy and asset management.
Al-Tajamouat for Touristic Projects Co Plc	50.6%	50.6%	2013	Jordan	Al-Tajamouat for Touristic Projects Co was incorporated in January 2004. Its principal activities are real estate property investment & development and ownership and operation of a shopping mall in Amman.
Tintoria International Limited	52.1%	52.1%	2014	UAE	General trading and investing in UAE and foreign companies.
Alkhair Capital Saudi Arabia	53.3%	53.3%	2009	Kingdom of Saudi Arabia	Alkhair Capital Saudi Arabia is registered with Capital Markets Authority. Its principal activities are Asset Management, Corporate Finance & Investment banking and Brokerage.

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

2. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of measurement

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

Going concern

As at 31 December 2015, the current contractual liabilities of the Group exceeded its liquid assets. As a result, the ability of the Group to meet its obligations when due, depends on its ability to roll over short term liabilities and timely disposal of assets. Further, the Bank's capital adequacy ratio as of 31 December 2015 was below the minimum regulatory capital requirements. These factors indicate the existence of material uncertainties, which may cast doubt about the Group's ability to continue as a going concern. To address these, the management has taken a number of initiatives including discussions with creditors who have shown willingness in the past to roll over short term placements, putting together a robust assets sales plan and support from major shareholders who have also in the past provided support when it was needed. The Board of Directors has reviewed these initiatives and is satisfied with the appropriateness of the going concern assumption for preparation of the consolidated financial statements".

(c) Basis of consolidation

(i) 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 entity so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases.

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or investment transaction and usually voting rights are relevant for the operating of such entities. An investor that has decision making power over all investees and exposure to variability of returns determines whether it acts as a principal or as an agent to determine whether there is linkage between power and return. When the decision maker is an agent, the link between power and return 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 also manages and administers assets held in trust and other investment vehicles on behalf of investors. The financial statements of these entities 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 20.

Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the consolidated income statement. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

2. BASIS OF PREPARATION (continued)
(i) Subsidiaries (continued)

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

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

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

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

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

If the equity accounting method is chosen for an associate, these are initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investees 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 investees arising from changes in the investee's equity.

When the Group's share of losses exceeds its interest in an equity-accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the equity-accounted investees.

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

2. BASIS OF PREPARATION (continued)

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

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

(iii) Transactions eliminated on consolidation and equity accounting

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

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

(d) Business combination

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

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in consolidated income statement. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

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

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by Group entities to all periods presented in these consolidated financial statements except for change in subsequent measurement of investment property. The Group previously used to measure the investment property at cost. During the year, the Group voluntarily changed the accounting policy for remeasurement of investment property to fair value from previous measure of cost basis. This has been carried out to represent a more relevant presentation of the financial position. The Group has applied the change retrospective and recognised a loss of US$ 1,681thousand in the income statement for 2014 representing an increase of impairment allowance in previous year.

3. *SIGNIFICANT ACCOUNTING POLICIES (continued)*

Amendments to Financial Accounting Standard (FAS) No. 23 – Consolidation
During the period the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) issued amendments to FAS 23 which is 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 IFI has less than majority voting rights in an investee, control may also exist through:
a) agreement with the entity's other shareholders or the entity itself;
b) rights arising from other contractual arrangements;
c) the IFI's voting rights (de facto power);
d) potential voting rights; or
e) a combination thereof.

Further, FAS 23 does not provide specific guidance for assessment of control over special purpose entities (SPEs) and the Bank was previously referring to the relevant guidance within International Financial Reporting Standards (IFRSs). As a result of revisions to IFRS 10 (consolidation), the Group has now also changed its accounting policy for determining whether it has control over SPEs. The new control model focuses on whether the Group has power over an SPE, 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).

In accordance with the transitional provisions of the amendments to FAS 23, the Group reassessed its control conclusions as of 1 January 2015. The Group has reassessed its investments considering the new control definition criteria and based on the assessment, management had concluded that the Group do not have power over relevant activities of the investee and do not have significant variability from its involvement with the investee.

There were no changes to the entities that were controlled and consolidated by the Group as of 31 December 2014. Accordingly, adoption of the new amendments did not have a significant impact on the consolidated financial statements or the amounts reported in the comparative periods.

New standards, amendments and interpretations issued but not yet effective for adoption
There are no AAOIFI accounting standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2016 that would be expected to have a material impact on the Group.

a) Foreign currency transactions
Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in US$, 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 consolidated income statement. Translation differences on non-monetary items carried at their fair value, such as certain equity securities measured at fair value through equity, are included in investments fair value reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)
a) Foreign currency transactions (continued)

Other group companies
As at the reporting date, the assets and liabilities of subsidiaries, equity-accounted investees and joint venture are translated into the Bank's functional currency at the rate of exchange prevailing at the reporting date, and their statements of income are translated at the average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate reserve in equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

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

(i) Classification
The Group segregates its investment securities into debt-type instruments and equity-type instruments.

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)
b) Investment securities (continued)

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

(ii) Recognition and de-recognition
Investment securities are recognised at the trade date i.e. the date that the Group contracts to purchase 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 investments carried at FVTIS, transaction costs are expensed in the consolidated income statement. For other investment securities, transaction costs are included as a part of the initial recognition.

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

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

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

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

(iv) Measurement principles

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)
b) Investment securities (continued)

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

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

If a market for a financial instrument is not active or the instrument is not quoted, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flow analysis and other valuation models with accepted economic methodologies for pricing financial instruments.

c) Financing receivables
Financing receivables comprise Shari'ah compliant financing contracts with fixed or determinable payments. These include financing provided through Murabaha contracts. Financing assets are recognised on the date they are originated and are carried at their amortised cost.

d) Placements with financial institutions
These comprise inter-bank placements mainly made using Shari'ah compliant contracts. Placements are usually for short-term and are stated at their amortised cost.

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

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

g) Due to customers
These comprise funds payable to corporate customers received using Shari'ah compliant contracts. Due to customers are stated at their amortised cost.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)
g) Impairment of assets (continued)

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

Investments carried at fair value through equity (FVTE)
In the case of investments in equity securities classified as FVTE, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment. If any such evidence exists for FVTE investments, the unrealised re-measurement loss shall be transferred from equity to the consolidated income statement.

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 the consolidated statement of changes in equity is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated 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. Currently, the Group does not have any investments under this category.

Non-financial assets
The carrying amount of the Group's assets or its cash generating unit, other than financial assets carried at amortised cost and investments carried at FVTE, are reviewed at each reporting date to determine whether there is any indication of impairment. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other asset and groups. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset or a cash generating unit is the greater of its value in use or fair value less costs to sell.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Investment property

Investment property comprises of land and building. Investment property is an investment that earns rental income and/or is expected to benefit from capital appreciation or land held for undetermined future use. Investment property is measured initially at cost, including directly attributable expenditures. Subsequently, investment property is carried at fair value.

Any unrealized gains arising from a change in the fair value of investment property is recognized directly in equity under "Investment Property Fair Value Reserve" for the period in which it arises. Any unrealized losses resulting from re-measurement at fair value of investment property is adjusted in equity against the investment property fair value reserve to the extent of the available credit balance of this reserve. In case such losses exceed the available balance, the unrealised losses are recognised in the consolidated income statement. In case there are unrealised losses relating to investment property that have been recognised in the consolidated income statement in a previous financial period, the unrealised gains relating to the current financial period are recognised to the extent of crediting back such previous losses in the consolidated income statement.

Investment property is derecognised when it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The realised profits or losses resulting from the sale of investment property are measured as the difference between the carrying value and the net cash or cash equivalent proceeds from the sale of each investment separately. The resulting profit or loss together with the available balance on the investment property fair value reserve account is recognised in the consolidated income statement for the current financial period.

j) Equipment

Equipment includes computers, office equipment, fixtures and fittings. Equipment is recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method to write-off the cost of the assets over their estimated useful lives ranging from 1 to 8 years. The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

k) Revenue recognition

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

Dividend income is recognised when the Group's right to receive the payment is established.

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

Fair value gain / (loss) on investment securities (unrealised gain or loss) is recognised on each measurement date in accordance with the accounting policy for equity-type instruments carried at fair value through income statement (refer note 3 b).

Sukuk Income comprises the coupon profit on Sukuk and realised gain or loss on the sale of Sukuk. The coupon profit is recognised through the effective profit rate in accordance with the accounting policy for debt-type instrument carried at amortised costs (refer to 3 b). Realised gain or loss on sale of Sukuk is recognised on trade date at the time of de-recognition of the Sukuk. The gain or loss is the difference between the carrying value on the trade date and the fair value of consideration received or receivable.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Revenue recognition (continued)

Fees and Commission income represents advisory fees, arrangement fees, management fees and brokerage fees. Fees and Commission income is recognised at the fair value of consideration received or receivable and when the service is provided and income is earned. This is usually when the Group has performed all significant acts in relation to a transaction and it is highly probable that the economic benefits from the transaction will flow to the Group. Significant acts in relation to a transaction are determined based on the terms for each transaction.

Finance income and expense
Finance income and expense is recognised using effective profit rate.

Income from non-banking operations
This consists of income from Al-Tajamouat for Touristic Projects Company PLC (lease income) and Tintoria International Limited (income from contracts for laundry operations).

Lease income is recognised on straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract, when the outcome of the transaction and related revenue and cost can be measured reliably, and that economic benefit flows to the Group.

l) 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 and recognised as staff cost in the consolidated income statement. 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 local 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 Group are recognised as staff cost in the consolidated income statement when they are due. Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

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

m) Earnings prohibited by Shari'ah
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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

n) Zakah

The Bank is not obliged to pay Zakah on behalf of its shareholders. However, the Bank is required to calculate and notify individual shareholders of their pro-rata share of the Zakah payable amount.

o) Provision for taxation

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on foreign operations is provided in accordance with the fiscal regulations of the respective countries in which the subsidiaries operate.

p) Offsetting of financial instruments

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

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

q) Statutory reserve

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

r) Provisions

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

s) Contingent liabilities and contingent assets

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

t) 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. Loan commitments are firm commitments to provide credit under pre-specified terms and commitments. Financial guarantee liabilities are recognised initially at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

u) Leases

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

v) Onerous contracts

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

w) 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.

x) Cash and cash equivalents

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

y) Critical accounting estimates and judgements

The Group 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

(i) Classification of investments

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments at fair value through income statement or investments carried at fair value through equity or investments carried at amortised cost. The classification of each investment reflects the management's judgement in relation to its strategy for each investment and is subject to different accounting treatments based on such classification (refer note 3 (b)).

(ii) Special purpose entities

The Group sponsors the formation of special purpose entities (SPE's) primarily for the purpose of allowing clients to hold investments. The Group provides corporate administration, investment management and advisory services to these SPE's, which involve the Group making decisions on behalf of such entities. The Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. The Group does not consolidate SPE's that it does not have the power to control.

In determining whether the Group has the power to control an SPE, judgements are made about the objectives of the SPE's activities, its exposure to the risks and rewards, as well as about the Group intention and ability to make operational decisions for the SPE and whether the Group derives benefits from such decisions.

3. *SIGNIFICANT ACCOUNTING POLICIES (continued)*
   x) *Critical accounting estimates and judgements (continued)*

Estimations

(i) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility for discount rates.

Fair value is determined for each investment individually in accordance with the valuation policies set out below:

- For investment that is traded in an active market, fair value is determined by reference to the quoted bid market price prevailing on the reporting date;
- For investment in unquoted equity securities, the Bank establishes fair value by using valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same and discounted cash flow analysis; and
- Investments in funds or similar investment entities are carried at the latest net asset valuation provided by the fund administrator.

The impact on fair value of financial instruments measured at fair value for changes in key assumptions is given in note 19.

(ii) Impairment of financing receivables

Each counterparty exposure is evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation 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. All individually significant financing receivables are tested for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Financing receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss in respect of a financing receivables measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective profit rate. Losses are recognised in profit or loss and reflected in an allowance account against financing receivable.

Profit on the impaired asset does not continue to be recognised. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through consolidated income statement.

for the year ended 31 December 2015 US$ 000's

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

x) Critical accounting estimates and judgements (continued)

(iii) Impairment of cash generating units

Cash generating units include the Group's investments in certain subsidiaries and equity-accounted investees and investment property that generate cash flows that are largely independent from other assets and activities of the Group. The basis of impairment assessment for such cash generating units is described in accounting policy 3 (g). For equity-accounted investees with indicators of impairment, the recoverable amounts have been determined based on higher of fair value less costs to sell or value in use.

Value in use for the equity-accounted investees was determined by discounting the future cash flows expected to be generated from continuing operations, comparison to similar instruments for which market observable prices exist and other valuation models.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length. Fair value less costs to sell of certain cash generating units is based on indicative offer prices received by the Group.

Key assumptions used in the calculation of value in use were the following: cash flows were projected based on 3-5 year business plans, after ensuring consistency with historical operating results and forecasted economic growth rates for mature companies. Terminal growth rates were determined based on the IMF's forecast GDP growth rate in 5 years' time. The forecast period is based on the Group's long term perspective with respect to the operations of these CGU's.

Discount rates were based on a CAPM formula, with the risk-free rate obtained from the yield on 10-year bonds issued by the government in the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally, as well as liquidity and control factors. The key assumptions described above may change as economic and market conditions change.

4. CASH AND BALANCES WITH BANKS

	31 December 2015	31 December 2014 (Restated)
Cash on hand	5	17
Balances with banks	17,016	22,881
	17,021	22,898

for the year ended 31 December 2015 US$ 000's

5. FINANCING RECEIVABLES

	31 December 2015	31 December 2014
Gross murabaha receivables	77,338	15,579
Less: Deferred profits	(556)	(154)
Net murabaha receivables	**76,782**	15,425
Less: Specific impairment allowances	(9,269)	(5,974)
Less: Collective impairment allowances	(800)	(300)
	66,713	9,151

Financing receivables comprise due from customers under murabaha financing contracts. The average profit on these balances during the year was 5.9% per annum (2014: 7.0% per annum).

6. INVESTMENT SECURITIES

	31 December 2015	31 December 2014
Equity type instruments		
At fair value through income statement:		
- Quoted equity securities	673	1,028
- Unquoted equity securities	21,593	30,255
- Quoted funds	7,855	9,032
- Unquoted funds	29,490	24,816
Total equity type instruments	**59,611**	65,131
Debt type instruments		
At amortised cost :		
- Quoted Sukuk #	5,319	20,192
	64,930	85,323

The fair value of the investments carried at amortised cost at 31 December 2015 is US$ 5,267 thousands (2014: US$ 20,155)

Movement on investments carried at fair value through income statement as follows:

	At 1 January 2015	Additions during the year	Disposal during the year	Fair value changes	**At 31 December 2015**
Investment in associates	49,454	-	(828)	(2,042)	46,584
Quoted funds	9,032	7,904	(9,111)	30	7,855
Equity investments (< than 20% stake)	6,645	9,435	(7,700)	(3,208)	5,172
	65,131	**17,339**	**(17,639)**	**(5,220)**	**59,611**

for the year ended 31 December 2015 US$ 000's

7. EQUITY-ACCOUNTED INVESTEES

	31 December 2015	31 December 2014
BFC Group Holdings Ltd.	119,160	99,191
Burj Bank Limited	11,215	13,176
t'azur Company B.S.C. (c)	9,283	9,607
	139,658	121,974

(i) The Group has 43.36% stake (2014: 43.36%) in BFC Group Holdings Ltd. ("BFC"), a company incorporated in the United Arab Emirates. BFC is a holding company of a group of money changers in different jurisdictions. BFC is engaged in buying and selling foreign currencies and traveller's cheques, handling of remittance business and provision of other exchange house services in both local and foreign currencies. During the year, based on the latest valuation for the investment, the Group reversed impairment allowance of USD 16.10 million recognised in previous years (note 17).

(ii) The Group has 37.91% stake (2014: 37.91%) in Burj Bank Limited, an unlisted Islamic commercial bank in Pakistan.

(iii) The Group has 25.86% stake (2014: 25.86%) in T'azur B.S.C. (c), an unlisted regional takaful company incorporated in the Kingdom of Bahrain. T'azur Company B.S.C (c) has a commitment to provide a Qard Hassan to the extent of the accumulated deficit in the participants' fund of US$ 33.3 million at 31 December 2015 (31 December 2014: US$ 34.0 million). The Group's share of the commitment is US$ 8.6 million (31 December 2014: US$ 8.8 million) (note 18).

The movement on equity-accounted investees is as follows:

	2015	2014
At 1 January	121,974	121,662
Net share of profits of equity-accounted investees	5,253	5,769
Share of reserves of equity-accounted investees	(1,501)	211
Reversal of impairment allowance/(charge)	16,100	(3,500)
Dividends received	(2,168)	(2,168)
At 31 December	**139,658**	121,974

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

	2015	2014
Assets	700,904	695,395
Liabilities	397,223	396,646
Revenue	90,975	85,644
Profit for the year	11,458	13,197

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8. INVESTMENT PROPERTY

	At 1 January 2015	Disposal	Fair value changes	**At 31 December 2015**
Land	36,119	-	-	36,119
Building	220,452	(15,105)	-	205,347
	256,571	**(15,105)**	-	**241,466**

The Group changed the accounting policy for investment property during the year from cost model to fair value. The management is of the view that fair value is the better presentation for the investment property. Accordingly the adjustments were made to comparative financials also to account for the retrospective effect of the change.

9. OTHER ASSETS

	31 December 2015	31 December 2014 (Restated)
Fees and expenses recoverable	2,980	1,978
Prepayments and advances	6,721	4,953
Rental income receivable	253	960
Intangible assets	19	93
Others	24,242	8,161
	34,215	16,145
Less: Provision for impairment	(1,902)	(1,902)
	32,313	14,243

10. DUE TO FINANCIAL INSTITUTIONS

	31 December 2015	31 December 2014
Placements from financial institutions	59,229	34,613
Bank financing	64,023	72,374
	123,252	106,987

The average profit rate on placements from financial institutions was 2.70% per annum (2014: 3.36% per annum).

Bank financing represents a syndicated loan through the Housing Bank for Trade and Finance in Jordan secured by mortgage over the Group's investment property. The profit rate of the syndicated loan equals the prime lending rate of the Jordanian Dinar, plus an annual margin of 1.0%. The bank financing is repayable as US$ 7.76 million annually with the final payments of US$1.94 million in 2024.

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11. DUE TO CUSTOMERS

This includes deposits from corporate customers on Wakala basis with maturities ranging from 1 month to 1 year (2014: 1 month to 1 year) and carries an average profit rate of 4.68% per annum (2014: 3.64% per annum).

12. OTHER LIABILITIES

	31 December 2015	31 December 2014 (Restated)
Provision for legal and professional expenses	200	820
Accruals and other provisions	4,382	6,330
Restructuring provision	419	419
Deal-related payables	4,725	4,725
Unearned rental income	5,240	5,266
Staff-related payables	2,641	2,823
Trade and other payables	11,120	12,616
	28,727	32,999

13. SHARE CAPITAL

	31 December 2015	31 December 2014
Authorised:		
750,000,000 (2014: 750,000,000) ordinary shares of US$1 each	750,000	750,000
Issued and fully paid up:		
186,170,234 (2014: 186,170,234) ordinary shares of US$1 each, issued against cash	186,170	186,170
20,371,807 (2014: 20,371,807) ordinary shares of US$1 each, issued in kind	20,372	20,372
1,419,873 (2014: 1,419,873) ordinary shares of US$1 each, granted to employees	1,420	1,420
	207,962	207,962

14. INCOME FROM INVESTMENT SECURITIES

	2015	2014 (Restated)
Dividend income	24	21
Net fair value (loss)/gain on equity type investment securities	(5,220)	546
Gain on sale of equity type investment securities	876	517
Sukuk income:		
- Sukuk profit	315	841
- Gain on sale of sukuk	634	129
	(3,371)	2,054

15. FEES AND COMMISSION INCOME

	2015	2014 (Restated)
Arrangement fees	794	680
Management fees	3,857	3,610
Brokerage fees	732	803
	5,383	5,093

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16. NET INCOME FROM NON-BANKING OPERATIONS

	2015	2014 (Restated)
Revenue from Al-Tajamouat for Touristic Projects Co Plc	24,383	23,667
Revenue from Tintoria International	8,006	2,959
	32,389	26,626
Expenses of Al-Tajamouat for Touristic Projects Co Plc	(15,864)	(17,061)
Expenses of Tintoria International	(7,959)	(3,888)
	(23,823)	(20,949)
Net income from non-banking operations	**8,566**	5,677

17. IMPAIRMENT ALLOWANCE

	2015	2014 (Restated)
Impairment allowance on:		
Financing receivables	(3,626)	(3,000)
Equity-accounted investee	-	(3,500)
Investment property	-	(1,681)
Reversal of impairment allowance on:		
Equity-accounted investee (note 7)	16,100	-
	12,474	(8,181)

18. COMMITMENTS AND CONTINGENCIES

	31 December 2015	31 December 2014
Commitment to invest	10,030	11,000
Lease commitments	727	127
Guarantees	5,311	5,311
	16,068	**16,438**

Litigations and claims

The Bank has filed a number of legal cases against the former Chief Executive Officer before the Civil and Criminal Courts of the Kingdom of Bahrain and the UK. The former CEO has also filed a counter court case in the Bahraini courts for wrongful dismissal. The Bahraini Courts have ruled in favour of the Bank in a number of the civil and criminal cases. The case in the UK was filed by the Bank to remedy the damages resulting from defamation and unlawful conspiracy. The case is currently in progress and the ultimate outcome of the matter cannot presently be determined and, accordingly, no provision for any effects on the Group that may result has been made in these consolidated financial statements. During the year, the Group paid US$ 8.1 million to the UK court, of which US$ 4 million was utilised to pay legal expenses of the counterparties and the balance US$ 4.1 million is included under "prepayment and advances" pending outcome of the case.

A number of employment claims have been filed against the Bank by former employees. The Bank's external legal counsel has confirmed that the Bank has strong grounds to successfully defend itself against these claims. No disclosure regarding contingent liabilities arising from the employment claims has been made as the directors of the Bank believe that such disclosures may be prejudicial to the Bank's legal position.

The Group's share of commitments arising from its equity-accounted investees is given in note 7.

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19. FAIR VALUE

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

Valuation techniques

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

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

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

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

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

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

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

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

31 December 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Investments carried at fair value through income statement	8,528	46,584	4,499	59,611
	8,528	**46,584**	**4,499**	**59,611**

31 December 2014	Level 1	Level 2	Level 3	Total
Investments carried at fair value through income statement	10,060	49,453	5,618	65,131
	10,060	49,453	5,618	65,131

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19.FAIR VALUE (continued)

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

	At 1 January 2015	**Total losses recorded in consolidated income statement**	**Total gains recorded in equity**	**Additions**	**Sales/ transfers**	**At 31 December 2015**
Investments carried at fair value through:						
- income statement	5,618	(2,089)	-	970	-	4,499
	5,618	**(2,089)**	**-**	**970**	**-**	**4,499**

	At 1 January 2014	Total gains recorded in consolidated income statement	Total gains recorded in equity	Additions	Sales/ transfers	At 31 December 2014
Investments carried at fair value through:						
- income statement	8,709	(7)	-	4,000	(7,084)	5,618
	8,709	(7)	-	4,000	(7,084)	5,618

Transfers between level 1, level 2 and level 3
There were no transfers between the levels during the year ended 31 December 2015.

The following table shows the impact on fair value of level 3 financial instruments using reasonably possible alternative assumptions.

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

	Carrying amount	**Effects of reasonably possible alternative assumptions on carrying amount**
31 December 2015		
Investments carried at fair value through income statement	**4,499**	**225**
31 December 2014		
Investments carried at fair value through income statement	5,618	281

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20. ASSETS UNDER MANAGEMENT

	31 December 2015	31 December 2014
Proprietary	47,532	51,003
Clients	155,811	153,478
	203,343	204,481

Proprietary assets are included in the consolidated statement of financial position under "investment securities". Client assets, which represent client investments, are managed in a fiduciary capacity without recourse to the Group and are not included in the consolidated statement of financial position.

21. 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 significant shareholders and entities over which the Bank and shareholders exercise significant influence, directors, members of Shari'ah Supervisory Board and executive management of the Bank.

Compensation of key management personnel

Key management personnel of the Group comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group. The key management personnel compensation during the year is as follows:

	2015	2014
Short term employee benefits	7,166	4,327
Post-employment benefits	532	941
	7,698	5,268

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21. RELATED PARTY TRANSACTIONS *(continued)*

The significant related party transactions and balances included in this consolidated financial statements are as follows:

	2015				2014			
Assets	**Associates**	**Significant shareholders/ entities in which directors have interest**	**Key management**	**Other entities**	Associates	Significant shareholders/ entities in which directors have interest	Key management	Other entities
Cash and balances with banks	22	-	-	-				
Financing receivables	-	-	-	15,070	-	-	-	1,835
Investment securities	46,584	-	-	6,910	49,453	-	-	27,683
Equity-accounted investees	139,658	-	-	-	121,974			
Other assets	1,849	-	497	366	1,048	-	9	266
Liabilities								
Due to financial institutions	14,570	-	-	-	15,580	-	-	-
Due to customers	918	-	-	30,461	914	-	-	52,231
Other liabilities	222	417	1,304	516	64	1,233	941	374

	2015				2014			
Income / (expenses)	**Associates**	**Significant shareholders/ entities in which directors have interest**	**Key management**	**Other entities**	Associates	Significant shareholders/ entities in which directors have interest	Key management	Other entities
Income from investment securities	(4,467)	-	-	1,841	(43)	-	-	1,405
Fees and commission	2,320	-	-	195	2,397	-	-	141
Net finance income / (expense)	(524)	-	-	(1,027)	(575)	-	-	(1,606)
Share of profit of equity-accounted investees	5,253	-	-	-	5,769	-	-	-
Directors' and Shari'ah board remuneration and expenses	-	412	-	81	-	619	-	124

22. RISK MANAGEMENT

Risk is an inherent part of the Group's business activities. The Group's risk management and governance framework is intended to provide progressive controls and continuous management of the major risks involved in the Group's activities. Risks are managed by a process of identification, measurement and monitoring, and are subject to risk limits and other controls. The process of risk management is critical to the Group's operations and each business unit within the Group is accountable for the risk exposures relating to their responsibilities. The Group's main risk exposure categories are Investment and Credit risk, Market risk, Liquidity risk and Operational risks.

- Risk identification: The Group's exposure to risk through its business activities, including investment in Private Equity, Brokerage, and Capital Markets, is identified through the Group's risk management infrastructure, which includes prior review of all new activities by Risk management.
- Risk measurement: The Group measures risk using risk management position methodologies which reflect the Group's investment risks, foreign exchange and profit rate exposure risks. The Bank relies on both quantitative and qualitative approaches in quantifying risks.
- Risk monitoring: The Group's risk management policies and procedures incorporate respective limits and the Group's activities. The Bank conducts periodic reporting for ongoing monitoring of its position at both Management and Board level.
- Risk reporting: The Group undertakes reporting of all core risks relevant to its businesses on a consolidated basis. In line with the Board-approved risk framework. The Bank has risk governance arrangements to oversee risk management and transaction approval and key governance committees include; the Group Asset and Liability Committee ("ALCO") which oversees liquidity, cash flow planning and general asset liability management, the Group Risk Executive Committee ("REXCO") which oversees risk management across the group including review and approval of risk limits, credit facilities and key risk processes and the Investment and Post Investment Management Committee ("IPIMC") which is responsible for review and approval of new investments, funding requirements, divestments and general investment processes.

Group Risk Framework and Governance
The Board of Directors is ultimately accountable for the risk management of the Group. The Board has advocated a wholly integrated risk management process within the Group, in which all business activities are aligned to the risk framework. The Group Risk Framework establishes Group risk management standards, risk processes, structures, and defines the Bank's risk philosophy.

Board of Directors
The Board of Directors is responsible for defining the Group's risk appetite within which it manages its risk exposures and reviews the Group's compliance with delegated risk authorities.

Audit Committee
The Audit Committee is appointed by the Board of Directors and consists of four non-executive Board members. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and oversight of the Internal Audit function.

Shari'ah Supervisory Board
The Group's Shari'ah Supervisory Board is vested with the responsibility of ensuring that the Group complies with the Shari'ah rules and principles in its transactions, activities and general philosophy.

22. RISK MANAGEMENT (continued)

Group Risk Executive Committee

Group Risk Executive Committee REXCO has the overall responsibility for ensuring that the Group develops appropriate risk policies and strategies for the relevant business activities, and makes preparations for forthcoming regulatory arrangements in line with Basel Committee recommendations. It oversees the risk management activities of the Group, reviews and approves risk management principles, frameworks, policies, limits, processes and procedures. It is responsible for assessing fundamental risk issues within the general development strategy of the Group.

Internal Audit and Independent Review

All key operational, financial and risk management processes are audited by Internal Audit according to risk based auditing standards. Internal Audit examines the adequacy of the relevant policies and procedures and the Group's compliance with internal policies and regulatory guidelines. Internal Audit discusses the result of all assessments with management and reports its findings and recommendations to the Audit Committee. The Internal Audit recommendations are tracked for resolution via the Committee.

Group Asset and Liability Committee (ALCO)

The Group Asset and Liability Committee establishes the funding, liquidity and market risk policies for the Group. It is composed of the CEO, CFO, Treasury and control areas. ALCO's objectives are to manage the assets and liabilities of the Group, determine the statement of financial position mix and appropriate risk and return profile. It oversees all treasury and capital markets activities and all areas affected by liquidity and market risk. Cash flow management is a major focus of ALCO and ALCO regularly reviews the business line investment plans to ensure that sufficient funding is in place. ALCO ensures that the appropriate mix of short and long term funding strategies are developed in conjunction with the Group's treasury and capital markets functions.

Risk Management

The Risk Management function is responsible for designing and implementing the Group's risk framework, including policies, processes and systems. The Chief Risk Officer reports functionally to the Board Risk Committee and administratively to the Chief Executive Officer. Risk Management conducts risk assessments of individual transactions (including their respective credit, investment, counterparty and operational risks), products and services. Risk Management is responsible for ensuring that the Group's processes capture all sources of transaction risk and that appropriate limit methodologies are developed for use in the management of business risk. In addition to the above the Risk Function also supports investment processes throughout the investment cycle by monitor the investment risk.

Treasury Activities

Treasury is responsible for managing the Group's day to day funding, liquidity management, foreign exchange and profit rate exposures, under the review of Risk Management and the supervision of ALCO.

Investment Monitoring and Reporting

Proprietary investment risks are identified and assessed via extensive due diligence activities conducted by the respective departments. This is supported by Risk Management which undertakes an independent risk assessment of every investment transaction. Post-acquisition investment management is rigorously exercised, mainly via board representation within the investee company, during the life of the investment transaction.

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

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

The information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the Bank's management of capital is explained in notes 23 to 26 and 33.

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23. CREDIT RISK

Credit Risk Policy Framework
The Bank has a Group Credit Risk Policy framework establishing Group credit risk appetite, credit risk origination, underwriting and administration standards. The credit policy articulates key credit markets, minimum criteria for the granting of credit, minimum requirements on collateral and defines roles and responsibilities for credit risk management. The policy provides a guideline to business units when originating credit business.

Credit Risk Management
Credit risk is the risk that the Group will incur a loss of principal or profit earned because its customers, clients or counterparties fail to discharge their contractual obligations and arises principally from the Group's balances with banks, placements with financial institutions, financing receivables, investment securities – sukuk and other receivables. Institutional Banking proposes limits for its interbank placement activities and other client groups for review and approval by REXCO. Further, Risk Management independently analyses the applications and rates for the respective counterparties. Based on this an independent recommendation is forwarded to the REXCO for approval. REXCO periodically reviews these limits for appropriateness in prevailing market conditions.

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. There is no significant use of master netting and collateral agreements.

	Maximum exposure 2015	Maximum exposure 2014
On balance sheet		
Balances with banks	17,016	22,881
Placements with financial institutions	9,648	42,250
Financing receivables	66,713	9,151
Investment securities – Sukuk	5,319	20,192
Other assets	25,311	6,943
Off balance sheet		
Guarantees	5,311	5,311
	129,318	**106,728**

Risk Exposure Concentration

Risk concentration arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include guidelines to focus on maintaining a diversified portfolio. In line with regulatory requirements, the Bank has a group level Large Exposure Policy which details the Bank's approach in managing concentration risk to sectors, asset classes, single obligors and countries including defining specific limits.

Concentration of risks is managed by counterparty, by geographical region and by industry sector. The maximum credit exposure to any client, or counterparty, or group of closely related counterparties as of 31 December 2015 was US$ 10.2 million, relating to "cash and balances with banks" (2014: US$ 17.5 million).

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23. CREDIT RISK (continued)

Geographical Exposure Distribution

The analysis by geographical region of the Group's financial assets having credit risk exposure is as follows:

	31 December 2015					
Type of Assets/Region	**Bahrain**	**Other Middle East**	**North America**	**Asia**	**Europe**	**Grand Total**
Balances with banks	819	5,948	-	10,249	-	17,016
Placement with financial institutions	3,040	-	-	6,010	598	9,648
Financing recivables	1,927	-	-	64,786	-	66,713
Investment securities - Sukuk	-	857	-	4,462	-	5,319
Other assets	2,072	22,833	11	162	233	25,311
Off Balance sheet	-	-	5,000	-	311	5,311
Grand Total	**7,858**	**29,638**	**5,011**	**85,669**	**1,142**	**129,318**

	31 December 2014					
Type of Assets/Region	Bahrain	Other Middle East	North America	Asia	Europe	Grand Total
Balances with banks	15,005	3,618	-	4,258	-	22,881
Placement with financial institutions	14,598	-	-	16,700	10,952	42,250
Financing Recivables	-	-	-	7,316	1,835	9,151
Investment securities - Sukuk	-	17,131	-	-	3,061	20,192
Other Assets	906	5,889	5	(1)	144	6,943
Off Balance sheet	-	-	5,000	-	311	5,311
Grand Total	30,509	26,638	5,005	28,273	16,303	106,728

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23. CREDIT RISK (continued)

Industry Sector Exposure

The distribution of assets and off-statement of financial position items by industry sector is as follows:

	31 December 2015							
Type of Assets/Industry	**Banking and Finance**	**Industrial**	**Real Estate and Construction**	**Technology**	**Funds**	**Trade**	**Government**	**Total**
Funded:								
Balances with banks	17,016	-	-	-	-	-	-	17,016
Placement with financial institutions	9,648	-	-	-	-	-	-	9,648
Financing Receivables	5,781	4,612	8,488	8,525	-	39,307	-	66,713
Investment securities - Sukuk	4,463	-	856	-	-	-	-	5,319
Other Assets	1,056	2,156	20,353	11	1,629	106	-	25,311
UnFunded:								
Guarantees	311	-	-	5,000	-	-	-	5,311
Grand Total	**38,275**	**6,768**	**29,697**	**13,536**	**1,629**	**39,413**	**-**	**129,318**

	31 December 2014							
Type of Assets/Industry	Banking and Finance	Industrial	Real Estate and Construction	Technology	Funds	Trade	Government	Total
Funded:								
Balances with banks	22,881							22,881
Placement with financial institutions	42,250							42,250
Financing Receivables	(300)	3,631	1,835	3,984				9,151
Investment securities - Sukuk	4,064		13,100				3,028	20,192
Other Assets	420	2,582	2,959	5	908	69		6,943
UnFunded:								
Guarantees	311		-	5,000				5,311
Grand Total	69,626	6,213	17,894	8,989	908	69	3,028	106,728

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23. CREDIT RISK (continued)

Collateral and other credit enhancements

The Group utilizes collateral and other credit enhancements mostly on its credit facilities, in line with Shari'ah requirements. Before taking any form of collateral the Bank pre-assesses impediments that may restrict accessibility to collateral should the need arise as well as acceptability from a Shari'ah perspective. In this respect the Bank will formally agree with the customer at the time of signing the offer letter on the usage, redemption and utilization of collateral when the customer/counterparty defaults. In the past year, the Bank has obtained collateral including shareholders' personal guarantees, cash, real estate, unlisted equity shares and debentures. The Bank's credit policy discourages taking collateral value where there is positive correlation between collateral value and obligor's ability to pay.

Credit quality per class of financial assets

The Group did not apply a standard credit rating to its investment business, as the Group assessed credit quality according to the policies of the respective business areas. Management considers the credit quality of the Group's financial assets to be of standard quality as of 31 December 2015. Following is an analysis of credit quality by class of financial assets:

	2015				
	Neither past due nor impaired	Past due but not impaired	Individually impaired	Impairments/ provisions	Total
Balances with banks	17,016	-	-	-	17,016
Placements with financial institutions	9,679	-	-	(31)	9,648
Financing receivables	67,494	-	9,269	(10,050)	66,713
Investment securities – Sukuk	5,319	-	-	-	5,319
Other assets	24,758	553	1,902	(1,902)	25,311
Guarantees	5,311	-	-	-	5,311
Total	**129,577**	**553**	**11,171**	**(11,983)**	**129,318**

Exposures that are past due but not impaired are either past due for less than 90 days and the financial condition of the customer is sound, or has adequate unimpaired collateral coverage. Provisioning is driven by the performance of the customer against laid down terms and conditions of the facility, internal credit grading and classification system calculated on net exposure after deducting the discounted value of recoverable collateral and any disposal costs.

	2014				
	Neither past due nor impaired	Past due but not impaired	Individually impaired	Impairments/ provisions	Total
Balances with banks	22,881	-	-	-	22,881
Placements with financial institutions	42,250	-	-	-	42,250
Financing receivables	6,425	-	9,000	(6,274)	9,151
Investment securities – Sukuk	20,192	-	-	-	20,192
Other assets	6,497	446	1,902	(1,902)	6,943
Guarantees	5,311	-	-	-	5,311
Total	103,556	446	10,902	(8,176)	106,728

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23. CREDIT RISK (continued)

Ageing analysis of past due but not impaired by class of financial assets:

	2015			
	Less than 120 days	Less than 365 days	More than 365 days	Total
Other assets	317	108	128	553

	2014			
	Less than 120 days	Less than 365 days	More than 365 days	Total
Other assets	221	152	73	446

24. LIQUIDITY RISK MANAGEMENT

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

The key features of the Group's liquidity methodology are:

- The Group Asset and Liability Committee ("ALCO") is responsible for liquidity monitoring, cash flow planning and general asset liability management.
- In accordance with the Basel recommendations on liquidity management, the Group measures liquidity according to two criteria: "normal business", reflecting day-to-day expectations regarding the funding of the Group; and "crisis scenario", reflecting simulated extreme business circumstances in which the Group's survival may be threatened.
- The Group's liquidity policy is to hold sufficient liquid assets to cover its committed statement of financial position requirements, plus its budgeted expenses for the liquidity horizon and its forecast investment commitments over the liquidity horizon.

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

	Gross undiscounted cash flows				
	Less than 3 months	**3 to 12 months**	**Over 1 year**	**Total**	**Carrying value**
At 31 December 2015					
Due to financial Institutions	49,736	22,442	72,762	144,940	123,252
Due to customers	128,795	81,192	-	209,987	208,250
Other liabilities	26,153	-	2,574	28,727	28,727
Total financial liabilities	**204,684**	**103,634**	**75,336**	**383,654**	**360,229**

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24. LIQUIDITY RISK MANAGEMENT (continued)

	Gross undiscounted cash flows				
	Less than 3 months	3 to 12 months	Over 1 year	Total	Carrying value
At 31 December 2014					
Due to financial Institutions	26,309	28,304	72,510	127,123	106,987
Due to customers	114,547	85,308	-	199,855	197,552
Other liabilities	30,240	-	2,759	32,999	32,999
Total financial liabilities	171,096	113,612	75,269	359,977	337,538

The table below shows the contractual expiry by maturity of the Group's commitments.

	On demand	3 to 12 months	Over 1 year
31 December 2015			
Investment-related Commitments	10,030	-	-
Lease Commitments	-	323	404
Guarantees	5,311	-	-
Total	**15,341**	**323**	**404**

	On demand	3 to 12 months	Over 1 year
31 December 2014			
Investment-related Commitments	11,000	-	-
Lease Commitments	-	127	-
Guarantees	5,311	-	-
Total	16,311	127	-

25. MARKET RISK MANAGEMENT

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to adverse changes in market variables such as profit rates, foreign exchange rates, equity prices and commodities. The Group classifies exposures to market risk into either trading or non-trading portfolios. The Group does not currently engage in significant trading activity. Non-trading positions are managed and monitored using sensitivity analysis.

Market Risk: Non-trading
Profit rate risk
Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of the financial instruments. The Group currently has limited exposure to profit rate risk. The Group's assets and liabilities that are exposed to profit rate risk include: placements with financial institutions, financing receivables, investments in sukuk and due to financial and non-financial institutions.

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25. MARKET RISK MANAGEMENT (continued)

The following table demonstrates the sensitivity to a reasonable possible change in profit rates by 200 bps, with all other variables held constant. The effect of decreases in profit rate is expected to be equal and opposite to the effect of the increases shown.

	2015			2014		
	Balance	Change in profit rate bps (+/-)	Effect on net profit (+/-)	Balance	Change in profit rate bps (+/-)	Effect on net profit (+/-)
Assets						
Placements with financial institutions	9,648	200	105	42,250	200	798
Financing receivables	66,713	200	204	9,151	200	108
Investment securities –Sukuk	5,319	200	33	20,192	200	21
Liabilities						
Due to financial institutions	(123,252)	200	(1,759)	(106,987)	200	(2,038)
Due to customers	(208,250)	200	(682)	(197,552)	200	(2,918)
Total			**(2,099)**			**(4,029)**

Currency risk

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

The table below indicates the currencies to which the Group has significant exposure. The analysis shows the impact of a 20% movement in the currency rate against the United States Dollar, with all other variables held constant on the consolidated statement of income and equity. The effect of decreases in the currency rates is expected to be equal and opposite to the effect of the increases shown.

	2015			2014		
Currency	Exposure (USD equivalent)	Effect on net profit (+/-)	Effect on equity (+/-)	Exposure (US$ equivalent)	Effect on net profit (+/-)	Effect on equity (+/-)
Kuwaiti Dinar	(10,024)	(2,005)	-	(10,017)	(2,003)	-
Turkish Lira	1,136	106	121	2,830	265	301
Malaysian Ringgit	26	5	-	45	9	-
Euro	23	5	-	12	2	-
Jordanian Dinar *	50,424	10,085	-	50,323	10,065	-
Sterling Pounds	4,065	813	-	137	27	-

* Jordanian Dinar is officially pegged to International Monetary Fund (IMP) special drawing rights (SDR's). In practice this is fixed at 1US$=0.706 JOD most of the times.

25. MARKET RISK MANAGEMENT (continued)

Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of adverse changes in the levels of equity prices and the value of individual stocks. Equity price risk arises from the Group's investment portfolio. The Group conducts significant investment activity in private equity, mainly in unquoted entities. The Group manages this risk through diversification of its investments in terms of geographical distribution and industry concentration by arranging representation on the Board of Directors within the investee company, wherever possible. Investments are managed within maximum concentration risk limits, approved by the Board of Directors of the Bank.

Sensitivity analysis

Unquoted securities - Investment securities carried at fair value through income statement:

The effect on profit as a result of a change in the fair value of equity instruments at 31 December 2015 due to a reasonable possible change (i.e. +/-15%) in the value of individual investments, with all other variables held constant, is US$ 7.8 million (2014: US$ 8.8 million). The effect of decrease in the value of individual investments is expected to be equal and opposite to the effect of an increase.

Prepayment risk

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

26. OPERATIONAL RISK

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal controls or procedures, systems failures, fraud, business interruption, compliance breaches, human error, management failure or inadequate staffing. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or lead to financial loss.

While operational risks cannot be entirely eliminated, they are managed and mitigated by ensuring that appropriate infrastructure, controls, systems, procedures and trained and competent people are in place throughout the Group.

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27. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

	31 December 2015							
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Total up to 1 year	Over 1 year	Undated	Total
ASSETS								
Cash and balances with banks	17,021	-	-	-	17,021	-	-	17,021
Placements with financial institutions	9,614	34	-	-	9,648	-	-	9,648
Financing receivables	6,152	54,079	6,482	-	66,713	-	-	66,713
Investment securities	4,465	55	1,988	-	6,508	58,422	-	64,930
Equity-accounted investees					-		139,658	139,658
Investment properties					-		241,466	241,466
Other assets	-	32,313	-	-	32,313	-	-	32,313
Equipment	-	-	-	-	-	-	13,274	13,274
Total assets	**37,252**	**86,481**	**8,470**	**-**	**132,203**	**58,422**	**394,398**	**585,023**
LIABILITIES								
Due to financial institutions	30,057	18,363	6,090	12,478	66,988	56,264	-	123,252
Due to customers	15,548	116,039	15,997	60,666	208,250	-	-	208,250
Other liabilities	-	26,153	-	-	26,153	2,574	-	28,727
Total liabilities	**45,605**	**160,555**	**22,087**	**73,144**	**301,391**	**58,838**	**-**	**360,229**
Commitments	15,341	81	81	161	15,664	404	-	16,068
Net liquidity gap	**(23,694)**	**(74,155)**	**(13,698)**	**(73,305)**	**(184,852)**	**(820)**	**394,398**	**208,726**
Net cumulative gap	**(23,694)**	**(97,849)**	**(111,547)**	**(184,852)**	**(184,852)**	**(185,672)**	**208,726**	

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27. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

	31 December 2014 (Restated)							
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Total up to 1 year	Over 1 year	Undated	Total
ASSETS								
Cash and balances with banks	22,898	-	-	-	22,898	-	-	22,898
Placements with financial institutions	41,175	1,075	-	-	42,250	-	-	42,250
Financing receivables	35	45	1,835	2,258	4,173	4,978	-	9,151
Investment securities	1,170	-	1,428	24,637	27,235	58,088	-	85,323
Equity-accounted investees	-	-	-	-	-	-	121,974	121,974
Investment properties	-	-	-	-	-	-	256,571	256,571
Other assets	-	13,979	-	171	14,150	93	-	14,243
Equipment	-	-	-	-	-	-	14,501	14,501
Total assets	65,278	15,099	3,263	27,066	110,706	63,159	393,046	566,911
LIABILITIES								
Due to financial institutions	11,014	13,665	17,545	6,307	48,531	58,456	-	106,987
Due to customers	79,884	34,307	57,538	25,823	197,552	-	-	197,552
Other liabilities	-	25,096	-	5,144	30,240	2,759	-	32,999
Total liabilities	90,898	73,068	75,083	37,274	276,323	61,215	-	337,538
Commitments	16,311	64	63	-	16,438	-	-	16,438
Net liquidity gap	(42,931)	(58,033)	(71,883)	(10,208)	(182,055)	1,944	393,046	212,935
Net cumulative gap	(42,931)	(100,964)	(172,847)	(183,055)	(182,055)	(180,111)	212,935	

28. SEGMENT INFORMATION

Operating segments are reported in accordance with internal reporting provided to Executive Management (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses its performance. All operating segments used by the Group meet the definition of a reportable segment under FAS 22.

During the year, the Group has changed its reportable segments as a result of the recent restructuring of its business and in-line with the current internal reporting to the Chief Operating decision-maker for segment measurement and monitoring. Currently, the Group is organised into business units based on their nature of operations and services and has three reportable operating segments which are as follows:

Investment Banking & Alkhair Capital Menkul Degerler A.S

The Group's Investment banking business is engaged in transaction origination and structuring, investment, placement to third-party investors, restructuring and managing portfolio companies. This segment focuses on stable companies, historically revenue-generating with positive profitability, requiring growth capital or partial exits. The segment focuses on specific sectors and geographies, whilst avoiding start-ups, venture capital, and greenfield investments. The segment targets businesses in the oil & gas services; industrial services; building materials; logistics; and agri-business; specifically in the MENA region including Turkey.

The business manages Al-Tajamouat for Touristic Projects Co. "Taj" which own and operate a shopping mall in Amman. At 31 December 2015, the total assets of Taj are US$ 219 million and the total equity is US$ 143 million. In 2015, Taj reported a net profit of US$ 8.5 million.

Alkhair Capital Menkul Degerler A.S originates Shari'ah compliant PE transactions, especially proprietary deals from direct contacts with a wide range of local sources. The Turkey office also provides a post-investment management services (post management until successful exit, advisory for an IPO or trade sale) to co-investors.

The business manages the Bank's Global Private Equity Fund. It also sources and manages investments on behalf of the Bank's Strategic Acquisition Fund.

Alkhair International Islamic Bank Malaysia Berhad

Alkhair International Islamic Bank Malaysia Berhad was established in 2004 to source investment opportunities in the Far East and monitor the performance of the acquired companies on behalf of the Bank and investors and to establish distribution channels for the Group.

Alkhair Capital Saudi Arabia

Alkhair Capital Saudi Arabia was incorporated in March 2009 and registered with Capital Markets Authority. Its principal activities are Asset Management, Corporate Finance & Investment banking and Brokerage.

Information regarding the results of each reportable segment is included below. Inter-segment pricing is determined on an arm's length basis. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

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28.SEGMENT INFORMATION (continued)

	For the year ended 31 December 2015				
	Investment Banking & Alkhair Capital Menkul Degerler A.S	Alkhair International Islamic Bank Malaysia Berhad	Alkhair Capital Saudi Arabia #	Inter-company	Total
External revenue					
Income from investment securities	(4,016)	350	295	-	(3,371)
Net finance Income	(8,945)	2,299	-	-	(6,646)
Fees and commission	2,497	528	2,358	-	5,383
Share of profit of equity-accounted investees	5,253		-	-	5,253
Income from non-banking operations	32,389		-	-	32,389
Rental income	-		3,361	-	3,361
Other income	1,940	-	721	-	2,661
Total income	**29,118**	**3,177**	**6,735**	**-**	**39,030**
Total operating expenses	(44,742)	(2,367)	(6,895)	-	(54,004)
Impairment allowance	16,049	(3,575)		-	12,474
Profit/(loss) for the year	**425**	**(2,765)**	**(160)**	**-**	**(2,500)**
Equity-accounted investees	139,658	-	-	-	139,658
Segment assets	433,453	85,865	65,705	-	585,023
Segment liabilities	294,327	80,842	5,821	(20,761)	360,229

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28. *SEGMENT INFORMATION (continued)*

	For the year ended 31 December 2014 (Restated)				
	Investment Banking & Alkhair Capital Menkul Degerler A.S	Alkhair International Islamic Bank Malaysia Berhad	Alkhair Capital Saudi Arabia	Inter-company	Total
External revenue					
Income from investment securities	528	528	998	-	2,054
Net finance Income	(7,864)	761	-	-	(7,103)
Fees and commission	2,680	348	2,065	-	5,093
Share of profit of equity-accounted investees	5,769	-	-	-	5,769
Income from non-banking operations	26,626	-	-	-	26,626
Rental income	-	-	3,361	-	3,361
Other income	524	23	-	-	547
Total income	28,263	1,660	6,424	-	36,347
Total operating expenses	(35,190)	(3,626)	(6,271)	-	(45,087)
Impairment allowance	(5,181)	(3,000)	-	-	(8,181)
(Loss) / profit for the year	(12,108)	(4,966)	153	-	(16,921)
Equity-accounted investees	121,974	-	-	-	121,974
Segment assets	499,772	66,857	282	-	566,911
Segment liabilities	311,723	40,644	5,906	(20,735)	337,538

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28.SEGMENT INFORMATION (continued)

Geographic segment information:

The Group operates in five geographic markets: Bahrain, Other Middle East, North America, Asia Pacific and Europe. The following tables show the distribution of the Group's total income and non-current assets by geographical segments:

31 December 2015	Bahrain	Other Middle East	Asia Pacific	Europe	Total
Total income	(5,005)	38,997	3,176	193	**37,361**
Net (loss) / profit for the year	(5,900)	7,383	(2,767)	(1,216)	**(2,500)**
Non-current assets *	18,128	236,312	207	93	**254,740**

31 December 2014 (Restated)	Bahrain	Other Middle East	Asia Pacific	Europe	Total
Total income	9,293	24,849	1,660	545	**36,347**
Net (loss) / profit for the year	(14,779)	4,054	(4,966)	(1,230)	**(16,921)**
Non-current assets *	18,326	252,429	152	165	**271,072**

** includes equipment and investment property*

29. SHARI'AH SUPERVISORY BOARD

The Bank's Shari'ah Supervisory Board consists of five Islamic scholars who review that the Bank is compliant with general Shari'ah 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'ah principles.

30. EARNINGS AND EXPENSES PROHIBITED BY SHARI'AH

The Group did not receive any significant income or incur significant expenses that were prohibited by the Shari'ah.

31. SOCIAL RESPONSIBILITIES

The Group discharges its social responsibilities through donations to good faith charity funds.

32. ZAKAH

The Bank is not obliged to pay Zakah. Payment of Zakah is the responsibility of the shareholders of the Bank. Zakah payable by shareholders on their holdings in the Bank is calculated on the basis of a method prescribed by the Bank's Shari'ah Supervisory Board. Zakah payable by the shareholders in respect of the year ended 31 December 2015 was US$ 0.00565 cents per share (2014: US$ 0.00581 cents per share).

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33. CAPITAL MANAGEMENT

The Group is regulated by the Central Bank of Bahrain (CBB) which sets and monitors capital requirements for the Group as a whole. CBB required the Group to maintain a prescribed ratio of total capital (net of prudential deductions) to total risk-weighted assets (determined according to specified requirements to reflect the varying levels of risk attached to assets and off-balance sheet exposures).

The primary objectives of the Group's capital management policies are to ensure that the Group complies with externally imposed capital requirements and that the Group maintaining capital ratios in order to support its business and to maximise shareholders' value. The Group does not have any significant restrictions on its ability to access or use its assets and settle its liabilities other than any restrictions that may result from the supervisory frameworks within which the banking subsidiaries operate.

The Bank's capital adequacy ratio, is calculated in accordance with the amended capital adequacy rules set by the regulator from 1 January 2015. The Group's regulatory capital is analysed into two tiers:

- Tier 1 capital

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

It 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 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 exceed 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.

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

	2015	2014
Total risk-weighted exposures	**1,332,357**	405,059
CET1 capital	68,541	33,884
Tier 1 capital	831	-
Total Capital	**69,372**	33,884
% of Total Risk Weighted Exposures (CAR)		
CET1 capital adequacy ratio	**5.14%**	NA
Tier1 capital adequacy ratio	**5.14%**	8.37%
Total capital adequacy ratio	**5.21%**	8.37%

33. CAPITAL MANAGEMNT (continued)

The capital adequacy ratio as at 31 December 2015 was below the minimum regulatory capital requirement of 12.5%. Based on the planned asset sales program and operating cash flow projections, the Group expects to improve its risk weighted assets profile and capital adequacy ratio. The capital adequacy ratio as at 31 December 2015 has been calculated as per amended requirements whereas the same as at 31 December 2014 was based on previous requirements hence the numbers are not comparable.

34. COMPARATIVES

In 2014, the Group had re-classified its investment in a subsidiary, Tintoria International, as assets held-for-sale. During the year, because the investment no longer meets the criteria to be classified as held-for-sale, this was re-classified as held-for-use. In accordance with IFRS 5 *Non-current assets held-for-sale and discontinued operations*, upon reclassification as held-for-use, the subsidiary was consolidated on a line by line basis including earlier periods resulting in restatement of the prior year as if the subsidiary had always been consolidated. The reclassification has resulted in depreciation on equipment amounting to US$ 0.89 million (2014: US$ 0.53 million) being recognised and increasing the previously reported loss by the same amount.

The Group also changed its accounting policy for investment property from cost to fair value model. In accordance with FAS 26 and FAS 1, the earlier periods were restated to reflect the retrospective effect of the change. The change resulted in reversal of previously recognised fair value loss of US$ 1,681 thousands in the consolidated income statement for 2014 and for the earlier years by US$ 781 thousands adjusted in the accumulated losses as of 1 January 2014 being the earliest period reported.

Certain prior year figures were restated/ regrouped to confirm current year's presentation which do not affect the previously reported loss for the period of total equity except to the extent included in the previous paragraphs.