FIRST ENERGY BANK B.S.C. (c)

CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2015

Commercial registration	:	69089 (registered with Central Bank of Bahrain as a wholesale Islamic bank)
Registered Office	:	Bahrain Financial Harbour, West Tower, 20th Floor P.O. Box 209, Manama, Kingdom of Bahrain Telephone +973 17170000
Directors	:	H. E. Khadem Abdulla Al Qubaisi, *Chairman* H. E. Abdulla Saif Al Nuaimi, *Vice-Chairman* Dr. Faisel Ahmed Gergab Abdulla Abdulkarim Showaiter Adel A. Aziz Al Jabr Mohamed Badawy Al-Husseiny
Director and CEO	:	Mohamed Shukri Ghanem
Auditors	:	KPMG Fakhro

First Energy Bank B.S.C. (c)

CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2015

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Dear Shareholders,

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

On behalf of the Board of Directors, it is my privilege to present the annual report of First Energy Bank B.S.C. ("FEB") for the year ended 31 December 2015. Without doubt, this proved to be one of the most challenging years in FEB's history.

The market witnessed a constant decline in oil prices since 2014. Oil prices plummeted by over 70 per cent from their record high in 2013. Futures, for Brent crude oil, are trading below US$ 40 per barrel, indicating that oil prices are expected to be in the same range for the next few years.

Accordingly, the Bank implemented a number of important initiatives during 2015, designed to strengthen its ability to meet current and future challenges, and protect the interests of all its stakeholders. The most important of these was the restructure of a significant portion of its flagship investment, MENAdrill Investment Company, which represents around 30% of its capital. Furthermore, and in view of the expectations of a deteriorating economic and market conditions in 2016, FEB increased its other specific provisions significantly against its investment portfolio in 2015 to ensure that it has a conservative buffer as it enters a potentially uncertain environment. This proactive and bold approach protects the Bank from potential future losses from market volatility.

After taking into account prudent and conservative provisions, the Bank reported a net loss of US$375.2 million. The pre-provision operating loss stood at US$17.1 million, compared to the profit of US$71.8 million in the previous year. Total assets reduced to US$1.05 billion at the end of the year compared to the US$1.36 billion at the end of 2014, as a result of the provisioning. However, I would like to stress that the Bank's liquidity position continues to be strong with liquid assets ratio at 46%. FEB's capital base remains very strong, with capital adequacy ratio of 41.8% compared with a minimum regulatory requirement of 12%.

Other steps taken in 2015 include enhancement of strategy, focusing on Private Equity investments within the energy sector. This will enable the Bank to focus on its core business activities, continue to strengthen its franchise, and further enhance its professional reputation in the marketplace.

Looking ahead, the Board and the Management are currently evaluating ways of further strengthening the Bank's franchise to facilitate the earliest possible return to profitability.

Finally, on behalf of the Board of Directors, I express my sincere appreciation for the support and encouragement of our shareholders; the professionalism and dedication of the Bank's management and staff; and the constructive cooperation that FEB continues to receive from the regulatory and supervisory authorities.

Yours truly,

Khadem Abdulla Al Qubaisi
Chairman of the Board of Directors

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
First Energy Bank B.S.C. (c)
Manama, Kingdom of Bahrain

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

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

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

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

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

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

KPMG Fakhro
Partner Registration No. 100
21 February 2016

First Energy Bank BSC (c)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2015

USD 000's

	Note	**31 December 2015**	31 December 2014
ASSETS			
Cash and bank balances	3	16,646	19,026
Placements with financial institutions	4	120,347	112,868
Financing assets	5	74,208	32,863
Ijarah assets	6	261,797	502,725
Investment securities	7	449,043	532,205
Equity accounted investees	8	76,880	117,187
Other assets	9	41,338	32,547
Property and equipment	10	10,079	10,188
Total assets		**1,050,338**	1,359,609
Liabilities and equity			
LIABILITIES			
Placements from financial institutions	11	82,257	105,928
Bank financing	12	161,522	105,812
Other liabilities	13	33,533	29,246
Total liabilities		**277,312**	240,986
EQUITY			
Share capital	14	1,000,000	1,000,000
Statutory reserve		9,736	9,736
Investments fair value reserve		-	(41,621)
Foreign exchange translation reserve		(5,076)	(3,655)
(Accumulated losses) / retained earnings		(278,601)	25,418
Total equity attributable to shareholders of the parent		**726,059**	989,878
Non-controlling interests	15	46,967	128,745
Total equity (page 6)		**773,026**	1,118,623
Total liabilities and equity		**1,050,338**	1,359,609

The consolidated financial statements consisting of pages 3 to 45 were approved by the Board of Directors on 21 February 2016.

H.E. Khadem Al Qubaisi
Chairman

Mohamed Ghanem
Board Member and CEO

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2015

USD 000's

	Note	2015	2014
INCOME			
Ijarah assets			
Rental income		16,288	53,454
Other income	16	49,311	4,500
Finance cost		(3,928)	(3,776)
Depreciation on Ijarah assets		(16,959)	(13,759)
Other operating expenses relating to Ijarah assets	17	(53,773)	(31,863)
Net income from Ijarah assets		**(9,061)**	8,556
Income from investment securities	18	14,532	78,333
Income from financing and placements with financial institutions		4,653	3,292
Share of results of equity accounted investees	8	(3,200)	(2,009)
Total income		**6,924**	88,172
EXPENSES			
Staff cost	19	12,153	11,951
Finance cost of general financing and placements from financial institutions		857	370
Depreciation and amortization		706	622
Other operating expenses	20	10,344	3,375
Total expenses		**24,060**	16,318
(Loss) / profit for the year before impairment allowance		**(17,136)**	71,854
Impairment allowance	21	(358,121)	(55,591)
(LOSS) / PROFIT FOR THE YEAR		**(375,257)**	16,263

	2015	2014
Attributable to:		
Shareholders of the parent	(293,519)	17,446
Non-controlling interests	(81,738)	(1,183)
	(375,257)	16,263

H.E. Khadem Al Qubaisi
Chairman

Mohamed Ghanem
Board Member and CEO

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements.

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

USD 000's

	Equity attributable to shareholders of the parent							
2015	**Share capital**	**Statutory reserve**	**Investments fair value reserve**	**Foreign exchange translation reserve**	**Accumulated losses**	**Total**	**Non-controlling interests**	**Total equity**
At 1 January 2015	1,000,000	9,736	(41,621)	(3,655)	25,418	989,878	128,745	1,118,623
Changes in fair value of investments at fair value through equity	-	-	(2,739)	-	-	(2,739)	-	(2,739)
Transfer to income statement on impairment of investments	-	-	44,360	-	-	44,360	-	44,360
Effects of exchange rate difference on equity accounted investees	-	-	-	(1,421)	-	(1,421)	-	(1,421)
Loss for the year	-	-	-	-	(293,519)	(293,519)	(81,738)	(375,257)
Total recognised income and expense for the year	**-**	**-**	**41,621**	**(1,421)**	**(293,519)**	**(253,319)**	**(81,738)**	**(335,057)**
Transfer to zakah and charity fund	-	-	-	-	(500)	(500)	-	(500)
Dividend declared for 2014	-	-	-	-	(10,000)	(10,000)	-	(10,000)
Dividends of subsidiary	-	-	-	-	-	-	(40)	(40)
At 31 December 2015	**1,000,000**	**9,736**	**-**	**(5,076)**	**(278,601)**	**726,059**	**46,967**	**773,026**

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements.

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

USD 000's

	Equity attributable to shareholders of the parent							
2014	Share capital	Statutory reserve	Investment fair value reserve	Foreign exchange translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
At 1 January 2014	1,000,000	7,991	11,464	(1,968)	36,074	1,053,561	132,776	1,186,337
Transfer to income statement on disposal of investments	-	-	(11,464)	-	-	(11,464)	-	(11,464)
Changes in fair value of investments at fair value through equity	-	-	(61,621)	-	-	(61,621)	-	(61,621)
Transfer to income statement on impairment of investment	-	-	20,000	-	-	20,000	-	20,000
Effects of exchange rate difference on equity accounted investees	-	-	-	(1,687)	-	(1,687)	-	(1,687)
Profit for the year	-	-	-	-	17,446	17,446	(1,183)	16,263
Total recognised income and expense for the year	-	-	(53,085)	(1,687)	17,446	(37,326)	(1,183)	(38,509)
Transfer to zakah and charity fund	-	-	-	-	(1,384)	(1,384)	-	(1,384)
Transfer to statutory reserve	-	1,745	-	-	(1,745)	-	-	-
Dividend declared for 2013	-	-	-	-	(25,000)	(25,000)	-	(25,000)
Dividends of subsidiary	-	-	-	-	-	-	(41)	(41)
Disposal of subsidiary	-	-	-	-	27	27	(2,807)	(2,780)
At 31 December 2014	1,000,000	9,736	(41,621)	(3,655)	25,418	989,878	128,745	1,118,623

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2015 USD 000's

	Note	2015	2014
OPERATING ACTIVITIES			
Net (loss) / profit for the year		**(375,257)**	16,263
Adjustments for:			
Depreciation on Ijarah assets	6	16,959	13,759
Depreciation and amortization		715	622
Amortization of premium		1,026	2,839
Impairment allowance	21	358,121	55,591
Share of results of equity accounted investees	8	3,200	2,009
Gain on disposal of investment securities	18	(1,004)	(65,100)
Loss on disposal of property and equipment		-	9
Receipt of insurance claim relating to Ijarah assets		-	(2,811)
Operating profit before changes in operating assets and liabilities		**3,760**	23,181
Net changes in operating assets and liabilities:			
Financing assets		(41,116)	(33,092)
Other assets		(8,833)	8,191
Placements from financial institutions		(23,671)	25,739
Other liabilities		2,660	1,303
Payment to charities		(573)	(1,186)
Net cash (used in) / from operating activities		**(67,773)**	24,136
INVESTING ACTIVITIES			
Purchase of investment securities		(133,597)	(242,405)
Proceeds from disposal / maturity of investment securities		163,364	195,026
Additions to Ijarah assets		(54,701)	-
Receipt of insurance claim relating to Ijarah assets		51,000	2,811
Purchase of property and equipment and intangible assets		(564)	(501)
Net cash from / (used in) investing activities		**25,502**	(45,069)
FINANCING ACTIVITIES			
Proceeds from bank financing		60,000	-
Dividend paid		(8,300)	(25,480)
Dividend paid to non-controlling interests	15	(40)	(41)
Repayment of bank financing		(4,290)	(6,826)
Net cash from / (used in) financing activities		**47,370**	(32,347)
Net increase / (decrease) in cash and cash equivalents		**5,099**	(53,280)
Cash and cash equivalents at beginning of the year		131,894	185,174
Cash and cash equivalents at end of the year		**136,993**	131,894
Cash and bank balances	3	16,646	19,026
Placements with financial institutions with original maturity of 90 days or less	4	120,347	112,868
		136,993	131,894

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND
for the year ended 31 December 2015 USD 000's

	2015	2014
Sources of zakah and charity funds		
Undistributed charity and zakah funds at the beginning of the year	209	11
Contributions by the Bank	500	1,384
Total sources of zakah and charity funds during the year	**709**	1,395
Uses of zakah and charity fund		
Contributions for charitable purposes	(573)	(1,186)
Total uses of funds during the year	**(573)**	(1,186)
Undistributed zakah and charity fund at end of the year	**136**	209

The accompanying notes 1 to 29 form an integral part of these consolidated financial statements.

1 INCORPORATION AND ACTIVITIES

First Energy Bank B.S.C. (c) (the "Bank") is a closed shareholding company incorporated in the Kingdom of Bahrain on 23 June 2008, under Commercial Registration No. 69089. The Bank operates under an Islamic Wholesale Banking license issued by the Central Bank of Bahrain (the "CBB") on 17 June 2008. The Bank's registered office is at Building 1459, Road 4626, Block 346, Manama, Kingdom of Bahrain. The Bank also has a representative office in Abu Dhabi under commercial license CN-1685265.

The principal activities of the Bank and its subsidiaries (the "Group") include Shari'a compliant investment advisory services, participation in project development, joint ventures, mergers and acquisitions and the purchase of assets and asset portfolios primarily related to the energy sector. The Bank’s activities are regulated by the CBB and supervised by a Shari'a Supervisory Board to ensure adherence to Shari'a rules and principles in its transactions and activities.

2 SIGNIFICANT ACCOUNTING POLICIES

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

New standards, amendments and interpretations effective from 1 January 2015
The following standards, amendments and interpretations, which became effective as of 1 January 2015, are relevant to the Group:
Financial Accounting Standard (FAS) No. 23 - Consolidation
The Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) issued amendments to FAS 23. These amendments provide clarification and expand the scenarios for assessing control when an entity holds less than majority voting rights in an investee. In particular, the concept of de-facto control has been introduced.

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

New standards, amendments and interpretations issued but not yet effective
There were 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. Basis of preparation

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

b. Statement of Compliance

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

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

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or investment transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. The assessment of whether the Group has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Group and the SPE. 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.

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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Basis of consolidation (continued)

(i) Subsidiaries (continued)

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

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

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

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

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

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

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

(iii) Transactions eliminated on consolidation and equity accounting

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Basis of consolidation (continued)

(iii) Transactions eliminated on consolidation and equity accounting (continued)

The significant subsidiaries are as follows:

Name of subsidiary	**Equity interest**		**Country of incorporation**	**Nature of business**
	2015	2014		
North Africa Investment Company	100%	100%	Kingdom of Bahrain	To hold the Group's 40% associate stake in Arab Drilling and Workover Company, Libya.
First Energy-Oman	100%	100%	Cayman Islands	To hold 15% direct interest in Al Izz Islamic Bank in Oman.
FEB-Novus Aircraft Holding Company	98.5%	98.5%	Commonwealth of the Bahamas	To purchase and lease one A330-300 aircraft to Malaysian Airlines.
MENAdrill Investment Company *	59.44%	59.44%	Cayman Islands	Development and lease of oil rigs
Al Dur Energy Investment Company	59%	59%	Cayman Islands	To hold 15% indirect interest in a power and water plant project in the Kingdom of Bahrain.

* This subsidiary is consolidated based on management accounts as of 31 December 2015.

d. Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with banks and placements with financial institutions with original maturities of 90 days or less.

e. Placements with and from financial institutions

These comprise inter-bank and over the counter placements made/ received using Shariah compliant murabaha and wakala contracts. Placements are usually short term and are stated at amortised cost.

f. Ijarah assets

Ijarah assets are stated at cost less accumulated depreciation and impairment allowance. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of ijarah assets to their residual values over their useful life.

Ijarah assets are derecognised on disposal or when no future economic benefits are expected from their use. Any gain or loss arising on derecognition of the ijarah asset (calculated as the difference between the net disposal proceeds and the carrying amount of the ijarah asset) is recognised in the consolidated statement of income in the year the asset is derecognised.

The Group assesses at each reporting date whether there is objective evidence that Ijarah assets are impaired. Impairment losses are measured as a difference between carrying value of the asset and estimated recoverable amount. Impairment losses are recognised in income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Investment securities
Investment securities comprise equity type instruments (quoted and unquoted shares) and debt type instruments (sukuks and subordinated financing). Investment securities exclude investments in subsidiaries and equity accounted investments.

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

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

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

Debt-type investment classified and measured at FVTIS include investments held for trading or designated at FVTIS. At inception, a debt-type investment managed on a contractual yield basis, can only be designated at FVTIS if it eliminates an accounting mismatch that would otherwise arise on measuring the assets or liabilities or recognising the gains or losses on them on different bases. The Group does not have any debt type instruments at FVTIS.

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

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

An investment is classified as held for trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealer’s margin. Any investments that form part of a portfolio where there is an actual pattern of short-term profit taking are also classified as ‘held for trading’. The Group does not have any investments held for trading or FVTIS.

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

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

(iii) Measurement
Investment securities are measured initially at fair value, which is the value of the consideration given plus transaction costs. For FVTIS investments, transaction costs are expensed in the income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Investment securities (continued)

(iii) Measurement (continued)

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

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

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

(iv) Measurement principles

Amortised cost measurement

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

Fair value measurement

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

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

h. Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and impairment allowance. The cost of additions and major improvements are capitalised; maintenance and repairs are charged to the consolidated statement of income as incurred. Gains or losses on disposal are reflected in other income. Depreciation is calculated using the straight-line method over the estimated useful lives of 3 to 4 years other than freehold land, which is deemed to have an indefinite life.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Intangible assets
Intangible assets comprise principally the value of computer software. Intangible assets acquired are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any impairment losses. Intangible assets are amortised on a straight line basis in income statement over its estimated useful life, from the date it is available for use. The estimated useful life of software for the current and comparative period is 3 years.

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

k. Revenue recognition

- *Profit from murabaha and wakala contracts*
  Profit from murabaha and wakala contracts is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised on a time-apportioned basis over the period of the transaction. Where the income from a contract is not contractually determinable or quantifiable, it is recognised when the realisation is reasonably certain or when actually realised. Recognition of income is suspended when the Group believes that the recovery of these amounts may be doubtful.

- *Profit on subordinated finance*
  Profit on subordinated finance is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised using the effective profit rates over the period of the contract. Recognition of income is suspended when the Group believes that the recovery of these amounts may be doubtful.

- *Rental income from ijarah assets*
  Rental income from investment in ijarah assets is recognized as revenue on a straight line basis over the term of the lease.

- *Income from investment in sukuk*
  Income from investment in sukuk is recognised on a time-apportioned basis using the effective profit rate method.

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

l. Earnings prohibited by Shari'a
The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly all non-Islamic income is credited to a charity fund which the Group uses for social welfare activities.

m.Zakah
Zakah is calculated on the zakah base of the Group in accordance with FAS 9 Zakah using the net invested funds method. Zakah is paid by the Group based on statutory reserve, investment fair value reserve, foreign exchange translation reserve and retained earning balances at the end of the year and remaining zakah is payable by shareholders. The Group calculates and notifies the shareholders of their pro-rate share of zakah payable. The calculation of zakah is approved by Shari’a Supervisory Board.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

n. Employees' end of service 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. The Bank also operates a voluntary employees saving scheme under which the Bank and the employee contribute monthly on a fixed percentage of salaries basis. The scheme is in the nature of a defined contribution scheme and contributions by the Bank are recognised as an expense in the consolidated statement of income when they are due. 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.

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

p. 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

p. Impairment of assets (continued)

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 income statement 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 Non-financial assets or its cash generating unit, 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.

In assessing the impairment of investment property, the Group periodically uses external independent property valuers to determine the recoverable amount based on market value of property.

q. Foreign currency transactions

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 Dollars, which is the Bank's functional and presentation currency.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

q. Foreign currency transactions (continued)

Foreign operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into USD at the spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into USD at the spot exchange rates at the dates of the transactions. Foreign currency differences are recognised in statement of changes in equity, and accumulated in the foreign currency translation reserve (translation reserve), except to the extent that the translation difference is allocated to NCI. When a foreign operation is disposed of such that control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, then the relevant proportion of the cumulative amount is reattributed to NCI.

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, then foreign currency differences arising on the item form part of the net investment in the foreign operation and are recognised in statement of changes in equity, and accumulated in the translation reserve within equity.

r. Derecognition
A financial asset (or, where applicable a part of a financial asset or part of a Group of similar financial assets) is derecognised when:

(i) the right to receive cash flows from the asset have expired;
(ii) the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

s. Offsetting financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

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

u. Shari'a supervisory board
The Group's business activities are subject to the supervision of a Shari'a supervisory board consisting of three members appointed by the general assembly of shareholders.

v. 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

w. Judgments and estimates

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements. The most significant uses of judgments and estimates are as follows:

Judgments:

(i) Classification of investments

Management decides on acquisition of an investment whether it should be classified as an equity-type instrument at fair value through statement of income, an equity-type instrument at fair value through equity or a debt-type instrument at amortised cost. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification (refer note 2 (g) (i)).

Estimates:

(i) Impairment losses on financing contracts with customers

The Group reviews its financing contracts at each reporting date to assess whether an impairment allowance should be recorded in the consolidated financial statements. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about factors involving varying degrees of judgment and uncertainty and actual results may differ resulting in future changes to the provisions.

(ii) Impairment of equity-type instruments at fair value through equity

The Group treats equity-type instruments at fair value through equity as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment.

(iii) Liquidity

The Group manages its liquidity through consideration of the maturity profile of its assets and liabilities which is set out in the liquidity risk disclosures in note 26 (a). Determining the maturity of assets and liabilities with no specific maturities requires estimation.

(iv) Useful life of Ijarah assets

The Group depreciates its Ijarah assets (note 2 (f)) and equipment (note 2 (h)) over the estimated useful life of the assets. The Group annually estimates useful life and residual values of assets using an independent third party valuer who has the right experience and qualification in valuing such assets.

(v) Impairment of non-financial assets

The Group assesses impairment of non-financial assets according to its accounting policy as set out note 2 (q). Such assessment involves either obtaining a market value of underlying assets through independent valuer or calculating the present value of the estimated future cash flows. Such estimates are based on assumptions about factors involving varying degrees of judgment and uncertainty and actual results may differ.

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3 CASH AND BANK BALANCES

	31 December 2015	31 December 2014
Cash	12	12
Balances with banks	16,634	19,014
	16,646	19,026

4 PLACEMENTS WITH FINANCIAL INSTITUTIONS

	31 December 2015	31 December 2014
Commodity murabaha contracts	62,633	68,969
Wakala contracts	57,724	43,903
Gross murabaha and wakala contracts	**120,357**	112,872
Less: Deferred profits	(10)	(4)
	120,347	112,868

The original maturity of commodity murabaha and wakala contracts are 90 days or less.

5 FINANCING ASSETS

	31 December 2015	31 December 2014
Commodity murabaha	31,740	38,058
Less: Deferred profits	(2,007)	(4,966)
	29,733	33,092
Ijarah financing	44,704	-
Collective impairment allowance	(229)	(229)
	74,208	32,863

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6 IJARAH ASSETS

	Aircraft (i)	Oil rigs (ii)	2015 Total	2014 Total
Cost:				
At 1 January 2015	100,000	441,752	541,752	541,752
Additions	-	54,701	54,701	-
Derecognised (iii)	-	(51,000)	(51,000)	-
Impairment (iv)	-	(227,670)	(227,670)	-
At 31 December 2015	**100,000**	**217,783**	**317,783**	541,752
Depreciation:				
At 1 January 2015	10,500	28,527	39,027	25,268
Charge for the year	3,600	13,359	16,959	13,759
At 31 December 2015	**14,100**	**41,886**	**55,986**	39,027
Net book value: **As at 31 December 2015**	**85,900**	**175,897**	**261,797**	502,725
Net book value: As at 31 December 2014	89,500	413,225	502,725	

(i) The Aircraft is mortgaged against term financing (refer note 12).

(ii) This represents two oil rigs. One rig with a carrying value of USD 97,853 thousand (2014: USD 198,872 thousand) is mortgaged against murabaha financing (refer note 12).

(iii) During the first quarter, one of the rigs suffered damage due to an explosion and as a result, the management derecognized USD 51,000 thousand relating to the damaged components. During the third quarter, and upon completion of the repairs, USD 54,701 thousand was capitalised to the rig.

(iv) During the year, the Group commissioned a valuation of the rigs from an independent third party valuer with the relevant experience and qualification which resulted in an additional depreciation charge for the year of USD 3,801 thousand and impairment of USD 227,670 thousand (refer note 21).

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7 INVESTMENT SECURITIES

	31 December 2015	31 December 2014
Equity type instruments - *At fair value through equity*		
- Quoted equity securities (at fair value)	33,422	100,980
- Unquoted equity securities (at cost less impairment) *	995	15,995
	34,417	*116,975*
Debt type instruments - *At amortised cost*		
- Quoted Sukuk **	317,351	317,955
- Subordinated financing ***	99,542	99,542
Collective impairment allowance	(2,267)	(2,267)
	414,626	*415,230*
Total investment securities	**449,043**	532,205

* Unquoted equity securities are net of impairment allowance of USD 40,000 thousand (31 December 2014: USD 25,000 thousand). During the year, the Bank recognised an impairment allowance of USD 59,057 thousand (2014: USD 20,000) on quoted equity securities carried at fair value through equity (note 21).

** Quoted sukuk of USD 156 million are pledged against general bank financing of USD 60 million (refer note 12).

*** Subordinated financing represents facility provided to Al Dur Power and Water Company at a profit of 3.85% per annum.

8 EQUITY ACCOUNTED INVESTEES

	2015	2014
Associates	121,767	104,095
Joint ventures	11,507	13,092
Impairment allowance	(56,394)	-
	76,880	117,187

Movement on the equity accounted investees during the year:

	2015	2014
At 1 January	117,187	120,558
Acquisition during the year	20,708	325
Share of results of equity accounted investees, net	(3,200)	(2,009)
Foreign exchange translation differences	(1,421)	(1,687)
Impairment allowance (note 21)	(56,394)	-
At 31 December	**76,880**	117,187

During the year, management carried out an impairment assessment of its investments in equity accounted investees resulting in an estimated impairment provision for the year of USD 56,394 thousand.

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8 EQUITY ACCOUNTED INVESTEES (continued)

Equity accounted investees comprise the following:

Name	***Country of incorporation***	***% holding***	***Nature of business***
Associates:			
Arab Drilling and Workover Company [(i)]	Libya	40%	Lease of oil drilling rigs
Al Izz Islamic Bank [(ii)]	Oman	15.18%	Islamic banking
Adcan Pharma LLC (Adcan) [(iii)]	United Arab Emirates	40%	Pharmaceutical
Medisal for Pharmaceuticals Industry LLC (Medisal) [(iv)]	United Arab Emirates	45%	Pharmaceutical
Joint ventures			
Feboran AD [(v)]	Bulgaria	59.95%	Investment vehicle

Summarised financial information of associates and joint venture that have been equity accounted in these consolidated financial statements, not adjusted for percentage of ownership held by the Group:

	2015	2014
Total assets	845,821	521,181
Total liabilities	415,994	100,420
Total revenues	65,660	17,023
Total net loss	(14,200)	(14,293)

(i) Due to the political situation in Libya, the financial information of the associate company is considered unreliable, hence, the Group has stopped accounting for its share of profit or loss.

(ii) The information for 2015 presented in the table includes the results of Al Izz Islamic Bank based on the management accounts for the period from 1 October 2014 to 30 September 2015.

(iii) + (iv) During the year the Group acquired 40% stake in Adcan and 45% stake in Medisal. These associate companies are in the start-up phase.

(v) The information for 2015 presented in the table includes the results of Feboran AD based on the management accounts for the period from 1 October 2014 to 30 September 2015.

9 OTHER ASSETS

	31 December 2015	31 December 2014
Receivable from sale of investment	16,381	-
Receivable from investee *	11,722	11,399
Prepayments and advances	4,302	4,214
Ijarah rental receivable	4,076	9,514
Insurance claim receivable (note 16)	1,300	2,613
Intangible assets	136	179
Others	3,421	4,628
	41,338	32,547

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9 OTHER ASSETS (continued)

* This represents an amount advanced to Al Dur Power and Water Company, an investment of the Group, to meet liability reserve account (LRA) funding requirement under a common term agreement, whereby the shareholders are required to fund such account for the purpose of meeting the repayment of senior debt obligations of the investee.

10 PROPERTY AND EQUIPMENT

31 December 2015	**Land**	**Computers and equipment**	**Motor vehicles**	**Furniture and fixtures**	**2015 Total**	2014 Total
Cost						
At 1 January 2015	22,994	1,235	362	1,026	25,617	25,237
Additions	-	439	66	-	505	501
Disposals	-	(45)	-	-	(45)	(121)
At 31 December 2015	**22,994**	**1,629**	**428**	**1,026**	**26,077**	25,617
Impairment	**13,794**	**-**	**-**	**-**	**13,794**	13,794
Depreciation						
At 1 January 2015	-	919	98	618	1,635	1,160
Charge for the year	-	242	106	266	614	587
Disposal	-	(45)	-	-	(45)	(112)
At 31 December 2015	**-**	**1,116**	**204**	**884**	**2,204**	1,635
Net book value						
At 31 December 2015	**9,200**	**513**	**224**	**142**	**10,079**	10,188
Net book value						
At 31 December 2014	9,200	316	264	408	10,188	

11 PLACEMENTS FROM FINANCIAL INSTITUTIONS

	31 December 2015	31 December 2014
Commodity murabaha *	44,016	48,355
Wakala contracts	38,241	57,573
	82,257	105,928

* This includes USD 34,016 thousand (2014: USD 33,847 thousand) from an entity which is currently subject to regulatory sanctions. Accordingly, the funds have been frozen until such sanctions are formally lifted.

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12 BANK FINANCING

	31 December 2015	31 December 2014
Financing for Ijarah assets		
Murabaha financing *	46,344	46,442
Term financing **	54,688	59,370
	101,032	*105,812*
General financing ***	60,490	-
	161,522	105,812

* Murabaha financing is secured by a mortgage on an oil rig and the term financing is secured by a mortgage over an aircraft (note 6). Murabaha financing has been obtained by Menadrill Investment Company, a 59.44% subsidiary of the Bank at a floating rate 3 month Libor plus 3% maturing on 4 September 2016.

** Term financing has been obtained by FEB-Novus Fin One Ltd Bahamas, a 100% subsidiary of FEB-Novus Aircraft Holding Company, Bahamas which is a 98.5% subsidiary of the Bank. Term financing is at a floating rate of 1 month Libor plus 3.45% maturing on 23 January 2024.

*** This represent financing for general purpose secured by sukuk (refer note 7).

13 OTHER LIABILITIES

	31 December 2015	31 December 2014
Unclaimed dividends	11,287	7,962
Employee-related accruals	8,061	5,913
Accounts payable	5,386	2,273
Provision for restructuring costs	5,000	-
Provision for repairs and maintenance - rigs	1,000	11,000
Accrued expenses	880	249
Zakat and charity payable	136	209
Others	1,783	1,640
	33,533	29,246

14 SHARE CAPITAL

	31 December 2015	31 December 2014
Share capital		
Authorised:		
2,000,000,000 ordinary shares of USD 1 each	**2,000,000**	2,000,000
Issued, subscribed and paid-up:		
1,000,000,000 ordinary shares (2014: 1,000,000,000) of USD 1 each	**1,000,000**	1,000,000

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14 SHARE CAPITAL (continued)

(i) The Group has only one class of equity shares and the holders of these shares have equal voting rights.
(ii) Names and nationalities of the major shareholders and the percentage of equity shares held in which they have an interest of 5% or more of outstanding shares are as follows:

		2015		2014	
	Country of incorporation	**% of holding**	**Share capital**	% of holding	Share capital
Tasameem Real Estate	UAE	**21.85**	**218,504**	21.85	218,504
Libyan Investment Authority *	Libya	**16.25**	**162,500**	16.25	162,500
Abu Dhabi Water and Electricity Authority	UAE	**15.00**	**150,000**	15.00	150,000
Emirates Islamic Bank	UAE	**10.00**	**100,000**	10.00	100,000
Mohammed Bin Hussain Bin Ali AlAmoudi	KSA	**5.00**	**50,000**	5.00	50,000
AlJabr Trading Co	KSA	**5.00**	**50,000**	5.00	50,000

* This entity is subject to regulatory sanctions.

(iii) The distribution schedule of equity shares, setting out the number of holders and percentage of holding is as follows:

At 31 December 2015 **Categories**	**Number of shares**	**Number of shareholders**	**% of total outstanding shares**
Less than 5%	268,996	16	26.90%
5% up to less than 10%	100,000	2	10.00%
10% up to less than 25%	631,004	4	63.10%
	1,000,000	**22**	**100%**

At 31 December 2014 Categories	Number of shares	Number of shareholders	% of total outstanding shares
Less than 5%	268,996	16	26.90%
5% up to less than 10%	100,000	2	10.00%
10% up to less than 25%	631,004	4	63.10%
	1,000,000	22	100%

15 NON-CONTROLLING INTERESTS

	2015	2014
At 1 January	128,745	132,776
Net loss for the year	(81,738)	(1,183)
Dividends of a subsidiary	(40)	(41)
Disposal of a subsidiary	-	(2,807)
At 31 December	**46,967**	128,745

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16 OTHER INCOME

This represents insurance claim towards repair cost and loss of relating to the rigs, which suffered damage because of an explosion which has been received during the year (refer note 6).

17 OTHER OPERATING EXPENSES RELATING TO IJARAH ASSETS

	2015	2014
Repairs and maintenance - rigs	47,989	21,857
Insurance - rigs	3,042	4,493
Professional and consultancy fee	1,304	2,720
Miscellaneous expenses	1,438	2,793
	53,773	31,863

18 INCOME FROM INVESTMENT SECURITIES

	2015	2014
Income from sukuk	11,746	10,310
Dividend income	1,782	-
Gain on disposal of sukuk	1,304	779
(Loss) / gain on disposal of quoted equity securities	(300)	64,321
Profit on subordinated financing	-	2,923
	14,532	78,333

19 STAFF COST

	2015	2014
Salaries and benefits	8,948	8,965
Other staff expenses	3,205	2,986
	12,153	11,951

20 OTHER OPERATING EXPENSES

	2015	2014
Restructuring costs	5,000	-
Professional and consultancy fee	1,785	576
Board and shari'a committee expenses	1,402	1,031
Rent and utilities	755	696
Travelling and related expenses	476	598
Advertising and marketing expenses	23	23
Others	903	451
	10,344	3,375

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21 IMPAIRMENT ALLOWANCE

	2015	2014
Ijarah assets - Oil rigs (note 6)	227,670	-
Quoted equity securities at fair value through equity (note 7)	59,057	20,000
Unquoted equity securities at fair value through equity	15,000	4,800
Equity accounted investees (note 8)	56,394	-
Project work-in-progress	-	30,791
	358,121	55,591

22 RELATED PARTY BALANCES AND TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence or joint control over the other party in making financial and operating decisions. Related parties comprise major shareholders, directors, shari'a supervisory board, external auditors and executive management of the Group and/or entities over which they exercise control and/or significant influence. During the year, the Bank did not have any transactions with entities in which directors are interested.

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

31 December 2015	**Associates**	**Key management personnel/ Shari'a board members/ external auditors**	**Significant shareholders/ board members/ entities in which directors are interested**	**Total**
Assets				
Cash and bank balances	-	-	109	**109**
Equity accounted investees	76,880	-	-	**76,880**
Other assets	7	-	-	**7**
Liabilities				
Placements from financial institutions	-	-	34,016	**34,016**
Other liabilities	-	894	11,287	**12,181**

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22 RELATED PARTY BALANCES AND TRANSACTIONS (continued)

31 December 2014	Associates	Key management personnel/ Shari'a board members/ external auditors	Significant shareholders/ board members/ entities in which directors are interested	Total
Assets				
Cash and bank balances	-	-	436	436
Equity accounted investees	117,187	-	-	117,187
Other assets	6	-	-	6
Liabilities				
Placements from financial institutions	-	-	33,847	33,847
Other liabilities	-	685	7,962	8,647

31 December 2015	**Associates**	**Key management personnel/ Shari'a board members/ external auditors**	**Significant shareholders/ board members/ entities in which directors are interested**	Total
Income				
Share of results of equity accounted investees	(3,200)	-	-	**(3,200)**
Expenses				
Staff cost	-	2,162	-	**2,162**
Financing cost on placements from financial institutions	-	-	169	**169**
Other operating expenses	-	1,571	-	**1,571**
Impairment allowance	56,394	-	-	**56,394**

31 December 2014	Associates	Key management personnel/ Shari'a board members/ external auditors	Significant shareholders/ board members/ entities in which directors are interested	Total
Income				
Share of results of equity accounted investees	(2,009)	-	-	(2,009)
Expenses				
Staff cost	-	1,895	-	1,895
Financing cost on placements from financial institutions	-	-	203	203
Other operating expenses	-	1,165	-	1,165

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22 RELATED PARTY BALANCES AND TRANSACTIONS (continued)

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 Bank. The key management personnel compensation is as follows:

	2015	2014
Board member fees	1,310	930
Salary and other benefits	1,975	1,614
Post employment benefits	187	281
	3,472	2,825

23 ZAKAH

Zakah payable by the shareholders in respect of each share for the year ended 31 December 2015 is US cents 1.44 (2014: US cents 1.71) for every share held. US cents Nil (2014: US cents Nil) is payable by the Bank in their capacity as the agents of the shareholders and US cents 1.44 (2014: US cents 1.71) is the responsibility of the individual shareholders.

24 SEGMENT INFORMATION

a) Industry sector

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

2015	**Banks and financial institutions**	**Energy, power and infrastructure**	**Others**	**Total**
Assets				
Cash and bank balances	16,646	-	-	16,646
Placements with financial institutions	120,347	-	-	120,347
Financing assets	-	29,504	44,704	74,208
Ijarah assets	-	175,897	85,900	261,797
Investment securities	272,108	100,537	76,398	449,043
Equity accounted investees	32,318	18,993	25,569	76,880
Other assets	115	14,407	26,816	41,338
Property and equipment	-	-	10,079	10,079
Total assets	**441,534**	**339,338**	**269,466**	**1,050,338**
Liabilities				
Placements from financial institutions	82,257	-	-	82,257
Bank financing	161,522	-	-	161,522
Other liabilities	9,587	6,399	17,547	33,533
Total liabilities	**253,366**	**6,399**	**17,547**	**277,312**

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24 SEGMENT INFORMATION (continued)

2014	Banks and financial institutions	Energy, power and infrastructure	Others	Total
Assets				
Cash and bank balances	19,026	-	-	19,026
Placements with financial institutions	112,868	-	-	112,868
Financing assets	-	32,863	-	32,863
Ijarah assets	-	413,225	89,500	502,725
Investment securities	289,876	100,537	141,792	532,205
Equity accounted investees	45,102	58,993	13,092	117,187
Other assets	1,282	25,569	5,696	32,547
Property and equipment	-	-	10,188	10,188
Total assets	468,154	631,187	260,268	1,359,609
Liabilities				
Placements from financial institutions	105,928	-	-	105,928
Bank financing	105,812	-	-	105,812
Other liabilities	7,962	13,285	7,999	29,246
Total liabilities	219,702	13,285	7,999	240,986

b) Geographic sector

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

2015	**MENA**	**Europe**	**America**	**Asia**	**Total**
Assets					
Cash and bank balances	12,764	3,882	-	-	16,646
Placements with financial institutions	112,123	8,224	-	-	120,347
Financing assets	44,704	29,504	-	-	74,208
Ijarah assets	-	-	175,897	85,900	261,797
Investment securities	403,204	25,949	-	19,890	449,043
Equity accounted investees	71,075	5,805	-	-	76,880
Other assets	37,981	50	1,552	1,755	41,338
Property and equipment	10,079	-	-	-	10,079
Total assets	**691,930**	**73,414**	**177,449**	**107,545**	**1,050,338**
Liabilities					
Placements from financial institutions	82,257	-	-	-	82,257
Bank financing	46,344	115,178	-	-	161,522
Other liabilities	26,495	-	6,390	648	33,533
Total liabilities	**155,096**	**115,178**	**6,390**	**648**	**277,312**

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24 SEGMENT INFORMATION (continued)

2014	MENA	Europe	America	Asia	Total
Assets					
Cash and bank balances	15,499	3,527	-	-	19,026
Placements with financial institutions	81,691	31,177	-	-	112,868
Financing assets	-	32,863	-	-	32,863
Ijarah assets	-	-	413,225	89,500	502,725
Investment securities	483,178	34,027	-	15,000	532,205
Equity accounted investees	104,095	13,092	-	-	117,187
Other assets	17,503	9,514	3,520	2,010	32,547
Property and equipment	10,188	-	-	-	10,188
Total assets	712,154	124,200	416,745	106,510	1,359,609
Liabilities					
Placements from financial institutions	105,928	-	-	-	105,928
Bank financing	46,442	59,370	-	-	105,812
Other liabilities	26,328	-	2,277	641	29,246
Total liabilities	178,698	59,370	2,277	641	240,986

The Group's revenue and expenses are reviewed at a Group level and therefore no separate operating segment results and other disclosures are provided in these consolidated financial statements.

25 COMMITMENTS

	31 December 2015	31 December 2014
Operating lease commitments	1,128	1,565
Forward treasury commitments	-	6,684
	1,128	8,249

26 RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:
- liquidity risk;
- credit risk;
- market risks; and
- operational risk

The Bank has a risk management framework in place for managing these risks which are constantly evolving as the business activities change in response to credit, market, product and other developments.

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

26 RISK MANAGEMENT (continued)

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed to reflect changes in market conditions, products and services offered.

The Management Risk Committee is responsible for recommending policy and framework to the Board Audit and Risk Committee, which in turn is responsible for reviewing and recommending to the Board for approval. The Risk Management Department is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank.

The principal risks associated with the Group's business and the related risk management processes are as follows:

(a) Liquidity risk

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are to be settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Board of Directors approves all significant policies and strategies related to the management of liquidity. Management Committees including the Asset Liability Committee and the Management Risk Committee review the liquidity profile of the Group on a regular basis and any material change in the current or prospective liquidity position is notified to the Board through the Board Audit and Risk Committee.

The Risk Management Department monitors the liquidity profile of the Bank on an ongoing basis to ensure that the liquidity gap is within regulatory limits and the liquidity gap and key liquidity ratios are within the internal Board approved limits.

Details of the Group's liquid assets to total assets at the reporting date and during the reporting period were as follows:

	2015	2014
At 31 December	**0.46**	0.40
Average for the year	**0.44**	0.40

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26 RISK MANAGEMENT (continued)

(a) Liquidity risk (continued)

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

At 31 December 2015	**Gross undiscounted cash flows**					
	Less than 3 months	**3 to 12 months**	**1 year to 3 years**	**Over 3 years**	**Total**	**Carrying value**
Placements from financial institutions	82,163	120	-	-	82,283	82,257
Bank financing	48,182	65,750	12,520	46,821	173,273	161,522
Other liabilities	18,068	10,603	-	4,891	33,562	33,533
Total liabilities	**148,413**	**76,473**	**12,520**	**51,712**	**289,118**	**277,312**

At 31 December 2014	Gross undiscounted cash flows					
	Less than 3 months	3 to 12 months	1 year to 3 years	Over 3 years	Total	Carrying value
Placements from financial institutions	105,861	70	-	-	105,931	105,928
Bank financing	1,705	51,591	12,568	53,081	118,945	105,812
Other liabilities	16,412	8,976	-	3,887	29,275	29,246
Total liabilities	123,978	60,637	12,568	56,968	254,151	240,986

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26 RISK MANAGEMENT (continued)

(a) Liquidity risk (continued)

The table below summarises the maturity profile of the Group's assets and liabilities based on expected periods to cash conversion from the consolidated statement of financial position date:

2015	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	No fixed Maturity	Total
Assets									
Cash and bank balances	16,646	-	-	-	-	-	-	-	16,646
Placements with financial institutions	120,347	-	-	-	-	-	-	-	120,347
Financing assets	-	-	29,504	-	-	44,704	-	-	74,208
Ijarah assets	-	-	-	-	-	-	-	261,797	261,797
Investment securities	10,813	-	60,944	266,244	65,720	45,322	-	-	449,043
Equity accounted investees	-	-	-	-	-	-	-	76,880	76,880
Other assets	19,130	-	16,745	1,614	-	3,213	-	636	41,338
Property and equipment	-	-	-	-	-	-	-	10,079	10,079
Total assets	**166,936**	**-**	**107,193**	**267,858**	**65,720**	**93,239**	**-**	**349,392**	**1,050,338**
Liabilities									
Placements from financial institutions	82,137	120	-	-	-	-	-	-	82,257
Bank financing	47,499	1,064	62,637	9,037	9,742	31,543	-	-	161,522
Other liabilities	18,175	9,587	880	-	4,891	-	-	-	33,533
Total liabilities	**147,811**	**10,771**	**63,517**	**9,037**	**14,633**	**31,543**	**-**	**-**	**277,312**
Net gap	**19,125**	**(10,771)**	**43,676**	**258,821**	**51,087**	**61,696**	**-**	**349,392**	**773,026**
Cumulative net gap	**19,125**	**8,354**	**52,030**	**310,851**	**361,938**	**423,634**	**423,634**	**773,026**	**-**
Commitments	**133**	**133**	**235**	**627**	**-**	**-**	**-**	**-**	**1,128**

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26 RISK MANAGEMENT (continued)

(a) Liquidity risk (continued)

2014	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	No fixed Maturity	Total
Assets									
Cash and bank balances	19,026	-	-	-	-	-	-	-	19,026
Placements with financial institutions	112,868	-	-	-	-	-	-	-	112,868
Financing assets	-	-	-	32,863	-	-	-		32,863
Ijarah assets	-	-	-	-	-	-	-	502,725	502,725
Investment securities	13,309	-	19,852	383,852	77,090	38,102	-		532,205
Equity accounted investees	-	-	-	-	-	-		117,187	117,187
Other assets	62	1,810	28,756	1,240	-	-	-	679	32,547
Property and equipment	-	-	-	-	-	-	-	10,188	10,188
Total assets	145,265	1,810	48,608	417,955	77,090	38,102	-	630,779	1,359,609
Liabilities									
Placements from financial institutions	105,928	-	-	-	-	-	-	-	105,928
Bank financing	1,216	1,166	48,796	8,745	9,385	36,504	-	-	105,812
Other liabilities	16,396	7,963	1,000	-	3,887	-	-	-	29,246
Total liabilities	123,540	9,129	49,796	8,745	13,272	36,504	-	-	240,986
Net gap	21,725	(7,319)	(1,188)	409,210	63,818	1,598	-	630,779	1,118,623
Cumulative net gap	21,725	14,406	13,218	422,428	486,246	487,844	487,844	1,118,623	-
Commitments	6,801	117	235	939	157	-	-	-	8,249

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26 RISK MANAGEMENT (continued)

(b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk principally from the balances with banks, commodity murabaha and wakala contracts placed with financial institutions, investments in sukuks and other receivables.

For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country risk and sector risk).

Management of credit risk
Credit risk is assessed and approved on an individual basis for each counterparty at least once a year as a part of the internal risk review process. As at 31 December 2015, all credit exposures were appropriately approved by the relevant authority level. The credit risk assessment conducted as a part of the internal risk review process included rating each exposure using industry specific rating models which consider key risk factors to assign the internal credit rating. The Bank assigns rating-based credit limits for all counterparty banks and financial institutions with whom it places short-term funds. All placements during the year were with financial institutions having internal and / or external credit ratings mapped to the "Standard" credit category of the Bank. The Bank also conducts detailed assessments of the debt investment opportunities to evaluate the commercial viability of the investments. Sukuk investments during the year were with obligors who were either banks, sovereigns or sovereign owned companies, subsidiaries, and were rated externally and/or internally. The Bank monitors the creditworthiness of the counterparties and the performance of the exposures with regard to timeliness of payments and other credit conditions on an ongoing basis. Annual and interim credit reviews are conducted to check the credit quality and impairment assessment requirement, if any.

The Bank attempts to reduce credit risk by assigning limits for each counterparty, monitoring credit exposure, and continuously assessing the creditworthiness of counterparties. The Bank uses external ratings for regulatory purposes.

In addition to external ratings, the Bank assigns an internal rating which is mapped to the lowest external rating, in cases where the entity is rated by more than one credit rating agency. The external ratings used for this purpose are those issued by S&P, Moody's, Fitch and Capital Intelligence. In case the entity is not rated externally the Bank assigns an internal rating based on an in house credit assessment.

The Bank performs collective assessment of impairment for its credit exposures on a yearly basis as per the the Bank's internal guidelines. Credit exposures are also subject to regular reviews by the Risk Management Department.

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

	2015	2014
Balances with banks	16,634	19,014
Placements with financial institutions	120,347	112,868
Financing assets	74,208	32,863
Investment securities	315,084	315,688
Other assets	34,473	25,553
	560,746	505,986

As of 31 December 2015, none of the above exposures are either past due or impaired (2014: Nil).

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26 RISK MANAGEMENT (continued)

(b) Credit risk

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

2015	**Bank balances**	**Placements with financial institutions**	**Financing assets**	**Investment securities**	**Other assets**	**Total**
Prime to High grade: AAA - AA	52	10,000	-	-	-	10,052
Medium grade: A - BBB	14,455	87,544	-	253,250	-	355,249
Non-investment / speculative: BB - B	1,211	-	-	25,950	-	27,161
Unrated	916	22,803	74,208	35,884	34,473	168,284
	16,634	**120,347**	**74,208**	**315,084**	**34,473**	**560,746**

2014	Bank balances	Placements with financial institutions	Financing assets	Investment securities	Other assets	Total
Prime to High grade: AAA - AA	52	-	-	735	-	787
Medium grade: A - BBB	16,854	68,180	-	253,814	-	338,848
Non-investment / speculative: BB - B	976	-	-	26,026	-	27,002
Unrated	1,132	44,688	32,863	35,113	25,553	139,349
	19,014	112,868	32,863	315,688	25,553	505,986

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

The Bank strictly adheres to the regulatory guidelines in respect of large exposures and connected and related counterparty exposures to effectively manage name concentration. Any excesses above the said limits are reported to the CBB and treated in accordance to the regulatory guidelines by way of capital deduction. In addition, the Bank has established internal limits on the maximum permissible exposures to sectors for managing sector concentration.

In respect of geographical concentration the Bank has defined limits for each country / geography which is based on the lowest among the available ratings by S&P, Moody's, Fitch and Capital Intelligence. The Bank also closely monitors political risk arising from events in each country of exposure.

The Group's exposure to financial assets with credit risk, before taking into account any collateral held or other credit enhancements, by industry sector and geographic sector, refer to note 24.

26 RISK MANAGEMENT (continued)

(c) Market Risk

Market risk is the risk that changes in market risk factors, such as currency risk, profit rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

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

Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's major exposure is in GCC currencies, which are primarily pegged to the US Dollars. The Bank monitors this exposure on an ongoing basis.

The Group had the following net exposures denominated in foreign currencies (other than GCC currencies) as of 31 December:

	2015	2014
Sterling Pounds	**51**	60
Euros	**8,334**	(10,635)
Indian Rupees	**-**	15,000
Libyan Dinars	**18,993**	58,993
Bulgarian Leva	**5,805**	13,092

The table below indicates the impact of reasonably possible changes in exchange rates on the Group's net foreign currency exposure. The impact has been calculated using the net foreign currency exposure as at the consolidated statement of financial position date and calculating the impact of the changes in exchange rates:

	Change in exchange rates (+/-)	**Net income and equity (+/-)**
	%	USD 000's
Sterling Pounds	10	**5**
Euros	10	**833**
Indian Rupees	10	**-**
Libyan Dinars	10	**1,899**
Bulgarian Leva	10	**581**

Equity price risk
The Group's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages equity price risk through diversification and by placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions.

As at 31 December 2015, the Group had investments in quoted equities on the Dubai Financial Market and Bahrain Bourse. The table below reflects the sensitivity of the investment by considering the impact of reasonably expected changes in the capitalisation rate.

26 RISK MANAGEMENT (continued)

(c) Market Risk (continued)

	Change in exchange rates (+/-) %	**Effect on net equity (+/-)** USD 000's
Stock Exchange	10	**3,342**

The Group also has unquoted investments carried at cost where the impact of changes in equity prices will only be reflected when the investment is sold or deemed to be impaired, when the consolidated statement of income will be impacted, or when a third party transaction in the investment gives a reliable indication of fair value which will be reflected in equity.

Profit rate risk in the banking book
Profit rate risk in the banking book is the exposure of the Group's financial condition to adverse movements in profit rates. Changes in profit rates affect the Group's earnings by changing its net profit income and the level of other profit rate sensitive income and expenses. Changes in profit rates also affect the underlying value of the Group's assets and liabilities because of the absolute or economic value changes of future cash flows due to the change in profit rates. Profit rate risk primarily arises on account of reprising risk, yield curve risk, basis risk and optionality risk.

The Group's profit rate sensitive assets are mainly commodity murabaha and wakala placed with financial institutions and investments in Sukuk. The Group has exposures to both fixed and floating rate Sukuk. Fixed rate sukuk represent 100% of the total Sukuk portfolio as at 31 December 2015 (2014: 100%). The rate sensitive liabilities comprise of due to financial institutions, murabaha payable, term financing and other liabilities.

The Group has minimal exposure to reprising and yield curve risks. Reprising risk arises on account of mismatch in profit rate fixation periods between assets and liabilities. Yield curve risk arises due to shift in the yield curve resulting in changes in the economic value of cashflows. Exposure to basis risk is not material and although the basis risk exposure is monitored, the Bank does not consider this item of profit rate risk in the internal risk calculations. The rate sensitive assets mainly comprise commodity murabaha and wakala contracts and Sukuk. Part of these assets are funded by rate sensitive liabilities in the form of murabaha and wakala payable. The short-term nature of these items and high degree of correlation between profits earned and paid on them minimises the basis risk. The remaining rate sensitive assets (Sukuks and residual inter-bank placements) are funded by equity. The Group is not exposed to optionality risk arising due to embedded options in rate sensitive assets or liabilities.

The Bank monitors the timing difference in the re-pricing of the Bank's rate-sensitive assets and liabilities and resulting impact of any parallel shift in the yield curve on the expected net profit income for up to one year, and the value of equity and overall economic value of equity considering the changes in net profit income and the value of equity. The profit rate risk is managed by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard profit rate scenarios. A standard 200 basis point (bp) profit rate shock by way of parallel shift in all yield curves is considered on a monthly basis to ensure that the resulting impact on the economic value of equity is within the limit prescribed by the Basel Committee on Banking Supervision.

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26 RISK MANAGEMENT (continued)

Profit rate risk in the banking book (continued)

Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for re-pricing bands. A summary of the Group's profit rate gap position is as follows:

2015	**Up to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 3 years**	**Over 3 years**	**Total**
Assets						
Placements with financial institutions	120,347	-	-	-	-	120,347
Financing assets	-	-	29,504	-	44,704	74,208
Investment securities	10,813	-	60,944	132,286	111,041	315,084
Other assets	863	-	-	-	3,213	4,076
Total assets	**132,023**	**-**	**90,448**	**132,286**	**158,958**	**513,715**
Liabilities						
Placements from financial institutions	82,137	120	-	-	-	82,257
Bank financing	47,499	1,064	62,637	9,037	41,285	161,522
Total liabilities	**129,636**	**1,184**	**62,637**	**9,037**	**41,285**	**243,779**
Profit rate sensitivity gap	**2,387**	**(1,184)**	**27,811**	**123,249**	**117,673**	**269,936**

2014	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	Total
Assets						
Placements with financial institutions	112,868	-	-	-	-	112,868
Financing assets	-	-	-	32,863	-	32,863
Investment securities	13,309	-	19,852	167,335	115,192	315,688
Total assets	126,177	-	19,852	200,198	115,192	461,419
Liabilities						
Placements from financial institutions	105,858	70	-	-	-	105,928
Bank financing	1,216	1,166	48,796	8,745	45,889	105,812
Total liabilities	107,074	1,236	48,796	8,745	45,889	211,740
Profit rate sensitivity gap	19,103	(1,236)	(28,944)	191,453	69,303	249,679

The sensitivity of the Group's consolidated statement of income to a 200 basis points parallel increase (decrease) in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position), would be an increase of profit by USD 5,399 thousand (2014: USD 4,994 thousand).

Overall, profit rate risk positions are managed by Treasury, which uses commodity murabaha and wakala contracts with/ from financial institutions to manage the overall position arising from the Group's activities.

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26 RISK MANAGEMENT (continued)

Profit rate risk in the banking book (continued)

The average effective profit rates on the financial assets and liabilities as at 31 December were as follows:

	2015	2014
Placements with financial institutions	0.23%	0.22%
Financing assets	8.50%	9.00%
Investment securities	4.52%	3.52%
Placements from financial institutions	0.40%	0.31%
Bank financing	3.06%	3.77%

(d) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or loss resulting from external events. Operational risk also includes Shari'a non-compliance risk but excludes strategic and reputational risks.

The Bank manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances. In addition the Bank is committed to the training of its staff. The Bank has conducted Risk and Control Self Assessment of Operational Risk in all departments to identify the Key Risk Indicators as a part of the overall Operational Risk Management framework. The Bank monitors the key risks and operational risk losses on an ongoing basis and regularly reports the position to the senior management and the Board. The Bank has also implemented an IT enabled operational risk system to automate the operational risk processes namely risk and controls assessment, loss data collection and key risk indicator calculation

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

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

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

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

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

26 RISK MANAGEMENT (continued)

Capital management (continued)

The Capital components are subject to various limits as per the CA modules. 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 regulatory adjustments are subject to limits prescribed by the CA module. These deductions would be effective in a phased manner through transitional arrangements from 2015 to 2018. The regulations prescribe higher risk weights for certain exposures that exceeds materiality thresholds.

As at 31 December the Bank has made regulatory adjustments of USD Nil (2014: USD Nil). In line with the requirements of CA module.

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

The Bank's policy is to maintain a strong capital base and meet the minimum capital requirements imposed by the regulator (CBB), so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the returns and security afforded by a sound capital position.

The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Bank's capital management policy seeks to optimize returns within the internally defined risk tolerances while satisfying all the regulatory requirements.

The Bank ensures that the regulatory capital adequacy requirements are met and complied with at all times. In addition, the Bank has developed a comprehensive ICAAP.

The Bank's regulator (CBB) sets and monitors capital requirements for the Bank. CBB requires the Bank to maintain the ratio of eligible capital base to the total risk-weighted assets at a minimum of 12.5%.

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26 RISK MANAGEMENT (continued)

Capital management (continued)

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

	31 December 2015	31 December 2014
Total risk weighted assets	**1,705,237**	1,033,523
Tier 1 capital:		
- CET1 prior to regulatory adjustments	710,455	713,662
- Less: regulatory adjustments	-	-
CET1 after regulatory adjustments	710,455	713,662
AT1	-	-
Tier 2 capital	2,496	-
Total regulatory capital	**712,951**	713,662
Total regulatory capital expressed as a percentage of total risk weighted assets	**42%**	69%
Liquidity coverage ratio	**530%**	N/A
Net stable funding ratio	**154%**	N/A
Leverage ratio	**80.31%**	N/A

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

27 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

a) Fair value of financial instruments
The fair value of the Group's investments in sukuk held at amortised cost of USD 317,351 thousand as of 31 December 2015 (2014: USD 317,955 thousand) is USD 314,328 thousand (2014: USD 323,193 thousand).

For murabaha financing, the profit rate is in line with the current market rates for similar facilities, hence, after considering the prepayment risk it is expected that the current value would not be materially different to its fair value. Other than equity investments carried at cost less impairment of USD 995 thousand (2014: USD 15,995), the Group's other financial instruments are not significantly different from the carrying values.

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

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

27 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

	Level 1	Level 2	Level 3	Total
2015				
Fair value through equity				
Quoted equity securities	**33,422**	**-**	**-**	**33,422**
2014				
Fair value through equity				
Quoted equity securities	100,980	-	-	100,980

28 SOCIAL RESPONSIBILITY

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

29 COMPARATIVES

Certain prior period amounts have been regrouped to conform to current year presentation. Such regrouping did not affect previously reported profit for the year or total equity.