

التصميم الاجتماعي



AL SALAM BANK
البحرين Bahrain

CREATIVELY OUTLINING SUCCESS

ANNUAL REPORT 2015

The epitome of beauty and aesthetics, calligraphy is the art of beautiful writing, stated to be the basis of religious expression. It was first used to honour the words of the Holy Quran. As mankind's earliest known alphabet, it has always captivated the imagination of royals, intellectuals, writers, poets, artists and the common man. We at Al Salam Bank-Bahrain pay homage to this timeless and unheralded art which draws a comparison with our ethos and values. We continue our quest to transcend the boundaries of possibilities and build new paradigms, journeying towards the destination of success.



His Royal Highness
Prince Khalifa bin
Salman Al Khalifa

The Prime Minister of the
Kingdom of Bahrain



His Majesty
King Hamad bin Isa
Al Khalifa

The King of the Kingdom
of Bahrain



His Royal Highness
Prince Salman bin
Hamad Al Khalifa

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

DYNAMIC DIVERSIFIED DIFFERENTIATED

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OUR VISION

To become a regional force in the Islamic financial services industry by providing differentiated Shari'a compliant products to focused segments.

OUR MISSION

- Become a “one-stop-shop” for Islamic financial services.
- Create a strong onshore presence in select countries.
- Develop a premier brand image as an Islamic financial shaper.
- Achieve high returns for stakeholders commensurate with the risks undertaken.

CORPORATE OVERVIEW

Al Salam Bank-Bahrain (ASBB) was established on 19 January 2006 in the Kingdom of Bahrain with paid-up capital of BD120 million (US\$ 318 million) and was the largest Initial Public Offering (IPO) in the Kingdom's history with subscriptions reaching over BD2.7 billion (US\$ 7 billion). Currently, ASBB paid-up capital is BD214 million (US\$ 567 million). The Bank commenced commercial operations on 17 April 2006. ASBB was listed in Bahrain Bourse on 27 April 2006 and subsequently in Dubai Financial Market (DFM) on 26 March 2008.



Al Salam Bank-Bahrain B.S.C (ASBB) is headquartered in the Kingdom of Bahrain and regulated by the Central Bank of Bahrain.

Following a resolution of ASBB's Extraordinary General Assembly meeting held on 4 May 2009, ASBB completed its merger with the Bahraini Saudi Bank (BSB) on 22nd of December 2011. On 31st March 2014, Al Salam Bank-Bahrain and BMI Bank B.S.C (c) confirmed the conclusion of a business combinations between the two institutions after receiving the approval from their shareholders at their respective extraordinary general assembly meetings by way of exchanging 11 ASBB shares for each BMI Bank share wherein ASBB acquired 58,533,357 BMI Bank shares of BD1 each and issued 643,866,927 ASBB shares of 100 fils each. As of the 30th of March 2014, both Banks updated their respective CRs to give effect to the share swap and consequently BMI Bank became a wholly owned subsidiary of ASBB.

ASBB offers its customers a complete range of innovative and unique Shari'a-compliant financial products and services through its extended network of 11 branches and 35 ATMs utilizing the latest technologies to meet various banking requirements. In addition to its retail banking services, the Bank also offers Corporate Banking, Private Banking, Investment as well as Treasury services. The Bank's high-calibre management team comprises of a highly qualified and internationally experienced professionals with proven expertise in key areas of banking, finance and related fields.

Key factors that contribute to the Bank's distinct market differentiation include:

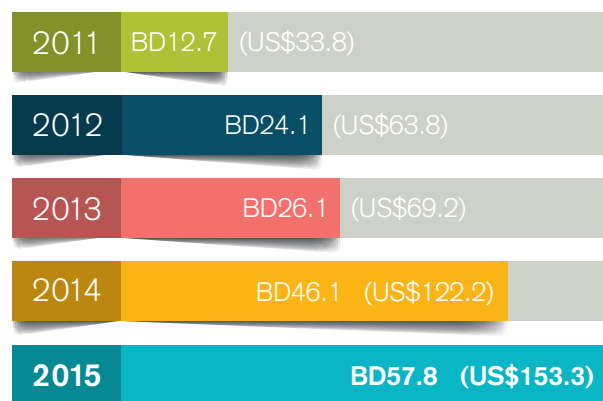
- Strong paid-up capital base;
- Pre-eminent founding shareholders;
- High-calibre management team;
- State-of-the-art IT infrastructure;
- Innovative, tailor-made Shari'a-compliant product solutions;
- Universal business model covering deposits, financing and investment products and services;

ASBB is adopting internationally recognized standards and best practices in areas such as corporate governance, compliance and risk management, operating with the highest levels of integrity, transparency and trust.

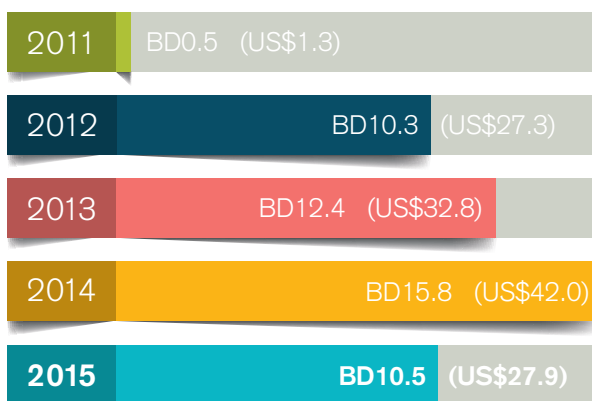
” A dynamic, diversified and differentiated Islamic Bank.

ANNUAL HIGHLIGHTS

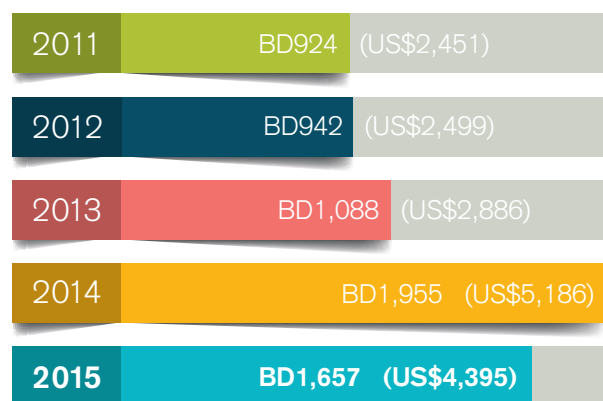
Total Operating Income (million)



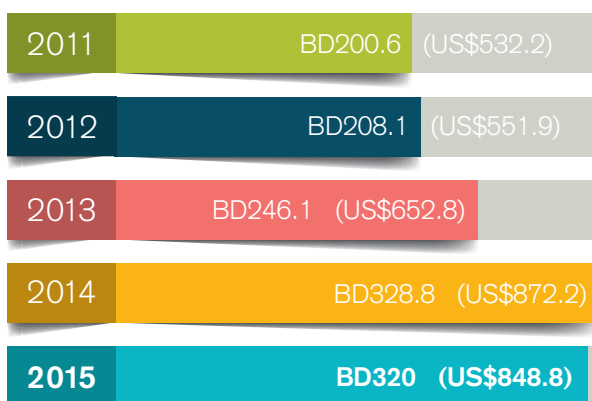
Net Profit (million)



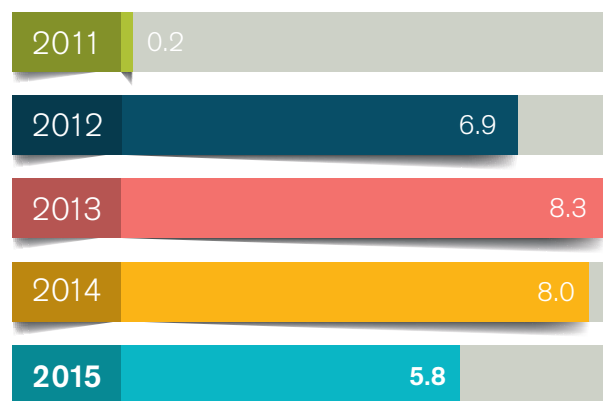
Total Assets (million)



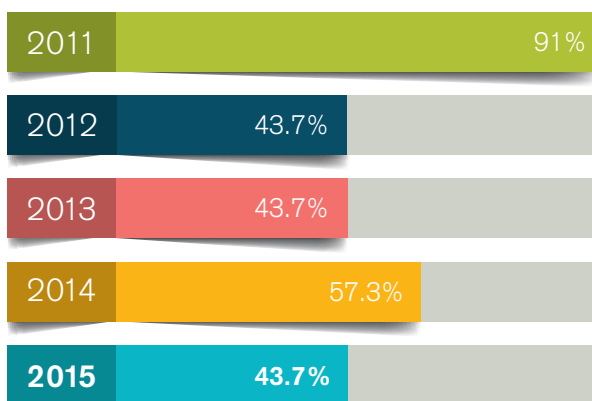
Total Equity (million)

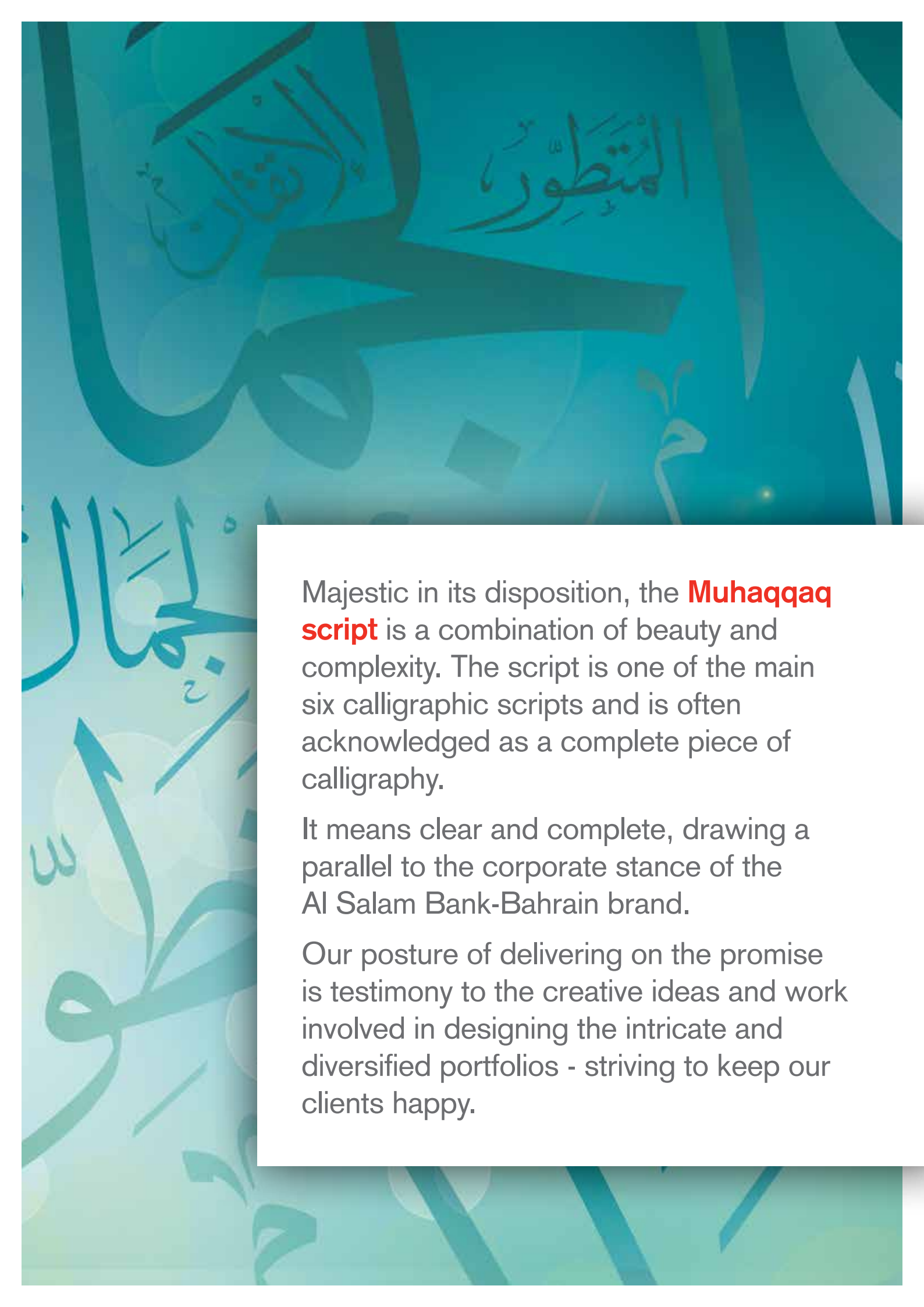


Earnings per Share (fils)



Cost to Income Ratio





Majestic in its disposition, the **Muhaqqaq script** is a combination of beauty and complexity. The script is one of the main six calligraphic scripts and is often acknowledged as a complete piece of calligraphy.

It means clear and complete, drawing a parallel to the corporate stance of the Al Salam Bank-Bahrain brand.

Our posture of delivering on the promise is testimony to the creative ideas and work involved in designing the intricate and diversified portfolios - striving to keep our clients happy.

BOARD OF DIRECTORS



H.H. Shaikha Hessa bint Khalifa bin Hamad Al Khalifa
Chairperson

Chairperson of the Remuneration, Nomination and Corporate Governance Committee

Independent and non-executive

Director since: 18 April 2009

Term started: 24 February 2015

Experience: more than 17 years

An active member of the royal family of the Kingdom of Bahrain, H.H. Shaikha Hessa gained her Bachelor's degree in Management (1998), and her Master degree in Social Policy and Planning (2002) both from the London School of Economics and Political Science. Gained a MSc Development Finance 2010 from University of London. She joined the Supreme Council for Women in 2001 as a member of the Social Committee. Since 2004 she has been a Permanent Member of the Council's Board. In 2005, she founded "INJAZ Bahrain" which is an international organization to inspire and prepare young Bahrainis to succeed in a global economy and is presently its Executive Director. With her experience and active role in enterprise education and developing skills of young women, she has been invited as speaker and panelist at various occasions including the UN, and the World Economic Forum.

H. E. Shaikh Khalid bin Mustahail Al Mashani **Vice Chairman**

Independent and non-executive

Director since: 5 May 2014

Term started: 24 February 2015

Experience: more than 21 years

H.E. Shaikh Khalid bin Mustahail Al Mashani holds a BSc. in Economics and a Masters Degree in International Boundary Studies from the School of Oriental and African Studies (SOAS), University of London. Shaikh Khalid is the Chairman of the Board of Directors of Bank Muscat S.A.O.G.; Deputy Chairman of Al Omaniya Financial Services Company and Chairman of Dhofar International Development & Investment Holding Company S.A.O.G.



H. E. Mohamed Ali Rashid Alabbar **Director (resigned as of 9 February 2016)**

Non-independent and non-executive

Director since: 14 March 2013

Term started: 24 February 2015

Experience: more than 31 years

H.E. Mohamed Alabbar is the founder and Chairman of Emaar Properties PJSC, the Dubai-based global property developer. He is also the founder and Chairman of Africa Middle East Resources (AMER), a private company operating to unlock the value of natural resource opportunities in Africa and link them with large consumer markets in Asia. He also chairs Tradewinds Corporation, a premier leisure and hospitality owner- operator in Malaysia, developing world-class real estate developments in the country and Southeast Asia.



Mr. Alabbar is the founder and major shareholder of RSH, the leading Singapore-based pan-Asian marketer, distributor and retailer of some 60 international fashion and lifestyle brands through more than 70 outlets in more than 20 countries.

He is also a board member of Eagle Hills, a UAE-based real estate development company focused on large-scale projects in high-growth international markets. He serves on the board of Manara Developments in Bahrain and Noor Investment Group, an affiliate of Dubai Group, the leading diversified financial company of Dubai Holding.

A member of the Dubai World Expo 2020 Preparatory Committee, Mr. Alabbar is actively involved in the developmental work being undertaken in preparation to host the event.

Mr. Alabbar is a graduate in Finance and Business Administration from the Seattle University in the US, and holds an Honorary Doctorate from the University in addition to serving on its Board of Trustees. A keen sportsman, Mr. Alabbar is an active member of the UAE's endurance horse racing community.



Mr. Hussein Mohammed Al Meeza
Director

*Chairman of the Executive Committee
Independent and non-executive*

*Director since: 20 March 2012
Term started: 24 February 2015
Experience: more than 41 years*

Mr. Hussein Mohammed Al Meeza is considered one of the renowned personalities in the Islamic banking sectors and Islamic finance and insurance. Mr. Al Meeza's outstanding career success was crowned in December 2006 when the International Conference of Islamic Bankers chose him as the 2006 Best Islamic Banking Personality. Having graduated from the Beirut Arab University in 1975, Mr. Al Meeza started his professional career at the Dubai Islamic Bank (DIB) where he spent 27 years during which he played a pioneering role in enhancing and developing the bank's services. His landmark achievement was the establishment of the Al Salam Banks in Sudan, Bahrain and Algeria. Mr. Al Meeza is currently Vice Chairman and Chairman of the Executive Committee of Al Salam Bank- Algeria. He was a founder member of Emaar properties, Amlak finance, Emaar Industries & Investments, Emaar Financial services, Dubai Islamic Insurance & Reinsurance Company (AMAN). Mr. Al Meeza occupied the positions of the CEO and Managing Director of Dubai Islamic Insurance and Reinsurance Company (AMAN), Vice Chairman and Chairman of the Executive Committee of Al Salam Bank-Sudan, Chairman of LMC Bahrain, Chairman of the executive committee of Islamic Trading company in Bahrain, Board member and chairman of the Executive committee in Amlak Finance – Dubai and Chairman of Emaar Financial Services – Dubai, Vice Chairman of Emirates Cooperative Society – Dubai. Board member of the General Council of Islamic Banks and Financial Institutions, Chairman of the founding committee of Islamic Insurance and Re-Insurance Companies. He was also a Board Member of Emirates Society for Insurance.



Mr. Salman Saleh Al Mahmeed
Director

*Chairman of the Audit and Risk Committee
Independent and non-executive*

*Director since: 15 February 2010
Term started: 24 February 2015
Experience: more than 31 years*

Mr. Salman Al Mahmeed is the Deputy Chief Executive Officer of Bahrain Airport Services, the Deputy Chairman of Dar Albilad, the Managing Director and Owner's Representative of Global Hotels, Global Express and Movenpick Hotel in Bahrain. He was a Board Member of the Bahraini Saudi Bank as well as being a member of its Investment, Executive and Strategic Options Committees. He was also the Investment Director of Magna Holdings. Mr. Al Mahmeed holds an MBA in Business Administration, Master in Hotel Management and Management BSc. Degree and he is currently a Board member of Al Salam Bank and Chairman of the Audit Committee.

Mr. Essam bin Abdulkadir Al Muhaidib
Director

Independent and non-executive

Director since: 17 April 2006

Term started: 24 February 2015

Experience: more than 31 years

Mr. Essam A. Al Muhaidib is the Board Member and Group CEO of Al Muhaidib Group. In addition, he sits in the Board of Directors of multiple FMCG, Banking, Financial, Real Estate, Industrial and Contracting companies. Savola Group, ACWA Power, Nestle Waters, Bawan, Al Salam Bank, Blominvest KSA, Rafal Real Estate, Emmar Middle East, Al Balad Al Ameen Development Co, are few of them. He is also the Chairman of Panda Retail Company, Herfy Foods Services Co, The Economic & Industrial Development Committee under the Eastern Province Governance Council. He is a Board Member in Eastern Province Governance Council and member in the Board of various charity, benevolence and educational institutions like Educational Services Company of Prince Mohamed bin Fahad University, King Fahad University for Petroleum and Minerals Endowment Fund, Saudi Food Bank and Husan Al Jawar Society, Bahrain. He holds a Bachelor of Science in Statistics from King Saud University.



Mr. Sulaiman bin Mohamed Al Yahyai
Director

Independent and non-executive

Director since: 5 May 2014

Term started: 24 February 2015

Experience: more than 21 years

Mr. Sulaiman bin Mohamed Al Yahyai is the Deputy Chairman of the Board of Directors of Bank Muscat since June 2011, a member of the Board's Risk Committee and a member of the Board's Nomination and Compensation Committee. Mr. Al Yahyai holds a certificate in Assets Management-Lausanne University, Switzerland (2002), MBA – Institute of Financial Management – University of Wales, UK (2000), and a certificate in Financial Crisis – Harvard University, USA (1999). Mr. Al Yahyai is an Investment Advisor at the Royal Court Affairs, Chairman – Oman Chlorine Co. "SAOG", Director – Al Madina Real Estate Co. "SAOC", Director – Falcon Insurance "SAOC", Chairman of Oman Fixed Income Fund, Chairman of Integrated Tourism Projects Fund, Chairman of Telecom Oman, Chairman of the National Bank of Oman GCC Fund.





Mr. Hisham Saleh Al Saie

Director

Independent and non-executive

Director since: 5 May 2014

Term started: 24 February 2015

Experience: more than 21 years

Mr. Hisham Saleh Al Saie is a representative of Overseas Investment Company S.P.C. and has vast experience in Investment Management and the Corporate Finance fields. He holds an MBA from London Business School, a BA in Accounting from the University of Texas at Arlington and has attended a number of executive education courses at INSEAD and other reputable institutions. Hisham is a Board member of Investcorp Bank, Nass Corporation B.S.C., Al-Khaleej Commercial Bank (Qatar), and Diyar Al Muharraq B.S.C. (c). Prior to his current responsibilities, Hisham was head of Corporate Finance at SICO Investment Bank, where he was responsible for structuring key local and regional equity and debt capital market transactions. He also held previous positions at BDO Jawad Habib, Price Waterhouse Coopers and Arthur Andersen.



Mr. Mohamed Shukri Ghanem

Director

Independent and non-executive

Term started: 24 February 2015

Experience: more than 16 years

With more than 16 years of extensive experience in the regional financial market and in global energy sector, Mr. Ghanem is the Chief Executive Officer and Board Member of First Energy Bank in Bahrain, he is responsible for the overall management of the Bank in line with the Bank's strategic plan and also responsible for monitoring organisational performance against the strategic plan. Mr. Ghanem is currently a Board member of Alizz Islamic Bank in Oman and Al Salam Bank in Bahrain. Prior to joining FEB, Mr. Ghanem worked at Arab Banking Corporation (BSC) ("ABC") as part of the North African business development team at the Global Project and Structured Finance division, and with GED Handles G.m.b.H., Vienna in the risk and asset management in the energy and metals sectors. Mr. Ghanem holds a Bachelor of Arts (Major in Business) from Webster University (School of Business and Technology) in Vienna and holds an MBA from Glamorgan University.

Mr. Khalid Salem Al-Halyan
Director

Independent and non-executive

Term started: 24 February 2015

Experience: more than 31 years

Mr. Al-Halyan has more than 30 years senior level experience in several industries and is currently the group Chief Audit Executive at Dubai Aviation City Corporation (DACC). He started his career at the UAE Central Bank and moved to the Department of Economic Development (DED) in Dubai before joining the aviation industry in 1996; initially to establish the new Dubai Airport Free Zone (DAFZA) and head up the Finance Department, before moving on to establish the Group Internal Audit & Risk Assessment (GIARA) function at DACC. He has been involved in establishing DED, Emaar Properties, the UAE Internal Audit Association, the UAE Golf Association and worked on restructuring projects for DUBAL, Dubai World Trade Centre, Dubai Civil Aviation, UAE Central Bank Banking Supervision, and realized the construction of a new facility for the Al Noor Special Needs Centre in Dubai. Mr. Al-Halyan currently serves as Vice President of the UAE Internal Audit Association (affiliated to the Institute of Internal Auditors (IIA), USA) and as Chairman of Al Noor Special Needs Centre in Dubai. He holds an MBA degree from Bradford University in the UK and BBA from UAE University, Al Ain.



Mr. Yousif Abdulla Taqi
Director and Group Chief Executive Officer

Executive

Director since: 05 May 2008

Term started: 24 February 2015

Experience: more than 32 years

A Certified Public Accountant (CPA), Mr. Taqi has been active in the banking and financial services industry since 1983. During his career, Mr. Taqi worked in leading positions for a number of institutions in the Kingdom of Bahrain. Prior to joining Al Salam Bank-Bahrain, he was Deputy General Manager of Kuwait Finance House (Bahrain), where he was responsible for establishing Kuwait Finance House Malaysia. Prior to this, Mr. Taqi spent 20 years with Ernst & Young, during which time he provided professional services for many regional and international financial institutions. During his career with Ernst & Young, Mr. Taqi was promoted as Partner, responsible for providing auditing and consultancy services to the Islamic financial firms. He is currently the Chairman of Manara Developments Company B.S.C.(c), Amar Holding Company B.S.C.(c), affiliates of ASBB, board member of the Housing Bank (Bahrain), Aluminium Bahrain (ALBA), and the Deputy Chairman of King Faisal Corniche Development Co.



FATWA & SHARI'A SUPERVISORY BOARD

بابية



Dr. Hussein Hamid Hassan
Chairman

Dr. Hussein Hamid Hassan holds a PhD from the Faculty of Shari'a, Al Azhar University, Cairo, Egypt; and a Master's in Comparative Jurisprudence and Diploma in Comparative Law (both of which are the equivalent of a PhD) from the International Institute of Comparative Law, University of New York, USA. He also holds a Masters in Comparative Juries, and Diplomas in Shari'a and Private Law, from the University of Cairo; and an LL B in Shari'a from Al Azhar University. He is the Chairman and member of the Shari'a Supervisory Board in many of the Islamic Financial Institutions. In addition, Dr. Hassan is Chairman of the Assembly of Muslim Jurists, Washington, USA; a member of the European Islamic Board for Research & Consultation, Dublin, Ireland; and an Expert at the Union of Islamic Banks, Jeddah, Kingdom of Saudi Arabia.



Dr. Ali Mohuddin Al'Qurra Daghi
Member

Dr. Ali Daghi holds a PhD in Shari'a and Law, and a Master's in Shari'a and Comparative Fiqh, from Al Azhar University, Cairo, Egypt. He also holds a BSc. in Islamic Shari'a from Baghdad University, Iraq; a certificate of traditional Islamic Studies under the guidance of eminent scholars in Iraq; and is a graduate of the Islamic Institute in Iraq. He is currently Professor of Jurisprudence in the faculty of Shari'a law and Islamic Studies at the University of Qatar. He sits on the Boards of Shari'a Supervisory Boards for several banks and financial institutions. Dr. Al'qurra Daghi is also a member of the Islamic Fiqh Academy, the Organisation of Islamic Conference, the European Muslim Council for Efta and Researches, the International Union of Muslim Scholars, and the Academic Advisory Committee of the Islamic Studies Centre, Oxford University, UK. He also has published several research papers tackling various types of Islamic Finance, Islamic Fiqh, Zakah and Islamic Economy.



Shaikh Adnan Abdulla Al Qattan
Member

Shaikh Adnan Al Qattan holds Master's degree in the Quran and Hadith from the University of Um Al-Qura, Makka, Kingdom of Saudi Arabia; and Bachelor's degree in Islamic Shari'a from the Islamic University, Madeena, Saudi Arabia. Shaikh Al Qattan is also a Judge in the Shari'a Supreme Court, Ministry of Justice – Kingdom of Bahrain. Shaikh Al Qattan is a Member of Shari'a Supervisory Boards for several Islamic banks and he is also Chairman of Al Sanabil Orphans Protection Society, Chairman of the Board of Trustees of the Royal Charity Establishment under the Royal Court - Kingdom of Bahrain, and President of the Kingdom of Bahrain Hajj Mission. In addition, he is a Friday sermon orator at Al-Fatih Grand Mosque. Shaikh Al Qattan contributed to drafting the Personal Status Law for the Ministry of Justice and is a regular participant in Islamic committees, courses, seminars and conferences.

Dr. Mohamed Abdulhakim Zoair

Member & Secretary to the Board

Dr. Mohamed Zoair holds PhD in Islamic Economy; Master's degree in Islamic Shari'a (Economy); Bachelor's degree in Management Sciences; and a Higher Diploma in Islamic Studies. He is Member of the Fatwa Board in a number of Islamic financial institutions and has 18 years of experience with Egypt Central Bank. Dr. Zoair was also the Head of Shari'a compliance in Dubai Islamic Bank.



Dr. Mohammed Burhan Arbouna

Member

Group Head of Shari'a Compliance

Dr. Mohammed Burhan Arbouna holds a PhD in laws with specialization in Islamic banking and finance from International Islamic University Malaysia, and Master's in Comparative Laws. He also holds BA degree in Shari'a and Higher Diploma in Education from Islamic University, Medina. He is an expert in Islamic banking and finance since 1997. Before joining Al Salam Bank-Bahrain, Dr. Arbouna was the Shari'a Head and Shari'a Board member in the Seera Investment Bank B.S.C Bahrain. Prior to that, he worked as the Head of Shari'a department in the Kuwait Finance House-Bahrain. Also, Dr. Arbouna worked as Shari'a researcher and consultant for the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) – Bahrain. Dr. Arbouna lectures on Islamic banking and finance and gives consultancy on orientation and professional programs for a number of professional and educational institutions. Dr. Arbouna is a member of Islamic Money Market Framework (IMMF) steering committee initiated by Central Bank of Bahrain for management of liquidity among Islamic banks.



EXECUTIVE MANAGEMENT TEAM

دارة



Mr. Yousif Abdulla Taqi
Director and Group Chief Executive Officer

Experience: more than 32 years

A Certified Public Accountant (CPA), Mr. Yousif Taqi has been active in the banking and financial services industry since 1983. During his career, Mr. Taqi worked in leading positions for a number of institutions in the Kingdom of Bahrain. Prior to joining Al Salam Bank-Bahrain, he was Deputy General Manager of Kuwait Finance House (Bahrain), where he was responsible for establishing Kuwait Finance House Malaysia. Prior to this, Mr. Taqi spent 20 years with Ernst & Young, during which time he provided professional services for many regional and international financial institutions. During his career with Ernst & Young, Mr. Taqi was promoted as Partner, responsible for providing auditing and consultancy services to the Islamic financial firms. He is currently the Chairman of Manara Developments Company B.S.C.(c), Amar Holding Company B.S.C.(c), affiliates of ASBB, board member of the Housing Bank (Bahrain), Aluminium Bahrain (ALBA), and the Deputy Chairman of King Faisal Corniche Development Co.



Dr. Anwar Khalifa Al Sadah
Deputy Group CEO - Business

Experience: more than 26 years

Dr. Anwar Al Sada has more than 26 years of distinguished central banking career. Before joining Al Salam Bank-Bahrain, he was The Deputy Governor of Central Bank of Bahrain (CBB). Along with his current position at Al Salam Bank-Bahrain, Dr. Al Sada was also Chairman of Bahraini Saudi Bank and Vice Chairman of Eskan Bank. He served in a number of national, regional and international committees. His previous posts held were Chairman of Investment Committee at CBB, Vice Chairman of Bahrain Stock Exchange, Chairman of Bahrain's Policy Committee for Prohibition and Combating of Money Laundering and Terrorist Financing, Member of the Future Generation Fund and Member of Promotion Board. Dr. Al Sada has attended the Harvard Management Development course, also received his Master degree and the PhD degree both in Philosophy from University of Surrey, UK.



Mr. Anwar Mohammed Murad
Head of Private Banking

Experience: more than 22 years

Mr. Anwar Murad has 22 years of experience in the areas of Private Banking, Treasury, Market Risk Management and Retail Banking. Mr. Murad has served as Executive Vice President - Head of Private Banking at Al Salam Bank - Bahrain since May 2006. His responsibilities were to establish the Private Banking and Retail Banking divisions for Al Salam Bank. In addition to the standard banking products, he managed to structure and launch many Shari'a-compliant products. Prior to joining Al Salam Bank, he was the Head of Private Banking at BMI Bank Bahrain. Earlier, Mr. Murad was the Regional Market Risk Manager for the MENA region at ABN AMRO Bank and also headed the Treasury Operations in Bahrain. From 1994 to 1998 he had various positions with Citibank in Bahrain as Authorized Signer, Money Market and Debt Derivatives followed by Assistant Manager, Global Consumer Banking. Mr. Murad has extensive knowledge and experience in Treasury and Investment products starting from Money Market, Foreign Exchange, Debt Derivatives and Structured Products.



Mr. Arif Mohammed Janahi
Head of Corporate Banking

Experience: more than 21 years

Mr. Arif Janahi is a well-nurtured commercial banker with more than 21 years of experience in Operations and Corporate Banking. He started his career with a well-known conventional bank before expanding his exposure with another conventional commercial bank where he was responsible to promote Corporate Banking products and services in the local market and the GCC. In 2006, Mr. Janahi joined Al Salam Bank – Bahrain as Head of Corporate Banking where he was responsible to establish the Department in liaison with the concerned committees and other departments in Al Salam Bank. Throughout the last 20 years of banking, Mr. Janahi gained a good experience in both conventional and Islamic banking backed by strong market network, knowledge of banking products, and credit assessment. Mr. Janahi holds an MBA from the University of Hull, UK.

Mr. Abdulkarim Turki
Head of Retail Banking

Experience: more than 31 years

Mr. Abdulkarim Turki is a well-rounded banker with more than 31 years' experience in Treasury, Operations, Audit, Internal Controls and Risk Management. He joined Al Salam Bank-Bahrain in 2006 as Senior Vice President, Head of operations. He was heavily involved in the incorporation and structuring of the Bank and the Operation Department. He was appointed as a key member in the Selection and Implementation Committee of the Bank's core banking system in addition to being a member in other Bank's committees such as Basel II, Bank Asset Liability Committee (ALCO) and the Public Relations Committee (PRC). Prior to joining the Bank, he held the position of Vice President - Head of Treasury Support Operations at Citibank Bahrain, where he gained his experience through the occupation of several managerial positions heading different departments and units. He was also involved in the launch of Citi Islamic Investment Banking as he was responsible for formulating all operational procedures, devising the chart of accounts and products accounting. Mr. Turki holds an MBA in Investment & Finance from University of Hull, UK.



Mr. Talal Abdul Aziz Al Mulla
Head of Investment

Experience: more than 16 years

A Certified Public Accountant (CPA), Mr. Talal Al Mulla has been active in the banking and financial services industry since 1999. Mr. Al Mulla worked with Ernst & Young Bahrain being responsible for audit and consulting assignments for major financial institutions in the region. He joined Al Salam Bank setting up the Internal Audit function in 2006. In 2009, Mr. Al Mulla moved to the Investment Department where he has been sourcing and managing investment opportunities to the Bank. He also sits on the board of Directors of a number of affiliates and subsidiary companies in which the bank has invested.



Mr. Hussain Abdulhaq
Head of Treasury and Financial Markets

Experience: more than 14 years

Mr. Hussain Abdulhaq is an experienced Treasurer in the area of Islamic banking and Capital markets. He spent most of his 14 years career as treasury specialist where he was involved in different areas, like Islamic liquidity management, Islamic capital markets instruments, development of Islamic compliant investment products and hedging instruments. He joined Al Salam Bank in 2007 as a senior member in the treasury team and he was involved in establishing the different functions and business lines of the unit as well as in charge for the ALCO function. Hussain led the treasury integration process of Al Salam Bank and Bahrain Saudi Bank in 2010 and handling the same responsibility with BMI Bank. Prior joining Al Salam Bank, He worked for Kuwait Finance House (Bahrain), a leading Islamic Financial institution in the region, for more than 5 years where he was in charge of the dealing room activities. Hussain as a holder of MBA degree in Banking & Finance with a first honor from University of Bahrain and CFA chartered holder as well.





Mrs. Muna Al Balooshi
Group Head of Human Resources and Administration

Experience: more than 17 years

Mrs. Muna Al Balooshi joined Al Salam Bank, Bahrain since 2006 as Group Head of Human Resources. She had a major role in the Bank's two acquisitions of the Bahraini Saudi Bank and BMI Bank in regard to the merger of the Bank's resources with those two banks. Mrs. Al Balooshi has an excellent knowledge of HR policies and Labor Law regulations due to her long experience as she was the Head of Human Resources at the Court of HRH the Crown Prince from 2001 till 2006 and prior to that she was working in HR department at KPMG. She has full responsibility of the Human Resources division and forming the division strategy as well as assisting directors in top confidential tasks. Mrs. Muna holds an MBA degree from De Paul University – Chicago and she's a CIPD Associate.



Mr. Qassim Taqawi
Group Head of Legal

Experience: more than 12 years

Mr. Qassim Taqawi is a veteran legal counsel with more than 12 years of experience in the field of Investment Banking, Islamic Banking, Retail Banking, Finance, Company Law, Labor Law, Real Estate and Construction. During his career, Mr. Taqawi has handled and attained regional exposure in legal matters covering the GCC, USA, Europe and MENA region. Following the merger with Al Salam Bank-Bahrain, Mr. Taqawi was appointed in his current position at Al Salam Bank as the Group Head of Legal handling the group's legal affairs. Since 2003, Mr. Taqawi has held a number of senior executive positions in the region with various Banking & Financial Institutions. In addition to his current executive responsibilities, Mr. Taqawi serves as a member in management committees including Investment Committee and Remedial Committee. Mr. Taqawi holds a Bachelor degree (LLB) in law and is a registered lawyer with the Ministry of Justice & Islamic Affairs in the Kingdom of Bahrain.



Dr. Mohammed Burhan Arbouna
Group Head of Shari'a Compliance

Experience: more than 16 years

Dr. Mohammed Burhan Arbouna holds a PhD in laws with specialization in Islamic banking and finance from International Islamic University Malaysia, and Masters in Comparative Laws. He also holds BA degree in Shari'a and Higher Diploma in Education from Islamic University, Medina. He is an expert in Islamic banking and finance since 1997. Before joining Al Salam Bank-Bahrain, Dr. Arbouna was the Shari'a Head and Shari'a Board member in the Seera Investment Bank B.S.C Bahrain. Prior to that, he worked as the Head of Shari'a department in the Kuwait Finance House-Bahrain. Also, Dr. Arbouna worked as Shari'a researcher and consultant for the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) – Bahrain. Dr. Arbouna lectures on Islamic banking and finance and gives consultancy on orientation and professional programs for a number of professional and educational institutions. Dr. Arbouna is a member of Islamic Money Market Framework (IMMF) steering committee initiated by Central Bank of Bahrain for management of liquidity among Islamic banks.

Mr. Essa Abdulla Bohijji
Chief Auditor and Board Secretary

Experience: more than 15 years

Mr. Essa Bohijji has more than 15 years of consulting and industry experience in the financial services, commercial entities, governmental bodies, and internal audit. Prior to joining Al Salam Bank Bahrain, Mr. Bohijji was the Chief Auditor and Board Secretary of an Islamic investment Bank in Bahrain. Mr. Bohijji had also spent seven years with Ernst & Young where he worked in the Audit and Assurance Services Group before shifting to the Business Advisory Services that was responsible for Internal Audit and Risk Management assignments and left as a Senior Manager. Mr. Bohijji currently serves as a Board member of BMI Bank, a Board and Audit Committee member of Al Salam Bank Algeria, an interim Board member in BMIO Bank in Seychelles, and a non-executive Audit Committee member in Manara Developments B.S.C. (c). In addition to that, Mr. Bohijji served from year 2009 as a Board and Audit Committee Member for Bahraini Saudi Bank prior to the full merger with Al Salam Bank Bahrain in late 2012. Mr. Bohijji is a qualified Certified Public Accountant, licensed from the state of New Hampshire and is a member of the American Institute of Certified Public Accountants. He also holds a B.Sc. in Accounting from University of Bahrain.



Mr. Isa Hasan Maseeh
Group Chief Risk Officer

Experience: more than 17 years

Mr. Isa Maseeh is a risk professional with more than 17 years of experience in the financial sector. His exposure spans across commercial and investment banking sectors in Bahrain. Mr. Maseeh joined ASBB as Group Chief Risk Officer in 2015 with the primary objective of consolidating the risk activities across the Bank. Prior to joining ASBB, he was the Chief Risk Officer at BMI Bank. Earlier, Mr. Maseeh held various senior risk management positions with Islamic and conventional banks including Gulf Finance House and United Gulf Bank. Having had the opportunity to work across different segments of the financial industry and be actively involved in the setup of financial institutions, Mr. Maseeh has managed to develop a well-rounded knowledge and experience base in banking. Mr. Maseeh holds an MBA (Hons) from DePaul University, USA and a bachelor's degree in finance from Concordia University, Canada. He also holds the Chartered Financial Analyst (CFA) and Professional Risk Manager (PRM) designations.




Mohammed Khalid Ateeq
Acting Head of Compliance and MLRO

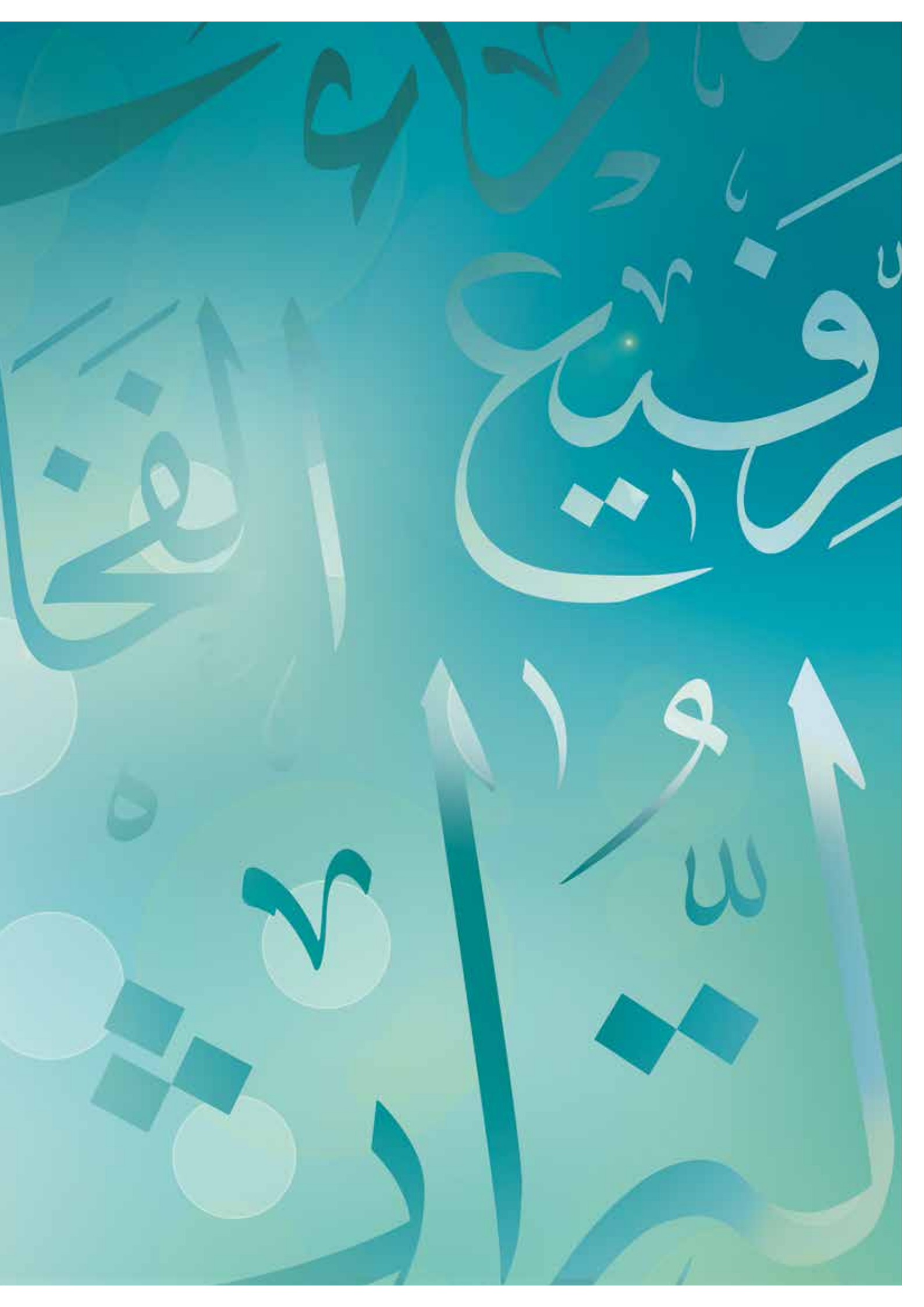
Experience: more than 10 years

Mr. Ateeq has over 10 years of experience in the Retail and Investment Banking sector. He joined Al Salam Bank Bahrain in 2008. Mr. Ateeq is a Certified Anti-Money Laundering Specialist (CAMS), FIBA - FIU Anti Money Laundering Certified Associate (AMLCA) from Florida International University, and is an International Diploma in Compliance holder from the University of Manchester Business School, UK. He also has a bachelor's degree in Banking and Finance from the University of Bahrain.



The background is a vibrant teal color with various elements of Arabic calligraphy and geometric shapes. There are large, stylized letters and symbols, including a crescent moon and a star, scattered across the frame. The calligraphy is in a fluid, cursive style, with some letters appearing as if they are floating or moving. The overall aesthetic is modern and artistic, reflecting Islamic art and culture.

An integral part of Mosque decorations, the **Al Thulth script** is a perfect confluence of elegance and sophistication. Its curved and oblique lines are a part of the rich Islamic heritage story. The script is an admired valued art. We at Al Salam Bank-Bahrain foster refinement and intelligence in our dealings and performance. We will continue in our endeavors of preserving and promoting our Islamic culture and aesthetics with focus on unity, harmony and Peace to all mankind.



BOARD OF DIRECTORS' REPORT TO THE SHAREHOLDERS

The Directors of Al Salam Bank-Bahrain BSC (“the Bank”) have the pleasure in submitting their report to the shareholders accompanied by the consolidated financial statements for the year ended 31 December 2015. The consolidated financial statements comprise the financial statements of the Bank and its subsidiary, BMI Bank BSC (c) (together known as “**the Group**”).

Global growth was subdued in 2015 and was exacerbated by a crash in oil prices during the last quarter of the year. The challenges of the global economic meltdown continued in 2015 led by a Chinese downturn due to weaker demand of commodities which negatively impacted their prices. In a development unprecedented since the 1980s, most of the largest emerging economies in each region have been slowing simultaneously for three consecutive years. The economic re-balancing in China is a major concern to global economic recovery. Brazil and Russia have been going through severe adjustments in the face of external and domestic challenges. This coupled with geopolitical tensions casts a serious question on timing of recovery.

The IMF World Economic Outlook report forecasted global growth of 3.1% in 2015, 0.3% lower than in 2014 and projected a growth of 3.4% and 3.6% for 2016 and 2017 respectively. The Gulf Cooperation Council markets too felt the impact with a significant drop in foreign exchange reserves with intensifying regional conflicts impeding growth. The full impact of the adverse economic developments of 2015 is likely to be felt in 2016 in terms of challenging medium-term fiscal sustainability.

In spite of the increased pessimism about the global growth outlook, confidence in the GCC economy has held up well. GCC economy continues to depend on non-oil sector for its growth drivers and higher-than-expected activity in the oil sector. Activity in Bahrain has continued to benefit from the ongoing implementation of a substantial infrastructure project pipeline supporting confidence in the face of unusual market volatility. Bahrain's non-oil growth remained robust with consistent growth of approximately 4.5% with major contribution in year-on-year growth in construction sector of 7% in the first half of 2015. However, challenges continue to remain for taking necessary steps to manage budgetary deficits.

The continued drop in oil prices has impacted the asset growth with fewer lending opportunities in banking sector in the region. Due to the uncertainties in market conditions, the Bank has shifted its focus towards high quality assets. This is evidenced by increased exposure to sovereign Sukuks from BD145.8 million at end of 2014 to BD313.1 million at end of 2015. In view of the market conditions, the Group had been selective in financing in order to maintain or enhance asset quality. As a result, shedding liquidity by running off expensive deposits and deploying liquidity in sovereign assets was a strategy pursued by the Group in 2015. This had resulted in the Group consciously reducing its customer deposits by circa 20% in 2015 to reduce the cost of liabilities. Limited availability of investment grade Shari'a compliant fixed income instruments was another major factor that drove management to pursue this strategy. Balance sheet footing was optimized by reducing total assets of the Group to BD1,656.6 million at 31 December 2015 from BD1,955.3 million at 31 December 2014.

The Group reported a 25% increase in gross operating income from BD46.1 million in 2014 to BD57.8 million in 2015, due to renewed focus on core banking activities comprising corporate, commercial and retail banking. Strict cost control measures were implemented in 2015 to bring the total operating expenses of the Group from BD26.4 million to BD25.3 million, a decrease of 4.4%. The net profit attributable to shareholders of the Bank for the year was BD12.3 million after taking into consideration asset provisions of BD22.9 million.

In the backdrop of a challenging business climate, the above results are by any measure impressive and were achieved by focusing on timely exit from investments and Sukuks while thrusting on core banking optimization.



The business combination with BMI has underpinned the Group's position as the second largest retail Islamic Bank in Bahrain, benefiting from a diversified customer portfolio, strong capital base and differentiated products and services with an even more expanded branch and ATM network in 2015.

The Directors of the Bank believe that the Group is poised to achieve its vision of being a regional force in the Islamic financial services industry. We express our gratitude to the shareholders and the senior management for their relentless efforts taken in successfully executing the strategy to put the respective systems and operational controls in place.

In terms of investments, the Bank adopted a cautious approach in selecting investments in line with the Board's risk appetite and prevailing market conditions. Due to the continued slump in oil prices, the Group adopted a prudent and conservative policy of providing BD9.4 million towards its exposures to alternative energy assets. Exposures to investments in aviation sector were also affected due to declaration of bankruptcy by a leading Southeast Asian airline. Due to the failure of this carrier to honour its lease obligations, the underlying value of an aircraft fell, warranting a provision of BD7.6 million. On a positive note, the Group successfully acquired equity interest in Boeing777-300ER aircraft with a lease to a leading regional airline and exited the same on a profitable note.

The year also saw another successful exit of the Group's participation in a prime retail property in France at a gain.

In summary, the investment business experienced ups and downs during the fiscal year with gains assisting in partially mitigating the losses from aviation and alternative energy assets.

The Bank continued to expand its financial institution group network with a net lending position of BD135 million as of 31 December 2015 and holding a large portfolio of sovereign Sukuks.

Financially, fiscal year 2015 saw the Group earning a net profit of BD12.3 million, as compared to a net profit of BD15.6 million in 2014. The gross operating income amounted to BD57.8 million compared to BD46.1 million in 2014, representing an increase of 25%. The earnings per share (EPS) for the year amounted to 5.8 fils against 8.0 fils achieved in 2014. The total operating expenses of the Group decreased from BD26.4 million in 2014 to BD25.3 million in 2015.

Retained earnings and appropriation of net income:

	BD'000
Balance at beginning of the year	46,497
Net profit for the year – 2015	12,346
Transfer to statutory reserve	(1,235)
Proposed dividends	(10,705)
Charitable contributions	(100)
Balance at end of the year	46,803

Directors' and senior management interest:

As required by the Central Bank of Bahrain rulebook set out below are the interests of directors and senior managers in the shares of Al Salam Bank-Bahrain B.S.C. and the distribution of the shareholdings as of 31 December 2015.

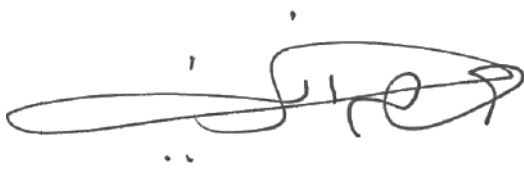
	31/12/2015
Directors' shares	1,691,553
Senior managers' shares	96,999
	1,788,552

Directors' remuneration for 2015 amounted to BD365,000 (2014: BD329,000)

	2015		
	No. of shares	No. of Shareholders	% of total Outstanding Shares
Percentage of shares held			
Less than 1%	884,333,208	23,137	41.31
1% up to less than 5%	812,329,368	16	37.94
More than 5%	444,268,176	2	20.75
Total	2,140,930,752	23,155	100.00

Shareholders holding over 5%:	Nationality	Holding
Bank Muscat S.A.O.G.	Oman	14.74%
Overseas Investment S.P.C.	Bahrain	6.01%

The directors take this opportunity to express their appreciation to the leadership led by HM King Hamad bin Isa Al Khalifa, HRH the Prime Minister Prince Khalifa bin Salman Al Khalifa and HRH the Crown Prince, Deputy Supreme Commander and First Deputy Premier Prince Salman bin Hamad Al Khalifa, the Ministry of Finance, the Ministry of Industry and Commerce, the Central Bank of Bahrain, the Bahrain Bourse, correspondents, customers, shareholders and employees of the Bank for their support and collective contribution since the establishment of the Bank and we look forward to their continued support in the fiscal year 2016.



Shaikha Hessa bint Khalifa bin Hamad Al-Khalifa
Chairperson

9 February 2016
Manama, Kingdom of Bahrain

MESSAGE FROM THE GROUP CEO

On the backdrop of falling crude oil prices, Al Salam Bank-Bahrain B.S.C. ("ASBB", "Bank") managed to close the fiscal year 2015 on a positive note. Pursuant to its business combination with BMI Bank BSC © ("BMI"), ("Group"), the Group continues to be the second largest Islamic retail bank in the Kingdom of Bahrain with an expanded branch and ATM network. I believe that the Group is ideally poised to achieve its vision of becoming a regional force in Islamic financial services industry. I would like to thank the shareholders and senior management for their strong support and relentless efforts taken in successfully implementing a strategy to put the respective systems and operational controls in place.

The continued drop in oil prices impacted the asset growth in 2015 with fewer lending opportunities in the banking sector and in the region and also created uncertainties in market conditions. In light of the above, the Group shifted its focus towards high quality assets and adopted a wise strategy of running off expensive deposits and deploying liquidity in sovereign assets. This led to the surge in CBB sukuks to BD313.1 million at end of 2015 as compared to BD145.8 million at the end of 2014. The Bank also adopted this strategy due to limited availability of Sharia compliant fixed income instruments. Balance sheet footing was optimized by reducing total assets of the Group to BD1,656.6 million at 31 December 2015 from BD1,955.3 million at 31 December 2014.



Your Bank's continued focus on core banking initiatives including corporate, commercial and retail banking resulted in an impressive increase in gross operating income of BD57.8 million for 2015 as compared to BD46.1 million in 2014. Stringent cost control measures were implemented in 2015 to bring the total operating expenses of the Group from BD26.4 million to BD25.3 million, a decrease of 4.4%. The net profit attributable to shareholders of the Bank for the year was BD12.3 million after taking into consideration asset provisions of BD22.9 million.



The results are considered to be impressive against a backdrop of global uncertainties and challenging market conditions. This has been possible due to the timely exit of investments and Sukuks with continued emphasis on core banking initiatives.

On the retail front, the Bank enhanced its presence in the Capital and Southern Governorates of Kingdom of Bahrain in 2015 with the opening of branch in Seef Al Muharraq Mall and three new ATMs. The Bank branches and ATM network now include 11 branches and 35 ATMs positioned strategically across Kingdom of Bahrain.

On investments, the Bank adopted a cautious approach in selecting investments in line with the Board's risk appetite and prevailing market conditions. Due to the continued slump in oil prices, the Group adopted a prudent and conservative policy of providing BD9.4 million towards its exposures to alternative energy assets. Exposures to investments in aviation sector were also affected due to declaration of bankruptcy by a leading Southeast Asian airline. Due to the failure of this carrier to honor its lease obligations, the underlying value of an aircraft fell, warranting a provision of BD7.6 million. On a positive note, the Group successfully acquired equity interest in Boeing777-300ER aircraft with a lease to a leading regional airline and exited the same on a profitable note.

The year also saw another successful exit of the Group's participation in a prime retail property in France at a gain.

In summary, the investment business experienced ups and downs during the fiscal year with gains assisting in partially mitigating the losses from aviation and alternative energy assets.

Our Private Banking Department has an outstanding year exiting some investments whilst managing its total placements of more than 100 million dollars, stabilizing the overall financing assets and deposits.

Overall the Group maintained a moderate approach to banking practices and relied on its core competencies in financing activities. The emphasis was on adherence to prudent risk management practices in granting new financing facilities and acquiring investments.

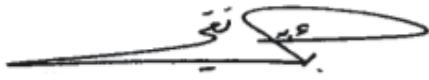
The capital adequacy continued to reflect a healthy ratio of 20.1% as of the end of the fiscal year against a mandatory Central Bank of Bahrain requirement of 12.5%.

”

Our ability to mobilize and integrate the merger at a quick pace, the ability of sustaining a larger capital base, a broader and competent talent pool, extended presence in the region and access to a wider customer base are undoubtedly the winning ingredients for the next stage of our growth.



As we continue our journey in 2016, on behalf of all the shareholders and the Board of Directors, I would like to take this opportunity to express my heartfelt appreciation to the wise leadership of the Kingdom of Bahrain led by His Majesty King Hamad bin Isa Al Khalifa, HRH the Prime Minister Prince Khalifa bin Salman Al Khalifa and HRH the Crown Prince, Deputy Supreme Commander and First Deputy Premier Prince Salman bin Hamad Al Khalifa for their firm support. I am also grateful to the Board of Directors, Ministry of Industry, Commerce and Tourism, Central Bank of Bahrain, Bahrain Bourse for their continued support and guidance. I thank our valuable shareholders and loyal customers whose continued support is vital for the Bank's future growth. Finally, I express my sincere gratitude to the team at Al Salam Bank Bahrain BSC for their teamwork and perseverance which forms the key to our success till date.



Yousif Abdulla Taqi
Director & Group CEO



MANAGEMENT REVIEW OF OPERATIONS AND ACTIVITIES

Operating Environment

The challenges of the world economy continued in 2015 with global growth severely restrained due to weakening of commodity prices (i.e. oil, etc.), by the Chinese downturn, meltdown of global trade capital flows and a continued deceleration of economic activity amongst emerging economies. The slowdown in China, the challenges in Brazil and Russia, the legacy of debt and disharmony in Europe and the US and battered global markets have added to the gloomy outlook of the markets. The IMF World Economic Outlook report forecasted global growth of 3.1% in 2015, 0.3% lower than in 2014.

Business Environment

Against the backdrop of a bleak world economy and the fall in oil prices, the GCC economy maintained its resilient posture, standing firm. The decline in foreign exchange reserves concurrent with the region's conflicts impacted growth but the planned diversification to the non-oil sector has reaped dividends for the GCC economy.

The implementation of the infrastructure project pipeline benefitted Bahrain against the weak market dynamics. Bahrain's non-oil growth remained robust with consistent growth of approximately 4.5% with major contribution in year-on-year growth in construction sector of 7% in the first half of 2015. However, challenges continue to remain for taking necessary steps to manage budgetary deficits. The Kingdom's Gross Domestic Product (GDP) expanded to 2.4% in the third quarter of 2015, despite market volatility.

Financial Performance

The Bank shifted its focus towards high quality assets due to the uncertainties in market conditions. This was evidenced by increased exposure to sovereign Sukuks from BD145.8 million at the end of 2014 to BD313.1 million at the end of 2015. In view of the market conditions, the Group had been selective in financing in order to maintain or enhance asset quality. As a result, shedding liquidity by running off expensive deposits and deploying liquidity of sovereign assets was a strategy pursued by the Group in 2015. This had resulted in the Group consciously reducing its customer deposits by circa 20.8% in 2015 to reduce the cost of liabilities. Limited availability of investment grade Shari'a compliant fixed income instruments was another major factor that drove management to pursue this strategy. Balance sheet footing was optimized by reducing total assets of the Group to BD1,656.6 million from BD1,955.3 million at 31 December 2014.

Against the backdrop of a gloomy global economic climate, the Group reported a 25% increase in gross operating income from BD46.1 million in 2014 to BD57.8 million in 2015, due to the focus on core banking activities comprising corporate, commercial and retail banking. Stringent cost control measures were implemented in 2015 to bring the total operating expenses of the Group from BD26.4 million to BD25.3 million, a decrease of 4.4%.

The Bank continued to expand its financial institution, group network with a net lending position of BD135 million as of 31 December 2015 and holding a large portfolio of sovereign sukuks. Financially, fiscal year 2015 saw the Group earning a net profit attributable to the shareholders of BD12.3 million, as compared to a net profit of BD15.6 million in 2014. The earnings per share (EPS) for the year amounted to 5.8 fils against 8.0 fils achieved in 2014.

The net profit attributable to shareholders of the Bank for the year was BD12.3 million after taking into consideration recognition of provision of asset impairment of BD22.8 million.

Capital Adequacy

Al Salam Bank-Bahrain B.S.C. continues to enjoy strong financial solvency and liquidity. In accordance with the Basel III capital adequacy guidelines, the Bank's capital adequacy continued to reflect a healthy ratio of 20.1% as of the end of the fiscal year against a mandatory Central Bank of Bahrain requirement of 12.5%.

Asset Quality

The Bank continues to maintain a conservative approach in selecting new assets for financing and investments. As at the end of the fiscal year, 79.3% of the financing portfolio has been classified under the "satisfactory" category. Total provisions for financing portfolio was BD29.6 million (2014: BD9.8 million). Additionally, the Bank has set up a dedicated Asset Remedial and Collection Unit and put in place a robust mechanism to closely monitor past due facilities.

BANKING ACTIVITIES

Corporate Banking

The Corporate Banking business for the year 2015 remained upbeat. The division laid strong emphasis on functional & structural changes - enhancement of its processes & systems, aligning of expertise and focus on human resources, to optimize cost and efficiency. A series of diligent studies allowed for a subsequent strategy resulting in implementation of an optimal production framework. The framework enabled a focused and high quality customer service offering with efficient working controls. The year witnessed the ongoing successful execution of the merging Islamic with the Conventional Corporate Banking Systems vis a vis the BMI Bank merger.

A calculated risk approach was adhered to in selecting new asset bookings. The department strengthened its liquidity position by prudent portfolio diversification. Exposure to gain security in financing and loans enhanced credit quality. We reduced concentration on the contracting sector due to market volatility.

The Corporate Banking department was the first to aid in the conversion of assets into Shari'a-compliant facilities, streamlining it under the Al Salam Brand. Financing was extended to government, semi-government and private sector entities. The Group continued its support to Tamkeen providing support to SME business segment. In lieu of the changes and the support, a positive change was witnessed in the credit practice for SME's underlining the value and role of the Group. The essence of 2015 was in facilitating and enhancing relationships with its core customer clientele whilst also being cautious in streamlining the client base, so as to have a positive impact on the bottom line.

Retail Banking

Retail Banking accomplished significant milestones from the business association between Al Salam Bank – Bahrain and BMI Bank - ensuring a unified and superior customer experience across the group network. These milestones included 100% conversion of BMI Bank performing conventional portfolio to Shari'a compliance; the launch of a refreshed savings scheme which served the group combined customer base featuring the largest prize pool in the scheme history; introduction of a unified credit card offering, including market leading loyalty schemes of up to 1% instant cash back; launch of the Go Green campaign and standardization of the Group's offerings.

In addition, Retail Banking signed two strategic agreements supporting its plan to differentiate itself through improved customer experience. The first was with Visa International to support the bank's efforts in introducing new and innovative card products. The second was with Eskan Bank for the extension of special financing schemes to include joint mortgage finance "Pari Passu" and the social housing scheme.

The year 2015 saw the launch of a new Branch in Seef Al Muharraq Mall and three new ATMs to enhance our presence in the Capital and Southern Governate, a total of 11 branches and 35 ATMs.

Private Banking

The Private Banking Department had another outstanding year, profitable in terms of its performance and contribution to the bottom-line. The department continued to attract new deposits and book strong financial assets.

The Private Banking Department focused on the value proposition of its exclusive clientele namely: bespoke service, speed and confidentiality. It leveraged its position to perform remarkably as an independent unit with its own legal, credit and administration department. The dedicated business unit with the highest level of discretion required has seen the strategy pay rich dividends. The Department exited some investments whilst its total placements managed, amounted to more than US\$100 million, stabilizing the overall financing assets and deposits.

The focus on creative products was a value add in the overall strategy. The department offered alternative Shari'a-compliant investment products guaranteeing a steady income with minimum market volatility. This resulted in a substantial increase of the customer base. The Government's Sukuk Scheme leveraged by the department also witnessed tremendous success.

Investments

The prevailing market conditions in 2015 necessitated a cautious approach in selecting investments in line with the Board's risk appetite. The Group successfully acquired equity interest in Boeing 777-300ER aircraft with a lease to a leading regional airline and exited the same on a profitable note. Due to the continued slump in oil prices, the Group adopted a prudent and conservative policy of providing BD9.4 million towards its exposures to alternative energy assets. Exposures to investments in aviation sector were also affected due to a declaration of bankruptcy by a leading Southeast Asian airline. Due to the failure of this carrier to honour its lease obligations, the underlying value of an aircraft fell, warranting a provision of BD7.6 million.

On its Exit strategy, the year also saw another successful exit of the Group's participation in a prime retail property in France at a gain.

On the whole, the investment business experienced ups and downs during the fiscal year with gains assisting in partially mitigating the losses from aviation and alternative energy assets.

Information Technology

The Information Technology Department's stellar performance continued in 2015 adhering to the holistic mandate of actual integration of the network systems, whilst enabling cost rationalization.

New and improved methods in maintaining high customer service standards continued to be the focus in 2015. The team worked tirelessly to ensure efficiency and progress of the network, service and resource levels whilst facilitating a smooth functioning of the departments and unifying the processes of both banks.

The IT department's comprehends its role of being the core nerve center of the group and has left no stone unturned in meeting and adhering to the varied needs of all concerned departments, meeting the corporate strategy mandate.

Corporate Governance and Risk Management

Strong emphasis on Corporate Governance has been the mandate of the Management. The Management continued to support initiatives to improve the knowledge and practice of Corporate Governance within the Group. Compliance with the Central Bank of Bahrain guidelines and other regulatory guidelines is a fundamental element of the Group's operating environment.

The focus during 2015 has been on integration and enhancement of the Risk Management framework at the Group level. Policies and procedures underwent a thorough review and particular focus was placed on enhancing the Basel III and ALM – Asset Liability Management systems to be in sync with the development of the industry and the vision of the Group.

Know Your Customer

The Group is seeking to continue enhancing its world-class systems to support the monitoring activities. The Group adheres to the Financial Crimes Module of Central Bank of Bahrain's rulebook. The module contains Bahrain's current anti-money laundering legislation, developed under the directives of the Financial Action Task Force, which is the international organization responsible for developing global anti-money laundering policies.

During the year, in line with the Central Bank of Bahrain guidelines, the Group and its subsidiaries successfully completed its registration under Foreign Account Tax Compliant Act ("FATCA"). The Group places significant emphasis on understanding its customers and their financial activities. The new customer onboarding process of the Group has been updated to identify US persons. The Group has implemented state of the art world-class systems to support the monitoring activities. Proper due diligence is conducted to ensure that the financial activities of its customers are performed in accordance with the guidelines issued by the regulatory authorities.

Human Capital

Attracting, retaining and developing the best local talent is a key focus for the Bank's Human Resource team. Testament to the Bank's commitment to enhancing the pool of local talent is the fact that the Group achieved an impressive Bahrainization rate of 90% as of 31 December 2015. During the year the Group continued to focus on training and development, dedicating almost 9,003 hours to staff training programs.

While providing the necessary training and skills to employees, the Group continues its commitment to developing the Kingdom's future generation. During the year the Group worked in collaboration with leading educational institutions and youth leadership programs in order to prepare the youth of Bahrain for the workforce.

Aligned with this endeavor, Al Salam Bank-Bahrain lent its support to INJAZ Bahrain, a prominent Bahraini Youth Leadership program, with 18 of the Group's staff volunteering their time and energies to various INJAZ programs. As well as providing staff, volunteers, ASBB also hosted a number of INJAZ students including 21 students from the University of Bahrain and other Secondary Schools as part of "The Company" program, and 15 students as part of "The Shadow" Program. These programs add immense value to the youth of Bahrain and the Bank is committed to their ongoing support.

The annual summer trainee program was a great success again in 2015. As part of the program, the Bank hosted 33 graduate students from various universities across the Kingdom for two months. The program included workshops as well as graduate placements in various departments.

The Group's initiatives was highly appreciated by the participating graduates who gained invaluable preparation for their future careers. In addition, the Bank hosted a number of students under the Ithra program, a program sponsored by Al Mobarah Al Khalifia.

The Bank has nominated three Executives to attend the Leadership Grooming Program through CBB's Prestigious Waqf Fund. This program has been delivered by IVY Business School in Hong Kong and Canada with 34 other Bahrainis from different Islamic Banks, aimed at developing the next generation of Islamic banking industry leaders and to improve leadership skills, strategic thinking and ethical orientation of the participants.

الاصناف

الامتياز

القياس

الطرح

The background is a vibrant teal color with a complex pattern of Arabic calligraphy in various shades of blue and green. The calligraphy includes words like 'السلام' (Al-Salam) and 'المختلف' (Al-Mukhtalaf). There are also several circular and triangular shapes scattered throughout the design, creating a modern and artistic aesthetic.

The **Kufi Al Mashreqi script** is known for its smooth and organic flow. It has played a significant role in the writings of the Holy Quran. The beauty and simplicity of its script underlines its magnificent aura. At Al Salam Bank-Bahrain we propagate a 'user friendly' and 'easy to understand' approach to banking . Our simplistic approach has enabled us to carve a unique niche in the Islamic Banking Industry.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICE

The Bank aspires to the highest standards of ethical conduct: doing what it says; reporting results with accuracy and transparency and maintaining full compliance with the laws, rules and regulations that govern the Bank's business. Since 2010 when the new Corporate Governance Code was introduced by the Central Bank of Bahrain, the Bank has been implementing several measures to enhance its compliance with the corporate governance rules. A separate section on the status of compliance with the corporate governance rules and High Level Controls Module is included in this report.

SHAREHOLDERS

Major Shareholders as of 31 December 2015

Name	Country of origin	No. of shares	% Holding
Bank Muscat (S.A.O.G.)	Oman	315,494,795	14.74
Overseas Investment S.P.C.	Bahrain	128,773,381	6.01
Al Rushd Investments W.L.L.	UAE	105,000,000	4.90
Tasameem Real Estate Company L.L.C.	UAE	102,264,615	4.78
D S L Yachts W.L.L.	UAE	77,450,000	3.62
Gimbal Holding Company S.P.C	Bahrain	75,553,633	3.53
First Energy Bank B.S.C.	Bahrain	73,884,098	3.45
Royal Court Affairs, Sultanate of Oman	Oman	70,825,359	3.31
Securities and Investment Company B.S.C. (c)	Bahrain	62,965,798	2.94
National Bank of Abu Dhabi PJSC	UAE	38,500,000	1.80
Aabar Investments PJSC	UAE	38,000,000	1.77
Al Sueban Company	Bahrain	26,250,000	1.23
Global Express Company W.L.L.	Bahrain	25,000,000	1.17
Falcon Private Bank Ltd.	UAE	24,149,435	1.13
HRH Prince Mohammed Bin Fahad Bin Abdulaziz	Saudi Arabia	21,708,750	1.01

تقرير حوكمة

Shareholding – 31 December 2015

Category	No. of shares	No. of shareholders	% of outstanding shares
Less than 1%	884,333,208	23,137	41.31
1% to less than 5%	812,329,368	16	37.94
5% to less than 10%	128,773,381	1	6.01
10% to less than 20%	315,494,795	1	14.74
20% up to less than 50%	-	-	-
50% and above	-	-	-
Total	2,140,930,752	23,155	100.00

The outstanding ordinary share ownership of the Bank is distributed as follows:

Nationality	No. of shares	Ownership percentage
Bahraini		
Government	-	-
Institutions	462,609,907	21.61
Individuals	125,252,725	5.85
GCC		
Government	70,825,359	3.31
Institutions	778,143,156	36.35
Individuals	425,399,845	19.87
Other		
Institutions	184,982,483	8.64
Individuals	93,717,277	4.38
Total	2,140,930,752	100.00

BOARD OF DIRECTORS

The Board of Directors provides central leadership to the Bank, establishes its objectives and develop the strategies that direct the ongoing activities of the Bank to achieve these objectives. Directors determine the future of the Bank through the protection of its assets and reputation. They will consider how their decisions relate to “stakeholders” and the regulatory framework. Directors shall apply skill and care in exercising their duties to the Bank and are subject to fiduciary duties. Directors shall be accountable to the shareholders of the Bank for the Bank’s performance and can be removed from office by them.

The primary responsibility of the Board is to provide effective governance over the Bank’s affairs for the benefit of its shareholders, and to balance the interests of its diverse constituencies including its customers, correspondents, employees, suppliers and local community. In all actions taken by the Board, the directors are expected to exercise their business judgment in what they reasonably believe to be in the best interests of the Bank. In discharging that obligation, directors may rely on the honesty and professional integrity of the Bank’s senior executives and external advisors and auditors.

Board Composition

The Board consists of members of high-level professional skills and expertise. Furthermore, in compliance with the corporate governance requirements, the Board Committees consist of Members with adequate professional background and experience. The Board periodically reviews its composition and the contribution of Directors and Committees.

The appointment of Directors is subject to prior screening by the Remuneration, Nomination and Corporate Governance Committee and the Board of Directors as well as approval by the Shareholders and the Central Bank of Bahrain. The classification of “executive”, “non-executive” and “independent non-executive” directors is as per definitions stipulated by the Central Bank of Bahrain.

Mandate of the Board of Directors and Directors’ Roles and Responsibilities

The principal role of the Board of Directors (the Board), is to oversee the implementation of the Bank’s strategic initiatives and its functioning within the agreed framework, in accordance with relevant statutory and regulatory structures. The Board is also responsible for the consolidated financial statements of the Group. The Board ensures the adequacy of financial and operational systems and internal control, as well as the implementation of corporate ethics and the code of conduct. The Board has delegated responsibility for overall management of the Bank to the Chief Executive Officer.

The Board reserves a formal schedule of matters for its decision to ensure that the direction and control of the Bank rests with the Board. This includes strategic planning, performance reviews, material acquisition and disposal of assets, capital expenditure, authority levels, appointment of auditors and review of the financial statements and financing activities including

annual operating plan and budget, ensuring regulatory compliance and reviewing the adequacy and integrity of internal controls. All policies pertaining to the Bank's operations and functioning are to be approved by the Board.

Each Director holds the position for three years, after which he must present himself to the Annual General Meeting of shareholders for re-appointment. The majority of ASBB Directors (including the Chairman and/or Vice Chairman) are required to attend the Board meetings in order to ensure a quorum.

Board Elections System

Article 26 of the Bank's Articles of Association provides the following:

1. The Bank shall be administered by a Board of Directors consisting of not more than fourteen members and not less than five members. The Board's term shall be three years which may be renewed.
2. Each shareholder owning 10% or more of the capital may appoint whoever represents him on the Board to the same percentage of the number of the Board members. His right to vote shall be forfeited for the percentage he has exercised to appoint his representative. If a percentage is left after exercising his right to nominate, he may use such percentage to vote.
3. Other members of the Board shall be elected by the General Assembly by secret ballot.

The Board of Directors shall elect, by secret ballot, a Chairman and one or more Vice Chairman every three years. The Vice Chairman shall act for the Chairman during his absence or if there is any barrier preventing him.

Article 29 of the Article of Association covered the "Termination of Membership in the Board of Directors". It provided the following:

A Director shall lose his office on the Board in the event that he:

- a. Fails to attend four consecutive meetings of the Board in one year without an acceptable excuse, and the Board of Directors decides to terminate his membership;
- b. Resigns his office by virtue of a written request;
- c. Forfeits any of the provisions set forth in Article 26 of the Articles of Association;
- d. Is elected or appointed contrary to the provisions of the Law; and
- e. Has abused his membership by performing acts that may constitute a competition with the Company or caused actual harm to the Company.

Independence of Directors

An independent director is a director whom the Board has specifically determined, has no material relationship which could affect his independence of judgment, taking into account all known facts. The Directors have disclosed their independence by signing the Directors Annual Declaration whereby they have declared that during 2015 that they have met all the conditions stipulated under Appendix A of the Corporate Governance Code.

In 2015, the members of the Board were:

Independent Non-executive Directors

1. H.H. Shaikha Hessa bint Khalifa Al Khalifa - Chairperson
2. H.E. Shaikh Khalid bin Mustahail Al Mashani - Vice Chairman
3. Mr. Hussein Mohammed Al Meeza
4. Mr. Salman Saleh Al Mahmeed
5. Mr. Essam bin Abdulkadir Al Muhaidib
6. Mr. Sulaiman bin Mohamed Al Yahyai
7. Mr. Hisham Saleh Al Saie
8. Mr. Mohamed Shukri Ghanem
9. Mr. Khalid Salem Al-Halyan

Non-independent and Non-executive Directors

1. H.E. Mohamed Ali Rashid Alabbar

Executive and Non-independent Directors

1. Mr. Yousif Abdulla Taqi

All current Directors were elected for a three-year term on 24 February 2015.

Induction and Orientation for New Directors

When the new Board of Directors was elected on 24 February 2015 all directors were provided with information related to the Corporate Governance Guidelines and the Board Charter, Committee and the Code of Conduct, policies and other documents were reviewed.

Evaluation of Board Performance

Members of the Board of Directors have been requested to assess their self-performance, how the Board of Directors' operate, evaluate the performance of each committee in light of the purposes and responsibilities delegated to it, their attendance and their involvement in the decision making process.

Remuneration of Directors

Remuneration of the Directors as provided by Article 36 of the Articles of Association states the following:

“The General Assembly shall specify the remuneration of the members of the Board of Directors. However, such remunerations must not exceed in total 10% of the net profits after deducting statutory reserve and the distribution of dividends of not less than 5% of the paid capital among the shareholders. The General Assembly may decide to pay annual bonuses to the Chairman and members of the Board of Directors in the years when the Company does not make profits or in the years when it does not distribute profits to the shareholders, subject to the approval of the Minister of Industry and Commerce.”

“The Board, based upon the recommendation of the Remuneration and Nomination Committee and subject to the laws and regulations, determines the form and amount of director compensation subject to final approval of the shareholders’ at the Annual General Assembly meeting. The Remuneration and Nomination Committee shall conduct an annual review of directors’ compensation.”

Per the Directors’ Appointment Agreement, the structure and level for the compensation for the Board of Directors consist of the following:

1. Annual remuneration subject to the annual financial performance of the Bank and as per the statutory limitation of the law.
2. The total amount payable to each Board member with respect to Board and Committee meetings attendance shall be taken into consideration when determining each member’s annual remuneration.
3. The remuneration of the Board of Directors will be approved by the shareholders at the Annual General Assembly.

In addition to the above, Directors who are employees of the Bank shall not receive any compensation for their services as directors. Directors who are not employees of the Bank may not enter into any consulting arrangements with the Bank without the prior approval of the Board. Directors who serve on the Audit Committee shall not directly or indirectly provide or receive compensation for providing accounting, consulting, legal, investment banking or financial advisory services to the Bank.

The Board Charter

The Board has adopted a Charter which provides the authority and practices for governance of the Bank. The Charter was approved by the Board with the beginning of its term in 2012 and includes general information on the composition of the Board of Directors’, classification of Directors’, Board related Committees, Board of Directors’ roles and responsibilities, Board of Directors’ code of conduct, Board remuneration and evaluation process, insider dealing, conflict of interest and other Board related information.

Conflict of Interest

The Bank has a documented procedure for dealing with situations involving “conflict of interest” of Directors. In the event of Board or its Committees considering any issues involving “conflict of interest” of Directors, the decisions are taken by the full Board/Committees. The concerned Director abstains from the discussion/ voting process. These events are recorded in Board/ Committees proceedings. The Directors are required to inform the entire Board of (potential) conflicts of interest in their activities with, and commitments to, other organisations as they arise and abstain from voting on the matter. This disclosure includes all material facts in the case of a contract or transaction involving the Director.

Code of Conduct

The Board has an approved Code of Conduct for ASBB Directors. The Board has also approved a Code of Ethics for the Executive Management and staff that include “whistle-blowing” procedures. The responsibility for monitoring these codes lies with the Board of Directors. The Directors’ “Code of Conduct” is published on the Bank’s website. The directors’ adherence to this Code of Conduct is periodically reviewed.

Board Meetings and Attendances

The Board of Directors meets at the summons of its Chairperson or her Deputy (in event of his absence or disability) or if requested to do so by at least two Directors. According to the Bahrain Commercial Companies Law and the Bank’s Articles of Associations, the Board meets at least four times a year. A meeting of the Board of Directors shall be valid if attended by half of the members in person. During 2015, five Board meetings were held at the Bank’s premises as follows:

Board Meetings in 2015 - Minimum Four Meetings Per Annum

Members	4 Feb	24 Feb*	27 Apr	28 Sept	7 Dec
H.H. Shaikha Hessa bint Khalifa Al Khalifa	✓	✓	✓	✓	✓
H.E. Shaikh Khalid bin Mustahail Al Mashani	✓	✓	✓	✓	✓
H.E. Mohammed Ali Al Abbar	-	✓	-	-	-
Mr. Hussein Mohammed Al Meeza	✓	✓	-	✓	✓
Mr. Salman Saleh Al Mahmeed	✓	✓	✓	✓	✓
Mr. Essam bin Abdulkadir Al Muhaidib	✓	-	✓	-	✓
Mr. Suleiman Mohamed Al Yahyai	✓	✓	✓	✓	✓
Mr. Hisham Saleh Al Saie	✓	✓	✓	✓	✓
Mr. Mohamed Shukri Ghanem	N/A	✓	✓	✓	✓
Mr. Khalid Salem Al-Halyan	N/A	✓	✓	✓	✓
Mr. Yousif Abdulla Taqi	✓	✓	✓	✓	✓
Mr. Hamad Tariq Al Humaidi**	✓	N/A	N/A	N/A	N/A
Mr. Habib Ahmed Kassem**	✓	N/A	N/A	N/A	N/A
Mr. Adnan Abdulla Al Bassam**	✓	N/A	N/A	N/A	N/A
Mr. Fahad Sami Al Ebrahim**	✓	N/A	N/A	N/A	N/A

* The second Board meeting was held immediately following the AGM meeting and there was no official invitation to it.

** Director in the previous Board term.

Directors' Interests

Directors' shares ownership in two-year comparison as on 31 December:

Members	No. of Shares	
	2014	2015
H.H. Shaikha Hessa bint Khalifa Al Khalifa	100,000	100,000
H.E. Shaikh Khalid bin Mustahail Al Mashani	-	-
H.E. Mohammed Ali Alabbar	100,000	100,000
Mr. Hussein Mohammed Al Meeza	462,819	462,819
Mr. Salman Saleh Al Mahmeed	100,000	100,000
Mr. Essam bin Abdulkadir Al Muhaidib	100,000	100,000
Mr. Suleiman Mohamed Al Yahyai	-	-
Mr. Hisham Saleh Al Saie	-	-
Mr. Mohamed Shukri Ghanem*	N/A	-
Mr. Khalid Salem Al-Halyan*	N/A	10,000
Mr. Yousif Abdulla Taqi	520,000	818,734

There were no trading activities in the shareholdings of directors during the year except for the purchase of 298,734 shares by Mr. Yousif Abdulla Taqi.

**Directors were not on the Board during 2014.*

Related Entities

The following shareholder is related to Mr. Hussein Al Meeza:

- *Top Enterprises L.L.C. owns 925,000 shares*

The following shareholder is related to H.E. Mohamed Ali Rashid Alabbar:

- *Al Rashed Investments W.L.L. owns 105,000,000 shares*

Approval Process for Related Parties' Transactions

The Bank has a due process for dealing with transactions involving related parties. Any such transaction will require the approval of the Board of Directors. The nature and extent of transactions with related parties are disclosed in the consolidated financial statements.

Material Transactions that require Board Approval

While any transaction above BD5 million and up to BD10 million requires the approval of the Executive Committee of the Board of Directors, any transaction above BD10 million requires the approval of the Board of Directors of the Bank. In addition, when acquiring 20% of a company Board approval is required regardless of the amount.

Material Contracts and Financing Involving Directors

A financing facility has been provided to Mr. Hisham Saleh Al Saie. The details of the facility are as follows:

- Principal amount of financing : BD88,333
- Nature of facility : Diminishing Musharaka
- Profit rate : (6.5% p.a.)
- Value date : 28th August, 2012
- Security : BD394,420
- Principal outstanding : BD55,000

Directorships held by Directors on Other Boards

The High Level Controls Module provides that no director should hold more than three directorships in Bahrain public companies. All members of the Board of Directors meet this requirement.

Board Committees

The Board level committees are formed, and the Board of Directors appoints their members, at the beginning of each Board term. They are considered the high level link between the Board and the Executive Management. The objective of these committees is to assist the Board in supervising the operations of the Bank. The Committee reviews issues that are submitted by the management to the Board and makes recommendations to the Board for their final review.

Below are certain information relating to the work of certain Board Committees during the year 2015, summary of the dates of Committee meetings held, Directors' attendance and a summary of the main responsibilities of each Committee.

The full texts for the Terms of Reference for Board Committees (Executive Committee, Audit and Risk Committee, and Remuneration, Nomination and Corporate Governance Committee) are published on the Bank's website.

Executive Committee

Committee Meetings in 2015 - Minimum four meetings per annum.

Four Committee meetings were held during 2015 as follows:

Members	24 Mar	3 June	19 Oct	22 Nov
Mr. Hussein Mohamed Al Meeza (Chairman)	✓	✓	✓	✓
Mr. Essam Al Muhaidib	-	✓	-	✓
Mr. Suleiman Mohamed Al Yahyai	✓	-	✓	✓
Mr. Hisham Saleh Al Saie	✓	✓	✓	-
Mr. Mohamed Shukri Ghanem	✓	-	✓	✓
Mr. Yousif Abdulla Taqi	✓	✓	✓	✓

Summary of responsibilities: Deputizing the Board on matters pending decisions between Board meetings, considering and reviewing management's operational reports and regulatory and strategic developments, reviewing and approving credit and market risk proposals in excess of the authority limits of the relevant committees, reviewing management's recovery procedures for problem loans and requirements for provisioning.

Audit and Risk Committee

Committee Meetings in 2015 - Minimum four meetings per annum.

Four Committee meetings were held during 2015 as follows:

Members	3 Feb	23 April	9 Aug	10 Nov
Mr. Salman Saleh Al Mahmeed (Chairman)	✓	✓	✓	✓
H.E. Shaikh Khalid bin Mustahail Al Mashani	✓	✓	✓	✓
Mr. Fahad Sami Al Ebrahim*	✓	N/A	N/A	N/A
Mr. Khalid Salem Al-Halyan	N/A	✓	✓	✓

*Member of the Committee during the previous term.

Summary of responsibilities: Reviews the internal audit program and internal control system, considers major findings of internal audit review, investigations and management's response, ensures coordination among internal and External Auditors, monitors trading activities of key persons and ensures prohibition of the abuse of inside information and disclosure requirements and reviews the periodic risk reports.

Remuneration, Nomination and Corporate Governance Committee

Committee Meetings in 2015 - Minimum two meetings per annum.

Three meetings were convened during 2015:

Members	29 Jan	9 Sept	7 Dec
H.H. Shaikha Hessa bint Khalifa Al Khalifa (Chairperson)	N/A	✓	✓
H.E. Mohammed Ali Al Abbar	N/A	✓	-
Mr. Khalid Salem Al-Halyan	N/A	✓	✓
Dr. Mohammed Burhan Arbouna (attended part of the meeting related to Corporate Governance)	N/A	✓	-
Mr. Habib Ahmed Kassem*	✓	N/A	N/A
Mr. Fahad Sami Al Ebrahim*	✓	N/A	N/A
Mr. Hisham Saleh Al Saie*	✓	N/A	N/A

*Member of the Committee during the previous term.

Summary of responsibilities: Make specific recommendations to the Board of Directors' on both remuneration policy and individual remuneration packages for the Chief Executive Officer and other senior managers. Evaluate senior management's performance in light of the Bank's corporate goals. Make recommendations to the Board from time to time as to the changes the committee believes to be desirable to the size of the Board or any committee of the Board. Oversees and monitors the implementation of the governance policy framework. Reviews on an annual basis the Bank's compliance with the respective Corporate Governance rules and regulations as well as the Board's and subcommittees' charters. Reviews on an annual basis the Shari'a Supervisory Board's compliance with its approved charter.

SHARI'A SUPERVISORY BOARD

Al Salam Bank-Bahrain is guided by a Shari'a Supervisory Board consisting of five distinguished scholars. The Board reviews the Bank's activities to ensure that all products and investment transactions comply fully with the rules and principles of Islamic Shari'a.

The Board meets at least 4 times a year. Its members are remunerated by annual retainer fee and sitting fees per meeting attended, with travel expenses reimbursed as appropriate. Its members are not paid any performance-related remuneration.

EXECUTIVE MANAGEMENT

The Board delegates the authority for management of the Bank to the Group Chief Executive Officer. The Group CEO and Executive Management are responsible for implementation of decisions and strategies approved by the Board of Directors and the Shari'a Fatwa and Supervisory Board.

Senior Managers' Interests

The number of shares held by the senior managers, in two-year comparison, as on 31 December is as follows:

Staff name	Shares	
	2014	2015
Mr. Abdulkarim Mohammed Turki	168	168
Dr. Mohammed Burhan Arbouna	336	336
Mr. Essa Abdulla Bohijji	96,495	96,495
	96,999	96,999

Management Committees

The Chief Executive Officer is supported by a number of management committees each having a specific mandate to give focus to areas of business, risk and strategy. The various committees and their roles and responsibilities are:

Committee	Roles and responsibilities
Credit/Risk Committee	Recommending the risk policy and framework to the Board. Its Primary role is the selection and implementation of risk management systems, portfolio monitoring, stress testing, risk reporting to Board, Board Committees, Regulators and Executive Management. In addition to these responsibilities, individual credit transaction approval and monitoring is an integral part of the responsibilities.
Asset Liability Committee	This Committee's primary responsibility is to review the trading and liquidity policy for the overall management of the balance sheet and its associated risks.
Investment Committee	The role of the Committee is to review and approve all transactions related to corporate and real estate investments and monitoring their performance on an ongoing basis. In addition, the Committee is responsible to oversee the performance of the fund managers and recommend exit strategies to maximize return to its investors.
Technology Steering Committee	TSC oversees the information technology function of the Bank. It recommends the annual IT budget and plans, drawn up in accordance with the approved strategy for the Bank, to the CEO for submission to the Board of Directors for their approval. It supervises the implementation of the approved IT annual plan within set deadlines and budgetary allocations.

Executive Management Compensation

The performance bonus of the Chief Executive Officer is recommended by the Remuneration and Nomination Committee and approved by the Board. The performance bonus of senior management is recommended by the Chief Executive Officer for review and endorsement by the Remuneration and Nomination Committee subject to Board approval.

COMPLIANCE

The Bank has in place comprehensive policies and procedures to ensure full compliance with the relevant rules and regulations of the Central Bank of Bahrain and the Bahrain Bourse, the Dubai Financial Market, the Emirates Securities & Commodities Authority, including anti-money laundering, prudential and insider trading reporting. The Bank is in compliance with High Level Control Module issued by the Central Bank of Bahrain.

INTERNAL CONTROL

Internal control is an active process that is continually operating at all levels within the Bank. The Bank has established an appropriate culture to facilitate an effective internal control process and for monitoring its effectiveness on a periodic basis. Every employee of the Bank participate in the internal control process and contribute effectively by identifying risk at an earlier stage and implementing mitigating controls at optimum cost. Residual risk is properly communicated to the senior management and corrective actions are taken.

KEY PERSONS POLICY

The Bank has established a Key Persons' Policy to ensure that Key Persons are aware of the legal and administrative requirements regarding holding and trading of the Bank's shares, with the primary objective of preventing abuse of inside information. Key Persons are defined to include the Directors, Executive Management, designated employees and any person or firm connected to the identified Key Persons. The ownership of the Key Persons' Policy is entrusted to the Board's Audit Committee.

The Key Persons' Policy is posted on the Bank's website.

COMMUNICATION POLICY

The Bank recognizes that active communication with different stakeholders and the general public is an integral part of good business and administration. In order to reach its overall goals for communication, the Bank follows a set of guiding principles such as efficiency, transparency, clarity and cultural awareness.

The Bank uses modern communication technologies in a timely manner to convey messages to its target groups. The Bank shall reply without unnecessary delay, to information requests by the media and the public. The Bank strives in its communication to be as transparent and open as possible while taking into account bank confidentiality. This contributes to maintaining a high level of accountability. The Bank also proactively develops contacts with its target groups and identifies topics of possible mutual interest. The Bank reinforces clarity by adhering to a well-defined visual identity in its external communications.

The Bank's formal communication material is provided in both Arabic and English languages. The Bank maintains a Legal Policy published on its website: www.alsalambahrain.com that includes terms and conditions on the use of information published on the site.

The annual reports and quarterly financial statements, Board Charter and Corporate Governance report are published on the Bank's website. Shareholders have easy access to various types of forms including proxies used for the Annual General Meeting. In addition, forms are also available online to file complaints or make inquiries which are duly dealt with. The Bank regularly communicates with its staff through internal communications to provide updates of the Bank's various activities.

Consumer / Investor Awareness Programmes and Tools

To fulfill its goals for external communications, promoting its products and communicating with its stakeholders, ASBB employs a variety of communications tools. The most important of them are listed below.

Customers	Seminars, bilateral contacts, website, newsletter, media campaigns, corporate presentations, speeches, publications, brochures, leaflets, Radio and TV advertising, banners, unipols, SMS etc.
Investors	Publications, road shows (mostly bilateral contacts), Internet, media, investor presentations, wire services, brochures, leaflets, advertising etc.
Regulatory & Governmental Authorities	Institutional contacts, seminars, visits, bilateral contacts, Internet, newsletter, media, publications (in particular the Annual Report), brochures, leaflets, etc.
Media Communications	Press releases, interviews, speeches, background seminars, etc.
General Public Communications	Media, other key target groups as multipliers

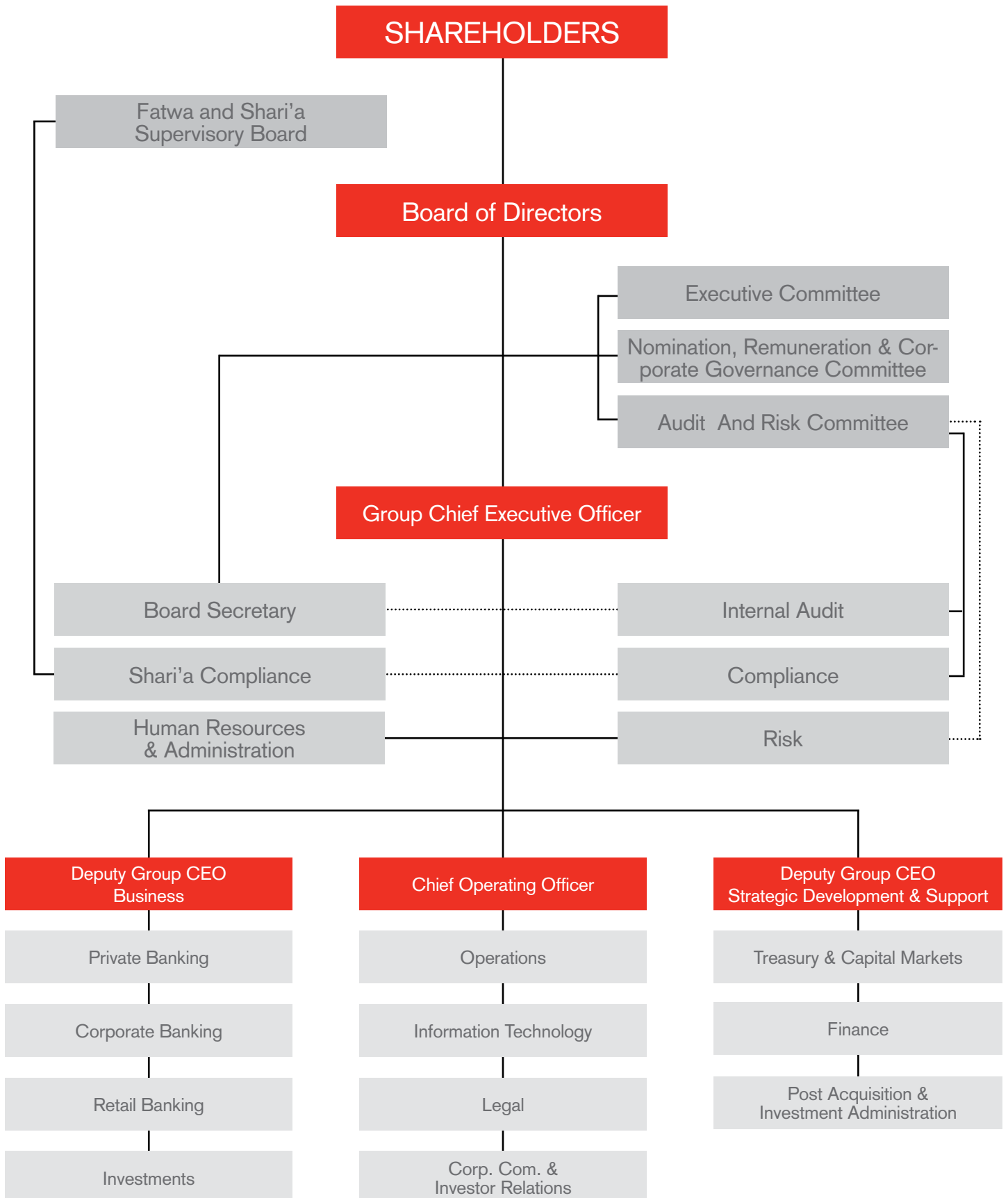
WHISTLE BLOWING POLICY

The Bank has a whistle blowing policy with designated officials to whom the employee can approach. The policy provides adequate protection to employees for any reports in good faith. The Board's Audit Committee oversees the implementation of this policy.

The directors have adopted the following code of conduct in respect of their behaviour:

- To act with honesty, integrity and in good faith, with due diligence and care, in the best interest of the Bank and its stakeholders;
- To act only within the scope of their responsibilities;
- To have a proper understanding of the affairs of the Bank and to devote sufficient time to their responsibilities;
- To keep confidential Board discussions and deliberations;
- Not to make improper use of information gained through the position as a director;
- Not to take undue advantage of the position of director;
- To ensure his/her personal financial affairs will never cause reputational loss to the Bank;
- To maintain sufficient/detailed knowledge of the Bank's business and performance to make informed decisions;
- To be independent in judgment and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions of the Board;
- Not to agree to the Bank incurring an obligation unless he/she believes at the time, on reasonable grounds, that the Bank will be able to discharge the obligations when it is required to do so;
- Not to agree to the business of the Bank being carried out, or cause or allow the business to be carried out, in a manner likely to create a substantial risk of serious loss to the Bank's creditors;
- To treat fairly and with respect all of the Bank's employees and customers with whom they interact;
- Not to enter into competition with the Bank;
- Not to demand or accept substantial gifts from the Bank for himself/herself or his/her associates;
- Not to take advantage of business opportunities to which the Bank is entitled for himself/herself or his/her associates;
- Report to the Board any potential conflict of interest, and
- Absent themselves from any discussions or decision-making that involves a subject in which they are incapable of providing objective advice or which involves a subject of proposed conflict of interest.

ORGANIZATION STRUCTURE



PENALTIES

For ASBB (Solo)

During 2015: an amount of BD1.7 thousand was paid as penalty to the Central Bank for the failure to comply with CBB requirements relating to Paragraphs BR-1.1.4 A and BR-4A.1.1 of Volume 2 of the CBB Rulebook to submit the following reports to CBB before the respective deadline dates.

- 1) Institutional Information System (IIS) update for the period ended 30 June 2015 and the year ended 31st December 2015.
- 2) Penalties paid on individual transaction failures relating to Electronic Fund transfer System.

For BMI (Solo)

During 2015: an amount of BD6.2 thousand was paid as penalty to the Central Bank for the failure to comply with CBB requirements relating to Paragraphs BR-1.1.4 A and BR-4A.1.1 of volume 2 of the CBB Rulebook to submit the following reports to CBB before the respective deadline dates.

- 1) Corporate Governance Report for the year ended 31st December 2015.
- 2) Institutional Information System update (IIS) for the year ended 31st December 2015.
- 3) Penalties paid on individual transaction failures relating to Electronic Fund transfer System.

CHANGES IN MANAGEMENT AND REPORTING LINES DURING 2015

Direct Reports to the Group CEO

- Dr. Anwar Al Sada – Deputy Group CEO - Business
- Mukundan Raghavachari – Deputy Group CEO - Strategic Development & Support
- Isa Maseeh – Group Chief Risk Officer
- Muna Al Balooshi – Group Head of Human Resources and Administration

Direct Reports to Deputy Group CEO - Business

- Anwar Murad – Head of Private Banking
- Talal Al Mulla – Head of Investments
- Arif Janahi – Head of Corporate Banking
- Abdulkarim Turki – Head of Retail Banking

Direct Reports to Deputy Group CEO - Strategic Development & Support

- Eyad Sater – Chief Operating Officer – Acting CEO of BMI Bank
- Hussain Abdulhaq – Head of Treasury & Financial Markets
- Khalid Jalili – Acting Head of Finance
- Harish Venkatakrisnan – Head of Investment Administration
- Ahmed Saif – Head of Investment Management

REMUNERATION POLICY


INTRODUCTION

This document has been prepared in accordance with CBB new remuneration disclosure requirements for Islamic Banks under High Level Controls Module. These requirements are in addition to the disclosures published in the Annual Report.

CORE REMUNERATION POLICY

The fundamental principles underlying our remuneration policy which has been approved by the Board of Directors and the shareholders of the bank are:

- The composition of salary, benefits and incentives is designed to align employee and shareholder interests;
- Remuneration determination takes into account both financial and non-financial factors over both the short and longer-term;
- Emphasis is on performance evaluations that reflect individual performance, including adherence to the Bank's risk and compliance policies in determining the total remuneration for a position;
- The Bank has set a fixed remuneration of the employees at such a level to reward the employees for an agreed level of performance and the variable pay or bonus will be awarded purely at the discretion of the Board's Remuneration and Nomination Committee (RNC) in recognition of the employees exceptional effort in any given performance period;
- The Bank shall have a well-defined variable pay scheme in place, to support the RNC, should they decide to pay variable pay or bonus in any performance period;
- Variable pay will be determined based on achievement of targets at the Bank level, unit level and individual level;
- Variable pay scheme is designed in a manner that supports sound risk and compliance management. In order to achieve that goal:
 - Performance metrics for applicable business units are risk-adjusted where appropriate;
 - Individual award determinations include consideration of adherence to compliance-related goals.

- 
- The remuneration package of employees in Control and Support functions are designed in such a way that they can function independent of the business units they support. Independence from the business for these employees is assured through:
 - Setting total remuneration to ensure that variable pay is not significant enough to encourage inappropriate behaviours while remaining competitive with the market;
 - Remuneration decisions are based on their respective functions and not the business units they support;
 - Performance measures and targets are aligned to the Bank and individual objectives that are specific to the function;
 - Respective function's performance as opposed to other business unit's performance is a key component for calculating individual incentive payments.
 - Both qualitative and quantitative measures will be used to evaluate an individual's performance across the Bank.

The Bank reviews the salaries and benefits periodically, with an objective of being competitive in the market places, based on salary surveys and market information gathered through secondary sources.

The Bank does not provide for any form of severance pay, other than as required by the Labour Law for the Private Sector (Law No.36 of 2012 of the Kingdom of Bahrain), to its employees.

REGULATORY ALIGNMENT

The Bank reviewed and revised the its remuneration policy and especially its variable pay policy to meet the requirements of the CBB Guidelines on remuneration with the help of external consultants. Key regulatory areas and the Bank's response are summarised below:

Regulatory Area	Bank's practice
Governance	<p>The composition of RNC is as required by the CBB remuneration guidelines and is chaired by an Independent Director. The RNC charter has been revised in line with the requirements of the CBB guidelines and the Committee will be responsible for the design, implementation and supervision of the remuneration policy. The aggregate fees / compensation paid to RNC members for 2015 amounted to BD70,000 (2014: BD6,000). The Committee utilised the services of an external consultant to re-design and implement the revised remuneration policy aligned to the CBB guidelines on remuneration.</p>
Risk focussed remuneration policy	<p>The Bank has set the Fixed Remuneration of the employees at such a level to reward the employees for an agreed level of performance and the variable pay or bonus is being paid purely at the discretion of the RNC in recognition of the employees exceptional effort in any given performance period. Should the RNC decide to award Variable Pay, it will be determined based on risk adjusted targets set at the Business unit level aggregated to the Bank level. The variable pay for the CEO, senior management in Business units and the Material Risk takers would be higher as compared to the fixed pay subject to achieving the risk adjusted targets both at the business unit and the bank level. For staff in Control and Support functions, the pay mix is structured as more fixed and lesser variable. Further the variable pay, for staff in Control and Support Functions, is based on their units target and individual performance and not linked to bank's performance.</p>
Capital and Liquidity	<p>The bonus or variable pay computation process is designed in such a way to ensure that it does not impact the Capital and Liquidity as there are validation checks prior to approval of the RNC. The validation checks are the bonus pool as compared to the realised profit, impact on capital adequacy computed as per Basle III guidelines and as compared to the total fixed pay.</p>

Regulatory Area	Bank's practice
Deferral and share linked instruments	<p>The Bonus for the CEO, his deputies and Material Risk Takers and Approved Persons as per CBB and those whose total remuneration exceeds the regulatory threshold has a deferral element and share - linked payment. Phantom or Shadow shares are offered to such staff.</p> <p>The deferral arrangements are as follows:</p> <p>CEO, his deputies and top 5 Executive Management members(in terms of total remuneration) in Business units:</p> <ul style="list-style-type: none"> • 40% of the variable pay will be paid in cash at the end of the performance period; and • The balance 60% will be deferred over a period of 3 years with 10% being cash deferral and 50% being phantom or shadow shares and the entire deferred variable pay will vest equally over a 3 - year period. <p>For all other employees in Business units and Approved Persons in Control and Support Functions and whose total remuneration exceeds the regulatory threshold:</p> <ul style="list-style-type: none"> • 50% of the variable pay will be paid in cash at the end of the performance period; and • 10% in the form of phantom or shadow shares at the end of the performance period and the phantom or shadow shares subject to a minimum share retention period of 6 months from the award date. • The balance 40% will be deferred over a period of 3 years and paid in the form of phantom or shadow shares and vests equally over the 3 year period and the phantom or shadow shares subject to a minimum share retention period of 6 months from the award date.
Claw back and Malus	<p>The Bank has introduced claw - back and malus clauses whereby the RNC has the right to invoke these clauses under certain pre-defined circumstances wherein the bank can claw-back the vested as well as the unvested bonus paid or payable to a staff.</p>

REMUNERATION COMPONENTS

It is the Bank's intent to have a transparent, structured and comprehensive remuneration policy that covers all types of compensation and benefits provided to employees.

The remuneration policy provides a standardised framework for remuneration covering employees at all levels of the Bank.

Remuneration offered by the Bank shall reflect the Bank's objective of attracting and retaining the desired level of talent from the industry

Remuneration will be at a level, which will be commensurate with other Banks of similar activity in Bahrain, and will allow for changes in the cost of living index. The compensation package shall comprise of basic salary and benefits and discretionary variable pay. The following table summarises the total remuneration:

Element of Pay	Salary and Benefits
Rationale	To attract and retain the desired level of talent.
Summary	<p>Reviewed annually.</p> <p>Benchmarked to the local market and the compensation package offered to employee is based on the job content and complexity.</p> <p>The Bank offers a composite fixed pay i.e. it is not split as Basic and Allowances but is paid as one lump sum. The benefits are aligned to the local market practice.</p>

Element of Pay	Variable Pay/Bonus						
Rationale	<p>To incentivise the achievement of annual targets set at the bank level and at the Business unit levels and thereby also make sure that senior management get substantial portion as variable pay which is linked to performance.</p> <p>The Variable pay is deferred to ensure that the management's interests are aligned to the shareholder value and to align time horizon of risk.</p>						
Summary	<p>The Bonus pool is determined based on the bottom up approach i.e. by setting base multiples of monthly salary per level and aggregating the multiples per unit and then on to the bank level.</p> <p>The basis of payment of bonus would be as follows:</p> <table border="1"> <tr> <td>CEO and Senior Management</td> <td>Base multiple * Bank score * Individual score</td> </tr> <tr> <td>Business units</td> <td>Base multiple * Bank score * Unit score * Individual score</td> </tr> <tr> <td>Control & Support units</td> <td>Base multiple * Unit score * Individual score</td> </tr> </table> <p>Computation of Variable Pay - Business Units</p> <p>Beginning of the financial year: Targets are set for the Business units and is aggregated to the Bank level target. In setting targets certain bank wide risk parameters which includes capital, liquidity, profit and qualitative measure such as reputation risk and the bank and unit specific KPIs shall be considered.</p> <p>For achieving this target, total Bonus pool is set based on monthly multiples of salary across the bank. The Key feature is that bonus is self-funding and the different levels of targets are not just % increase in profits but profits adjusted for additional bonus.</p> <p>This Bonus Pool is subject to additional checks for its impact on the capital adequacy, as a proportion of net profit and realised profit and as a proportion of the total fixed pay in any given financial year;</p> <p>At the end of the financial year: The actual results are evaluated against targets, considering the risk parameters matrix and adjustments if any to the unit score or the banks score as appropriate are made and the bonus pool is revised accordingly.</p> <p>The actual bonus pool is approved by the RNC and the individual Bonus payments are as per the scoring matrix.</p> <p>Computation of Variable Pay – Control and Support Units The Unit targets as set out and agreed with the RNC in the beginning of each evaluation period will be the base for Variable pay to be paid.</p> <p>Except in the case of bank making a loss, the variable pay for the staff in the Control and Support unit, would be payable based on the Unit targets and the individual performance.</p> <p>Base Multiples are set for each employee level in each Control and Support unit.</p> <p>The achievement of unit target is assigned a weight of 1 and scored based on the level of actual results achieved.</p> <p>The individual performance score is based on the individual rating and the score is set to vary between 0 up to a maximum of 1.</p> <p>The Summary of the Variable pay process is: Links reward to bank, business unit and individual performance. Target setting process considers risk parameters which are both quantitative and qualitative such as reputation. Aligned to time horizon of risk the bonus has a deferral element and a share linkage to align the employees interest with that of the shareholders. Bonus can be lesser or nil if the bank or business units do not achieve the risk adjusted targets or make losses. Post risk assessment is carried out to ensure that in case of material losses or realisation of less than expected income which can be attributed to employees actions the claw back or malus as appropriate is invoked.</p>	CEO and Senior Management	Base multiple * Bank score * Individual score	Business units	Base multiple * Bank score * Unit score * Individual score	Control & Support units	Base multiple * Unit score * Individual score
CEO and Senior Management	Base multiple * Bank score * Individual score						
Business units	Base multiple * Bank score * Unit score * Individual score						
Control & Support units	Base multiple * Unit score * Individual score						

DETAILS OF REMUNERATION**(a) Board of Directors**

Amounts in BD	2015	2014
Attendance fee and travel expenses	160,000	135,482
Remuneration	73,000	329,000
ASBB subsidiaries' Board remuneration, attendance fees and expenses	233,000	70,202

(b) Employees

	<i>Amounts in BD thousands</i>						
	<i>No. of staff</i>	<i>Fixed</i>	<i>Variable Upfront</i>		<i>Variable deferred</i>		<i>Total</i>
			<i>Cash</i>	<i>Non-cash</i>	<i>Cash</i>	<i>Non-cash</i>	
Approved person business line	10	1,657	282	-	71	353	2,363
Approved person control & support	11	665	70	14	-	56	805
Other material risk takers	12	464	16	3	-	13	496
Other employees - Bahrain operations	319	7,714	1,100	-	-	-	8,814
Other employees - overseas	2	78	12	-	-	-	90
	354	10,578	1,480	17	71	422	12,568

	<i>Amounts in BD thousands</i>						
	<i>No. of staff</i>	<i>Fixed*</i>	<i>Variable Upfront</i>		<i>Variable deferred</i>		<i>Total*</i>
			<i>Cash</i>	<i>Non-cash</i>	<i>Cash</i>	<i>Non-cash</i>	
Approved person business line	10	1,417	591	-	53	267	2,328
Approved person control & support	11	718	45	9	-	36	808
Other material risk takers	7	341	3	1	-	2	347
Other employees - Bahrain operations	403	9,706	749	-	-	-	10,455
Other employees - overseas	2	72	15	-	-	-	87
	433	12,254	1,403	10	53	305	14,025

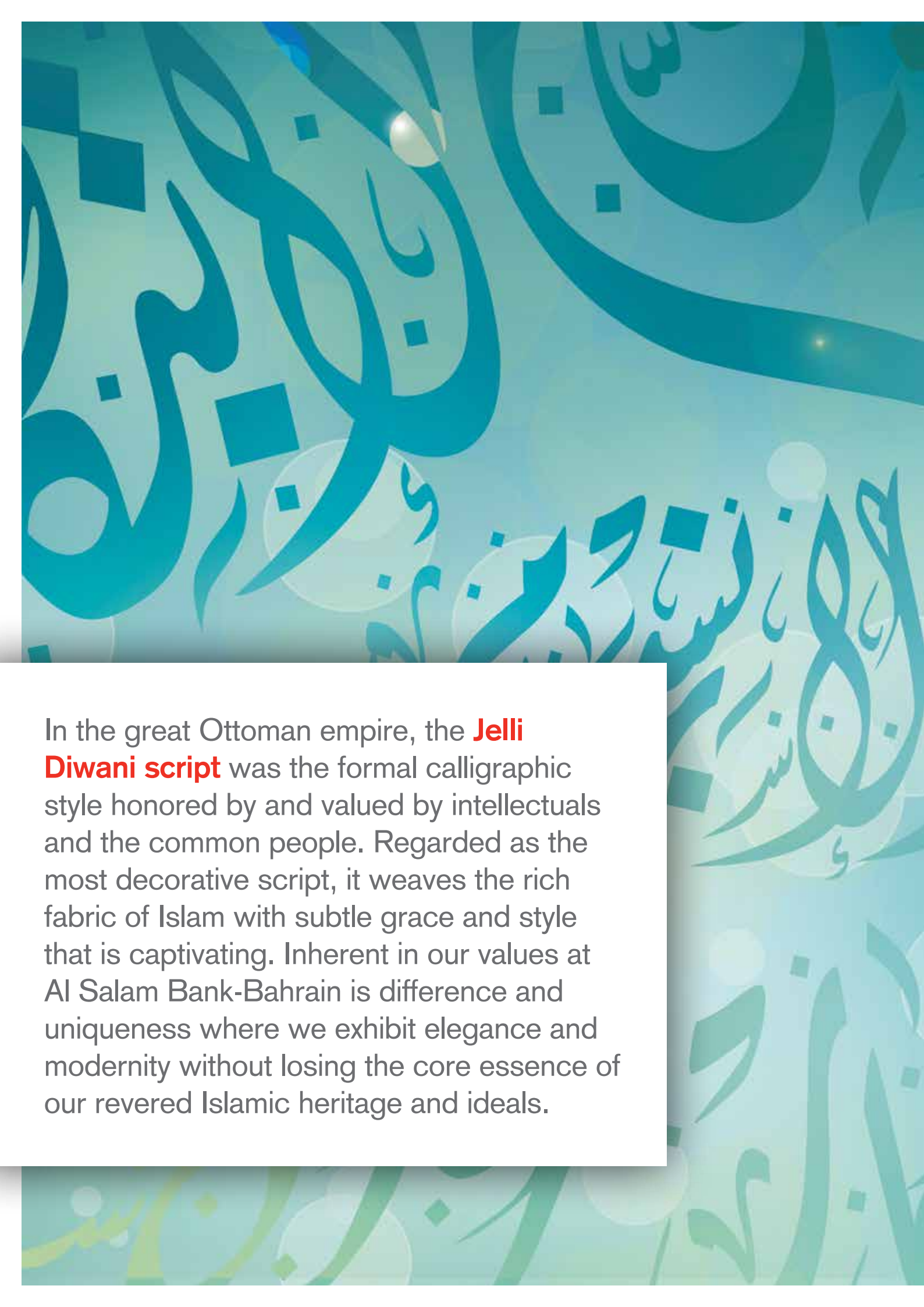
* includes staff compensation of BMI Bank BSC (c) from 30 March 2014, date of acquisition.

Fixed remuneration includes all compensation and benefits that are due to employees based on contractual arrangements.

Severance payments during the year amounted to BD1,490,000 and the highest severance payment during the year amounted to BD94,000.

Included in the above, remuneration received by approved person and material risk takers from SPVs / project companies managed by the Bank amounted to BD94,000 (2014: BD33,000).

The non-cash awards relating to years ended 31 December 2014 and 2015 were awarded during 2016. Consequently, the disclosure relating movements in non-cash awards are not applicable. There were no movements in deferred cash awards and the balance remained at BD53,000.



In the great Ottoman empire, the **Jelli Diwani script** was the formal calligraphic style honored by and valued by intellectuals and the common people. Regarded as the most decorative script, it weaves the rich fabric of Islam with subtle grace and style that is captivating. Inherent in our values at Al Salam Bank-Bahrain is difference and uniqueness where we exhibit elegance and modernity without losing the core essence of our revered Islamic heritage and ideals.



RISK MANAGEMENT AND COMPLIANCE

At Al Salam Bank-Bahrain, we appreciate the fact that we are in the business of taking risks and our success is largely dependent on how efficiently we identify, measure, control and manage these risks. Hence, we view risk management as a core competency from a strategic point of view and the Basel Accord as a catalyst to the successful implementation of the pillars of risk management in line with industry best practice.

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

With this in mind, the Bank's establishment plan gave priority to the development of an effective and practical risk management and compliance framework taking into consideration local and international best practices, the requirements of the Central Bank of Bahrain and the Basel Accord.

Risk Management Framework

The risk management framework defines the risk culture of Al Salam Bank-Bahrain and sets the tone throughout the Group to practice the right risk behavior consistently to ensure that there is always a balance between business profits and risk appetite.

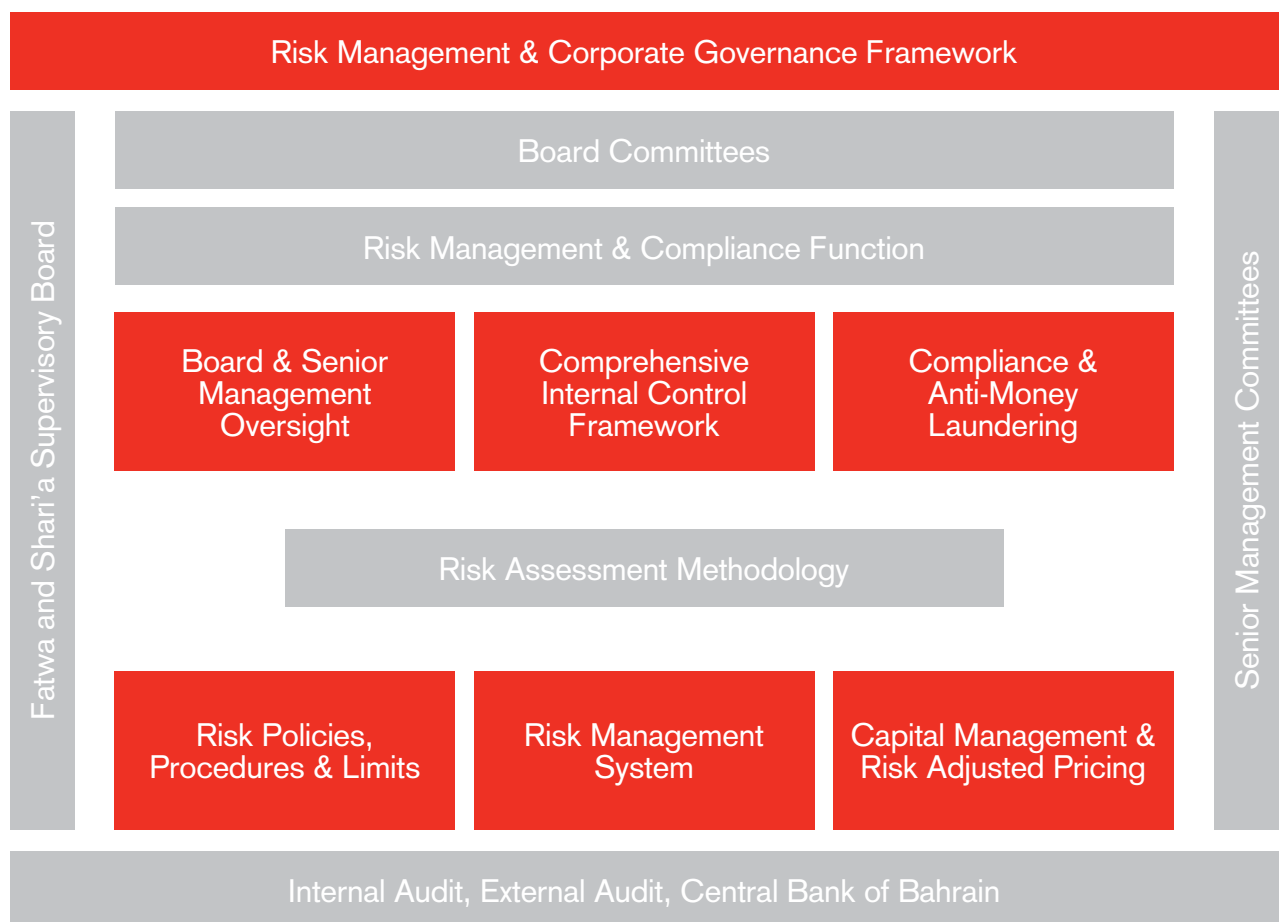
The risk management framework achieves this through the definition of the Group's key risk management principles covering credit, market, operational, information security, strategic and reputation risks, the role and responsibilities of the Board, risk management group and senior management towards risk management, the risk assessment methodology based on likelihood and consequences, the major risk policies, procedures and risk limits, the risk management information systems and reports, the internal control framework and the Group's approach to capital management.

The effectiveness of the risk management framework is independently assessed and reviewed through internal audits, external audits and Central Bank of Bahrain supervision. In addition, business and support groups carry out periodic control risk self-assessments.

As a result, the risk management framework creates an alignment between business and risk management objectives.

Capital Management

The cornerstone of risk management framework is the optimization of risk-reward relationship against the capital available through a focused and well monitored capital management process involving risk management, finance and business groups.



Corporate Governance

The risk management framework is supported by an efficient Corporate Governance Framework discussed on pages 40 to 57.

Risk Ownership

The implementation of the risk management framework Group-wide is the responsibility of the Risk Management Department under the supervision of the Board Audit and Risk Committee. Ownership of the various risks across the Group lies with the business and support heads, being the first line of defense, and it is their responsibility to ensure that these risks are managed in accordance with the risk management framework.

Risk Management assists business and support heads in identifying concerns and risks, identifying risk owners, evaluating risks as to likelihood and consequences, assessing options for mitigating the risks, prioritizing risk management efforts, developing risk management plans, authorizing implementation of risk management plans and tracking risk management efforts.

Compliance & Anti-Money Laundering Department

The Bank has established an independent and dedicated unit to coordinate the implementation of compliance and Anti-Money Laundering and Anti-Terrorist Financing program. The program covers policies and procedures for managing compliance with regulations, anti-money laundering, disclosure standards on material and sensitive information and insider trading. In line with its commitment to combat money laundering and terrorist financing, Al Salam Bank-Bahrain through its Anti-Money Laundering policies ensures that adequate preventive and detective internal controls and systems operate effectively. The policies govern the guidelines and procedures for client acceptance, maintenance and monitoring in line with the Central Bank of Bahrain and International standards such as FATF recommendations and Basel Committee papers.

All inward and outward electronic transfers are screened against identified sanction lists issued by certain regulatory bodies including the UN Security Council Sanctions Committees and US Department of the Treasury - OFAC, in addition to those designated by the Central Bank of Bahrain.

The compliance program also ensures that all applicable Central Bank of Bahrain regulations are complied with and/ or non-compliance is detected and addressed in a timely manner. The program includes compliance with regulations set by Ministry of Industry & Commerce and Bahrain Bourse.

The Bank has initiated steps to comply with Foreign Account Tax Compliance Act (FATCA) requirements as and when required by the regulators.

CORPORATE SOCIAL RESPONSIBILITY

The Bank is committed to fulfilling its obligations as a good corporate citizen in the communities in which it operates. We endeavor to support the Bahrain Government in its efforts to enhance the quality of life of the people of the Kingdom of Bahrain.

ASBB underscore this commitment to our community by supporting initiatives that add value to the Island's housing, education and health infrastructure, as well as encouraging future economic growth and prosperity through supporting entrepreneurship and the development of our youth.

During the year, charitable donations were made to medical facilities and other charities that care for the less fortunate and supported cultural initiatives in order to preserve the traditions of the Kingdom for generations.



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**FINANCIAL
STATEMENTS**

THE SHARI'A AND SUPERVISORY BOARD REPORT FOR AL SALAM BANK-BAHRAIN PRESENTED TO THE AGM FOR THE FINANCIAL YEAR 2015

The Shari'a Fatwa and Supervisory Board ("the Board") has reviewed the Bank's transactions during the year 2015, as well as the Consolidated Statement of Financial Position, Consolidated Income Statement, Consolidated Statement of Cash Flows and Changes in Owner's Equity for the year ended 31 December 2015. The Board met with the Bank's management and submitted its annual report as follows:

Firstly:

1. The Board has supervised the Banks' activities and transactions during the year, and carried out its role by advising the various departments to adhere to the Shari'a principles and the Board's legal opinions in respect to those activities and transactions. The Board held, for this purpose, several meetings with the Banks' management. The Board hereby confirms the Bank's management keenness to adhere to the Shari'a principles and the Board's legal opinions.
2. The Board has studied the transactions presented to it during the year, and approved the contracts and documents relating to those transactions. The Board responded to questions and queries and issued appropriate decisions and legal opinions relevant to the transactions. The decisions and legal opinions were circulated to the pertinent departments for execution.

Secondly:

The Board reviewed what it requested of documents and files, and received the data which helped it to perform the supervisory and audit work.

Thirdly:

The Board has reviewed samples of contracts and agreements that were presented and requested the Management to adhere to them.

Fourthly: Balance Sheet

The Board has reviewed the Consolidated Statement of Financial Position and appended data and notes and made its observations on them.

In line with the available information and disclosures that are presented by the Banks' management, the consolidated statement of financial position reviewed by the Board represents the Banks' assets, liabilities, equity of investment accountholders, and owner's equity. The accuracy of the information and data provided are the responsibility of the Banks' management.

The Board believes that the consolidated financial statements for the year ended 31 December 2015 along with the distribution of profit to depositors and dividends to shareholders had been prepared in conformity with the Islamic Shari'a regulations.

Fifthly: Zakah

Since the Articles of Association of the Bank does not require the Bank to pay Zakah on behalf of the Shareholders, thus, the Board has calculated the Zakah due on the shareholders in order to inform them, and which is disclosed in the notes to the consolidated financial statements (note 39).

Sixthly: Conversion of BMI Bank

The Bank acquired the full stake in BMI Bank with the aim of converting it to a Shari'a-compliant bank. This conversion took effect as of 1st January 2016, and BMI Bank started exercising its business in a Shari'a-compliant manner. Attached is the Board's report on the conversion of BMI Bank.

Seventhly: Prohibited Income


According to the Board's decision that the start of calculation and discharge of prohibited income is from the date of complete conversion of BMI Bank which was set at 1st January 2016, the subtraction of the prohibited income from BMI Bank does not oblige Al Salam Bank-Bahrain to discharge it.

The Shari'a Board decided to ward off the Shari'a non-compliant income from the transactions executed during the year and have it spent on Charity.

The Board hereby emphasizes that management has the primary responsibility to comply with the Rules and Principles of Shari'a in all activities and transactions of the Bank. The Board confirms that the executed transactions that are submitted by management of the Bank for the Board's review during the year were generally in compliance with Rules and Principles of Shari'a. The management has shown utmost interest and willingness to fully comply with the recommendations of the Board.

Board Members

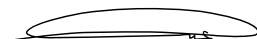

Dr. Hussein Hamed Hassan
Chairman



Dr. Ali Al Qura Daghi
Board Member



Shaikh Adnan Al Qattan
Board Member



Dr. Mohammed Zoeir
Board Member & Secretary



Dr. Mohammed Arbouna
Board Member



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C.R. No. 6700

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL SALAM BANK-BAHRAIN B.S.C.

Report on the consolidated financial statements

We have audited the accompanying consolidated statement of financial position of Al Salam Bank-Bahrain B.S.C. ["the Bank"] and its subsidiaries [together "the Group"] as of 31 December 2015, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. 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 Bank's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ["AAOIFI"]. 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 amount and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Bank's Board of Directors, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2015, the results of its operations, its cash flows and changes in equity for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI.

Other matters

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

- a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; and
- b) the financial information contained in the report of the Board of Directors is consistent with the consolidated financial statements.

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse of the terms of the Bank's memorandum and articles of association during the year ended 31 December 2015 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests. The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank.

The logo for Ernst & Young, featuring the company name in a stylized, cursive script.

Partner's Registration No. 115
9 February 2016
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2015



	Note	2015 BD'000	2014 BD'000
ASSETS			
Cash and balances with banks and Central Bank	5	152,572	277,751
Sovereign Sukuk		313,109	145,789
Murabaha and Wakala receivables from banks	6	103,345	182,110
Corporate Sukuk	7	64,157	88,193
Murabaha financing	8	268,848	270,428
Mudaraba financing	8	239,031	189,601
Ijarah Muntahia Bittamleek	10	155,217	141,052
Musharaka		7,154	10,851
Assets under conversion	11	32,032	308,659
Non-trading investments	12	123,514	147,096
Investments in real estate	13	68,786	65,149
Development properties	14	49,021	59,262
Investment in associates	15	9,994	10,492
Other assets	16	43,892	32,893
Goodwill	3	25,971	25,971
TOTAL ASSETS		1,656,643	1,955,297
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
LIABILITIES			
Murabaha and Wakala payables to banks		120,795	121,266
Murabaha and Wakala payables to non-banks		842,570	1,034,052
Current Accounts		224,366	226,648
Liabilities under conversion	11	2,327	149,621
Term financing	17	35,986	21,337
Other liabilities	18	48,246	45,418
TOTAL LIABILITIES		1,274,290	1,598,342
EQUITY OF INVESTMENT ACCOUNTHOLDERS	19	62,351	28,152
OWNERS' EQUITY			
Share capital	20	214,093	214,093
Reserves and retained earnings		94,140	93,777
Proposed appropriations	20	10,705	10,705
Total equity attributable to shareholders of the bank		318,938	318,575
Non-controlling interest		1,064	10,228
TOTAL OWNERS' EQUITY		320,002	328,803
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		1,656,643	1,955,297

Shaikha Hessa bint Khalifa Al Khalifa
Chairperson of the Board

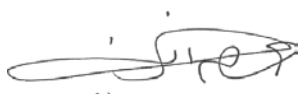
Yousif Taqi
Director & Group CEO

The attached notes 1 to 42 form part of these consolidated financial statements.

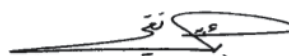
CONSOLIDATED STATEMENT OF INCOME

Year Ended 31 December 2015

	Note	2015 BD'000	2014 BD'000
OPERATING INCOME			
Income from financing contracts	22	48,230	51,494
Income from sukuk		13,109	7,120
Gains on sale of investments and sukuk	23	8,334	12,282
Income from investments	24	3,249	2,863
Fair value changes on investments		399	(6,413)
Dividend income		820	758
Foreign exchange gains		870	1,578
Fees, commission and other income - net	25	9,184	6,650
		<u>84,195</u>	<u>76,332</u>
Profit on murabaha and wakala payables to banks		(931)	(1,035)
Profit on wakala payables to non-banks		(23,805)	(28,040)
Profit on term financing		(839)	(974)
Return on equity of investment accountholders before			
Group's share as a Mudarib	19	(1,471)	(391)
Group's share as a Mudarib	19	662	176
		<u>(809)</u>	<u>(215)</u>
Total operating income		<u>57,811</u>	<u>46,068</u>
OPERATING EXPENSES			
Staff cost		12,474	13,991
Premises and equipment cost		2,752	2,415
Depreciation		1,821	1,507
Other operating expenses		8,220	8,505
Total operating expenses		<u>25,267</u>	<u>26,418</u>
PROFIT BEFORE PROVISIONS AND RESULTS OF ASSOCIATES		32,544	19,650
Provision for impairment - net	9	(22,851)	(4,198)
Share of profit from associates	15	855	369
NET PROFIT FOR THE YEAR		10,548	15,821
Attributable To:			
- SHAREHOLDERS OF THE BANK		12,346	15,550
- Non-Controlling Interest		(1,798)	271
		<u>10,548</u>	<u>15,821</u>
Weighted average number of shares (in '000)		2,140,931	1,982,531
Basic and diluted earnings per share (fils)		5.8	8.0



Shaikha Hessa bint Khalifa Al Khalifa
Chairperson of the Board



Yousif Taqi
Director & Group CEO

The attached notes 1 to 42 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended 31 December 2015



	Note	2015 BD'000	2014 BD'000
OPERATING ACTIVITIES			
Net Profit for the year		10,548	15,821
Adjustments:			
Depreciation		1,821	1,507
Amortisation of premium on Sukuk		1,945	3,509
Fair value changes on investments		(399)	6,413
Provision for impairment - Net		22,851	4,198
Share of profit from associates		(855)	(369)
Operating income before changes in operating assets and liabilities		<u>35,911</u>	<u>31,079</u>
Changes in operating assets and liabilities:			
Mandatory reserve with Central Bank		10,109	(22,400)
Sovereign Sukuk		(168,112)	79,767
Murabaha and Wakala receivables from banks with original maturities of 90 days or more		8,976	4,358
Corporate Sukuk		22,883	(41,342)
Murabaha financing		52,916	(102,733)
Mudaraba financing		(4,886)	(59,890)
Ijarah Muntahia Bittamleek		11,033	(2,319)
Musharaka financing		4,272	8,294
Assets under conversion		140,870	130,707
Other Assets		(20,187)	(2,901)
Murabaha and Wakala payables to banks		(471)	(38,874)
Wakala from non-banks		(245,716)	91,894
Current Accounts		(2,282)	105,438
Liabilities under conversion		(64,855)	(59,800)
Other Liabilities		2,729	3,216
Net cash (used in) from operating activities		<u>(216,810)</u>	<u>124,494</u>
INVESTING ACTIVITIES			
Investments and investment in associates, net		21,464	(13,604)
Investments in real estate and development properties, net		8,153	9,238
Cash flow arising on acquisition of a subsidiary	3	-	127,670
Sale of treasury stock		-	1,754
Purchase of premises and equipment		(237)	(1,015)
Net cash from investing activities		<u>29,380</u>	<u>124,043</u>
FINANCING ACTIVITIES			
Term Financing		14,649	(2,300)
Equity of investment accountholders		5,994	(84)
Share issue expenses		-	(125)
Dividends paid		(10,705)	(7,446)
Dividends paid to non-controlling interest		(566)	(345)
Net movements in non-controlling interest		(6,800)	(742)
Net cash from (used in) financing activities		<u>2,572</u>	<u>(11,042)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS		(184,858)	237,495
Cash and cash equivalents at 1 January		<u>408,535</u>	<u>171,040</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		<u>223,677</u>	<u>408,535</u>
Cash and cash equivalents comprise of:			
Cash and other balances with Central Bank of Bahrain	5	81,448	187,313
Balances with other banks	5	38,884	48,088
Murabaha and Wakala receivables from banks with original maturities of less than 90 days		103,345	173,134
		<u>223,677</u>	<u>408,535</u>

The attached notes 1 to 42 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

Year Ended 31 December 2015

	Attributable to Shareholders of the Bank										Amounts in BD'000		
	Share capital	Treasury stock	Statutory reserve	Retained earnings	Changes in fair value	Real estate fair value reserve	Foreign exchange translation reserve	Share premium reserve	Total reserves	Proposed appropriations	Total	Non-controlling interest	Total owners' equity
Balance as of 1 January 2015	214,093	-	12,481	46,497	1,287	22,704	(1,401)	12,209	93,777	10,705	318,575	10,228	328,803
Net profit for the year	-	-	12,346	12,346	-	-	-	-	12,346	-	12,346	(1,798)	10,548
Net changes in fair value	-	-	-	-	(1,435)	1,549	-	-	114	-	114	-	114
Foreign currency re-translation	-	-	-	-	-	-	(1,292)	-	(1,292)	-	(1,292)	(180)	(1,472)
Dividend paid	-	-	-	-	-	-	-	-	-	(10,705)	(10,705)	-	(10,705)
Proposed dividend for 2015	-	-	-	(10,705)	-	-	-	-	(10,705)	10,705	-	-	-
Dividend relating to subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(566)	(566)
Net movements in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	(6,620)	(6,620)
Transfer to statutory reserve	-	-	1,235	(1,235)	-	-	-	-	-	-	-	-	-
Charitable donations	-	-	-	(100)	-	-	-	-	(100)	-	(100)	-	(100)
Balance at 31 December 2015	214,093	-	13,716	46,803	(148)	24,253	(2,693)	12,209	94,140	10,705	318,938	1,064	320,002
Balance as of 1 January 2014	149,706	(492)	10,926	43,272	651	21,659	(501)	2,573	78,580	7,485	235,279	10,818	246,097
Net profit for the year	-	-	15,550	15,550	-	-	-	-	15,550	-	15,550	271	15,821
Net changes in fair value	-	-	-	-	636	1,045	-	-	1,681	-	1,681	-	1,681
Foreign currency re-translation	-	-	-	-	-	-	(900)	-	(900)	-	(900)	81	(819)
Dividend paid	-	-	-	-	-	-	-	-	-	(7,446)	(7,446)	-	(7,446)
Proposed dividend for 2014	-	-	-	(10,705)	-	-	-	-	(10,705)	10,705	-	-	-
Dividend relating to subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(345)	(345)
Shares issued on acquisition	64,387	-	-	-	-	-	-	8,499	8,499	-	72,886	-	72,886
Share issue expenses	-	-	-	-	-	-	-	(125)	(125)	-	(125)	-	(125)
Net movements in non-controlling interest	-	-	-	(4)	-	-	-	-	(4)	-	(4)	(597)	(601)
Sale of treasury stock	-	492	-	-	-	-	-	1,262	1,262	-	1,754	-	1,754
Transfer to statutory reserve	-	-	1,555	(1,555)	-	-	-	-	-	-	-	-	-
Transfer	-	-	-	39	-	-	-	-	39	(39)	-	-	-
Charitable donations	-	-	-	(100)	-	-	-	-	(100)	-	(100)	-	(100)
Balance at 31 December 2014	214,093	-	12,481	46,497	1,287	22,704	(1,401)	12,209	93,777	10,705	318,575	10,228	328,803

The attached notes 1 to 42 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015



1 INCORPORATION AND PRINCIPAL ACTIVITIES

Al Salam Bank-Bahrain B.S.C. ("the Bank") was incorporated in the Kingdom of Bahrain under the Bahrain Commercial Companies Law No. 21/2001 and is registered with Ministry of Industry and Commerce ("MOIC") under Commercial Registration Number 59308 on 19 January 2006. The Bank is regulated and supervised by the Central Bank of Bahrain ("the CBB") and has an Islamic retail banking license and is operating under Islamic principles, and in accordance with all the relevant regulatory guidelines for Islamic banks issued by the CBB. The Bank's registered office is P.O. Box 18282, Bahrain World Trade Centre East Tower, King Faisal Highway, Manama 316, Kingdom of Bahrain.

On 30 March 2014, the Bank acquired 100% stake in BMI Bank B.S.C.(c) ("BMI"), a closed shareholding company in the Kingdom of Bahrain, through exchange of shares. The current year numbers include the effect of consolidation of BMI and the comparatives include the results of BMI for the period from 1 April 2014 to 30 September 2014 as the acquisition was completed on 30 March 2014. BMI operates under a retail conventional banking license issued by the CBB. BMI's Shari'a Supervisory Board approved BMI to be an Islamic Bank effective 1 January 2015 and approved all conventional income of BMI to be recognised in the consolidated income statement for the year ended 31 December 2015.

The Bank and its subsidiary BMI operate through eleven branches in the Kingdom of Bahrain and offers a full range of Shari'a-compliant banking services and products. The activities of the Bank include managing profit sharing investment accounts, offering Islamic financing contracts, dealing in Shari'a-compliant financial instruments as principal/agent, managing Shari'a-compliant financial instruments and other activities permitted for under the CBB's Regulated Islamic Banking Services as defined in the licensing framework. The Bank's ordinary shares are listed in the Bahrain Bourse and Dubai Financial Market.

In addition to BMI, the principal subsidiaries are as follows:

<i>Name of Entity</i>	<i>Nature of Entity</i>	<i>% holding</i>	
		<i>2015</i>	<i>2014</i>
Al Salam Leasing Two Ltd ("ASL II")	Aircraft under lease (note 16)	76	76
Auslog Holding Trust	Investment in real estates	90	90
Al Salam Asia REIT Fund	Open-ended mutual fund	-	44

The Bank together with its subsidiaries is referred to as "the Group".

These consolidated financial statements have been authorised for issue in accordance with a resolution of the Board of Directors dated 9 February 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

2 ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated financial statements are prepared on a historical cost basis, except for investments held at fair value through profit or loss, available-for-sale equity investments and investments in real estates which are held at fair value. These consolidated financial statements incorporate all assets, liabilities and off balance sheet financial instruments held by the Group.

These consolidated financial statements are presented in Bahraini Dinars, being the functional and presentation currency of the Group, rounded to the nearest thousand [BD '000], except where otherwise indicated.

2.1a Statement of compliance

The consolidated financial statements of the Group are prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Islamic Shariah rules and principles as determined by the Shariah Supervisory Board of the Group and in conformity with the Bahrain Commercial Companies Law and the CBB and Financial Institutions Law. Matters for which no AAOIFI standards exist, the Group uses the relevant International Financial Reporting Standard.

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the consolidated statement of financial position date (current) and more than 12 months after the consolidated statement of financial position date (non-current) is presented in Note 32.

2.1b Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2015. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. All intra-group balances, transactions, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and continue to be consolidated until the date when such control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate. A change in the Group's ownership of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2 ACCOUNTING POLICIES (continued)**2.1 BASIS OF PREPARATION (continued)****2.1b Basis of consolidation (continued)**

Share of minority stakeholder' interest (non-controlling interest) represents the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated statement of income and within owners' equity in the consolidated statement of financial position, separately from the equity attributable to shareholders of the parent.

2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the consolidated financial statements requires management to make judgements and estimates that affect the reported amount of financial assets and liabilities and disclosure of contingent liabilities. These judgements and estimates also affect the revenues and expenses and the resultant provisions as well as fair value changes reported in equity.

Classification of investments

Management decides upon acquisition of an investment whether it should be classified as fair value through profit or loss, available for sale or held-to-maturity.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimating uncertainty at the date of the consolidated statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of goodwill

Impairment exists when carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

The recoverable amount of each cash-generating unit's goodwill is based on value-in-use calculations using cash flow projections from financial budgets approved by the Board of Directors, extrapolated for five year projections using nominal projected Gross Domestic Product growth rate.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Collective impairment provisions on financial contracts

In addition to specific provisions against individually significant financial contracts, the Group also considers the need for a collective impairment provision against financial contracts which although not specifically identified as requiring a specific provision, have a greater risk of default than when originally granted. This collective provision is based on any deterioration in the status, as determined by the Group, of the financial contracts since they were granted (acquired). The amount of the provision is based on the historical loss pattern for other contracts within each grade and is adjusted to reflect current economic changes.

2 ACCOUNTING POLICIES (continued)

2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Impairment losses on financial contracts

The Group reviews its financial contracts on a regular basis to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions. During the last interim period of the year, the Group re-assessed its previous estimates and made provisions for financing facilities and other assets.

Impairment of available-for-sale equity investments

The Group treats available-for-sale equity investments 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 significant or prolonged decline and other objective evidence involves judgement. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the present value calculation factors for unquoted equities.

Valuation of unquoted private equity and real estate investments

Valuation of above investments involves judgement and is normally based on one of the following:

- valuation by independent external valuers;
- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- present value of expected cash flows at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The Group calibrates the valuation techniques periodically and tests these for validity using either prices from observable current market transactions in the same instrument or other available observable market data.

Going concern

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

2 ACCOUNTING POLICIES (continued)**2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)****Control over special purpose entities**

The Group sponsors the formation of special purpose entities (SPEs) primarily for the purpose of allowing clients to hold investments. The Group does not consolidate SPEs that it does not have the power to control. In determining whether the Group has the power to control an SPE, judgements are made about the objectives of the SPEs activities, Group's exposures to the risk and rewards, as well as its ability to make operational decisions of the SPEs.

2.3 SIGNIFICANT ACCOUNTING POLICIES**2.3.1 New standards, interpretations and amendments**

These consolidated financial statements have been prepared using accounting policies, which are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2014, except for FAS 27 and amendment to FAS 23 which have been issued by AAOIFI and are effective 1 January 2016.

- Amendment to FAS 23 – Consolidation

The amendment introduced to FAS 23 is to give clarification on the way an Islamic financial institution (IFI) should determine if financial statements of an investee company, or a subsidiary, should be consolidated with its own. The amendment provides clarification that, in addition to the existing stipulations in the standard, control may also exist through rights arising from other contractual arrangement, voting rights of the Islamic financial institutions that give de facto power over an entity, potential voting rights, or a combination of these factors. In terms of voting rights, the amendment also clarifies that an Islamic financial institution shall consider only substantive voting rights in its assessment of whether the institution has power over an entity. In order to be substantive, the voting rights need to be exercisable when relevant decisions are required to be made and the holder of such rights must have the practical ability to exercise those rights. Determination of voting rights shall include current substantive voting rights and currently-exercisable voting rights.

The amendments and clarifications are effective for the annual financial periods ending on or after 31 December 2015. The transition provision requires retrospective application including restatement of previous period comparatives. The amendment had no impact on the consolidated financial statements of the Group.

- FAS 27 – Investment Accounts

FAS 27 will replace FAS 5 - 'Disclosures of Bases for Profit Allocation between Owner's Equity and Investment Account Holders' and FAS 6 - 'Equity of Investment Account Holders and their Equivalent'. Upon adoption of this standard certain disclosures with respect to investment account holders and bases of profit allocation will be enhanced without having any significant impact on the financial statements of the Group.

2 ACCOUNTING POLICIES (continued)**2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)****2.3.2 Summary of significant accounting policies****a) Financial contracts**

Financial contracts consist of balances with banks and the Central Bank, Sovereign Sukuk, Corporate Sukuk, Murabaha financing (net of deferred profit), Mudaraba, Musharaka and Ijarah Muntahia Bittamleek. Balances relating to these contracts are stated net of provisions for impairment.

b) Sovereign Sukuk and corporate sukuk

These are quoted / unquoted securities and classified as investments at amortised cost in accordance with FAS 25 issued by AAOIFI.

c) Murabaha receivables

Murabaha is a contract whereby one party ("Seller") sells an asset to the other party ("Purchaser") at cost plus profit and on a deferred payment basis, after the Seller has purchased the asset based on the Purchaser's promise to purchase the same on such Murabaha basis. The sale price comprises the cost of the asset and an agreed profit margin. The sale price (cost plus the profit amount) is paid by the Purchaser to the Seller on installment basis over the agreed finance tenure. Under the Murabaha contract the Group may act either as a Seller or a Purchaser, as the case may be.

The Group considers the promise to purchase made by the Purchaser in a Murabaha transaction in favour of the Seller to be binding.

Murabaha receivables are stated at cost, net of deferred profits, provision for impairment, if any, and amounts settled.

d) Mudaraba financing

Mudaraba is a contract between two parties whereby one party is a fund provider (Rab Al Mal) who would provide a certain amount of funds (Mudaraba Capital), to the other party (Mudarib). Mudarib would then invest the Mudaraba Capital in a specific enterprise or activity deploying its experience and expertise for a specific pre-agreed share in the resultant profit. The Rab Al Mal is not involved in the management of the Mudaraba activity. The Mudarib would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Mudaraba contract; otherwise the loss would be borne by the Rab Al Mal. Under the Mudaraba contract the Group may act either as Mudarib or as Rab Al Mal, as the case may be.

Mudaraba financing are recognized at fair value of the Mudaraba assets net of provision for impairment, if any, and Mudaraba capital amounts settled. If the valuation of the Mudaraba assets results in difference between fair value and book value, such difference is recognized as profit or loss to the Group.

e) Ijarah Muntahia Bittamleek

Ijara (Muntahia Bittamleek) is an agreement whereby the Group (as lessor) leases an asset to the customer (as lessee) (after purchasing/acquiring the specified asset, either from a third party seller or from the customer itself, according to the customer's request and promise to lease) against certain rental payments for a specific lease term/periods, payable on fixed or variable rental basis.

2 ACCOUNTING POLICIES (continued)**2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)****2.3.2 Summary of significant accounting policies (continued)****e) Ijarah Muntahia Bittamleek (continued)**

The Ijara agreement specifies the leased asset, duration of the lease term, as well as, the basis for rental calculation, the timing of rental payment and responsibilities of both parties during the lease term. The customer (lessee) provides the Group (lessor) with an undertaking to renew the lease periods and pay the relevant rental payment amounts as per the agreed schedule and applicable formula throughout the lease term.

The Group (lessor) retains the ownership of the assets throughout the lease term. At the end of the lease term, upon fulfillment of all the obligations by the customer (lessee) under the Ijara agreement, the Group (lessor) will sell the leased asset to the customer (lessee) for a nominal value based on sale undertaking given by the Group (lessor). Leased assets are usually residential properties, commercial real estate or aircrafts.

Depreciation is provided on a systematic basis on all Ijarah Muntahia Bittamleek assets other than land (which is deemed to have an indefinite life), at rates calculated to write off the cost of each asset over the shorter of either the lease term or economic life of the asset.

f) Musharaka

Musharaka is used to provide venture capital or project finance. The Group and customer contribute towards the capital of the Musharaka. Usually a special purpose company or a partnership is established as a vehicle to undertake the Musharaka. Profits are shared according to a pre-agreed profit distribution ratio but losses are borne by the partners according to the capital contributions of each partner. Capital contributions may be in cash or in kind, as valued at the time of entering into the Musharaka.

Musharaka is stated at cost, less any impairment.

g) Assets and liabilities under conversion***Assets under conversion:******Due from Banks and financial institutions***

At amortised cost less any amounts written off and provision for impairment, if any.

Loans and advances

At amortised cost less any amounts written off and provision for impairment, if any.

Non-trading investments

These are classified as available-for-sale investments and are fair valued based on criteria set out in Note 2.3.2 h. Any changes in fair values subsequent to acquisition date are recognized in total comprehensive income (note 26).

Liabilities under conversion:

These are remeasured at amortised cost.

h) Non-trading investments

These classified as available-for-sale or fair value through profit or loss.

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs associated with the investment. Acquisition cost relating to investments designated as fair value through profit or loss is charged to consolidated income statement.

2 ACCOUNTING POLICIES (continued)**2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)****2.3.2 Summary of significant accounting policies (continued)****h) Non-trading investments (continued)**

Following the initial recognition of investments, the subsequent period-end reporting values are determined as follows:

Investments available-for-sale

After initial recognition, equity investments which are classified as investments at fair value through equity are disclosed as “available-for-sale investments». These are normally remeasured at fair value, unless the fair value cannot be reliably determined, in which case they are measured at cost less impairment. Fair value changes are reported in equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported as “changes in fair value” within equity, is included in the consolidated income statement.

Impairment losses on available-for-sale investments are not reversed through the consolidated statement of income and increases in their fair value after impairment are recognised directly in owners' equity.

Investments carried at fair value through profit or loss

Investments in this category are designated as such on initial recognition if these investments are evaluated on a fair value basis in accordance with the Group's risk management policy and its investment strategy. These include all private equity investments including those in joint ventures and associates which are not strategic in nature.

Investments at fair value through profit or loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded as «Fair value changes on investments» in the consolidated income statement. Gain on sale of these investments is included in «Gain on sale of investments and sukuk» in the consolidated income statement. Income earned on these investments is included in «Income from investments» in the consolidated income statement.

i) Investments in associates

The Group's investments in associates, that are acquired for strategic purposes, are accounted for under the equity method of accounting. Other equity investments in associates are accounted for as fair value through profit or loss by availing the scope exemption under FAS 24, Investments in Associates. An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor a joint venture. An entity is considered as an associate if the Group has more than 20% ownership of the entity or the Group has significant influence through any other mode.

Under the equity method, investment in associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Losses in excess of the cost of the investment in associates are recognised when the Group has incurred obligations on its behalf. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The consolidated income statement reflects the Group's share of results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

2 ACCOUNTING POLICIES (continued)**2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)****2.3.2 Summary of significant accounting policies (continued)****m) Subsidiaries acquired with a view to sell**

A subsidiary acquired with a view to subsequent disposal within twelve months is classified as “held-for-sale” when the sale is highly probable. Related assets and liabilities of the subsidiary are shown separately on the consolidated statement of financial position as “Assets held-for-sale” and “Liabilities relating to assets classified as held-for-sale”. Assets that are classified as held-for-sale are measured at the lower of carrying amount and fair value less costs to sell. Any resulting impairment loss reduces the carrying amount of the assets. Assets that are classified as held-for-sale are not depreciated.

n) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree’s identifiable net assets.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

In a business combination in which the Bank and the acquiree exchange only equity interests, the acquisition-date fair value of the acquiree’s equity interests is used to determine the amount of goodwill.

Investments acquired but do not meet the definition of business combination are recorded as financing assets or investment in properties as appropriate. When such investments are acquired, the Group allocates the cost of acquisition between the individual identifiable assets and liabilities based on their relative fair values at the date of acquisition. Cost of such assets is the sum of all consideration given and any non-controlling interest recognised. If the non-controlling interest has a present ownership interest and is entitled to a proportionate share of net assets upon liquidation, the Group recognises the non-controlling interest at its proportionate share of net assets.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in consolidated income statement.

2 ACCOUNTING POLICIES (continued)**2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)****2.3.2 Summary of significant accounting policies (continued)
n) Business combinations and goodwill (continued)**

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment at least annually. Any impairment is recognised immediately in the consolidated income statement. Goodwill is allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Goodwill is tested for impairment at least annually. Any impairment is recognised immediately in the income statement. Subsequent reversals of impairment losses for goodwill are not recognised.

Impairment exists when carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of goodwill is determined by assessing the recoverable amount of the cash generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognised immediately in the consolidated statement of income.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's geographic segment reporting format.

o) Impairment and uncollectability of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss, is recognised in the consolidated income statement.

Impairment is determined as follows:

- (i) for assets carried at amortised cost, impairment is based on estimated cash flows based on the original effective profit rate;
- (ii) for assets carried at fair value, impairment is the difference between cost and fair value; and
- (iii) for assets carried at cost, impairment is based on present value of anticipated cash flows based on the current market rate of return for a similar financial asset.

2 ACCOUNTING POLICIES (continued)**2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)****2.3.2 Summary of significant accounting policies (continued)****o) Impairment and uncollectability of financial assets (continued)**

For available-for-sale equity investments reversal of impairment losses are recorded as increases in cumulative changes in fair value through equity.

p) Offsetting

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

q) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

r) Employees' end of service benefits

The Group provides end of service benefits to its expatriate employees. Entitlement to these benefits is based upon the employees' final salary and length of service, subject to completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

For Bahraini employees, the Group makes contributions to Social Insurance Organisation calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

s) Revenue recognition*Murabaha receivables*

As the income is quantifiable and contractually determined at the commencement of the contract, income is recognized on a straight-line basis over the deferred period. Recognition of income is suspended when the Group believes that the recovery of these amounts may be doubtful or normally when the payments of Murabaha installments are overdue by 90 days, whichever is earlier.

Sukuk

Income on Sukuk is recognized on a time-proportionate basis based on underlying rate of return of the respective type of sukuk. Recognition of income is suspended when the Group believes that the recovery of these amounts may be doubtful or normally when the payments are overdue by 90 days, whichever is earlier.

Mudaraba

Income on Mudaraba transactions are recognised when the right to receive payment is established or these are declared by the Mudarib, whichever is earlier. In case of losses in Mudaraba, the Group's share of loss is recognised to the extent that such losses are being deducted from its share of the Mudaraba capital.

Dividend

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

2 ACCOUNTING POLICIES (continued)**2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)****2.3.2 Summary of significant accounting policies (continued)****s) Revenue recognition (continued)***Ijarah Muntahia Bittamleek*

Ijarah Muntahia Bittamleek income is recognised on a time-proportionate basis over the lease term. Income related to non-performing Ijarah Muntahia Bittamleek is suspended. Accrual of income is suspended when the Group believes that the recovery of these amounts may be doubtful or normally when the rental payments are overdue by 90 days, whichever is earlier.

Musharaka

Income on Musharaka is recognized when the right to receive payment is established or on distributions. In case of losses in Musharaka, the Group's share of loss is recognized to the extent that such losses are being deducted from its share of the Musharaka capital.

Fees and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following main categories:

Fee income on financing transactions: Fee earned on financing transactions including up-front fees and early settlement fees are recognised when earned. To the extent the fees are deemed yield enhancement they are recognised over the period of the financing contracts.

Fee income from transaction services: Fee arising from corporate finance, corporate advisory, arranging the sale of assets and wealth management are recognised when earned or on a time proportionate basis when the fee is linked to time. Other fee income is recognised when services are rendered.

t) Fair value of financial assets

For investments that are traded in organised financial markets, fair value is determined by reference to the prevailing market bid price on the reporting date.

For investments where there is no quoted market price, a reasonable estimate of fair value is determined by reference to valuation by independent external valuers or based on recent arm's length market transactions. Alternatively, the estimate would also be based on current market value of another instrument, which is substantially the same, or is based on the assessment of future cash flows. The cash equivalent values are determined by the Group by calculating the present value of future cash flows at current profit rates for contracts with similar terms and risk characteristics.

For investments having fixed or determinable payments, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for instruments with similar terms and risk characteristics.

u) Foreign currencies

Foreign currency transactions are recorded at rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies at the consolidated statement of financial position date are retranslated at market rates of exchange prevailing at that date. Gains and losses arising on translation are recognised in the consolidated income statement.

2 ACCOUNTING POLICIES (continued)**2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)****2.3.2 Summary of significant accounting policies (continued)****u) Foreign currencies (continued)**

Non-monetary assets that are measured in terms of historical cost in foreign currencies are recorded at rates of exchange prevailing at the value dates of the transactions. Translation gains or losses on non-monetary items classified as “available-for-sale” and investment in associates are included in consolidated statement of changes in equity until the related assets are sold or derecognised at which time they are recognised in the consolidated income statement. Translation gains on non-monetary assets classified as “fair value through profit or loss” are directly recognised in the consolidated income statement.

v) Translation of foreign operation

Assets and liabilities of foreign subsidiaries whose functional currency is not Bahraini Dinars are translated into Bahraini Dinars at the rates of exchange prevailing at the reporting date. Income and expense items are translated at average exchange rates prevailing for the reporting period. Any exchange differences arising on translation are included in “foreign exchange translation reserve” forming part of other comprehensive income except to the extent that the translation difference is allocated to the non-controlling interest. On disposal of foreign operations, exchange differences relating thereto and previously recognised in other comprehensive income are recognised in the consolidated income statement.

w) Repossessed assets

Repossessed assets are assets acquired in settlement of dues. These assets are carried at the lower of carrying amount and fair value less costs to sell and reported within ‘other assets’.

x) Trade and settlement date accounting

Purchases and sales of financial assets and liabilities are recognised on the trade date, i.e. the date that the Group contracts to purchase or sell the asset or liability.

y) Derecognition of financial assets

Financial assets 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.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

z) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same source on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of income.

aa) Fiduciary assets

Assets held in a fiduciary capacity are not treated as assets of the Group and are accordingly not included in the consolidated statement of financial position.

2 ACCOUNTING POLICIES (continued)**2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)****2.3.2 Summary of significant accounting policies (continued)****ab) Dividend on ordinary shares**

Dividend on ordinary shares is recognised as a liability and deducted from equity when it is approved by the Group's shareholders. Dividend for the year that is approved after the reporting date is included in the equity and is disclosed as an event after the balance sheet date.

ac) Equity of investment account holders

All equity of investment account holders are carried at cost plus profit and related reserves less amounts settled.

Share of income for equity of investment account holder is calculated based on the income generated by the assets funded by such investment accounts after deducting Mudarib share (as Mudarib and Rabalmal). Operating expenses are charged to shareholders' funds and are not included in the calculation.

The basis applied by the Group in arriving at the equity of investment account holders' share of income is total investment income less shareholders' income. Portion of the income generated from equity of investment account holders is transferred to profit equalization reserve, mudarib share and investment risk reserve and the remaining is distributed to the equity of investment account holders.

ad) Treasury Stock

Own equity instruments that are reacquired, are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium.

ae) Zakah

In accordance with the Articles of Association of the Group, the responsibility to pay Zakah is on the shareholders of the Bank.

af) Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with the CBB and Murabaha receivables from banks with original maturities of less than 90 days.

ag) Wakala payables

The Group accepts funds from banks and customers under Wakala arrangement in which a return is payable to customers as agreed in the agreement. There is no restriction on the Group for the use of funds received under wakala agreement.

ah) Jointly financed and self financed

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

The equity of investment account holders is used to finance the assets of the Group as appropriate.

2 ACCOUNTING POLICIES (continued)**2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)****2.3.2 Summary of significant accounting policies (continued)****ai) Investment risk reserve**

This is the amount appropriated by the Group out of the income of investment account holders, after allocating the Mudarib share, in order to compensate future losses for investment account holders.

aj) Earnings prohibited by Shari'a

The Group is committed to contributing to charity any income generated from non-Islamic sources. Accordingly, any earning prohibited by Shari'a is credited to charity funds to be used for social welfare purposes.

ak) Profit on Murabaha and Wakala payables to banks non-banks

Profit on these is accrued on a time-apportioned basis over the period of the contract based on the principal amounts outstanding.

3 BUSINESS COMBINATION

During 2014, the Bank made an offer to acquire 100% of the issued and paid up shares of BMI, at an exchange ratio of eleven new shares of the Bank for each share of BMI. The acquisition through share exchange was approved by the shareholders of the Bank in their Extraordinary General Assembly Meeting held on 8 October 2013. The Bank issued 643,866,927 to former shareholders of the Bank. The total proceeds amounted to BD72,886 thousands from the new issue, including a share premium of BD8,499 thousands. The goodwill arising out of above acquisition amounted to BD25,971 thousands.

The management carried out an annual impairment test of goodwill by comparing the carrying amount with its recoverable amount (value-in-use) as of 31 December 2015. The determination of value-in-use involved the use of various assumptions including estimating discounted cash flows. The discount rate applied to cash flow projections represent the cost of capital adjusted for an appropriate risk premium.

The key assumptions used in estimating recoverable amounts of cash generating units were sensitised to test the resilience of value-in-use calculations. On this basis, management believes that reasonable changes in the key assumptions used to determine the recoverable amount of the Group's cash-generating units will not result in an impairment.

4 CLASSIFICATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS (continued)

	31 December 2014			
	<i>At fair value through profit or loss</i> <i>BD '000</i>	<i>Available for sale/fair value through equity</i> <i>BD '000</i>	<i>At amortised cost/others</i> <i>BD '000</i>	<i>Total</i> <i>BD '000</i>
ASSETS				
Cash and balances with banks and Central Bank	-	-	277,751	277,751
Sovereign Sukuk	-	-	145,789	145,789
Murabaha and Wakala receivables from banks	-	-	182,110	182,110
Corporate Sukuk	-	-	88,193	88,193
Murabaha financing	-	-	270,428	270,428
Mudaraba financing	-	-	189,601	189,601
Ijarah Muntahia Bittamleek	-	-	141,052	141,052
Musharaka	-	-	10,851	10,851
Assets under conversion	-	75,189	233,470	308,659
Non-trading investments	125,779	21,317	-	147,096
Investments in real estates	-	65,149	-	65,149
Development properties	-	-	59,262	59,262
Investment in associates	-	-	10,492	10,492
Other assets	-	2,412	30,481	32,893
Goodwill	-	-	25,971	25,971
	125,779	164,067	1,665,451	1,955,297
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS				
Murabaha and Wakala payables to banks	-	-	121,266	121,266
Murabaha and Wakala payables to non-banks	-	-	1,034,052	1,034,052
Current accounts	-	-	226,648	226,648
Liabilities under conversion	-	-	149,621	149,621
Term financing	-	-	21,337	21,337
Other liabilities	-	-	45,418	45,418
Equity of investment accountholders	-	-	28,152	28,152
	-	-	1,626,494	1,626,494

5 CASH AND BALANCES WITH BANKS AND CENTRAL BANK

	<i>2015</i> <i>BD '000</i>	<i>2014</i> <i>BD '000</i>
Mandatory reserve with Central Bank*	32,240	42,350
Cash and other balances with Central Bank	81,448	187,313
Balances with other banks	38,884	48,088
	152,572	277,751

* This balance is not available for use in the day-to-day operations of the Group.

6 MURABAHA AND WAKALA RECEIVABLES FROM BANKS

	<i>2015</i> <i>BD '000</i>	<i>2014</i> <i>BD '000</i>
GCC	103,345	176,455
Europe	-	5,655
	103,345	182,110

In addition to above amounts, deferred profits on Murabaha receivables from banks amounted to BD12 thousands (2014: BD30 thousands).

This consists of BD62,351 thousands (2014: BD24,281 thousands) of jointly financed assets and BD40,994 thousands (2014: BD157,829 thousands) of self financed assets.

7 CORPORATE SUKUK

	<i>2015</i> <i>BD '000</i>	<i>2014</i> <i>BD '000</i>
Investment grade	45,518	70,011
Non-investment grade	10,330	9,364
Un-rated Sukuk	8,309	8,818
	64,157	88,193

This consists of nil (2014: BD3,871 thousands) of jointly financed assets and BD64,157 thousands (2014: BD84,322 thousands) of self financed assets.

8 MURABAHA AND MUDARABA FINANCING**8.a Murabaha Financing**

	<i>2015</i> <i>BD '000</i>	<i>2014</i> <i>BD '000</i>
Murabaha financing - gross	273,300	275,166
Less: Specific provision	(4,452)	(4,738)
Murabaha financing - net	268,848	270,428

Murabaha financing is shown net of deferred profits of BD50,310 thousands (2014: BD53,630 thousands).

8.b Mudaraba Financing

	<i>2015</i> <i>BD '000</i>	<i>2014</i> <i>BD '000</i>
Mudaraba financing - gross	248,354	189,607
Less: Specific provision	(9,323)	(6)
Mudaraba financing - net	239,031	189,601

9 MOVEMENTS IN PROVISIONS

	<i>2015</i>		
	<i>Financing facilities & other assets BD '000</i>	<i>Available-for-sale investments BD '000</i>	<i>Total BD '000</i>
Balance at beginning of the year:			
Specific provision	5,073	4,328	9,401
Collective provision	4,709	-	4,709
Transfer			
Specific provision	160	-	160
Collective provision	(160)	-	(160)
Write offs			
Specific provision	(1,928)	-	(1,928)
Collective provision	-	-	-
Provision for impairment:			
Charge for the year - specific	21,802	1,143	22,945
Charge for the year - collective	500	-	500
Recoveries during the year	(594)	-	(594)
	21,708	1,143	22,851
Balance at the end of the year:			
Specific provision	24,513	5,471	29,984
Collective provision	5,049	-	5,049
	<i>2014</i>		
	<i>Financing facilities & other assets BD '000</i>	<i>Available-for-sale investments BD '000</i>	<i>Total BD '000</i>
Balance at beginning of the year:			
Specific provision	4,580	4,038	8,618
Collective provision	1,294	-	1,294
Transfer			
Specific provision	708	-	708
Collective provision	(708)	-	(708)
Provision for impairment:			
Charge for the year - specific	725	290	1,015
Charge for the year - collective	4,123	-	4,123
Recoveries during the year	(940)	-	(940)
	3,908	290	4,198
Balance at the end of the year:			
Specific provision	5,073	4,328	9,401
Collective provision	4,709	-	4,709

10 IJARAH MUNTAHIA BITTAMLEEK

This represents net investments in assets leased for periods which either approximate or cover major parts of the estimated useful lives of such assets. The majority of the lease documentations provide that the lessor undertakes to transfer the leased assets to the lessee at the end of the lease term upon the lessee fulfilling all its obligations under the lease agreement.

	<i>2015</i> <i>BD '000</i>	<i>2014</i> <i>BD '000</i>
Movements in Ijarah Muntahia Bittamleek assets are as follows:		
At 1 January	141,052	110,631
Ijarah assets arising on acquisition of BMI	-	3,654
Additions during the year - net	48,277	37,887
Ijarah assets depreciation	(15,939)	(10,101)
Transfer to other assets*	(17,729)	-
Specific provision	(444)	(1,019)
At 31 December	155,217	141,052

* On termination of lease, this asset was transferred to other assets.

	<i>2015</i> <i>BD '000</i>	<i>2014</i> <i>BD '000</i>
The future minimum lease receivable in aggregate are as follows:		
Due within one year	10,494	41,446
Due in one to five years	62,881	59,141
Due after five years	81,842	40,465
	155,217	141,052

	<i>2015</i> <i>BD '000</i>	<i>2014</i> <i>BD '000</i>
Ijarah Muntahia Bittamleek is divided into the following asset classes:		
Land and buildings	155,217	119,836
Aircraft	-	19,334
Machinery	-	1,882
	155,217	141,052

The accumulated depreciation on Ijarah Muntahia Bittamleek assets amounted to BD31,236 thousands (2014: BD23,852 thousands).

11 ASSETS AND LIABILITIES UNDER CONVERSION

These represent interest bearing non-Shari'a compliant assets and liabilities of BMI. These assets and liabilities have been reported as separate line items on the face of the consolidated statement of financial position. The details of the assets and liabilities under conversion are as follows:

	<i>2015</i> <i>BD '000</i>	<i>2014</i> <i>BD '000</i>
Assets		
Due from banks and financial institutions	-	13,949
Loans and advances	31,437	215,438
Non-trading investments - debt	16	75,165
Non-trading investment - available-for-sale - equity*	24	24
Other assets	555	4,083
	32,032	308,659
Liabilities		
Customers' deposits	-	138,793
Other liabilities	2,327	10,828
	2,327	149,621

Note: In addition to the above, "Cash and balances with banks and Central bank of Bahrain" include an amount of BD nil (2014 : BD54,000 thousands) of conventional balances. These represent short term placements with Central bank of Bahrain which carries a nominal income on conventional assets.

** The above available-for-sale equity investment is classified as Level 3 (2014: Level 3) in the fair value hierarchy (note 12). During the year, there were no movements in the fair value of this investment.*

12 NON-TRADING INVESTMENTS

Non-trading investments are classified as available-for-sale or fair value through profit or loss.

Fair value hierarchy

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

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

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

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

The following table shows an analysis of the financial instruments carried at fair value in the consolidated statement of financial position.

<i>31 December 2015</i>	<i>Level 1 BD '000</i>	<i>Level 2 BD '000</i>	<i>Level 3 BD '000</i>	<i>Total BD '000</i>
Financial assets at fair value through profit or loss	7,646	4,702	102,660	115,008
Available-for-sale financial assets	4,774	-	3,732	8,506
	12,420	4,702	106,392	123,514
<i>31 December 2014</i>	<i>Level 1 BD '000</i>	<i>Level 2 BD '000</i>	<i>Level 3 BD '000</i>	<i>Total BD '000</i>
Financial assets at fair value through profit or loss	18,476	-	107,303	125,779
Available-for-sale financial assets	6,730	-	14,587	21,317
	25,206	-	121,890	147,096

During the years ended 31 December 2015 and 2014, there were no transfers between Level 1, Level 2, and Level 3 fair value measurements. The movements in non-trading investments classified in level 3 of the fair value hierarchy are as follows:

	<i>Fair value measurement using significant unobservable inputs Level 3</i>	
	<i>2015 BD '000</i>	<i>2014 BD '000</i>
At 1 January	121,890	110,404
Additions during the year	-	35,031
Fair value changes	(2,426)	(6,797)
Repayments during the year	(408)	(1,303)
Disposals during the year	(12,653)	(15,020)
Other movements	(11)	(425)
At 31 December	106,392	121,890

13 INVESTMENTS IN REAL ESTATE

	<i>2015</i> <i>BD '000</i>	<i>2014</i> <i>BD '000</i>
Buildings	19,027	20,759
Land	49,759	44,390
	68,786	65,149

The above investments are classified under level 3 (2014: level 3) in fair value hierarchy. Movements represent fair value changes during the year.

14 DEVELOPMENT PROPERTIES

These represent properties acquired and held through investment vehicles exclusively for development in the Kingdom of Bahrain and the United Kingdom. The carrying amounts include land price and related construction costs.

15 INVESTMENT IN ASSOCIATES

The Group has a 14.4% (2014: 14.4%) stake in Al Salam Bank Algeria (ASBA), an unlisted bank incorporated in Algeria. The Bank has representation on the board of ASBA through which the Bank has a significant influence on ASBA.

The Group has a 20.9% (2014: 20.9%) stake in Gulf African Bank ("GAB"), a private Islamic bank incorporated in Kenya. This investment is denominated in Kenyan Shillings and is held through BMI.

The Group's interest in ASBA and GAB is accounted for using the equity method in the consolidated financial statements.

The following table illustrates summarised financial information of Group's investments in ASBA and GAB:

	<i>2015</i> <i>BD '000</i>	<i>2014</i> <i>BD '000</i>
Associates' statement of financial position:		
Total assets	234,168	236,788
Total liabilities	169,231	163,546
Net assets	64,937	73,242
Total revenue	20,484	22,844
Total expenses	16,411	14,837
Net profit for the year	4,073	8,007
Group's share of associates' net profit	855	369

16 OTHER ASSETS

	<i>2015</i> <i>BD '000</i>	<i>2014</i> <i>BD '000</i>
Assets under conversion (a)		
Non-trading-investments - debt	236	3,848
Non-trading investments - available-for-sale - equity (b)	2,036	2,412
	2,272	6,260
Repossessed assets	4,007	3,897
Profit receivable	7,995	6,878
Premises and equipment	3,910	5,494
Prepayments	1,066	1,001
Rental receivable on Ijarah Muntahia Bittamleek assets	685	669
Other receivables and advances (c)	15,469	8,694
Aircraft [net of impairment of BD 7,600 thousands (d)]	8,488	-
	43,892	32,893

(a) These represent non-Shari'a compliant assets resulted from the acquisition of Bahraini Saudi Bank B.S.C. ("ex-BSB").

(b) The above available-for-sale equity investments are classified as Level 3 in the fair value hierarchy (note 12). Movements in these investments are as follows:

	<i>Fair value measurement using significant unobservable inputs</i> <i>Level 3</i>	
	<i>2015</i> <i>BD '000</i>	<i>2014</i> <i>BD '000</i>
At 1 January	2,412	2,656
Fair value changes	188	20
Repayments during the year	(69)	(100)
Disposals during the year	(334)	-
Provision	(161)	(164)
At 31 December	2,036	2,412

(c) This includes BD10,865 thousands (2014: BD5,687 thousands) relating to receivable from sale of investments and advances to contractors.

(d) This aircraft was on lease and the lease was terminated during the year. The management is in the process of re-leasing the aircraft.

17 TERM FINANCING

Term financing is subject to the following key terms:

- a) BD7,531 thousands (2014: BD8,446 thousands) carries a profit and is repayable on quarterly basis with final maturity on 13 December 2018. The collateral for this facility is an aircraft, with a carrying value of BD8,488 thousands (2014: BD17,728 thousands); and
- b) BD11,490 thousands (2014: BD12,891 thousands) carries profit and matures on 21 August 2016. The collateral for this facility is investments in real estate with a carrying value of BD19,027 thousands (2014: BD20,759 thousands).
- c) BD16,965 thousands (2014: nil) carries profit and matures on 28 December 2018. The collateral for this facility is investments in corporate and sovereign Sukuk with a carrying value of BD40,710 thousands (2014: nil).

18 OTHER LIABILITIES

	<i>2015</i> <i>BD '000</i>	<i>2014</i> <i>BD '000</i>
Advances received from customers for sale of properties	13,034	14,558
Accounts payable and accruals	19,623	11,704
Profit payable	5,474	8,119
Dividends payable	3,728	3,129
End of service benefits and other employee related accruals	6,387	7,908
	48,246	45,418

19 EQUITY OF INVESTMENT ACCOUNTHOLDERS

Equity of investment account holders funds is commingled with the Group's funds and used to fund / invest in Islamic modes of finance and no priority is granted to any party for the purpose of investments and distribution of profits. According to the terms of acceptance of the unrestricted investment accounts, 100% of the funds are invested taking into consideration the relevant weightage, if any. The Mudarib's share of profit ranges between 40% and 50%. Operating expenses are charged to shareholders' funds and not included in the calculation.

The balances consists of savings accounts of BD49,093 thousands (2014: BD17,814 thousands) and call accounts of BD13,258 thousands (2014: BD10,338 thousands).

The average profit rate for the holders is 0.21% (2014: 0.38%).

20 SHARE CAPITAL

	<i>2015</i> <i>BD '000</i>	<i>2014</i> <i>BD '000</i>
Authorised:		
2,500,000,000 ordinary shares (2014: 2,500,000,000 shares) of BD0.100 each	250,000	250,000
Issued and fully paid: (BD0.100 per share)		
Balance at the beginning	214,093	149,706
Shares issued	-	64,387
	214,093	214,093

20.1 Proposed appropriation

The Board of Directors in its meeting on 9 February 2016 has resolved to recommend a cash dividend of 5 fils per share or 5% (2014: 5 fils or 5%) of the paid-up capital subject to approval at the forthcoming annual general meeting.

21 STATUTORY RESERVE

As required by Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net profit for the year has been transferred to the statutory reserve. The Group may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital of the Bank. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the CBB.

22 INCOME FROM FINANCING CONTRACTS

	<i>2015</i> <i>BD '000</i>	<i>2014</i> <i>BD '000</i>
Murabaha financing	15,736	15,192
Mudaraba financing	13,104	7,584
Ijarah Muntahia Bittamleek*	10136	7,930
Musharaka	558	2,807
Murabaha and Wakala receivables from banks	896	725
Income from assets under conversion **	7,800	17,256
	48,230	51,494

* Depreciation on Ijarah Muntahia Bitamleek amounted to BD15,939 thousands (2014: BD10,101thousands).

** The Bank's shareholders are advised, but not obliged, to contribute this income to charity at their discretion.

23 GAINS ON SALE OF INVESTMENTS AND SUKUK

	<i>2015</i> <i>BD '000</i>	<i>2014</i> <i>BD '000</i>
Gain on sale of:		
Available-for-sale investments	3,555	-
Development properties*	2,469	941
Sukuk	905	2,970
FVTPL investments	265	7,352
Investment properties	-	698
Other investments	1,140	321
	<u>8,334</u>	<u>12,282</u>

* Sales: BD17,203 thousands (2014: BD3,934 thousands) and cost: BD14,734 thousands (2014: BD2,993 thousands).

24 INCOME FROM INVESTMENTS

	<i>2015</i> <i>BD '000</i>	<i>2014</i> <i>BD '000</i>
(Loss) / income from FVTPL investments	(728)	997
Rental income from investments in real estate	1,687	1,866
Income from assets classified as held-for-sale	2,290	-
	<u>3,249</u>	<u>2,863</u>

25 FEES, COMMISSION AND OTHER INCOME - NET

	<i>2015</i> <i>BD '000</i>	<i>2014</i> <i>BD '000</i>
Financing and transaction related fees and commissions	4,336	3775
Fiduciary and other fees	387	268
Other income	4,461	2,607
	<u>9,184</u>	<u>6,650</u>

26 TOTAL COMPREHENSIVE INCOME

	<i>2015</i> <i>BD '000</i>	<i>2014</i> <i>BD '000</i>
Net profit for the year	10,548	15,821
Other comprehensive (loss) / income:		
<i>Items to be reclassified to consolidated income statement in subsequent periods:</i>		
Unrealized gain reclassified to consolidated income statement on disposal of available-for-sale investments	(965)	-
Unrealised (loss) / gain on available-for-sale investments	(470)	636
Changes in fair value of investments in real estate	1,549	1,045
Foreign currency re-translation	(1,472)	(819)
Other comprehensive (loss) / income for the year	(1,358)	862
Total comprehensive income for the year	9,190	16,683
Attributable to:		
Equity holders of the Bank	11,168	16,331
Non-controlling interest	(1,978)	352
	9,190	16,683

27 RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, directors of the Bank, senior management, close members of their families, entities owned or controlled by them and companies affiliated by virtue of common ownership or directors with that of the Bank. The transactions with these parties were approved by the Board of Directors. All the loans and advances to related parties are performing and are free of any provision for possible credit losses.

The balances with related parties at 31 December 2015 were as follows:

	<i>2015</i>				
	<i>Associates, and joint ventures BD '000</i>	<i>Major shareholders BD '000</i>	<i>Directors and related entities BD '000</i>	<i>Senior management BD '000</i>	<i>Total BD '000</i>
Assets:					
Cash and balances with banks and Central Bank	-	-	-	-	-
Murabaha and Wakala receivables from banks	-	36	-	-	36
Murabaha financing	32,799	-	-	36	32,835
Mudaraba financing	1,885	-	-	-	1,885
Ijarah Muntahia Bittamleek	-	-	-	187	187
Musharaka financing	-	-	55	-	55
Other assets	1,924	-	3,660	4	5,588
Liabilities and equity of investment accountholders:					
Murabaha and Wakala due to banks	1,508	-	-	-	1,508
Wakala payables to non-banks	2,235	23,400	637	653	26,925
Current accounts	2,216	4,010	163	50	6,439
Equity of investment accountholders	-	-	153	64	217
Other liabilities	911	191	3	3	1,108
Contingent liabilities and commitments	743	-	-	-	743

27 RELATED PARTY TRANSACTIONS (continued)

	2014				
	<i>Associates, and joint ventures BD '000</i>	<i>Major shareholders BD '000</i>	<i>Directors and related entities BD '000</i>	<i>Senior management BD '000</i>	<i>Total BD '000</i>
Assets:					
Cash and balances with banks and Central Bank	-	28	-	-	28
Murabaha financing	30,160	-	20	49	30,229
Mudaraba financing	14,310	-	56	-	14,366
Ijarah Muntahia Bittamleek	-	-	1,007	207	1,214
Musharaka financing	843	-	65	-	908
Assets under conversion	243	-	404	74	721
Other assets	885	6	3	6	900
Liabilities and equity of investment accountholders:					
Wakala payables to non-banks	9,057	90,015	3,355	946	103,373
Current accounts	941	3,905	1,980	55	6,881
Equity of investment accountholders	-	-	1,400	121	1,521
Liabilities under conversion	1,554	-	805	-	2,359
Other liabilities	129	4	17	4	154
Contingent liabilities and commitments	1,106	-	-	-	1,106

27 RELATED PARTY TRANSACTIONS (continued)

The income and expenses in respect of related parties included in the consolidated financial statements are as follows:

	<i>2015</i>				
	<i>Associates, and joint ventures BD '000</i>	<i>Major shareholders BD '000</i>	<i>Directors and related entities BD '000</i>	<i>Senior management BD '000</i>	<i>Total BD '000</i>
Income:					
Income from financing contracts	54	-	4	5	63
Other income	80	-	-	1	81
Gain on sale of investments & Sukuk	217	-	1,259	-	1,476
Expenses:					
Profit on Murabaha and Wakala payables to banks	3	-	-	-	3
Profit paid on Wakala from non-banks	144	2,720	13	16	2,893
Share of profits on equity of investment account holders	-	-	2	-	2
Other operating expenses	6	-	432	-	438
Provision for impairment	9,425	-	-	-	9,425
<i>2014</i>					
	<i>Associates, and joint ventures BD '000</i>	<i>Major shareholders BD '000</i>	<i>Directors and related entities BD '000</i>	<i>Senior management BD '000</i>	<i>Total BD '000</i>
Income:					
Income from financing contracts	397	-	115	14	526
Fair value changes on investments	(3,799)	-	-	-	(3,799)
Other income	195	-	-	-	195
Expenses:					
Profit paid on Wakala from non-banks	291	1,612	57	32	1,992
Share of profits on equity of investment account holders	-	-	4	23	27

Directors' remuneration for 2015 amounted to BD365 thousands (2014: BD329 thousands).

Compensation of key management personnel, consisting of short-term benefits and non-cash remuneration, for the year was BD3,142 thousands (2014: BD3,493 thousands).

28 CONTINGENT LIABILITIES AND COMMITMENTS

	<i>2015</i> <i>BD '000</i>	<i>2014</i> <i>BD '000</i>
Contingent liabilities on behalf of customers		
Guarantees	28,144	37,077
Letters of credit	9,594	9,704
Acceptances	2,275	3,464
	40,013	50,245
Irrevocable unutilised commitments		
Unutilised financing commitments	79,465	87,337
Unutilised non-funded commitments	37,023	50,023
Commitments towards development cost	6,981	23,880
	123,469	161,240
Commitment relating to purchase of investment	4,182	4,182
Capital expenditure commitments		
Estimated capital expenditure contracted for at the consolidated statement of financial position date but not provided for	29	45
	167,693	215,712
Forward foreign exchange contracts - notional amount	14,448	15,781

Letters of credit, guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers contingent upon their failure to perform under the terms of the contract.

Commitments generally have fixed expiration dates, or other termination clauses. Since commitment may expire without being utilized, the total contract amounts do not necessarily represent future cash requirements.

Operating lease commitment - Group as lessee

The Group has entered into various operating lease agreements for its premises. Future minimal rentals payable under the non-cancellable leases are as follows:

	<i>2015</i> <i>BD '000</i>	<i>2014</i> <i>BD '000</i>
Within 1 year	1,328	1,789
After one year but not more than five years	2,576	3,517
	3,904	5,306

29 RISK MANAGEMENT

29.1 Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to early settlement risk and operational risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry, they are monitored through the Group's strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Executive Committee

The Executive Committee has the responsibility to monitor the overall risk process within the Bank.

Shari'a Supervisory Board

The Group's Shari'a Supervisory Board is entrusted with the responsibility to ensure the Group's adherence to Shari'a rules and principles in its transactions and activities.

Credit/Risk Committee

Credit/Risk committee recommends the risk policy and framework to the Board. Its primary role is selection and implementation of risk management systems, portfolio monitoring, stress testing, risk reporting to the Board, Board Committees, Regulators and Executive management. In addition, individual credit transaction approval and monitoring is an integral part of the responsibilities of Credit/Risk Committee.

Asset and Liability Committee

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

29 RISK MANAGEMENT (continued)**29.1 Introduction (continued)*****Audit Committee***

The Audit Committee is appointed by the Board of Directors who are non-executive directors of the Group. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting, the audit thereof, the soundness of the internal controls of the Group, the measurement system of risk assessment, and the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

The audit committee reviews Group's accounting and financial practices, integrity of the Group's financial and internal controls and consolidated financial statements. It also reviews the Group's compliance with legal requirements, recommends the appointment, compensation and oversight of the Group's external and internal auditors.

Internal Audit

Risk management processes throughout the Group are audited by the internal audit function, that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board Audit Committee.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, the Credit/Risk Committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

29 RISK MANAGEMENT (continued)

29.1 Introduction (continued)

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information. A daily briefing is given to all relevant members of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

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

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

29.2 Credit risk

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, setting limits for transactions with counterparties, and continually assessing the creditworthiness of counterparties.

In addition to monitoring credit limits, the Group manages the credit exposures by entering into collateral arrangements with counterparties in appropriate circumstances and by limiting the duration of the exposure.

29 RISK MANAGEMENT (continued)**29.2 Credit risk (continued)****Maximum exposure to credit risk without taking account of any collateral and other credit enhancements**

The table below shows the maximum exposure (excluding sovereign exposure) to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown net of provision, before the effect of mitigation through the use of master netting and collateral agreements.

	<i>Gross maximum exposure 2015 BD '000</i>	<i>Gross maximum exposure 2014 BD '000</i>
ASSETS		
Balances with other banks	38,884	48,088
Murabaha receivables from banks	103,345	182,110
Corporate Sukuk	64,157	88,193
Murabaha and Mudaraba financing	413,308	376,716
Ijarah Muntahia Bittamleek	154,501	137,719
Musharaka financing	7,154	10,851
Assets under conversion	31,334	290,618
Other assets	23,714	16,753
Total	836,397	1,151,048
Contingent liabilities and commitments	167,693	215,712
Total credit risk exposure	1,004,090	1,366,760

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Type of credit risk

Various contracts entered into by the Group comprise Murabaha financing, Mudaraba financing, Musharaka financing, Sukuk and Ijarah Muntahia Bittamleek contracts. Murabaha financing contracts cover land, buildings, commodities, motor vehicles and others. Mudaraba financing consist of financing transactions entered through other Islamic banks and financial institutions. Mudaraba is a partnership agreement in which the Islamic bank acts as the provider of funds (the Rabamal) while the recipient of the funds (the Mudarib or the manager) provides the professional, managerial and technical know-how towards carrying out the venture, trade or service with an aim of earning profit. The various financial instruments are:

Murabaha financing

The Group arranges Murabaha transactions by buying an asset (which represents the object of the Murabaha) and then selling this asset to customers (beneficiary) after adding a margin of profit over the cost. The sale price (cost plus profit margin) is paid in instalments over the agreed period.

29 RISK MANAGEMENT (continued)**29.2 Credit risk (continued)***Ijarah Muntahia Bittamleek*

The legal title of the leased asset under Ijarah Muntahia Bittamleek passes to the lessee at the end of the Ijarah term, provided that all Ijarah instalments are settled.

a) The credit quality of balances with banks and Murabaha receivables from banks subject to credit risk is as follows:

	31 December 2015				
	Neither past due nor impaired			Past due or individually impaired BD '000	Total BD '000
	'A' Rated BD '000	'B' Rated BD '000	Unrated BD '000		
Balances with banks	34,999	2,326	1,559	-	38,884
Murabaha and Wakala receivables from banks	46,016	27,659	29,670	-	103,345
	81,015	29,985	31,229	-	142,229

	31 December 2014				
	Neither past due nor impaired			Past due or individually impaired BD '000	Total BD '000
	'A' Rated BD '000	'B' Rated BD '000	Unrated BD '000		
Balances with banks	37,365	5,446	5,277	-	48,088
Murabaha and Wakala receivables from banks	73,275	77,119	31,716	-	182,110
	110,640	82,565	36,993	-	230,198

The ratings referred to in the above tables are by one or more of the 4 international rating agencies (Standards & Poors, Moody's, Fitch and Capital Intelligence). The unrated exposures are with various high quality Middle East financial institutions, which are not rated by a credit rating agency. In the opinion of the management, these are equivalent to "A" rated banks.

29 RISK MANAGEMENT (continued)**29.2 Credit risk (continued)**

b) The credit quality of Corporate sukuk, financing facilities and other assets that are subject to credit risk, based on internal credit ratings, is as follows:

	<i>31 December 2015</i>					
	<i>Neither past due nor impaired</i>			<i>Past due</i>		
	<i>Satisfactory BD '000</i>	<i>Watch List BD '000</i>	<i>Substandard BD '000</i>	<i>Not impaired BD '000</i>	<i>Impaired BD '000</i>	<i>Total BD '000</i>
Corporate Sukuk	63,514	-	-	-	643	64,157
Murabaha and Mudaraba financing	306,449	11,254	-	56,489	39,117	413,309
Ijarah Muntahia Bittamleek	132,171	5,409	-	14,282	2,640	154,502
Musharaka financing	3,790	435	-	2,928	-	7,153
Assets under conversion	983	-	-	15,438	14,913	31,334
Other assets	23,714	-	-	-	-	23,714
	530,621	17,098	-	89,137	57,313	694,169

	<i>31 December 2014</i>					
	<i>Neither past due nor impaired</i>			<i>Past due</i>		
	<i>Satisfactory BD '000</i>	<i>Watch List BD '000</i>	<i>Substandard BD '000</i>	<i>Not impaired BD '000</i>	<i>Impaired BD '000</i>	<i>Total BD '000</i>
Corporate Sukuk	87,550	-	-	-	643	88,193
Murabaha and Mudaraba financing	325,576	43,141	-	4,348	3,651	376,716
Ijarah Muntahia Bittamleek	128,547	1,818	967	4,850	1,537	137,719
Musharaka financing	10,274	-	-	525	52	10,851
Assets under conversion	214,012	1,167	-	47,736	27,703	290,618
Other assets	16,753	-	-	-	-	16,753
	782,712	46,126	967	57,459	33,586	920,850

In addition to the above, the financing facilities provided to the Government of Bahrain, its related entities and GCC sovereign entities amounts to BD95,964 thousands (2014: BD86,644 thousands).

All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

29 RISK MANAGEMENT (continued)**29.2 Credit risk (continued)**

c) Past due but not impaired financing facilities are analysed as follows:

	<i>31 December 2015</i>			
	<i>0-30 days BD '000</i>	<i>31-90 days BD '000</i>	<i>> 90 days BD '000</i>	<i>Total BD '000</i>
Murabaha and Mudaraba financing	19,447	17,836	19,205	56,488
Ijarah Muntahia Bittamleek	4,600	7,080	2,602	14,282
Musharaka financing	148	2,182	599	2,929
Assets under conversion	1,147	638	13,653	15,438
	25,342	27,736	36,059	89,137

	<i>31 December 2014</i>			
	<i>0-30 days BD '000</i>	<i>31-90 days BD '000</i>	<i>> 90 days BD '000</i>	<i>Total BD '000</i>
Murabaha and Mudaraba financing	2,753	1,420	175	4,348
Ijarah Muntahia Bittamleek	6	195	4,649	4,850
Musharaka financing	73	-	452	525
Assets under conversion	26,598	13,092	8,046	47,736
	29,430	14,707	13,322	57,459

All the past due but not impaired financing facilities are covered by collateral of BD186,280 thousands (2014: BD77,935 thousands). The utilisation of the collateral will be on customer by customer basis and is limited to the customers' total exposure.

The maximum credit risk, without taking into account the fair value of any collateral and Shari'a-compliant netting agreements, is limited to the amounts on the consolidated statement of financial position plus commitments to customers disclosed in Note 28 except capital commitments.

During the year BD57,899 thousands (2014: BD53,187 thousands) of financing facilities were renegotiated. Most of the renegotiated facilities are performing and are secured.

At 31 December 2015, the amount of credit exposure in excess of 15% of the Group's regulatory capital to individual counterparties was nil (2014: BD3,356 thousands).

29.3 Legal risk and claims

Legal risk is the risk arising from the potential that unenforceable contracts, lawsuits or adverse judgements can disrupt or otherwise negatively affect the operations of the Group. The Group has developed controls and procedures to identify legal risks and believes that losses will be minimised.

29 RISK MANAGEMENT (continued)**29.2 Credit risk (continued)**

As at 31 December 2015, legal suits amounting to BD6,285 thousands (2014: BD2,586 thousands) were pending against the Group. Based on the opinion of the Group's legal counsel, the total estimated liability arising from these cases is not considered to be material to the Group's consolidated financial position as the Group also has filed counter cases against these parties.

30 CONCENTRATIONS

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

The distribution of assets, liabilities and equity of investment account holders by geographic region and industry sector was as follows:

	<i>Liabilities, equity of investment account holders and owners' equity</i>			<i>Liabilities, equity of investment account holders and owners' equity</i>		
	<i>Assets</i>	<i>Contingent liabilities and Commitments</i>	<i>Assets</i>	<i>Contingent liabilities and Commitments</i>	<i>Assets</i>	<i>Contingent liabilities and Commitments</i>
	<i>2015 BD '000</i>	<i>2015 BD '000</i>	<i>2014 BD '000</i>	<i>2014 BD '000</i>	<i>2014 BD '000</i>	<i>2014 BD '000</i>
Geographic region						
GCC	1,470,200	1,266,869	170,087	1,732,319	1,553,152	215,180
Arab World	20,031	26,722	23	7,764	1,887	-
Europe	67,108	21,067	694	51,977	6,038	4,133
Asia Pacific	77,351	15,643	744	117,572	52,728	1,133
North America	10,923	1,302	-	22,179	7,007	4
Others	11,030	5,038	49	23,486	5,682	568
	1,656,643	1,336,641	171,597	1,955,297	1,626,494	221,018
Owners' Equity	-	320,002	-	-	328,803	-
	1,656,643	1,656,643	171,597	1,955,297	1,955,297	221,018

30 CONCENTRATIONS (continued)

	<i>Assets</i>	<i>Liabilities, equity of investment account holders and owners' equity</i>	<i>Contingent liabilities and Commitments</i>	<i>Assets</i>	<i>Liabilities, equity of investment account holders and owners' equity</i>	<i>Contingent liabilities and Commitments</i>
	<i>2015 BD '000</i>	<i>2015 BD '000</i>	<i>2015 BD '000</i>	<i>2014 BD '000</i>	<i>2014 BD '000</i>	<i>2014 BD '000</i>
Industry sector						
Government and public sector	537,925	107,008	28,168	467,622	119,408	30,642
Banks and financial institutions	303,063	273,763	4,911	554,429	426,788	5,366
Real estate	407,449	210,969	48,089	410,678	205,966	83,405
Trading and manufacturing	122,415	103,745	48,678	193,638	104,447	55,553
Aviation	11,171	37,704	-	21,822	47,412	-
Individuals	179,001	499,008	1,456	185,828	547,402	4,186
Others	95,619	104,444	40,295	121,280	175,071	41,866
	1,656,643	1,336,641	171,597	1,955,297	1,626,494	221,018
Owners' Equity	-	320,002	-	-	328,803	-
	1,656,643	1,656,643	171,597	1,955,297	1,955,297	221,018

31 MARKET RISK

Market risk arises from fluctuations in global yields on financial instruments and foreign exchange rates that could have an indirect effect on the Group's assets value and equity prices. The Board has set limits on the risk that may be accepted. This is monitored on a regular basis by the Asset and Liability Committee of the Group.

31.1 Equity price risk

Equity price risk arises from fluctuations in equity prices. The Board has set limits on the amount and type of investments that may be accepted. This is monitored on an ongoing basis by the Group's Investment Committee.

The effect on income (as a result of changes in the fair values of non-trading investments held at fair value through profit or loss and available-for-sale investments) solely due to reasonably possible changes in equity prices, is as follows:

31 MARKET RISK (continued)**31.1 Equity price risk (continued)**

	<i>2015</i>			
	<i>10% increase</i>		<i>10% decrease</i>	
	<i>Effect on net profit BD '000</i>	<i>Effect on equity BD '000</i>	<i>Effect on net profit BD '000</i>	<i>Effect on equity BD '000</i>
Quoted:				
Bahrain	-	193	(193)	-
Saudi	585	-	(585)	-
Singapore	-	284	(284)	-
Frankfurt	179	-	(179)	-
Unquoted	10,736	373	(10,736)	(373)
	<i>2014</i>			
	<i>10% increase</i>		<i>10% decrease</i>	
	<i>Effect on net profit BD '000</i>	<i>Effect on equity BD '000</i>	<i>Effect on net profit BD '000</i>	<i>Effect on equity BD '000</i>
Quoted:				
Bahrain	-	301	-	(301)
Saudi	540	-	(540)	-
Singapore	1,155	372	(1,155)	(372)
Frankfurt	152	-	(152)	-
Unquoted	10,730	1,502	(10,730)	(1,502)

31.2 Profit return risk

The Group has exposure to fluctuations in the profit rates on its assets and liabilities. The Group recognises income on certain financial assets on a time-apportioned basis. The Group has set limits for profit return risk and these are monitored on an ongoing basis by the Group's Asset Liability Committee (ALCO).

The Group manages exposures to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows.

The effect on income solely due to reasonably possible immediate and sustained changes in profit return rates, affecting both floating rate assets and liabilities and fixed rate assets and liabilities with maturities less than one year are as follows:

31 MARKET RISK (continued)**31.2 Profit return risk (continued)**

	<i>2015</i>			
	<i>Change in rate %</i>	<i>Effect on net profit BD '000</i>	<i>Change in rate %</i>	<i>Effect on net profit BD '000</i>
Bahraini Dinars	0.10	(237)	(0.10)	237
US Dollars	0.10	(191)	(0.10)	191
	<i>2014</i>			
	<i>Change in rate %</i>	<i>Effect on net profit BD '000</i>	<i>Change in rate %</i>	<i>Effect on net profit BD '000</i>
Bahraini Dinars	0.10	(208)	(0.10)	208
US Dollars	0.10	(142)	(0.10)	142

31.3 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. Positions are monitored on a periodic basis by the Asset Liability Committee to ensure positions are maintained within established limits.

Substantial portion of the Group's assets and liabilities are denominated in Bahrain dinars, US dollars or Saudi Riyals. As the Bahraini Dinar and Saudi Riyals are pegged to the US Dollars, positions in these currencies are not considered to represent significant currency risk as of 31 December 2015 and 2014.

32 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its liabilities as they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may impact certain sources of funding. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an adequate balance of cash, cash equivalents and readily convertible marketable securities. Liquidity position is monitored on an ongoing basis by the Asset Liability Committee.

32 LIQUIDITY RISK (continued)

The table below summarises the expected maturity profile of the Group's assets and liabilities as at 31 December 2015 and 2014:

	<i>31 December 2015</i>				
	<i>Upto 3 months BD '000</i>	<i>3 months to 1 year BD '000</i>	<i>1 to 5 years BD '000</i>	<i>Over 5 years BD '000</i>	<i>Total BD '000</i>
ASSETS					
Cash and balances with banks and the Central Bank	135,505	11,215	5,852	-	152,572
Sovereign Sukuk	721	46,618	72,206	193,564	313,109
Murabaha & Wakala receivables from banks	103,345	-	-	-	103,345
Corporate Sukuk	675	16,566	37,238	9,678	64,157
Murabaha and Mudaraba financing	45,936	153,444	214,864	93,635	507,879
Ijarah Muntahia Bittamleek	4,272	6,222	62,881	81,842	155,217
Musharaka financing	1,951	819	2,793	1,591	7,154
Assets under conversion	-	-	22,163	9,869	32,032
Non-trading investments	-	-	123,157	357	123,514
Investments in real estates	-	-	68,786	-	68,786
Development properties	-	-	49,021	-	49,021
Investment in associates	-	-	7,525	2,469	9,994
Other assets	34,590	2,144	3,056	4,102	43,892
Goodwill	-	-	-	25,971	25,971
	326,995	237,028	669,542	423,078	1,656,643
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS					
Murabaha and Wakala payables to banks	91,067	13,437	16,291	-	120,795
Wakala payables to non-banks	-	84,257	758,313	-	842,570
Current accounts	224,366	-	-	-	224,366
Liabilities under conversion	2,327	-	-	-	2,327
Term financing	-	7,531	28,455	-	35,986
Other liabilities	19,995	20,329	7,922	-	48,246
Equity of investment accountholders	18,706	12,470	31,175	-	62,351
	356,461	138,024	842,156	-	1,336,641

32 LIQUIDITY RISK (continued)

	<i>31 December 2014</i>				
	<i>Upto 3 months BD '000</i>	<i>3 months to 1 year BD '000</i>	<i>1 to 5 years BD '000</i>	<i>Over 5 years BD '000</i>	<i>Total BD '000</i>
ASSETS					
Cash and balances with banks and the Central Bank	256,575	-	21,176	-	277,751
Sovereign Sukuk	10,267	-	87,655	47,867	145,789
Murabaha & Wakala receivables from banks	182,110	-	-	-	182,110
Corporate Sukuk	-	19,902	52,654	15,637	88,193
Murabaha and Mudaraba financing	28,803	121,852	211,206	98,168	460,029
Ijarah Muntahia Bittamleek	28,402	13,044	59,141	40,465	141,052
Musharaka financing	3,010	1,774	3,393	2,674	10,851
Assets under conversion	30,185	21,326	257,148	-	308,659
Non-trading investments	-	-	145,121	1,975	147,096
Investments in real estates	-	-	65,149	-	65,149
Development properties	-	-	59,262	-	59,262
Investment in associates	-	-	7,753	2,739	10,492
Other assets	23,854	2,096	474	6,469	32,893
Goodwill	-	-	-	25,971	25,971
	563,206	179,994	970,132	241,965	1,955,297

	<i>31 December 2014</i>				
	<i>Upto 3 months BD '000</i>	<i>3 months to 1 year BD '000</i>	<i>1 to 5 years BD '000</i>	<i>Over 5 years BD '000</i>	<i>Total BD '000</i>
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS					
Murabaha and Wakala payables to banks	-	44,179	77,087	-	121,266
Wakala payables to non-banks	-	103,405	930,647	-	1,034,052
Current accounts	226,648	-	-	-	226,648
Liabilities under conversion	9,637	14,962	125,022	-	149,621
Term financing	303	935	20,099	-	21,337
Other liabilities	40,568	4,323	527	-	45,418
Equity of investment accountholders	8,445	5,631	14,076	-	28,152
	285,601	173,435	1,167,458	-	1,626,494

32 LIQUIDITY RISK (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2015 and 2014 based on contractual undiscounted payment obligation:

	<i>31 December 2015</i>					
	<i>On demand BD '000</i>	<i>Upto 3 months BD '000</i>	<i>3 months to 1 year BD '000</i>	<i>1 to 5 years BD '000</i>	<i>Over 5 years BD '000</i>	<i>Total BD '000</i>
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, COMMITMENTS AND CONTINGENT LIABILITIES						
Murabaha and Wakala payables to banks	-	112,366	8,429	-	-	120,795
Wakala payables to non-banks	-	384,898	427,200	30,472	-	842,570
Current accounts	224,366	-	-	-	-	224,366
Equity of investment accountholders	27,986	34,365	-	-	-	62,351
Liabilities under conversion	-	-	2,327	-	-	2,327
Term financing	-	-	7,531	28,455	-	35,986
Unutilised commitments	9,319	23,370	67,062	9,063	7,674	116,488
Contingent liabilities	40,013	291	1,037	2,577	-	43,918
Other financial liabilities	-	6,245	12,438	195	-	18,878
Profit on financial liabilities	-	1,037	5,986	3,063	-	10,086
	301,684	562,572	532,010	73,825	7,674	1,477,765
31 December 2014						
	<i>On demand BD '000</i>	<i>Upto 3 months BD '000</i>	<i>3 months to 1 year BD '000</i>	<i>1 to 5 years BD '000</i>	<i>Over 5 years BD '000</i>	<i>Total BD '000</i>
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, COMMITMENTS AND CONTINGENT LIABILITIES						
Murabaha and Wakala payables to banks	-	103,091	18,175	-	-	121,266
Wakala payables to non-banks	-	332,009	553,664	147,730	649	1,034,052
Current accounts	226,648	-	-	-	-	226,648
Equity of investment accountholders	-	28,152	-	-	-	28,152
Liabilities under conversion	-	58,422	25,511	51,971	13,717	149,621
Term financing	303	935	20,099	-	-	21,337
Unutilised commitments	33,594	7,337	50,686	18,358	7,653	117,628
Contingent liabilities	2,199	17,475	24,381	6,190	-	50,245
Other financial liabilities	-	5,971	5,855	427	-	12,253
Profit on financial liabilities	81	1,254	9,083	7,888	49	18,355
	262,825	554,646	707,454	232,564	22,068	1,779,557

33 SEGMENT INFORMATION

Primary segment information

For management purposes, the Group is organised into four major business segments:

Banking	Principally managing Shari'a compliant profit sharing investment accounts, and offering Shari'a compliant financing contracts and other Shari'a-compliant products. This segment comprises corporate banking, retail banking and private banking and wealth management.
Treasury	Principally handling Shari'a compliant money market, trading and treasury services including short-term commodity Murabaha.
Investments	Principally the Group's proprietary portfolio and serving clients with a range of investment products, funds and alternative investments.
Capital	Manages the undeployed capital of the Group by investing it in high quality financial instruments, incurs all expenses in managing such investments and accounts for the capital governance related expenses.

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

Segment information is disclosed as follows:

	<i>31 December 2015</i>				
	<i>Banking BD '000</i>	<i>Treasury BD '000</i>	<i>Investments BD '000</i>	<i>Capital BD '000</i>	<i>Total BD '000</i>
Operating income	32,493	8,969	7,054	9,295	57,811
Segment result	8,998	6,532	(4,458)	(524)	10,548
Segment assets	655,372	618,757	219,074	163,440	1,656,643
Segment liabilities, and equity	1,108,457	177,678	39,565	330,943	1,656,643

Goodwill resulting from BMI acquisition is allocated to banking segment.

	<i>31 December 2014</i>				
	<i>Banking BD '000</i>	<i>Treasury BD '000</i>	<i>Investments BD '000</i>	<i>Capital BD '000</i>	<i>Total BD '000</i>
Operating income	30,931	5,757	8,507	873	46,068
Segment result	7,148	4,448	5,600	(1,375)	15,821
Segment assets	830,396	537,408	356,947	230,546	1,955,297
Segment liabilities, and equity	1,444,201	121,549	62,258	327,289	1,955,297

Secondary segment information

The Group primarily operates in the GCC and derives substantially all its operating income and incurs all operating expenses in the GCC.

34 FIDUCIARY ASSETS

Funds under management at the year-end amounted to BD80,891 thousands (2014: BD78,178 thousands). These assets are held in a fiduciary capacity and are not included in the consolidated statement of financial position.

35 SHARI'A SUPERVISORY BOARD

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

36 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of sovereign sukuk is BD303,506 thousands (2014: BD147,593 thousands). The estimated fair values of other financial instruments are not materially different to their carrying values as of 31 December 2015 and 2014.

37 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

During the year, the Group received Sharia' prohibited income totalling BD189 thousands (2014: BD211 thousands). These include, income earned from the conventional financing and investments, penalty charges from customers and income on current account balances held with correspondent banks. These funds were allocated to charitable contributions.

38 SOCIAL RESPONSIBILITY

The Group discharges its social responsibility through charity fund expenditures and donations to individuals and organisations which are used for charitable purposes. During the year the Group paid an amount of BD320 thousands (2014: BD225 thousands) on account of charitable donations.

39 ZAKAH

Pursuant to a resolution of the shareholders in an EGM held on 12 November 2009, it was resolved to amend the articles of association of the Bank to inform the shareholders of their obligation to pay Zakah on income and net worth. Consequently, Zakah is not recognized in the consolidated income statement as an expense. The total Zakah payable by the shareholders for 2015 has been determined by the Shari'a supervisory board as 3.9 fils (2014: 3.8 fils) per share.

40 CAPITAL ADEQUACY

The primary objectives of the Group's capital management policies are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. Capital adequacy for each of the group companies is also managed separately at individual company level. The Group does not have any significant restrictions on its ability to access or use its assets and settle its liabilities other than any restrictions that may result from the supervisory frameworks within which the banking subsidiaries operate.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The regulatory capital and risk-weighted assets have been calculated in accordance with Basel III as adopted by the CBB.

	<i>2015</i> <i>BD '000</i>
Common equity Tier 1 Capital	268,814
Tier 2 capital	32,240
Total capital	301,054
Credit risk-weighted assets	1,381,565
Market risk-weighted assets	19,606
Operational risk-weighted assets	99,967
Total risk-weighted assets	1,501,138
Total capital ratio	20.1%
Minimum requirement	12.5%

Capital adequacy ratio for 2014 was calculated to be 18.7%. This included the regulatory capital of BD263,222 thousand and risk-weighted assets of BD1,407,346 thousand, calculated in accordance with Basel II regulations as adopted by the CBB.

41 DEPOSIT PROTECTION SCHEME

Deposits held with the Group's Bahrain operations are covered by the Deposit Protection Scheme (the Scheme) which was established by the Central Bank of Bahrain concerning the establishment of Deposit Protection Scheme and Deposit Protection Board. No liability is due until one of the member commercial banks of the Scheme is unable to meet its deposit obligations.

42 COMPARATIVE FIGURES

Certain of the prior year figures have been reclassified to conform to the current year presentation. Such reclassifications did not affect previously reported net profit, total assets, total liabilities and total equity of the Group.