



**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  
of the Kingdom of Bahrain and  
Deputy Supreme Commander  
and First Deputy Prime Minister

## CORPORATE PROFILE

**Al Baraka Islamic Bank offers innovative financial products, particularly in the areas of Islamic investment, international trade, management of short-term liquidity and consumer financing.**

Al Baraka Islamic Bank is one of leading financial institutions in the Islamic banking sector. Throughout its history of more than three decades, since its establishment in 1984, the bank has played a prominent role in building the infrastructure of the Islamic finance industry. The bank also played a significant role in promoting the Islamic finance industry and publicizing its merits. The bank enjoys a good reputation and high standing with the community in Bahrain in particular, and in the Gulf, Arab and Islamic worlds in general.

Al Baraka Islamic Bank offers innovative financial products, particularly in the areas of Islamic investment, international trade, management of short-term liquidity and consumer financing that the bank has lunched under (Taqseet product)... etc., which are all based on Islamic financing modes. Such financing modes include Murabaha, Wakala, Istisna, Musharaka, Mudaraba, Salam and Ijarah Muntahia Bittamleek.

The Bank had achieved excellent results in its banking operations, thanks to its vast wealth of knowledge in the area of the Fiqh (jurisprudence) of Islamic finance, the diverse experience of its senior management team in different fields of Islamic banking and the strength and depth that the parent company, Al Baraka Banking Group, with its strong financial position and standing provides to the bank. Since its inception, Al Baraka Islamic Bank is managing funds on behalf of many large financial institutions and high net worth clients who sought rewarding long-term financial returns by deploying Shari'a compliant financial instruments.

During the year 2010, AIB completed the merger of its branches in Pakistan, which their operations dates back to 1991, with the Emirates Global Islamic Bank Limited, to establish Al Baraka Bank Pakistan Limited as a subsidiary with 64.64% Shareholding. The Head office is located in Karachi. ABPL have assets in excess of Rs. 85 billion a workforce of more than 1400 professionals and a network of 135 branches in 82 cities and towns across the country. ABPL has commenced operations on 29th of October 2010 and consequently, all branches of AIBP and Emirates Global Islamic Bank is re-branded as ABPL.

In July 2012, the Bank acquired 60% of the issued shares of Itqan Capital (previously Al Tawfeek Financial Group). This share increased to 83.07% in October 2015. Itqan Capital is a closed joint stock company registered in the Kingdom of Saudi Arabia and licensed by the Capital Market Authority. The company engages in asset and portfolio management, and custody, research and advisory services. All products and services offered by the company are in strict compliance with the provisions of Islamic Shari'a. The company's paid-up capital is SAR 200 million and the authorized capital is SAR 360 million. This step represent the Bank and the parent company Al Baraka banking Group's strategy to enter key regional markets, for Saudi Arabia is the largest Arab economy with strong fundamentals and a stable financial and investment environment, which presents us with significant business and investment opportunities.

As for its strategic plans, the bank continue maintaining the pace of its growth in its business operations with particular focus on commissions and fee – based earnings. The bank also expanding its investment portfolio, continue to develop its infrastructure, particularly with regard to modern information technologies (IT) and related services, improve customer service, provide training and coaching to employees and maintain our special relationship with our customers as their "Partners in Achievement" .

Al Baraka Islamic Bank is a banking institution registered with the Ministry of Industry and Commerce in Bahrain under Commercial Registration No. 14400 and has a Retail Banking license issued by the Central Bank of Bahrain. The bank has an authorized capital of US\$ 600 million and issued and paid-up capital of US\$122 million. Al Baraka Islamic Bank - Bahrain is one of the banking units of Al Baraka Banking Group, which is a Bahrain Joint Stock Company listed in Bahrain stock exchange and Nasdaq Dubai. Al Baraka Banking Group is a leading international Islamic banking group with Standard and Poor's rating of investment grade BB+/ Negative/B. The Group offers retail, corporate and investment banking and treasury services, strictly in accordance with the principles of the Islamic Shari'a. The authorized capital of Al Baraka Banking Group is US\$1.5 billion, while total equity amounts to around US\$1.97billion. The Group has a wide geographical presence in the form of subsidiary banking units and representative offices in 15 countries, which in turn provide their Shari'a-compliant banking products and services through more than 600 branches. These banking Units are Jordan Islamic Bank, Jordan; Al Baraka Islamic Bank, Bahrain; Al Baraka Bank Pakistan Limited, Pakistan; Al Baraka Bank Algeria; Al Baraka Bank Sudan; Al Baraka Bank Ltd, South Africa; Al Baraka Bank Lebanon; Al Baraka Bank Tunis; Al Baraka Bank Egypt; Al Baraka Turk Participation Bank, Turkey and its branches in Iraq; Al Baraka Bank Syria and a representative office in Indonesia and a representative office in Libya.

## VISSION, MISSION & RATINGS

### Vision

We believe society needs a fair and equitable financial system: one which rewards effort and contributes to the development of the community.

### Mission

To meet the financial needs of communities across the world by conducting business ethically in accordance with our beliefs, practicing the highest professional standards and sharing the natural benefits with the customers, staff and shareholders who participate in our business success.

### International Ratings:

Over the past 32 years of Islamic banking, Al Baraka Islamic Bank has succeeded in establishing a recognizable local, regional and international presence that has ensured its ratings denotes to the financial soundness of the bank and its capacity to repay its financial obligation on a timely basis.

Capital Intelligence has assigned long term and short term foreign currency credit ratings to the bank at BB and B.

### Capital Intelligence Ratings

Long term

**BB**

Short term

**B**

## FINANCIAL HIGHLIGHTS

“A remarkable growth has been maintained in financial position of the Bank, which reached to USD 1,854.573 million as at 31 December 2015.”

PROFIT OF THE YEAR (USD Million)

**6.0**  
**USD MILLION**

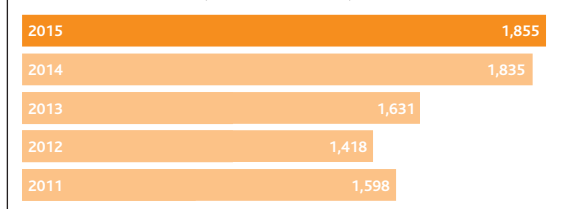
6.0	2.1	0.9	-10.6	2.6
2015	2014	2013	2012	2011

EARNINGS PER SHARE (USD)

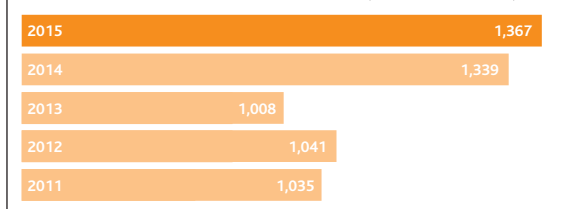
**4.9**  
**USD**

4.9	1.7	0.7	-8.67	2.12
2015	2014	2013	2012	2011

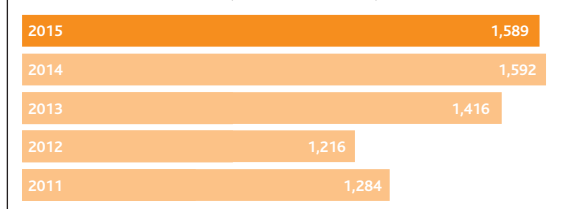
TOTAL ASSETS (USD Million)



FINANCING & INVESTMENTS (USD Million)

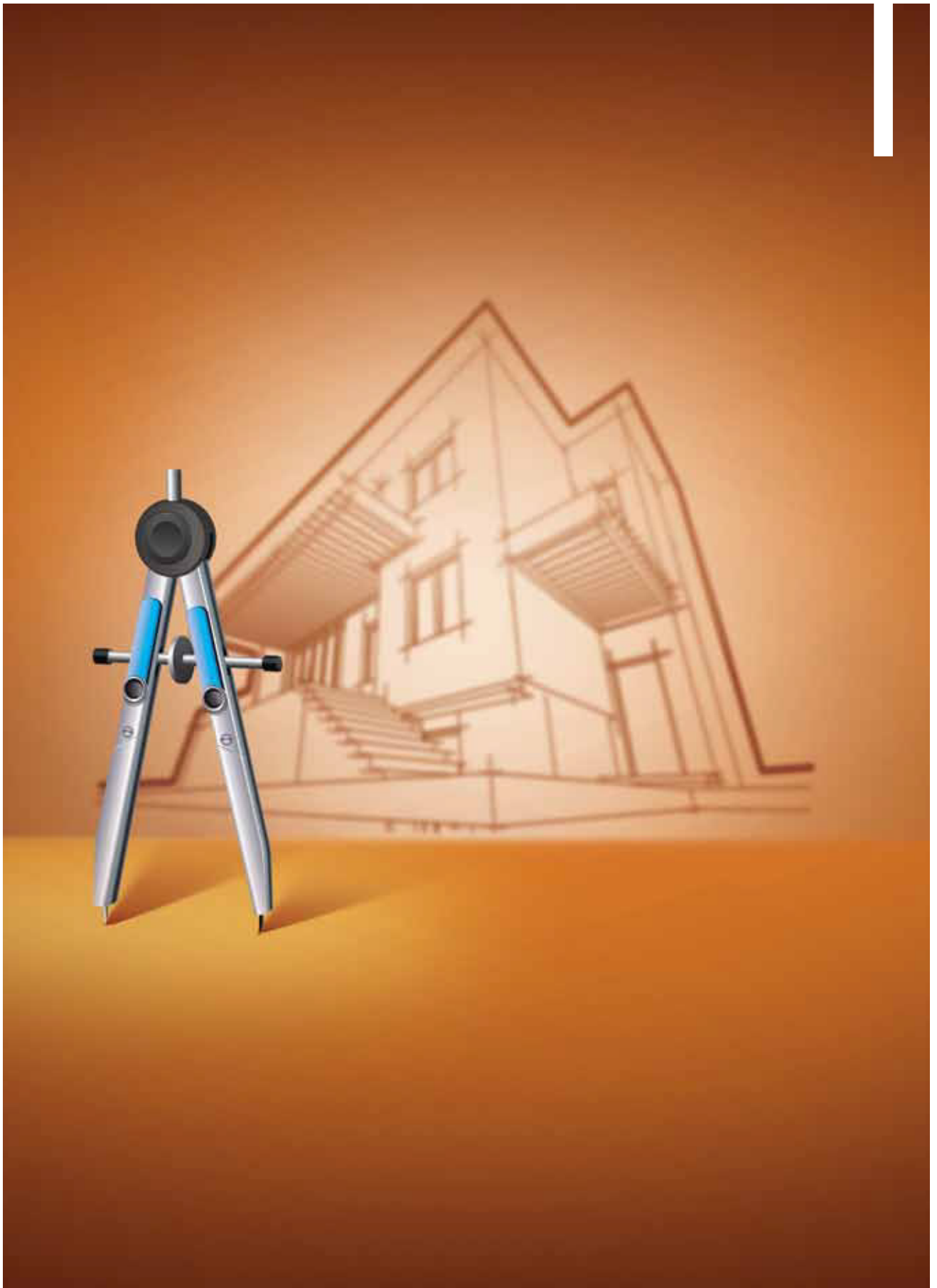


TOTAL DEPOSITS (USD Million)



TOTAL EQUITY (USD Million)





## BOARD OF DIRECTORS



**Back Row From Left to Right: 5. Mr. Abdulrahman Abdulla Mohamed, 4. Mr. Moosa Abdul Aziz Shihadeh, 8. Mr. Maqbool Habib Khalfan, 6. Mr. Ashraf Ahmed EL-Ghamrawy, 7. Mr. Yousif Ali Fadil Bin Fadil, 9. Dr. Khalid Abdulla Ateeq, 10. Mr. Mohammed Isa Al Mutaweh**

**Front Row From Left to Right: 2. Mr. Adnan Ahmed Yousif, 1. Mr. Khalid Rashid Al Zayani, 3. Abdul Latif Abdul Rahim Janahi**

**1. Mr. Khalid Rashid Al Zayani****Chairman**

Experience : 46 Years

Mr. Khalid Rashid Al Zayani is the Honorary OBE in the 2014 Queen's Honours List and also involved in other business & Government Activities viz; Chairman of Al Baraka Islamic Bank, Midal Cables Ltd, First Motors, Aluwheel, Metal Form Co., Intersteel, Gulf Closures, Imerys Al Zayani Fused Minerals, Bahrain British Business Forum and Rashid Al Zayani Charitable Foundation.

Mr. Al Zayani is the Honorary Chairman of the Board of Directors of Al Zayani Investments Group, Zayani Motors, Euro Motors, Zayani Properties, Zayani Leasing, Zayani Industries, Orient Motors, Bahrain Voluntary Work Society; Board Member of Investcorp Bank, BCCI and American Bahraini Friendship Society; Founding Member & Co-Chairman of Bahrain British Business Council & U.S. Bahrain Business Council; President of CISI-Bahrain Advisory Council and Honorary Board Member of Bahrain India Society.

His contributions to social and charitable activities include being a Founder and Former President of AmCham; Board Member of EDB; Founding Member & Vice Chairman of BISB; Founding member & Board Member of BKIC & NMC and Board Member of Takaful Intl. & Bahrain Credit.

**2. Mr. Adnan Ahmed Yousif****Vice Chairman**

Experience: 43 Years

Mr. Adnan Ahmed Yousif is a highly regarded senior banker with over 43 years of international banking experience. He holds a Master of Business Administration degree from University of Hull, UK. He was earlier with Arab Banking Corporation, for over 20 years and last served as Director on its Board.

As President & Chief Executive, Mr. Yousif leads Al Baraka Banking Group (ABG) since inception, developing the Group into one of the largest and most diversified Islamic banking groups in the world operating a network of over 500 branches in 15 countries, with its Head Office in the Kingdom of Bahrain. He is also the Chairman of Al Baraka Turk Participation Bank, Banque Al Baraka D'Algerie, Al Baraka Bank Ltd. South Africa, Al Baraka Bank Lebanon, Jordan Islamic Bank, Al Baraka Bank Egypt, Al Baraka Bank Syria, Al Baraka Bank Sudan, Al Baraka Bank Pakistan Ltd., Vice Chairman of Al Baraka Islamic Bank, Bahrain and a Board member of Al Baraka Bank Tunisia.

Mr. Yousif was the Chairman of the Union of Arab Banks, Lebanon for two terms (2007-2013). Besides having received many international awards including twice the Islamic Banker of the Year award (2004 and 2009), he is the recipient of the Medal of Efficiency, a unique honor conferred by His Royal Highness - King Hamad Bin Isa Al Khalifa, the King of the Kingdom of Bahrain during the year 2011. More recently, Mr. Yousif received the title of the CSR International Ambassador (Kingdom of Bahrain) from the CSR Regional Network.

In recognition of Mr. Yousif's outstanding contribution in the field of contemporary Islamic Finance in terms of modernizing its fundamentals in practice and theorization, the Al Jinan University of Lebanon granted him an Honorary Doctorate of Philosophy in Business Administration.

In addition, he was awarded by LARIBA American Finance House the 2012 "LARIBA Award for Excellence in Achievement", in recognition of his leadership role in consolidating and operating the largest diversified Islamic Banking Group in the world.

**3. Abdul Latif Abdul Rahim Janahi****Board Member**

Experience: 44 Years

Mr. Abdul Latif Abdul Rahim Janahi is one of the early pioneers in Islamic economy, Islamic banking and Islamic insurance. He authored a number of books on these topics and prepared more than 60 studies and work papers presented at numerous events, conferences, seminars and, universities. He worked hard to promote the idea of Islamic banking, insurance and re-insurance in Bahrain and was behind the establishment of a number of banks, financial institutions and insurance and reinsurance companies in Bahrain and outside Bahrain. He has practical experience of more than 44 years in the areas of banking, insurance and reinsurance. He holds a diploma in insurance and is a recognized expert in conventional insurance, Takaful (Islamic insurance), Islamic banking and Islamic economics. Mr. Janahi is the founder and Chief Executive Officer of the Safwa International, Bahrain (consultancy), and board member of many Islamic banking and investment institutions such as the Islamic Bank of Bangladesh - Dhaka, Khaleej Finance and Investment (being the Chairman of the Board of Directors) and the Islamic Arab Bank and Islamic Insurance and Reinsurance Company.

**4. Mr. Moosa Abdul Aziz Shihadeh****Board Member**

Experience: 55 Years

Mr. Moosa Abdul Aziz Shihadeh holds a Master degree in Business Administration (MBA) from USA. Worked in conventional banks from 5 /1961 until 5 /1980. He then joined Jordan Islamic Bank on June 1, 1980 till now. He is currently the CEO & General Manager of Jordan Islamic Bank. In addition to being a board member of many Islamic banks.

Mr. Shihadeh is currently a member of the Board of Directors of the General Council for Islamic Banks, a Board Member of the Jordanian Businessmen Association and Chairman and Board Member of several public and private companies in various sectors (industrial, educational, investment and insurance sector). He was also a Board Member of the Association of Banks in Jordan since 1983 and has been the association's Vice-President for the period 1997 to 2005 and Chairman of the Board Directors of Association of Banks in Jordan since 11.10.2015.

A member of several investment, social, humanitarian and international organizations and committees. Mr. Shihadeh Participates and lectures in several seminars related to the banking sector and the Islamic financial institutions regionally and internationally. Former member of the Accounting and Auditing Standards Board for Islamic Financial Institutions and the Chairman of the Accounting Committee (1990 to 2002). A member of the Board of Trustees of the Arab Thought Forum and Advisory Board Member of the International union of Arab Bankers. Honor- permanent member of the society of friends of Jordan Eye Bank and the prevention of blindness.

**5. Mr. Abdulrahman Abdulla Mohamed****Board Member**

Experience: 40 Years

Master of Business Administration Degree (MBA) from University of Hull, United Kingdom, around 40 years of experience in Banking Industry. Present Position, Board & Executive Committee Member at TAIB Bank (Aug 2011- till present) and Board & Executive Committee Member (June 2015 – till present) at Takaful International.

His past position was General Manager in National Bank of Bahrain, Board & executive Committee Member – Bahrain commercial facilities company and Chairman of the Board – National Motors Company.

## BOARD OF DIRECTORS CONT.

### 6. Mr. Ashraf Ahmed El-Ghamrawy Board Member

Experience: 39 Years

Mr. Ashraf Ahmed El-Ghamrawy is a Vice Chairman & CEO Al-Baraka Bank Egypt.

He obtained the Bachelor Degree in Commerce from Ain Shams University in addition to a professional Diploma in Banking Credit, as well as many other advanced courses in various banking fields.

Mr. Ashraf Started his career as a legal accountant specialized in the field of banking & financial institutions. In 1979, he moved to work in the banking sector and occupied many positions until he became the CEO & managing director for Al-Baraka Bank Egypt. Since 2010, he has become the vice Chairman & CEO. He has made great contribution to many essential banking issues, especially in debt collections & NPLs, establishing companies & a strong credit & investment portfolio.

He has been leading a teamwork who has been successfully able with a support by the BOD to change the Bank in a short period into a profitable institution.

He has obtained many appreciation certificates & has long outstanding experience in the field of development, centralization, IT & feasibility studies. He contributes in charity & voluntary work. Mr. Ashraf occupies the following positions:

- Chairman of the Egyptian Saudi Company for Real Estate.
- Board Member in the Egyptian Company for Establishing & managing commercial malls.
- Board of Trustees' member & treasurer of the Egyptian Zakat Institution.
- Board Member & Chairman of Board Credit Committee of A.T.Lease.
- Board Member and Board Risk Management Committee (RMC), Al Baraka Islamic Bank, Bahrain.
- Board Member & Chairman of Board Audit Committee, Egyptian Takaful – Mumtalakat.

### 7. Mr. Yousif Ali Fadil Bin Fadil Board Member

Experience: 32 Years

Mr. Yousif Bin Fadil is a Board Member, Al Baraka Islamic Bank, Bahrain, Ajman Bank and Gulfa Mineral Water. Previously, General Manager of the Emirates Financial

Company and before that Executive Manager for Investment, Dubai Islamic Bank and a number of senior positions at National Bank of Umm Al Qaiwain. Mr. Bin Fadil has also served as Member of the Boards of Directors of several financial institutions including, Union Insurance Company, U.A.E., Bahrain Islamic Bank, Bosnia International Bank and Dubai Islamic Insurance Company. He has more than 32 years of experience in the banking field. Mr. Bin Fadil, a UAE national, holds Bachelor's Degree in Mathematics & Computer Science from Gonzaga University, Spokane, Washington State, USA.

### 8. Mr. Maqbool Habib Khalfan

Board Member

Experience: 48 Years

Businessman and former Banker. Born in 1955 in state of Qatar. 48 Years of experience in banking field. Graduated in Commerce (B Com.) from Cairo University in 1997. Started banking career in 1968 with Eastern Bank (standard Chartered Bank at present) in 1970 joined United Bank Ltd., in Qatar, at the time of opening the branch in the country. Joined Doha Bank, February 1987. Played major role in establishing and promoting the developments of Doha Bank. Promoted as General Manager of Doha Bank in December 1987. Held many high posts in Doha Bank before promoted to the General Manager. Left Doha Bank in January 1997. Joined Qatar industrial Development Bank as a General Manager in February 1997, and played significant roles in establishing such a non-commercial bank in State of Qatar. Left Qatar Industrial Development Bank at the end of May 2001 for concentration on his own Business. He is the Managing Partner of Arabian Exchange Company & Gulf Colors, and holds 50% Stakes in both Establishments.

### 9. Dr. Khalid Abdulla Ateeq

Board member

Experience: 31 Years

Dr. Khalid is currently the Chief Executive Officer and Board Member of Family Bank. Dr. Khalid has over 31 years of experience in banking, finance, auditing and accounting. Prior to join Family Bank, he was the Deputy CEO of Venture Capital Bank for seven years. Before that, he was Executive Director of Banking Supervision at the Central Bank of Bahrain for thirteen years, where he was responsible for the licensing, inspection and supervision of financial institutions, insuring that all banks and financial institutions, either

operating or incorporated in Bahrain, complied with promulgated laws and regulations. Before joining the CBB, he was Assistant Professor at Bahrain University. In addition, through his diversified experience, Dr. Khalid served in senior posts with a number of reputable banks and firms. He holds a Ph.D. in Philosophy of Accounting from UK. Dr. Khalid is a Board Member at Al Khair Bank, Med Gulf Company, Med Gulf Takaful and Itqan Company.

### 10. Mr. Mohammed Isa Al Mutaweh

Chief Executive Officer and Member of the Board of Directors

Experience: 29 Years

Mr. Mohammed Isa Al Mutaweh is the Chief Executive Officer and Board Member of Al Baraka Islamic Bank - Bahrain, Chairman of Credit Committee and Member of Executive Committee. Backed by a long banking experience over 29 years of which he previously held several senior positions, General Manager and Board Member of Al Amin Bank, Bahrain, Chairman of Credit Committee and member of Executive Committee of Al Amin Bank. Executive Director in ABC Islamic Bank, and prior to that, he was in a senior position with National Bank of Bahrain in the Corporate Banking Division. He is also a member of the World Union of Arab Bankers and a member of the participation committee of the Awqaf Properties Investment Fund of Islamic Development Bank, Jeddah and ex-member of the board of directors of Bahrain Association of Banks and a member of Bahrain Advisory Council of the Chartered Institute for Securities & Investment (CISI), UK. Mr. Al Mutaweh has an MBA degree in Business Administration from University of Hull, UK.

## LIST OF COMMITTEES FOR YEAR 2015 AND SHARI'A SUPERVISORY BOARD

### Shari'a Supervisory Board

Shaikh Dr. Abdul Sttar Abu-Ghoudha  
Chairman

Shaikh Essam Mohammed Ishaq  
Member

Shaikh Nizam Mohammed Yaqoobi  
Member

### Executive Committee

Mr. Adnan Ahmed Yousif  
Chairman

Mr. Abdulatif Abdulrahim Janahi  
Member

Mr. Abdul Rahman Abdulla  
Mohammed  
Member

Mr. Mohd Isa Al Mutaweh  
Member

### Audit & Corporate Governance Committee

Mr. Maqbool Habib Khalfan  
Chairman

Mr. Mousa AbdulAziz Shehadeh  
Member

Mr. Yousif Ali Fadil Bin Fadil  
Member

Sheikh Essam Mohammed Ishaq  
Shari'a Member

### Remuneration & Board Affairs Committee

Mr. Yousif Ali Fadil Bin Fadil  
Chairman

Mr. Adnan Ahmed Yousif  
Member

Mr. Abdul Rahman Abdulla  
Mohammed  
Member

### Risk Management Committee

Dr. Khalid Abdulla Ateeq  
Chairman

Mr. Maqbool Habib Khalfan  
Member

Mr. Ashraf Al Ghamrawi  
Member

### External Auditor's

Ernst & Young

## BOARD OF DIRECTORS REPORT

It's a matter of great satisfaction that the Bank's has continued to deliver a strong set of results during the financial year ended on 31 December 2015.

Mr. Khalid Rashid Al Zayani  
Chairman

In the name of Allah, most gracious, the most merciful.

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present our annual report for the year ended 31 December 2015.

### ECONOMIC REVIEW

A wide divergence amongst leading economies of the world has raised the uncertainties associated with global economic outlook and prospects in future and resulted in a modest growth during the current financial year, as per latest surveys issued by the various global organizations. More particularly, the United States of America is on path of recovery and, simultaneously a slowdown is noted in China, while the Europe is moving towards a renewed recession.

Further, the spill over of geopolitical conflicts, decline in commodities prices and vulnerabilities or structural issues with emerging economies has further aggravated the situation. To mitigate these risks and ensure a return to strong, sustainable and balanced growth, a broad set of policy measures at the domestic, regional and global level is needed.

Moving forwards, the economic growth in Middle East region is hampered due to recent political turmoil, social unrest and decline in oil prices. A number of countries in the region are either in state of war or passing through political re-organization. Capital flows from the

region is negative and even cross border trade amongst neighbouring countries has been substantially reduced. Further, the all major international organizations have downgraded the economic growth prospects of the region.

Accordingly, the Kingdom of Bahrain is also facing challenges on economic fronts due to such a significant decline in oil prices. However, the government's spending on infrastructure projects supported the positive trajectory of economic growth in the country despite of maintenance of oil prices at historic lowest levels.

The Pakistan' economy has shown some signs of recovery after a long period of stagnation and fiscal deterioration. Such recovery is resulted from partial implementation of fiscal reforms like alleviation of energy shortages, curtailment of inflation, stability in exchange rates, restructuring/ privatization of public sector enterprises and improving environment for foreign direct investments. Further, the commencements of certain large infrastructure projects like China/ Pakistan Economic Corridor etc. have really boosted the growth momentum. Furthermore, the Standard & Poor's raised Pakistan's credit rating from Ca2 to B3 with stable outlook and Moody's Investors Service changed outlook from "Stable" to "Positive", pursuant to positive developments in economic fundamental as discussed above.



## PERFORMANCE REVIEW

Alhamdulillah, it's a matter of great satisfaction that the Bank's has continued to deliver a strong set of results during the financial year ended on 31 December 2015, despite of challenges posed by arduous operating environment.

The majority of key performance indicators have been moved in a positive direction. In this pursuit, a composite business plan, "comprises of strategies for growth, improvement in operating efficiencies and revitalization of risk management practices", have lead the bank to acclaim new horizons of excellence by effectively coping with challenges posed on various fronts. Further, the endeavours to automate business processes, development of human resource, broadening of range of Shari'a compliant financial solutions and serving our esteemed customers in a befitting manner, poised the bank as an icon of trust, innovation and stability.

More particularly, a remarkable growth has been maintained in financial position of the Bank, which has been reached to USD 1,854.573 million as at 31 December 2015 from position as at 31 December 2014 amounted to USD 1,835.022 million. In achieving such growth, overall objectives of improving the risk profile of the financial position of the Bank, have not been undermined. In this respect, the efforts continued to build an efficient portfolio of core banking assets, as per key strategic focus, during the current financial year ended 31 December 2015. Therefore, the Bank has targeted low risk business or market segments to achieve an efficient growth in these balances during the current year, duly aligned with approved business strategies developed in the light of prevailing operating environment.

Eventually, the core banking assets (financing & investments), on a whole, were managed to increase the levels of USD 1,366.804 million as at the end of year 2015 from USD 1,339.007 million maintained as at 31 December 2014, along-with a substantially improvement in key risk or return considerations. More specifically, the "Investments" have grown to USD 456.784 million from last year levels of USD 447.946 million and

the "Financing" surpassed the 2014 levels of USD 891.061 to reach USD 910.020 million by 31 December 2015, while the "net non-performing financing ratio to financing", has been significantly reduced from 6.09% as at 31 December 2014 to 3.58% as at 31 December 2015.

At the same time, the launch of customized products, increase in geographic outreach, contemporary banking services, competitive profit rates and dedicated efforts of our team have been assisted the Bank to maintain deposits at the levels of USD 1,589.315 million, in such a competitive environment, along-with substantial improvement in risk and cost parameters. It's worth of mentioning that a substantial reduction has been observed in concentration of liability base of the Bank and contribution of current and saving accounts has been substantially increased, during the current financial year ended 31 December 2015.

Moving forward, the Bank has remained able to transform such a remarkable growth in financial position/ operations into a remarkable financial performance for the current financial year ended 31 December 2015. It is plausible to mention that the total operating income of the Bank has been significantly increased by 15% during the current year ended 31 December 2015 as compared to last year ended 31 December 2014. Further, the continuous improvements in liquidity management and exploration of new avenues for trade finance services were also been the key contributors behind such a credible increase in operating profitability.

Simultaneously, the operating expenses have been duly rationalized to activities critically important for continuity of operations and accede the expected growth. Therefore, these expenses has been increased by 10% from expenses incurred amounted to USD 46.089 million in year 2014 to USD 50.790 million during the current year, mainly due to the impact of opening of new branches, launch of new products and consumer price inflation.

At the same time, the Bank has kept building a general provision or investment risk reserve to counter un-foreseen/ unidentified risks in assets portfolio during the current financial year. Further, the specific provision was made against a few

non-performing obligors, in accordance with approved prudential policies and applicable laws and regulations, during the current financial year. However, the settlement or regularization of a few large non-performing obligors resulted in net-reversals against non-performing assets, in the current financial year amounted to USD 1.002 million during the year 2015 as compared to net provision charged amounted to USD 0.860 million.

Finally, the aforesaid improvements in operating efficiencies and reduction in delinquency in assets portfolio resulted in an increase in net income after provision and taxation from USD 2.070 million earned in year ended 31 December 2014 to USD 6.023 million generated in year ended 31 December 2015. Said commendable increase in profitability of the bank, in such a non-conducive business environment, emphasized the dynamism and strong presence in the market.

Our commitment to provide the contemporary financial solution to our customers has led us to open 5 new branches and fastly expand the Automatic Teller Machines (ATMs) network. Further, the Bank has commenced e-banking services in Pakistan and implements electronic fund transfer system in Bahrain to increase virtual presence in the market.

## CREDIT RATING

Pursuant to downward revision of Credit Rating of Government of Bahrain, the Capital Intelligence has drifted downward long term and short term foreign currency credit ratings of the Bank from BB+ to BB and A3 to B respectively. However, the financial strength ratings were remained intact. Further, the outlook on the assigned ratings is "Stable".

At the same time Al Baraka Bank Pakistan Limited (ABPL) has sustained local currency long-term and short-term rating entity A, and A1 respectively, as assigned by the Pakistan Credit Rating Agency (PACRA).

These ratings denote a lower expectation of credit risk emanating from a strong capacity for timely payments of financial commitments and presence of strong compliance and governance environment.

## BOARD OF DIRECTORS REPORT CONT.

### CORPORATE AND SOCIAL RESPONSIBILITY

As being a premier Islamic Bank, the epicentre of our core activities has always been the development of our communities by meeting their contemporary financial need through provision of financial solutions based on high standards of ethics. We strived our best to have very positive impacts on economies, where we operate, by promoting real business activities and supporting in development of modern days skills in the society.

The Bank made strong efforts to develop the poor and underdeveloped segments of the society and provide them with the basic food, health and education facilities. In this respect, the Bank provides donation directly to poor or needy people, hospitals, education institutions or through charitable organization working to promote the captioned causes.

The Bank provides on-job training facilities to students of a number of local universities to provide opportunities to practically deploy the knowledge gained, during the academic studies. Simultaneously, the Al Baraka continuously hires the fresh graduates to nourish their skill and equip them with expertise in field of Islamic Finance.

The Bank sponsored many important international finance and banking events and conferences, more particularly the World Conference of Islamic Banking arranged by the Accounting and Auditing Organization of Islamic Finance (AAOIFI), World Islamic Banks Conference, Shari'a Auditors Conference, CIO Summit etc., during the current financial year ended 31 December 2015. Further, the Bank supports a number of organizations working or doing research in the field of Islamic banking and finance.

### FUTURE OUTLOOK

We have every reason to be optimistic that the Bank will successfully meet the future challenges and be continued to exceed the expectations. We will continue to explore new arenas or new worlds, as per our core business strategy, to ensure availability of

Shari'a compliant contemporary solutions to each segment of our community/society across the globe.

A robust risk management framework will be pivotal in the light of prevailing market conditions and political situations across the regions. Therefore, the key focus will remain on maintaining a harmonization amongst the core business and risk management strategies. Further, the Bank is committed to align the risk management framework with the best established practices and strengthened the risk management with latest technologies and modern day skill or expertise.

Further, the endeavours will remain in place to strengthen the capital base, develop human resource and equipping with latest technologies available in the market.

### ACKNOWLEDGMENT

We are so grateful to Al Mighty Allah for his countless blessings on our Bank and providing us another year full of achievements and successes. We are really thankful to Master of All Universe on granting us wisdom and strengths to meticulously cope with the challenges posed by such an arduous operating environment.

I feel honoured to take this opportunity to thank on behalf of the Board to His Majesty King Hamad bin Isa Al Khalifa, HRH Prince Khalifa bin Salman Al Khalifa, the Prime Minister and HRH Prince Salman bin Hamad Al Khalifa, the Crown Prince, Deputy Supreme Commander of the Bahrain Defence Force and First Deputy Prime Minister for their patronage and invaluable support in building such a successful organization in Kingdom of Bahrain. We are really grateful to the Ministry of Industry and Commerce, the Central Bank of Bahrain, the State Bank of Pakistan and other government agencies for unwavering support and guidance.

We also express our gratitude to all our shareholders, valued customers and business partners for their continuous support and trust. We offer sincere appreciation to, our parent company,

the Al Baraka Banking Group and Shari'a Supervisory Board, for their continuous guidance and cooperation. Finally, I would like to acknowledge the dedication and hard work of our employees across the Bank, who continues to contribute to the organization and hence enable us to perform consistently in such a challenging business environment.



Khalid Rashid AlZayani  
Chairman  
Al Baraka Islamic Bank B.S.C. (c)  
Manama, Kingdom of Bahrain

22 February 2015



## EXECUTIVE MANAGEMENT

**1. Mr. Mohammed Isa Al Mutaweh**  
Chief Executive Officer and  
Member of the Board of Directors



1

**2. Mr. Tariq Mahmood Kazim**  
Deputy General Manager  
Support Services Group



2

**3. Mr. Rashid Hassan Alalaiwi**  
Deputy General Manager  
Business Group



3

**4. Mr. Moosa Abdul Latif Mohammed**  
Assistant General Manager  
Head of Operations



4

**5. Mr. Nadeem Khan**  
Assistant General Manager &  
Chief Financial Officer



5

**6. Mr. Fouad El Ouzani**  
Assistant General Manager  
Head of Credit Department



6

**7. Mrs. Maisoon Mohammed Bin Shams**  
Assistant General Manager  
Head of Risk Management Department



7

**8. Mr. Asrar Uddin Abdul Ghafoor**  
Assistant General Manager  
Head of Information Technology  
Department



8

**9. Mr. Isa Jassim Al Obaidly**  
Assistant General Manager  
Head of Human Resources &  
Administration



9

**10. Mr. Adel Al-Manea**  
Assistant General Manager  
Head of Commercial Banking  
Department



10

**11. Mr. Hussain Al Nattaie**  
Assistant General Manager  
Head of International Banking  
Department



11

**12. Mr. Mohammed Al Mughani**  
Manager  
Internal Audit Department



12

**13. Mr. Mohammed Jassim Hassan**  
Manager  
Shari'a Department



13

**1. Mr. Mohammed Isa Al Mutaweh**  
Chief Executive Officer and  
Member of the Board of Directors  
Experience: 29 Years

Mr. Mohammed Isa Al Mutaweh is the Chief Executive Officer and Board Member of Al Baraka Islamic Bank - Bahrain, Chairman of Credit Committee and Member of Executive Committee.

Backed by a long banking experience over 29 years of which he previously held several senior positions, General Manager and Board Member of Al Amin Bank, Bahrain, Chairman of Credit Committee and member of Executive Committee of Al Amin Bank. Executive Director in ABC Islamic Bank, and prior to that, he was in a senior position with National Bank of Bahrain in the Corporate Banking Division.

He is also a member of the World Union of Arab Bankers and a member of the participation committee of the Awqaf Properties Investment Fund of Islamic Development Bank, Jeddah and ex-member of the board of directors of Bahrain Association of Banks and a member of Bahrain Advisory Council of the Chartered Institute for Securities & Investment (CISI), UK.

Mr. Al Mutaweh has an MBA degree in Business Administration from University of Hull, UK.

**2. Mr. Tariq Mahmood Kazim**  
Deputy General Manager  
Support Services Group  
Experience: 32 Years

Bachelor Degree in Systems Engineering and Analysis (University of Petroleum and Minerals Dhahran/Saudi Arabia) 32 years of experience in Banking, Support Service, implementing Banking, Telecommunication and e-Commerce Solutions. Past careers include two years with Arabian Networks as General Manager and 16 years with NCR and AT&T as a Business Unit Leader. Joined Al Baraka Islamic Bank in April 2002.

He is also a Vice Chairman of the Board in Al Baraka Bank (Pakistan) Limited, Chairman of Board Executive Committee and Social Responsibility in ABPL, and Member of ABPL Board HR & Remuneration Committee.

**3. Mr. Rashid Hassan Al Alaiwi**  
Deputy General Manager – Business  
Group  
Experience: 34 Years

Mr. Rashid Al Alaiwi has extensive experience for more than 34 years in banking services. He participated in implementing a number of strategic initiatives and projects specifically in business process reengineering and in launching new banking products and services including electronic banking channels. Mr. Rashid has joined Al Baraka Islamic Bank in February 2009 and prior to that he held various senior positions in Bahrain Islamic Bank, Ithmaar Bank (formerly is known as Shamil Bank), and Bank of Bahrain & Kuwait.

Mr. Rashid has Master of Business Administration from University of Glamorgan in Wales, United Kingdom and he has an Executive Management Diploma from University of Bahrain.

**4. Mr. Moosa Abdul Latif Mohammed**  
Assistant General Manager  
Head of Operations  
Experience: 36 Years

Banking Studies (Diploma) with 5 years banking experience with National Bank of Bahrain, and 36 years banking experience with Al Baraka Islamic Bank, Bahrain. Various managerial and banking courses inside and outside Bahrain.

**5. Mr. Nadeem Khan**  
Assistant General Manager and Chief  
Financial Officer  
Experience: 29 Years

Mr. Nadeem Amjad Khan is a Chartered Accountant and is a Fellow member of the Institute of Chartered Accountants of Pakistan. Prior to his appointment as CFO of Al Baraka Islamic Bank Bahrain, he worked in Al Baraka Pakistan at various senior positions.

He has also worked in leading accounting firms at senior positions in Assurance, Management consultancy and Tax department. He has also been teaching ACCA students. He specializes in accounting and financial matters, although he has developed broad expertise in treasury and capital markets.

He is also a Board Member in Al Baraka Bank Pakistan Limited. He has been nominated on the Committee on Accounting and Auditing Standards for interest free mode of financing and investments of ICAP.

**6. Mr. Fouad El Ouzani**  
Assistant General Manager  
Head of Credit Department  
Experience: 14 Years

Mr. El Ouzani main responsibilities includes the development and updating of policies and monitoring the credit risk and administration processes like limit establishments, transaction booking and to supervise all credit departments sub-units business processing.

Mr. El Ouzani held several managerial positions prior to joining Al Baraka Islamic Bank in Gulf International Bank, The Arab Investment Co. and Arab Banking Corporation (ABC) Bahrain. Mr. El Ouzani holds a BSc Degree Chemical Engineering from University of Bahrain and a Master in Finance from DePaul University - USA.

**7. Mrs. Maisoon Mohammed BenShams**  
Assistant General Manager  
Head of Risk Management Department  
Experience: 35 Years

Mrs. Maisoon heads Risk Management Department of Al Baraka Islamic Bank and is responsible of monitoring, and evaluating all the bank's risks (credit risk, market risk, liquidity risk, and operational risks).

She commenced her banking career in 1981 with Central Bank of Bahrain (CBB) where she worked in various capacities and held several positions. In 2007, she joined Liquidity Management Centre as the Head of Risks & Compliance Department. She joined AIB In 2009 as Head of Risk and Compliance, in addition, served as acting compliance officer for Al Baraka Banking Group (ABG) for 3 years (2010-2013).

She holds Masters of Business Administration from the University of Strathclyde - UK, BSc in Accounting from University of Bahrain, Certified in Strategic leadership and Executive Management Program from Beyster Institute, California – USA, Certificate in Islamic Studies from Imam Malik Institute, and other professional Certificates in her filed.

## EXECUTIVE MANAGEMENT CONT.

Mrs. Maisoon is a member of Women in Banking Committee - Bahrain Association of Bankers.

**8. Mr. Asrar Uddin Abdul Ghafoor**  
Assistant General Manager  
Head of Information Technology  
Department  
Experience: 23 Years

Mr. Asrar Uddin has over 23 years of effective role in the IT departments of Islamic Banks within GCC region. He joined Al Baraka, IT team in 2003. He possess a broad knowledge of Core Banking implementations and Production rollouts.

Mr. Asrar has done tremendous efforts during his banking tenure to help automate many business and mission critical processes.

He managed various systems migrations, day-to-day activities of IT operations besides closely supervising all divisions of IT to name some, IT infrastructure, IT Operations, IT Security, Alternate delivery channels. His major achievements in Al Baraka are: Implementation of Misys Equation Banking System, migration from Midas to Equation, successful completion of EMV Project, increasing branches and ATM network, implementation of IT policy and procedures, supporting other Al Baraka Banks in Pakistan, South Africa, Egypt, Syria and Lebanon.

**9. Mr. Isa Jasim Al Obaidly**  
Assistant General Manager  
Head of Human Resources and  
Administration  
Experience: 28 Years

Mr. Al Obaidly has experience in several HR & Admin fields including recruitment, setting of procedures, payroll, PR & payment processing. Earlier he occupied the post Management Analyst the Civil Service Bureau and Chief for the Government Payroll & Leaves, Director of Fund Collection from Bahrain Centre for Study and Research and HR & Finance Consultant and Acting Director at the Ministry of Information.

Mr. Al Obaidly attended several professional courses including Civil Service Bureau conducted by Management Institute Services, UK-1992, a course on

Leadership for Democratic Society at the Federal Executive Institution West-Virginia U.S.A-1997.

Mr. Al Obaidly holds the Professional Auditor for ISO 2009 Certificate. He is a holder of a B.S.C degree in Business Administration from Grand View College, USA. & Master degree in Management Technology from Arabic Gulf University Jan 1999.

**10. Mr. Adel Al-Manea**  
Assistant General Manager  
Head of Commercial Banking Department  
Experience: 26 Years

Mr. Adel Al-Manea is Assistant General Manager – Head of Commercial Banking Department. Mr. Al-Manea is a holder of Associated Accounting Technician from the Board of AAT - United Kingdom and Banking Studies (Diploma) from University of Bahrain.

He has over 26 years of banking experience in commercial and Offshore Banks with Local, International and Islamic Banks. 2 years banking experience with Bank of Bahrain and Kuwait, and 17 years banking experience with Ithmaar Bank. Various managerial and banking courses inside and outside Bahrain.

Joined Al Baraka Islamic Bank in August 2008.

**11. Mr. Hussain Al Nattaie**  
Assistant General Manager  
Head of International Banking  
Department  
Experience: 12 Years

Hussain Al Nattaie is an Assistant General Manager and the Head of International Banking Department, which is composed of three main divisions, the Corporate and Syndications division, The Trade Finance and Financial Institutions division and the Investments and Structured Finance division.

Mr. Hussain held several senior positions prior joining Al Baraka Islamic Bank, Hussain spent 12 years in the corporate finance and frontline business/development units for different prominent financial institutions like National Bank of Bahrain, The Arab Investment Company and Standard Chartered Bank.

Hussain obtained his Bachelor's degree in Accounting and Finance from the University of Bahrain.

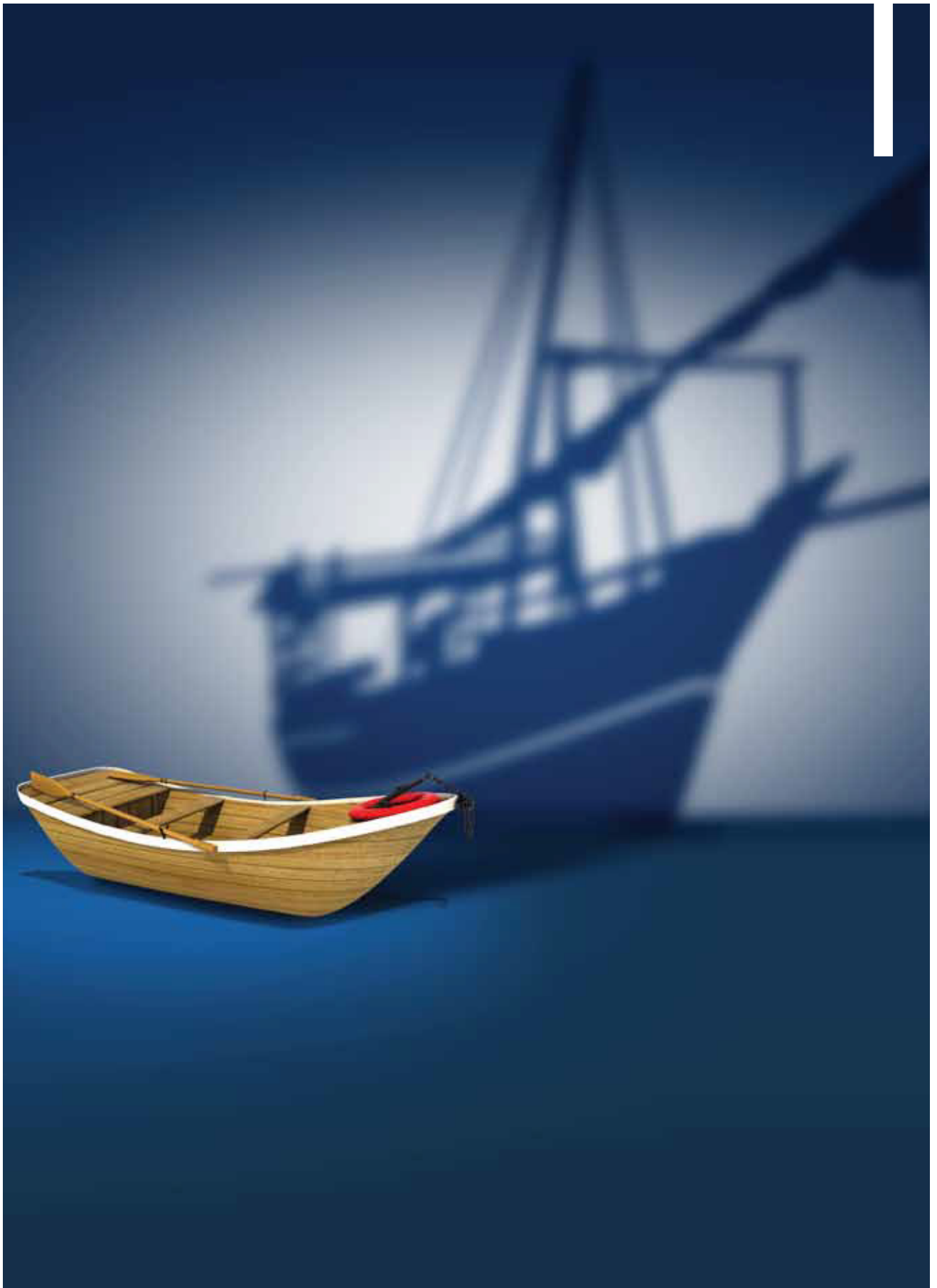
**12. Mr. Mohammed Hasan Al Mughani**  
Manager  
Internal Audit Department  
Experience: 11 Years

Mr. Mohamed Al Mughani had joined Al Baraka Islamic Bank on Aug 2008 as a Manager – Internal Audit Department. He has 11 years of experience in internal and external audit, risk assessment and corporate governance.

He previously worked as an Assistant Manager – Audit Department at BDO Jawad Habib, Bahrain. Mr. Al Mughani is ACCA qualified and Certified Information System Auditor (CISA). He hold a BSc in Accounting from University of Bahrain.

**13. Mr. Mohammed Jassim Hassan**  
Manager  
Shari'a Department  
Experience: 7 Years

Mr. Mohammed Jassim is Assistant Manager - Shari'a Department in Al Baraka Islamic Bank - Bahrain. He has Bachelor in Islamic Law, from the Shari'a College of the Islamic University in Madinah Al Monawarah - KSA. Mr. Mohammed Jassim is a Certified Shari'a Adviser and Auditor (CSAA), from AAOIFI- Bahrain. Mr. Mohamed Jassim has 7 years working and lecturing experience in Islamic Banking.



## CHIEF EXECUTIVE'S REPORT

The Bank maintained a steady growth in operating income during the current financial year ended 31 December 2015.

Mr. Mohammed Isa Al Mutaweh  
Chief Executive Officer

### INTRODUCTION

Alhamdulillah, the Bank has been transformed into a vibrant organization, having strong foundations, robust business strategies, modern day skill set and contemporary technologies, demonstrated a strong set of results for another financial year in such an arduous political and economic business environment. It's a matter of great applause to mention that a commendable growth/ improvement has been noticed in majority of key financial, operational, business and risk management performance indicator in the current year ended 31 December 2015, which depicts the synergy or harmonization amongst key strategies of the Bank. These landmark achievements are result of successful implementation of strategic business plans, continuous oversight by the strategic management and dedicated efforts of team.

In this regard, a smart growth, "a growth along-with improvement in operating efficiencies and risk profile of operations", noticed in statement of financial position during the financial year ended 31 December 2015 from corresponding period ended on 31 December 2014. More particularly, the energies were directed towards building of high quality assets, by targeting opportunities in low risk market or business segments, based on a well-diversified, efficient and stable liability base. Simultaneously, the Bank has made strong efforts to dispose off or settle or revitalized the in-efficient/ low performing balances appearing in its books of account.

Therefore, an incredible transformation has been noticed in the composition of financial position, such as increase in constitution of risk free/ low risk assets, growth in core banking assets, enhanced contribution of current and saving accounts etc., of the Bank during the financial year ended 31 December 2015. Such a smart growth have very positive impacts on majority of key financial/ risk measures demonstrating the financial strength, quality of assets, operating efficiencies and risk profile of the Bank.

Pursuant to challenges posed by volatile business environment, the Bank remained focused on consolidation of financial position during the financial year ended 31 December 2015. In this respect, the business strategies were directed toward increase in diversification, improvement of operating efficiencies and minimizing the risks associated with the operations of the Bank. Resultantly, a significant improvement is noted in key risk and return measures along-with sustaining the size of financial position as at levels of 31 December 2014.

The major activity was observed in "Investments" in financial year 2015. In this regards, the sukuk issued by the sovereigns or other entities carrying credit rating above investment grads, was remained the key area of focus during the current financial year. Further, the efforts were made to dispose-off investments in high risk sectors like real estate or having longer tenors.



Both Bahrain and Pakistan shown a satisfactory growth in operations simultaneously with the re-organization of financial position to accomplish stringent risk management objectives, devised in the light of prevailing market conditions and capital constraints. Further, the objectives of improvement in operating profitability have not been sub-optimized. In this respect, the majority of key risk, return and growth measures have demonstrated remarkable improvements as compared to prior years.

Therefore, a strong improvement in risk profile of "Financing Portfolio", along-with achievability of a steady growth, was observed during the year 2015. In this regard, the Bank has targeted low risk customer or business segments to secure growth in these balances. Resultantly, the growth in these assets was contributed by entering new exposures with sovereign or guaranteed by sovereigns. More particularly, the financing Social Housing Schemes (guaranteed by Ministry of Housing) and Tamkeen Program for SMEs (guarantee by the Ministry of Labor). Further, the financing sanctioned to other sovereigns or public sector entities.

Rising to the occasion, the Bank has linked growth strategies with the maintenance of capital adequacies in accordance with the applicable regulatory requirements. Therefore, the Bank prefers placement of funds with sovereigns, public sector entities and other obligors carrying good credit ratings/ lower risk weightings as per the applicable laws/ regulations.

Overall, we are in a good position to make strong progress and to enhance our leading position in the Kingdom of Bahrain and the region, specially that the economies of the region countries and their financial and banking systems enjoy sound and strong position and that the governments in the region stressed that they would continue their spending on investments and infrastructure development and reaffirmed their support to the financial and banking systems, despite the decline in oil revenues.

## FINANCIAL PERFORMANCE

### Income

The Bank maintained a steady growth in operating income during the current financial year ended 31 December 2015. Such increase was resulted mainly from increase in size of core banking assets, improved liquidity management and rationalization of cost of fund.

The growth in operating income was continued; despite of challenges posed by the persistent low profit rates and arduous market conditions, during the current financial year ended 31 December 2015 as compared to the income earned in financial year ended 31 December 2014. The increase in core-banking assets, improved liquidity management and moderation of cost of funds were the key success factors behind such growth in operating income during the current financial year. Further, the settlement or regularization of long-outstanding non-performing obligors resulted in release/ conversion of a significant amount of stagnant resources into income generating assets.

Total income from the joint finance and investment accounts amounted to US\$ 79.23 million in 2015, representing a slight increase of 0.4% compared to 2014. This income includes the income from joint financing operations which has decreased by 12.6% from US\$ 46.17 million in 2014 to US\$ 40.33 million in 2015 and income from joint financing, other financings and investments which has increased by 18.6% from US\$ 32.83 million in 2014 to US\$ 38.95 million in 2015.

But this latter income is a part of consolidated income from both joint finance and self-finance, other financings and investments, where it increased by 7.5% from US\$ 48.95 million in 2014 to US\$ 52.62 million in 2015. This income mainly includes income from Ijarah Muntahiya Bittamleek amounting to US\$ 18 million (US\$ 13.7 million in 2014),

income from investments amounting to US\$ 21.8 million (US\$ 22 million in 2014), income from Musharaka financing amounting to US\$ 11.53 million (US\$ 8.88 million in 2014), gain on selling of investments amounting to US\$ 0.9 million (US\$ 4.11 million in 2014).

In line with the decrease in the total income from joint financing, the return on equity of investment accountholders went down by 12.1% from US\$ 58.79 million in 2014 to US\$ 51.70 million in 2015 which represents the gross return on investment accountholders amounting to US\$ 69.24 million in 2015 (US\$ 72.64 million in 2014) less the Bank's share as a Mudarib of US\$ 17.55 million in 2015 (US\$ 13.85 million in 2014).

After deducting the return on equity of investment accountholders, the Bank's share of total income (as a Mudarib and Rabalmaal) amounted to US\$ 27.58 million in 2015, reflecting a substantial improvement of 36.5%.

While income from self-financed sales increased by 35.4% from US\$ 2.73 million in 2014 to US\$ 3.70 million in 2015 and revenues from banking services increased by 27.1% from US\$ 7.3 million to US\$ 9.28 million, income from self-financed, other financings and investments decreased by 15.2% from US\$ 16.12 million in 2014 to US\$ 13.67 million in 2015, other income decreased by 5.1% from US\$ 3.26 million to US\$ 3.09 million.

In view of the above, the total operating income of the Bank has increased noticeably by 15.4% from US\$ 49.72 million in 2014 to US\$ 57.40 million in 2015.

Total operating expenses increased by 10.2% from US\$ 46.09 million in 2014 to US\$ 50.79 million in 2015. These expenses mainly included staff costs, amounting to US\$ 26.96 million in 2015 (US\$ 24.36

## CHIEF EXECUTIVE'S REPORT CONT.

million in 2014), other operating expenses, amounting to US\$ 20.68 million in 2015 (US\$ 18.78 million in 2014) and depreciation amounting to US\$ 3.05 million in 2015 (US\$ 2.95 million in 2014).

The significant increase in operating expenses incurred during the current year ended 31 December 2015 as compared to last year was resulted mainly from opening of new branches in Pakistan, business automations and expenditures related to expansion of operations in each geographical/ business segment like advertisement etc. Further, the consumer price inflations and escalations on committed cost were also resulted in increase in these balances from last year. However, these expenses were closely monitored during current financial year.

As a result of the larger increase in operating income, the net operating income increased significantly by 82% from US\$ 3.63 million in 2014 to US\$ 6.61 million in 2015.

In view of the large efforts by the Bank in 2015 to collect non-performing debt and the improvement in the quality of financings and investments in both Bahrain and Pakistan, the Bank wrote back provisions totaling US\$ 1 million in 2015 against a provision of US\$ 0.86 million in 2014.

After deducting taxes of US\$ 1.59 million in 2015 (US\$ 0.70 million in 2014), the Bank's net profit jumped largely by 191% from US\$ 2.07 million in 2014 to US\$ 6.02 million in 2015.

It can be concluded from the above, that the remarkable improvement in operating efficiencies and net reversals in provision against non-performing assets, was translated in such a significant increase in net income after provision and tax earned during the financial year ended 31 December 2015 in comparison to the income generated for the financial year ended 31 December 2014.

Said growth in profitability has been contributed by all business and geographical segments during the current year. Thus, the Bank is able to successfully close another financial year with a significant improvement in operating performance and profitability.

### THE BANK'S FINANCIAL POSITION

As at the end of 2015, the Bank's total assets grew slightly by 1.1% to US\$ 1.85 billion compared to US\$ 1.84 billion as at the end of 2014.

#### Income - Generating Assets

Total income-generating assets increased by 6.4% from US\$ 1.42 billion in 2014 to US\$ 1.51 billion in 2015. Sales receivables continued to be the main component of the income-generating assets, decreasing by 1.8% from US\$ 620.99 million in 2014 to US\$ 609.68 million in 2015. These financing operations represent Murabaha financing agreements with financial institutions and corporations that the Bank provided to them primarily through syndicated financing arrangements.

Pursuant to prevailing market conditions, the Bank has remained very selective in expansion of financing portfolio during the financial year ended 31 December 2015. Therefore, a modest increase has been noted in these assets as at 31 December 2015 as compared to the levels as at 31 December 2014. In this respect, the Bank has preferred the opportunities available with sovereigns, public sector entities and obligors carrying sound financial health.

Further, the financing options duly secured with guarantees/ collaterals like mortgages remained the key avenue for achieving growth in these assets. Furthermore, the strategic partnerships with government institutions like "Social Housing Project with Ministry of Housing" and "SME financing with Tamkeen Bahrain" has

generated a significant volumes during the current financial year. Therefore, the Bank intends enhance its partnership with Tamkeen in 2016.

Furthermore, the financing facilities in high risk customer or market segments, such as real estates, were duly settled and did not renewed. Moreover, a number of large long-outstanding non-performing cases were fully or partially settled in 2015.

In Pakistan key business strategies, focusing on achievability of a smart growth, resulted in a substantial improvement in quality of assets, as evident from improvement in respective key financial measures like NPA ratios/ coverage ratios etc. Further, the continuous oversight and close monitoring of assets base of the Bank, was remained the key success factors in such a continuous improvement in these fundamentals over the years. More particularly, the non-performing assets have been declined at an accelerated rate during the current year.

Investments, which represented the second largest income generating assets, increased by 2% to US\$ 450.81 million in 2015 compared with US\$ 441.97 million in 2014. The investment portfolio consisted of unquoted Sukuk at amortized cost of US\$ 214.40 million in 2015 (US\$ 210.77 in 2014) quoted Sukuk at amortized cost in an amount of US\$ 161 million in 2015 (US\$ 137.42 million in 2014) and equity-type instruments at fair value through equity in an amount of US\$ 78.39 million in 2015 (US\$ 79.38 million in 2014), before deducting US\$ 2.98 million provisions for the impairment 2015 (US\$ 5.91 million in 2014).

The Bank's investments portfolio remained the key area of focus to mark growth in financial year ended 31 December 2015. Therefore, these balances, predominantly comprising of sukuk issued by sovereigns, public sector entities or financial institution carrying credit rating above investment grade, have been sharply increased and remained well above the

budgetary expectations developed for the financial year ending on 31 December 2015. In building such portfolio, the improvement in basic risk considerations like the geographical/ business segmental diversifications, maturities limits and liquification of these investments were also remained a key consideration. In this respect, the portfolio of investments is duly assessed on a regular basis and securities, no longer matching the desired risk criteria were duly replaced by the Bank with securities meeting the required specifications.

The income-generating assets also included Ijarah Muntahiya Bittamleek which increased largely by 20.5% from US\$ 221.04 million in 2014 to US\$ 266.40 million in 2015. These financings represent purchase of equipment and real estate financings, where real estate financings witnessed higher volume in 2015. Musharaka financing also increased noticeably by 32.5% from US\$ 116.38 million in 2014 to US\$ 154.26 million in 2015. The real estate investments portfolio remained unchanged at US\$ 5.97 million in 2015.

The significant increases in a number of the profit-generating assets reflect the success of the initiatives that the Bank took to expand its core financing and investment activities and operations.

#### GEOGRAPHICAL AND SECTORAL DISTRIBUTION

During 2015, the Bank continued to focus on its main business markets in Pakistan, Bahrain, GCC and MENA in order to benefit from the abundant opportunities available there. As a result, the share of the Asian markets decreased to 47.5% (2014:53.6%) of the total assets of the Bank while the share of the Bank's assets in the Gulf and the Middle East region increased to 46.6% (2014: 35.7%). Europe's share also decreased to 3.5% (2014: 6.4%) while the remaining assets are divided between the other regions.

Of these assets, 35% represents transactions with banks and financial institutions, 23.5% with trading and manufacturing businesses,

3.4% in construction and contracting and remaining share in other sectors and activities.

#### LIQUIDITY MANAGEMENT

At the end of 2015, the liquid assets (cash and balances with banks) reached US\$ 236.88 million in 2015 compared to US\$ 300 million in 2014, representing a decrease of 21%. The distribution of assets in terms of maturity shows that 42.2% of the total assets have a maturity within a period not exceeding one year, compared to 69.5% on the liabilities and equity side.

Efforts of the management to deploy surplus resources in core banking assets has been resulted in maintenance of liquid assets outstanding as at 31 December 2015 within approved regulatory limits. This clearly demonstrates the commitment of management to maintain the balance of liquid assets at optimum levels. Further, the impacts of effective liquidity management are clearly eminent in financial performance of the Bank.

Further, a major portion of core banking assets represents marketable securities, either listed or actively traded in market, providing opportunity for the bank to generate liquidity, if required in exceptional circumstances. Furthermore, the Bank has secured financing lines with major institutions to avail supply of liquidity, in case of contingencies. Moreover, the efforts are underway to increase the revenue generation from liquidity management activities and optimize the associated costs.

#### LIABILITIES AND CUSTOMER ACCOUNTS

On the liabilities side, the investment accountholders, deposits from financial institutions and current accounts represented the main source of funds for the business operations of the Bank. These accounts remained almost unchanged at S\$ 1.59 billion as at the end of 2015 compared to the end of 2014. The investment accountholders represent the main external source of funds of the Bank. These accounts decreased slightly by 3.5% to reach US\$ 1.24 billion compared to US\$ 1.29 billion in 2014.

While deposits from financial and banking institutions increased markedly by 24% to US\$ 112.14 million in 2015 compared to US\$ 90.41 million in 2014. Current accounts increased also by 9.9% from US\$ 211.61 million in 2014 to US\$ 232.59 million in 2015, reflecting the expansion of the client base of the Bank for both individuals and corporates following the Bank's success in launching new saving and investment products and expanding in branch network in Pakistan.

After achieving a continuous growth in liability base, the energies were diverted towards the improvement in efficiency and diversification of liability base during the current financial year ended on 31 December 2015. In this respect, the efforts were made to increase of retail customers and increase proportion of savings & current accounts in overall deposits base of the Bank. Such an improvements in liability base has been resulted from launch of new products, increase in geographical outreach and re-emphasizing of existing successful products.

This has been achieved along-with reduction in concentration of deposits. Key drivers behind such growth were dedicated efforts of our team, contemporary service, launch of competitive products and widening of our customer base or business relationships. We are pleased to mention that the Bank has launched "Al Barkat" saving accounts with prizes products effectively from July 2014. In this respect, the Bank will pay prizes such as cash, salaries and cars in addition to a minimum profit on such deposits Shareholders' Equity

Total shareholders' equity amounted to US\$ 173.99 million in 2015 compared to US\$ 169.88 million in 2014, representing an increase of 2.4%. The capital adequacy ratio (in accordance with the instructions of the Central Bank of Bahrain "CBB" with respect to the implementation of the directives of Basel III) remained at very satisfactory level of 16.97% in 2015 compared to 15.39% in 2014, which provides the Bank with a strong capital base for further growth in the coming period.

## CHIEF EXECUTIVE’S REPORT CONT.

The capital management has become the epicenter of all business strategies in banking industry upon promulgation of very strict deadlines by most of the monetary/ regulatory agencies.

### OFF-BALANCE SHEET INVESTMENT ACCOUNTS

The off-balance sheet equity of investment accountholders amounted to US\$ 104.14 million in 2015 compared to US\$ 111.65 million in 2014, reflecting a decrease of 6.7%. These accounts are invested primarily in Mudaraba transactions with customers.

### THE BANK OPERATIONS IN PAKISTAN

The year 2015 is another eventful year for Al Baraka Bank Pakistan Limited (the Bank) wherein the Bank achieved new milestones and grew its business operations.

Challenges were met with enthusiasm and the Bank geared itself to successfully handle the ever changing market scenario. The Bank was able to further diversify its revenue streams by launching new products & services and improved the quality of its financing & investment portfolio.

The Bank maintains a reasonable level of provisions against non-performing financing with a coverage ratio of 62%. The focus of the Bank is to build a high quality and well diversified financing & investment portfolio and to augment its product offering.

A commendable participation is being made by Al Baraka Bank on the investment banking side. It has been the lead arranger in 2 syndications in the Oil & Gas and The Banking sector in Pakistan is facing immense pressure on their earnings because the Banking spreads declined to ~11years low.

### CREDIT RATING

Pakistan Credit Rating Agency Limited (PACRA) has maintained the Bank’s long-

term rating at “A” and short term rating as ‘A-1’ with a positive outlook. JCR-VIS, has also maintained long-term and short-term ratings of “A” and ‘A1’ respectively and has enhanced Bank’s outlook from stable to positive.

### BRANCH NETWORK

Al Baraka Pakistan stands today on a branch network of 135 branches that are spread over 82 main cities and towns of the country. The branches are strategically located where customer ease and access are always taken as a pre requisite. All the branches offer on line services. The Bank is at final stages to open 15 new branches by the year-end.

### ATM NETWORK

By the grace of Almighty, today a total of 100 ATMs are now on Al Baraka ATM network. This number includes both off-site placements as well as on-site ATMs installed at Al Baraka branches. ATMs not only provide customer convenience but create a multi fold impact in reiterating branch image and brand recall as well.

### AWARDS

Al Baraka Bank Pakistan was the recipient of three awards namely;

- Best Sukuk Deal of the Year Award—at the GIFA 2015 Award ceremony held in Manama, Bahrain, organized by the well-known Ed-Biz consultancy firm of UK.
- Best Islamic Structure – Tier II Mudaraba Sukuk at the IFA 2015 Award ceremony organized by the well-known consultancy firm in Pakistan, Emend Group.
- Best Corporate Social Responsibility by the National Forum for Environment & Health.

These honors confirm the sound approach that Al Baraka Bank Pakistan follows, in laying the foundations of sophisticated

Islamic banking institution that is steadily moving towards leadership in the Pakistani market and at the same time servicing the society in an active and responsible manner.

### MARKETING AND TECHNOLOGY INITIATIVES

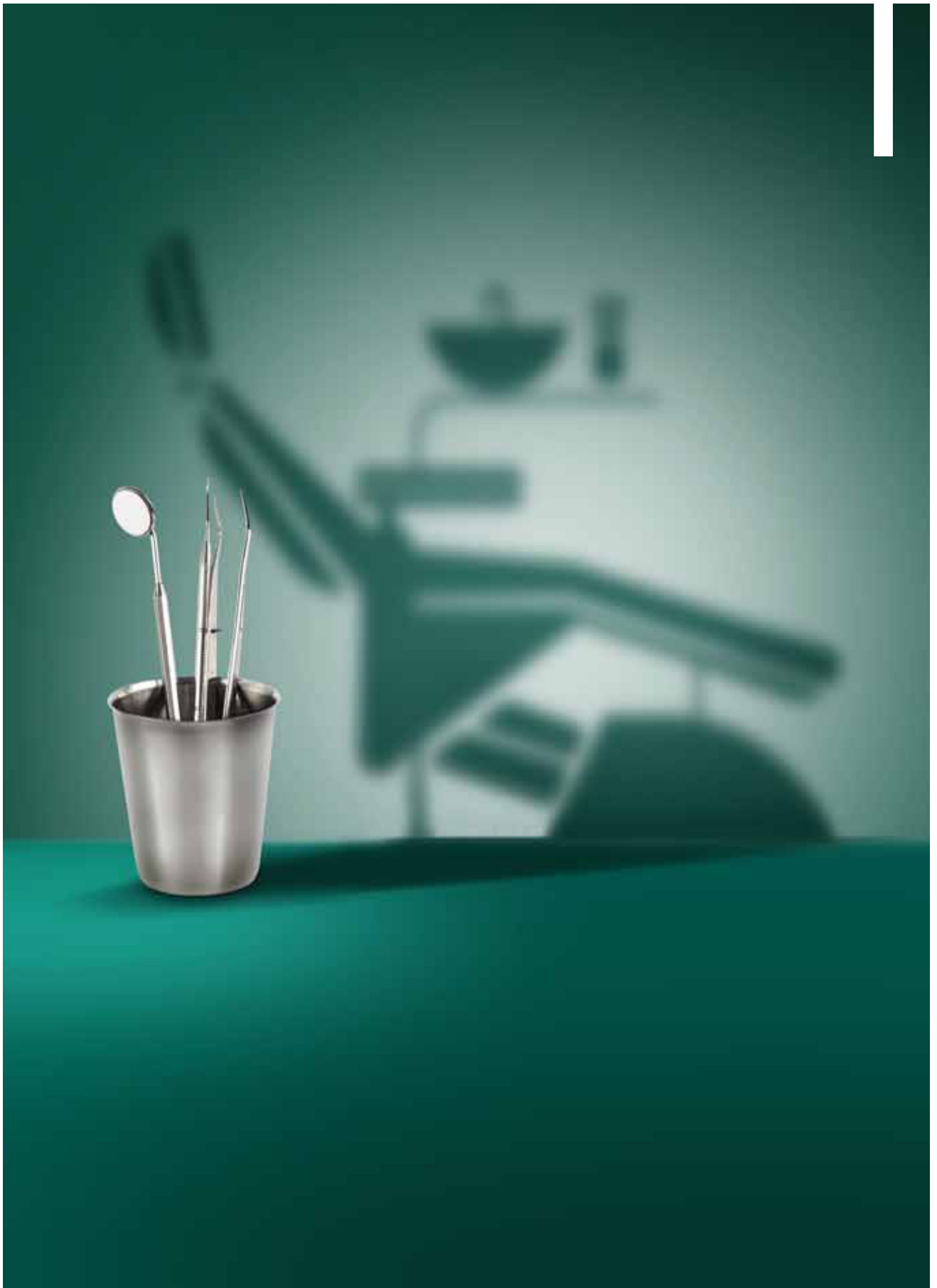
- A USD 300,000 Marketing Campaign has been recently launched with Retail and Consumer products in focus along with reiterating the brand identity and recall value.
- 27 new ATM machines have been added up to October 2015 to the Al Baraka network. These touch points reached the 100 machine mark, with 50 major cities now being covered across Pakistan.
- Al Baraka Internet Banking has been launched for greater customer convenience along with automation of Home Remittance software and Operational Risk Management System.
- New products & Services launched include Bai Muajjal, Running Musharika, Tijara, Agri-financing facilities, Cash Management, Home Remittance services, Financing Facilities for the Youth, Debit Card etc.
- On the liabilities side, the Bank introduced products such as Accounts for Senior citizens, Young Saver, Halal Munafa and Mahana Barakah.

### BANCA TAKAFUL

BANCA Takaful sales have been exemplary during 2015 as the total business crossed USD 1.41 million. This revenue stream substantially improved the bank’s bottom line. Two Banca conventions were held to celebrate the successful closure of BANCA Takaful campaigns, one each in Turkey and Malaysia. The Banks 3rd convention will be held in South Africa during the 1st quarter of 2016.

### THE CREDIT RATING OF THE BANK

Pursuant to downward revision of Credit Rating of Government of Bahrain, the Capital Intelligence has drifted downward



## CHIEF EXECUTIVE'S REPORT CONT.

long term and short term foreign currency credit ratings of the Bank from BB+ to BB and A3 to B respectively. However, the financial strength ratings were remained intact. Further, the outlook on the assigned ratings is "Stable".

### CORPORATE IDENTITY OF THE BANK.

In line with the strategy being implemented by Al Baraka Banking Group B.S.C (ABG), regarding the unification of the new identity of the Group and its subsidiary banking units, Al Baraka Islamic Bank launched its new unified identity on 3rd June 2009. The main objective of the new identity is to ensure that all the banking units of the Group share unified goals and business strategies. For this reason, Al Baraka Islamic Bank views this step as a major achievement for the bank in its quest to attain a leading position in the Islamic banking industry.

During 2015, the Bank continued with developing policies and high ethical and professional standards with regard to the offering of innovative and highly efficient Shari'a-compliant services and products. To achieve this, we put in place a number of programs and plans which are currently being implemented to embody the motto of the new identity of the Group in being a "Partner Bank" to our customers, investors, and all our stakeholders. These steps included the implementation of a number of programs at all levels at the Bank to promote the understanding and assimilation of the new corporate identity and the values and principles that it represents and, which in turn, require high skills and outstanding performance from all employees.

As we proceeded further with the launch of the unified corporate identity, the concept of Brand Guardianship had been introduced across all Al Baraka Banking Group units, to ensure the smooth assimilation of the brand in all markets. In line with international best practice, a high level branding committee at Group Head Office has been charged with the responsibility for "Brand Guardianship" across the Group. In this regard, several initiatives have been commissioned at the Group level through the Branding & Special Projects team and the Brand Guardians, amongst which are:

1. The issuance of Retail Products Guides and Manuals
2. The issuance of a detailed manual for the standardization of Al Baraka's retail branches network.

3. Standardization of the marketing communication, especially in connection with customers touch points – both one to one as well as advertising messages.

At the subsidiary unit level, the Chief Executive Officer of each bank of the Group has been appointed Brand Guardian for his respective unit, assisted by senior executives, to ensure that all activities related to the brand conform to the unified policies.

The launch of the Unified Identity resulted in attaining many achievements, which can be summarized as follows:

- Customer interest levels have heightened, resulting in a good increase in the number of new customers.
- Staff across the Group became highly motivated and fully engaged with the implementation of the Group Vision and the concept of partnership and participation was introduced at work.

As a result of this, there is now a strong customer oriented approach in all marketing activities. This approach is derived from the strategy outlined in the unified corporate identity and it has now been fully integrated into the policies, procedures and business methodologies.

### PRIZES AWARDED TO THE BANK IN 2015

As a reflection of the Bank's growing reputation regionally and internationally, the Bank was awarded many international prizes in 2015. The Bank is proud to be chosen as the 'Best Islamic Bank in the Kingdom of Bahrain' in March 2015 for the third successive year by the Foundation of Islamic Finance News, the Malaysia-based international institution specializing in news for the Islamic financial sector. The Bank also won the 'Best Islamic Financial Institution in Bahrain' prize from Global Finance Magazine.

### BRANCHES

As for our local branch network, the opening of new branches was mainly in Pakistan, while the Bank has six branches in the Kingdom of Bahrain. We have an

ambitious plan to open more branches in Bahrain and Pakistan in 2016, which highlights our determination to enhance our financing and deposit market share, considering that the Bank has a range of highly successful financial and deposit products designed for individuals and companies which include many attractive features that best meet the needs of customers in strict compliance with Islamic Shari'a.

As for the ATM network, the Bank added two new ATMs in Wadi Hayyan and American Mission Hospital, which bring the total of these ATMs to 22 ATMs. During 2015, we took care of work environment and relationship with customers in order to improve and develop relations with them, as well as attention to human development and employment of competencies that contribute to enable the Bank to implement its new business strategies, and introduced new systems of information technology which enables the Bank to provide the latest banking services to its customers and increase operational efficiency.

As part of its continuing efforts to improve its banking services to customers, the Bank launched the electronic banking services via the Internet to its customers, which contain a range of banking services that will increase customer satisfaction for the Bank's services through the saving of time and effort and to facilitate access to the service and use of the latest technologies in their submission.

### HUMAN RESOURCES AND TRAINING

Al Baraka Islamic Bank continued, during 2015, to create a conducive work environment and enhance the values and principles of the Bank to promote the concept of working as one team that possesses the academic qualifications, expertise and capabilities needed for the Bank's operations and satisfying the needs and expectations of our customers. The Bank also continued its efforts to fill senior positions and improve the performance and productivity of its staff to serve customers better.

Within its functional development program for high management members in order to give them more managerial authorities, the Bank introduced developmental changes at the Senior Management Structure of the Bank.

The changes included the Promotion of the following seniors: Promoting Mr. Isa Jassim Al Obaidly to Assistant General Manager, and supervise the following units: Human Resources, Administration & General Services and Payments Unit. Promoting Mr. Adel Jassim Al Manea to Assistant General Manager – Head of Commercial Banking Department. Promoting Mr. Hussain Habib Alnattaie to Assistant General Manager – Head of International Banking Department.

In 2015, the Bank promoted 27 staff members to enable them assume more senior positions, which will motivate them to continue their hard work and enhance their loyalty to the bank.

The management of the Bank, in partnership with Al Baraka Banking Group, has provide training program for large number university trainees during 2015 reached 51 trainees. The Bank's management also focused on providing in-house training courses, sending staff members to attend short training courses and professional qualifications to help them to improve their performance and increase awareness of key business, mandatory CBB requirements and other essential skills i.e. Anti-Money Laundering, Islamic Banking Ethics. The Training participation reached 280 participations.

The Bank has also honored employees who have served the Bank for periods 5, 10, 15 and 30 years by giving them certificates and prizes during the annual luncheon, which was held during second quarter in 2015. The number of employees who were honored are 14 employees.

#### INFORMATION TECHNOLOGY

In view of the rapid advances in information technology at the global level and the changing developments in this area that this entails worldwide, Al Baraka Islamic Bank is very keen on modernizing the infrastructure of its computer network, increasing its capacity and introducing modern technologies with high-speed data transfer capabilities, which will lead to significant time-saving and reduction of effort on the part of the employees of the Bank.

#### SOCIAL RESPONSIBILITY

We are in Al Baraka Islamic Bank as an Islamic financial institution, and as a part

of our commitment to the community, we have to contribute to the development of local economies and communities in which we work, where we believe that this role is one of the key features of the business model that we are committed to. The fact that Al Baraka Islamic Bank is considered a pioneer in Islamic banking, we seek to maintain our position as the leading organization committed to the social responsibility.

The Bank continued during the year 2015 performing its social responsibilities by directing its products and services for the development of communities in which it operates to enhance them socially and economically, and to improve the quality of these products and services, as well as through the support of financing of small and medium enterprises and taking care of youth skills and training them. As well as through its social contributions and generous financial donations to serve community and charitable organizations through sponsorships and donations program to charities and local clubs and scientific and religious centers, in addition to supporting needy families in Bahrain. The Bank has a special program to provide assistance to charities and humanitarian organizations during the holy month of Ramadan.

The Bank continues its sponsorship of many important international finance and banking events and conferences that are held in Bahrain such as the World Conference of Islamic Banking, Shari'a Bodies Conference, and the Accounting and Auditing Organization for Islamic Financial Institutions, where we are one of the main sponsors of these conferences.

The Bank employs a number of students who are in the final stages of their undergraduate studies during the summer vacation, as well as fresh graduates with the aim of rehabilitation and refine their knowledge which is considered as an important part of the Bank's contributions toward the community.

#### FINALLY

At the end of our presentation of the performance of Al Baraka Islamic Bank in 2015, and in light of the very positive operating results that we have made, particularly in terms of enhanced profitability through enhancing revenues from core operating sources of the Bank,

which cover our both main markets Bahrain and Pakistan, we can emphasize our confidence in the future, where the Bank has great potential to take advantage of the regional and global economies.

As for 2016, which is the third year in the new strategic plan of the Bank, we will continue implementing a number of initiatives including our first Islamic credit card of the Bank, opening new branches in Bahrain and Pakistan, enhancing our partnership with Tamkeen and Housing Bank, establishing a specialized section for SMEs, and shifting to the headquarter in Bahrain bay, which will be milestone in realizing our aspirations, as well as continuing strengthening our capital base. In accordance with this strategy, we will make more efforts to maximize the satisfaction of clients and stakeholders, in addition to build high quality income-generating assets portfolio through enhancing controls, regulations and practices of risk management, governance, AML and CFT, and internal audit including Shari'a control as well as tapping into new markets in Africa and Asia and continued launching new and innovative financing, savings and investment products.

We recognize that 2016 is full with challenges and is surrounded with unstable environment, but we believe that the economic fundamentals of the Kingdom of Bahrain and other GCC countries will remain strong, and are supported by ambitious development programs. Therefore, the efforts and initiatives made by the Bank, supported generously by the parent bank, Al Baraka banking Group, will advance the status and profitability of the Bank and will enhance its local and regional position.



Mohammed Isa Al-Mutaweh  
Board Member and Chief Executive

# CORPORATE GOVERNANCE

## Governance and Compliance

### Philosophy, Strategy and Objectives

AlBaraka Islamic Bank "AIB/the bank" adhere to the principles and best practices of corporate governance. It is a fundamental part of how we discharge our duties and responsibilities towards protecting and enhancing our shareholders' value as well as ensuring that we achieve long term sustainable financial performance. Our governance framework extends beyond legislative and regulatory compliance and is aimed at creating a culture of good governance across the business to protect the interests of stakeholders. The Bank aspires to the highest standards of ethical conduct by delivering our promise to clients, reporting our financial results accurately and transparently and maintaining full compliance with all laws, rules and regulations governing the Bank's business.

The Bank's governance and compliance strategies, objectives and structures have been designed to ensure that the Bank complies with legislation and the myriad of codes, while at the same time moving beyond accountability and assurance issues to value creation and resource utilization issues. Internally the function has expanded in five complementary directions, namely:

- enterprise-wide corporate governance;
- business governance;
- corporate accountability and ethics;
- sustainability management and reporting;
- Compliance;

The Compliance Unit at AIB works closely with Legal, Company Secretary, Risk, and Internal Audit in promoting a culture of good governance and compliance within the Bank. The Bank has taken the necessary steps to continuously enhance its corporate governance to ensure conformity and seeking best practices.

The board adopted written Corporate Governance Policy covering bank-wide corporate governance framework, matters related to the Board, and the principles and rules of Central Bank of Bahrain (CBB) on Corporate Governance for Islamic retail Licensed Institutions – "Module HC". Moreover, AIB conducts annual detailed self-assessments to ensure compliance with the requirements of Module HC, and sets specific milestone for implementation of any shortfalls whenever exist, including continuous review and upgrades for strong corporate governance practices included AIB's subsidiaries. AIB complies with the principles as set out in Module-HC. CBB, AIB's shareholders, the Board of Directors and Executive and Senior management have been fully apprised of the amendments to the requirements and the milestones set. Starting from 2011, Corporate Governance was an item on the agenda of the annual shareholder meeting for information and any questions from shareholders regarding the Islamic Bank's governance.

These disclosures should be read in conjunction with AIB's consolidated financial statements for the year ended 31 December 2015. To avoid any duplication, information required under CBB Rulebook PD module but already disclosed in other sections of the annual report has not been reproduced in these disclosures.

## Governance Framework

### Ownership Structure

Al Baraka Islamic Bank B.S.C. is a Bahrain-based licensed Islamic retail Bank and operates as a subsidiary of Al Baraka Banking Group. Al Baraka Banking Group (ABG) is the dominating shareholder. The shareholding structure is transparent and the existing share structure consists entirely of Ordinary Shares and there are no different classes of Ordinary Shares. AIB can also confirm that the minority shareholders of the Bank are well represented on the Board of Directors, either directly or through the independent directors.

There has been no trading of Banks Shares during the year by the Directors or senior management. As at 31st December 2015, distribution schedule of shares, setting out the number and percentage of holders were as the following categories:

SR No	Name	Designation	Position	Nationality	# of Shares	Share %
1	ABG	Parent Co.	-	Bahraini	1,115,755	91.1134%
2	Abdullatif A. Raheem Janahi	Non-executive and Independent Director	BoD Member	Bahraini	1,250	0.1021%

Other than the above, none of the other directors at the end of the financial year had any interest in the shares of AIB or its related corporations during the financial year. Other shareholders are as under:

SR No	Name	Designation	Position	Nationality	# of Shares	Share %
3	Hussain Mohsin Alharthe	Shareholder	-	Saudi	50,000	4.0830%
4	Bahrain Islamic Bank	Shareholder	-	Bahraini	10,000	0.8166%
5	Ibdar Bank	Shareholder	-	Bahraini	10,000	0.8166%
6	Suliman Abdulaziz Alrajhi	Shareholder	-	Saudi	5,000	0.4083%
7	Saleh Abdulaziz Alrajhi	Shareholder	-	Saudi	5,000	0.4083%
8	Abdullah Abdulaziz Alrajhi	Shareholder	-	Saudi	5,000	0.4083%
9	Mohammed Abdulaziz Alrajhi	Shareholder	-	Saudi	5,000	0.4083%
10	Heirs of Dr. Hassan Abdullah Kamel	Shareholder	-	Saudi	5,000	0.4083%
11	Dubai Islamic Bank	Shareholder	-	UAE	5,000	0.4083%
12	Saeed Ahmed Lotah & Sons Group	Shareholder	-	UAE	5,000	0.4083%
13	Jordan Islamic Bank	Shareholder	-	Jordan	2,500	0.2042%
14	Sheikh Saleh Abdullah Kamel	Shareholder	-	Saudi	73	0.0060%
<b>Total</b>					<b>1,224,578</b>	<b>100%</b>

#### Distribution of ownership of shares by nationality;

Country	No of Shares	Ownership %
Bahrain	1,137,005	92.85%
Jordan	2,500	0.20%
Saudi Arabia	75,073	6.13%
UAE	10,000	0.82%
<b>Total</b>	<b>1,224,578</b>	<b>100%</b>

#### Distribution of ownership of shares by size of shareholder;

Categories	No of Shares	% of Total Outstanding
Less than 1%	58,823	4.8%
1% up to less than 5%	50,000	4.1%
50% and above	1,115,755	91.1%
<b>Total</b>	<b>1,224,578</b>	<b>100%</b>

## CORPORATE GOVERNANCE CONT.

### The Board of Directors (The Board)

The adoption and implementation of corporate governance is the direct responsibility of the Board of Directors, and shall continue its endeavour to enhance shareholder value, protect their interest and defend their rights by practicing pursuit of excellence in corporate life.

The risk management strategy is based upon risk principles approved by the Board and is underpinned by a system of delegations, passing from the Board through Board committees, the Chief Executive Director (CEO), management committees to the various risk, support and business units of the Bank.

The Board is accountable to the shareholder; the management is accountable to the Board. Directors apply skill and care in exercising their duties to the Bank and are subject to fiduciary duties, and ensure that the management acts in the best interests of the Bank and its shareholder, by working to enhance the Bank's performance. The Board authorizes the Management to execute strategies that have been approved. The Board oversees the conduct of the Bank's businesses by ensuring that the business is properly managed by a management team of the highest caliber.

### The principal functions of the Board are as follows:

- reviews and approves the Management's proposals on long-term strategic plans of the Bank as well as the strategic business plans and activities of the various business units and monitors the Management's performance in the implementation process;
- approves the annual budget for the Bank and conducts regular business review of achievements against the annual budget, as well as reviews the Management's business strategies and action plans;
- sets corporate values and clear lines of responsibility and accountability that are communicated throughout the Bank;
- ensures there is a managed and effective process to select and appoint key Senior Management officers that are qualified, professional and competent to administer the affairs of the Bank as well as approves a succession planning policy and effectively monitors Senior Management's performance on an ongoing basis;
- ensures the implementation of effective internal controls and processes to measure and manage business risks, including but not limited to reviewing the adequacy and integrity of internal control systems and operations; establishing relevant policies on the management of business risks covering inter alia operational, credit, market and liquidity risks and other key areas of the Bank's operations;
- institutes comprehensive policies, processes and infrastructure to ensure Shari'a compliance in all aspects of the Bank's operations, products and activities;
- sets up an effective audit department, staffed with qualified internal audit personnel to perform internal audit functions, covering the financial, management and Shari'a audit;
- establishes procedures to avoid self-serving practices and conflicts of interests;
- assures equitable treatment of shareholders including minority shareholders,
- ensures protection of the interests of the depositors, particularly investment account holders;
- establishes and ensures the effective functioning of various Board Committees;
- ensures that the operations of the Bank are conducted within the framework of relevant regulations, laws and policies;
- ensures that the Bank has a beneficial influence on the economic well-being of its community;
- Approve material transactions outside the normal course of business or in excess of the limits of approval authority delegated to Executive Management.

The Board has approved certain policies and procedures which authorizes the senior management to approve certain transactions. The Board has delegated specific authority to the CEO and to management committees to manage the activities of the Bank within the limits set up by it. All credit and investment applications exceeding the pre-defined and approved limits in the form of amount, tenor require approval of the Board. Accordingly, the following types of material transactions require Board approval as defined by the approved policies:

1. Credit facilities above US\$ 15m and/or tenor more than 10 years
2. Investments in quoted equities and investment in funds above US\$5m and/or tenor more than 7 years
3. Write-offs or discharge of the Bank's debts
4. If the investment losses is more than 10%.
5. Any excess above 20% of the original approved limits, and/or amount above US\$ 1m, and/or tenor above 3months.
6. Exceptional waivers in relation to security value or cash margin, if the original authority is the board.

Board meetings are held on a scheduled basis in ensuring relevant policy, strategy and business performance issues are discussed and accordingly tracked and monitored. The Board and its committees are supplied with full and timely information to enable them to discharge their responsibilities. Special Board meetings are also convened when the need arose.

#### **Re-election of Directors**

The previous Board's term expired in April 2014. In compliance with the Bank's Article of Association, the shareholders re-elected the existing Board members in the Annual General Meeting held on May 2014, for a period of three years ending April 2017. Re-election of Directors process begins when an announcement is made requesting nominations for the position of membership of the three year term is due to expire, such nominations must be submitted to the Chairman of the Board within the time frame provided in the announcement. As part of the nomination process, each nomination must comply with local rules and regulations and must be submitted to the CBB in order to ensure compliance with the "Fit and Proper" requirements. The names of all nominated individuals so approved by the CBB are then submitted to the shareholders at the next AGM for election. Election of Directors takes place in accordance with the rules and procedures as set out in the Commercial Companies Law and AIB's Articles of Association.

#### **Termination of Board Membership:**

The termination is provided for in Article 32 of the Articles of Association as follows:

1. If the member was appointed in violation to the provisions of the law.
2. If the member loses any of the conditions provided for in the Articles e.g. lack of legal capacity, convicted in bankruptcy, crimes of honour or breach of trust.
3. If he uses his membership to conduct a competitive business or causes real damages to the Bank.
4. If he is absent from the Board meeting for four consecutive meetings without legitimate reason.
5. If he resigns or discharged from office
6. If he occupies another salaried position other than an executive position which the Board decided to pay salary to him

If the office of a director becomes vacant the Board may appoint a temporary director to fill the vacancy. Such an appointment shall be presented to the ordinary general meeting in its first meeting for the purpose of ratifying the appointment.

#### **The Board Composition**

The Directors have broad experience across a number of industries and business sectors, and provide valuable input and an external perspective to matters of business strategy. The Board currently has 10 members, comprising 6 independent non-executive directors (including the Chairman) and 4 executive directors.

The Board meets quarterly to review and evaluate corporate strategy, major operational and financial plans, risk policy, financial performance objectives and monitors implementation and corporate performance within the parameters of all relevant laws, regulations and codes of best business practice.

## CORPORATE GOVERNANCE CONT.

The role of the Chairman of the Board is fundamentally distinct from that of the CEO. The separation of powers between the Chairman of the Board and the CEO ensures a balance of power and authority which provides a safeguard against the exercise of unfettered powers in decision-making. The Chairman is responsible for ensuring Board's effectiveness, as well as representing the Board to the shareholder. The CEO act in accordance with the authority delegated to him by the Board.

Board Composition, independence of Directors, and Membership in the Board and Committees are set out below:

Director Name	Nationality	Board Membership		Committee Membership			
		Designation	Position	Audit & Governance	Remuneration & Board Affairs	Executive	Risk
Khalid Rashid Al-Zayani	Bahraini	Independent Director	Chairman				
Adnan Ahmed Yousif	Bahraini	Executive Director	Vice Chairman		Member*	Chairman	
Abdullatif A. Raheem Janahi	Bahraini	Independent Director	Member and Individual Founder			Member	
Abdulrahman Abdulla Mohammed	Bahraini	Independent Director	Member		Member	Member	
Musa A. Shihadah	Jordanian	Executive Director	Member	Member			
Khalid Abdulla Ateeq	Bahraini	Independent Director	Member		Member*		Chairman
Ashraf A. El Ghamrawi	Egyptian	Executive Director	Member				Member
Yousef Ali Fadel Ben Fadel	UAE	Independent Director	Member	Member	Chairman		
Maqbool Habib Khalfan	Qatar	Independent Director	Member	Chairman			Member
Mohamed Essa Al Mutaweh	Bahraini	Executive Director	Member			Member	

\*Mr. Adnan Ahmed Yousif resigned from Board Remuneration and Board Affairs Committee on the 05th of November 2015 and replaced by Mr. Khalid Abdulla Ateeq effectively from 07th January 2016.

### Information, Induction and Ongoing Development

All Directors receive accurate, timely and clear information on all relevant matters, and have access to the advice and services of the Head of Legal & Corporate Secretary who, together with the Head of Compliance, is responsible for ensuring that Board procedures are followed and applicable rules and regulations are complied with.

A formal induction process exists for each new Director on joining the Board, including briefing on the Bank's Corporate Governance Policy with copy for their reference, and meetings with other Directors and the Board Secretary. The Bank provides the necessary programs of continuing education to ensure that Directors are kept up to date with developments in the industry both locally and globally which assist them in carrying out their duties as Directors.

### Board meetings and attendances

In line with the nature and demands of the Bank's business, the Board meets at least every quarter unless further meetings are required. In 2015, the Board held 5 meetings, and the number of meetings attended by each member was as follows:

SR No	Name	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	Khalid Rashid Al-Zayani	4	5	11 January 2015 25 February 2015 24 April 2015 3 August 2015 9 November 2015	5/5
2	Adnan Ahmed Yousif				5/5
3	Abdullatif A. Raheem Janahi				5/5
4	Abdulrahman Abdulla Mohamed				5/5
5	Musa A. Shihadah				5/5
6	Khalid Abdulla Ateeq				5/5
7	Ashraf A. El Ghamrawi				5/5
8	Yousef Ali Fadel Bin Fadel				5/5
9	Maqbool Habib Khalfan				5/5
10	Mohamed Essa Al Mutaweh				5/5

The Board consists of individuals of caliber and diverse experience with the necessary skills and qualification. The Board comprises Directors who, as a group, provides a mixture of core competencies for the effective functioning and discharging of the responsibilities of the Board.

#### Performance Evaluation

In line with the Bank's Corporate Governance Policy, the Bank adopts formal procedure for the Board to undertake a formal evaluation of its own performance and that of its committees and individual Directors. The Board will distribute Evaluation Forms to all its members to evaluate their performance in the board and its committees and to evaluate the board itself. The Forms will be sent to the Chairman who will direct the Remuneration and Board Affairs Committee to write a report.

#### Remuneration

During the year 2014, the Central Bank of Bahrain issued regulations concerning Sound Remuneration Practices which the Bank adopted by proposing revisions to its variable remuneration policy and framework. Such revisions were duly reviewed and approved by the Remuneration and Board Affairs Committee and Board of Directors on 12th November 2014. Further the revised policy and incentive components was approved by the shareholders in the Annual General Meeting on 29-March-2015.

The Bank's compensation strategy, which includes the variable remuneration policy, sets out the Bank's policy on remuneration for Directors and Senior Management and the key factors that are taken into account in setting the policy.

#### Remuneration Strategy

The quality and long-term commitment of all of our employees is fundamental to our success. There is a robust and effective governance framework in place to ensure that the Bank operates within clear parameters of its compensation strategy and policy for remunerating the Board members, executives and senior management and its Shari'a Board members in accordance to the remuneration policies and procedures approved by the Board. All compensation matters and overall compliance with regulatory requirements are overseen by the Remuneration and Board Affairs Committee.

The Bank's basic compensation philosophy is to provide a competitive level of total compensation to attract and retain qualified and competent employees who are committed to maintaining a career with the Bank, and who will perform their role in the long-term interests of the Bank and its shareholders.

The Bank's reward package comprises of fixed pay, benefits, performance bonus and a long-term performance incentive plan. The Bank's variable remuneration policy will be driven primarily by a performance based culture that aligns employee interests with those of the shareholders of the Bank. These elements support the achievement of our objectives through balancing rewards for both short-term results and long-term sustainable performance. Our strategy is designed to share our success, and to align employees' incentives with our risk framework and risk outcomes.

## CORPORATE GOVERNANCE CONT.

In order to ensure alignment between how we compensate our people and our business strategy, we assess individual performance against annual and long-term financial and non-financial objectives summarized in our performance management system. This assessment also takes into account adherence to the Bank's values, risks and compliance measures and above all ethics and integrity. Altogether, performance is judged, not only on what is achieved over the short and long-term but also importantly on how it is achieved, as the Remuneration & Board Affairs Committee believes the latter contributes to the long-term sustainability of the business. More particularly, we use capital and solvency ratios, key profitability measures, quality of earning parameters and strategic growth indicators as performance metrics for key business line managers and individuals.

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

The Bank provides fixed annual fees to the Shari'a Board and does not provide any performance linked incentives.

The Remuneration & Board Affairs Committee has oversight of all reward policies for the Bank's employees. The Remuneration & Board Affairs Committee is the supervisory and governing body for the compensation policy, practices and plans. It is responsible for determining, reviewing and proposing the variable remuneration policy for approval by the Board. The committee is responsible for setting the principles and governance framework for all compensation decisions. The remuneration policy is reviewed on a periodic basis to reflect changes in market practices, the business plan and risk profile of the Bank. The Remuneration & Board Affairs Committee ensures that all persons are remunerated fairly and responsibly.

In addition to the responsibilities of the Remuneration & Board Affairs Committee mentioned elsewhere in this report, the Remuneration & Board Affairs Committee is entrusted with specific and detailed responsibilities with regard to the Bank's variable remuneration policy and oversight of its implementation. These include but are not limited to ensuring that the system operates as intended, especially for Material Risk Takers, ensuring that variable remuneration forms a substantial part of their total remuneration and is adjusted for all types of risks by reviewing the stress testing and back testing results. The Remuneration & Board Affairs Committee is also responsible for ensuring that for Approved Persons in risk management, internal audit, operations, Sharia' review, financial control and compliance functions, the mix of fixed and variable remuneration is weighted in favor of fixed remuneration. In addition, the Remuneration & Board Affairs Committee recommends that Board members' remuneration be based on their attendance and performance in compliance with Article 188 of the Bahrain Commercial Companies Law.

The Remuneration & Board Affairs Committee carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The Remuneration & Board Affairs Committee demonstrates that its decisions are consistent with an assessment of the Bank's financial condition and future prospects.

As outlined in the Corporate Governance section of the Annual Report, one of its members up to November 2015 was an executive member and his membership is terminated in November 2015 to comply with HC Module. An independent member is elected to join the Committee by the new year 2016.

The Board is satisfied that all non-executive Directors are independent, including the Remuneration & Board Affairs Committee members.

The aggregate remuneration paid to Remuneration & Board Affairs Committee members during the year in the form of sitting fees amounted to USD 12,000 [2014: USD 12,000].

### Board remuneration

Remuneration for the Bank's Board of Directors is determined in line with the provisions of Article 188 of the Bahrain Commercial Companies Law, 2001. Board remuneration is subject to the approval of the shareholders in the Annual General Meeting. Remuneration of non-executive Directors does not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits.

In the case of Non-Executive Directors, their level of remuneration reflects the experience and level of responsibilities undertaken by these Directors in the Bank. As for the CEO, the remuneration is structured so as to link the remuneration and other rewards/benefits to contributions and achievements, in tandem with the Bank and the Parent (ABG) corporate objectives, culture and strategy.

No director has received or become entitled to receive a benefit by reason of a contract made by the Bank or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest, other than the contracts mentioned in related section of the Bank's financial statements.

## Directors' interests in the Bank's shares

Board Members	Number of Shares at 1 January 2015	Number of Shares at 31 December 2015	Changes in shareholding
Abdullatif A. Raheem Janahi	1,250	1,250	-

## CEO, Directors and Shari'a Committee Members' Remunerations:

	2015 (US\$)	2014 (US\$)
<b>Directors, Executive Management and Shari'a Committee Members remuneration:</b>		
<u>Directors:</u>		
Remuneration*	121,186	87,199
Sitting Fees	288,000	210,000
Allowance & Others**	66,438	42,237
<b>Total</b>	<b>475,624</b>	<b>339,436</b>
<u>Staff Inclusive of Chief Executive Officer:</u>		
<u>Fixed Remuneration</u>		
Approved persons-business line	1,601,144	1,225,912
Approved persons-others	1,083,206	896,574
Other staff in Bahrain	10,163,910	9,719,202
Staff of overseas subsidiary	11,955,362	10,654,878
<b>Total fixed remuneration</b>	<b>24,803,622</b>	<b>22,496,566</b>
<u>Variable Remuneration</u>		
Approved persons and material risk takers-business line	537,860	209,117
Approved persons-others	301,626	151,116
Other staff in Bahrain	1,165,182	1,099,569
Staff of overseas subsidiary	400,276	525,060
<b>Total variable remuneration</b>	<b>2,404,944</b>	<b>1,984,862</b>
<b>Total remuneration to staff</b>	<b>27,208,566</b>	<b>24,481,428</b>
<b>Shari'a Committee Members</b>	<b>72,644</b>	<b>68,699</b>

\*The amounts represent remuneration paid to the Board of Directors during the year based on the prior year performance.

\*\* Others include the reimbursement of tickets and per diem for attending Board of Directors and Board Committees meetings.

Total fixed remuneration for covered persons affected by the policy, having salaries and benefits exceeding BD100,000, amounts to US\$ 1,816,076 (2014: USD 1,345,761) and the number of persons effected by: 5 (2014:4). The total variable remuneration for 2015 paid to these persons was USD 830,091 (2014: USD 403,832). Said variable remuneration comprises of up front cash amounted to USD 332,036 (2014: USD 161,533) and deferred shares amounted to USD 498,054 (2014: USD 242,299). Further, the total amount of deferred remuneration outstanding as at 31th December 2015 are USD 498,054 (2014: USD242,299).

There is no severance pay during current year and corresponding period.

## CORPORATE GOVERNANCE CONT.

### Variable Remuneration for Staff

The Bank's Variable Remuneration Policy provides that variable remuneration is performance related and consists primarily of the annual performance bonus award. As a part of our staff's variable remuneration, the annual bonus rewards the delivery of operational and financial targets set each year, individual performance of the employees in achieving those targets, and their contribution to delivering the Bank's strategic objectives.

The Bank has adopted a Board approved framework to develop a transparent link between variable remuneration and performance. The framework is designed on the basis of meeting both satisfactory financial performance and the achievement of other non-financial factors, that will, all other things being equal, deliver a target bonus pool for employees, prior to consideration of any allocation to business lines and employees individually. In the framework adopted for determining the variable remuneration pool, the Remuneration & Board Affairs Committee aims to balance the distribution of the Bank's profits between shareholders and employees.

Key performance metrics at the bank level include a combination of short term and long term measures and include profitability, solvency, liquidity and growth indicators. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

In determining the amount of variable remuneration, the Bank starts from setting specific targets and other qualitative performance measures that result in a target bonus pool. The bonus pool is then adjusted to take account of risk via the use of risk-adjusted measures (including forward-looking considerations).

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

For the overall Bank to have any funding for distribution of a bonus pool; threshold financial targets have to be achieved. The performance measures ensure that total variable remuneration is generally, considerably contracted where subdued or negative financial performance of the Bank occurs. Furthermore, the target bonus pool as determined above is subject to risk adjustments in line with the risk assessment and linkage framework.

### Remuneration of control functions

The remuneration level of staff in the control and support functions allows the Bank to employ qualified and experienced personnel in these functions. The Bank ensures that the mix of fixed and variable remuneration for control and support function personnel should be weighted in favor of fixed remuneration. The variable remuneration of control functions is to be based on function-specific objectives and is not determined by the financial performance of the business areas they monitor.

The Bank's performance management system plays a major role in deciding the performance of the support and control units on the basis of the objectives set for them. Such objectives are more focused on non-financial targets that include risk, control, compliance and ethical considerations as well as the market and regulatory environment apart from value adding tasks which are specific to each unit.

### Alignment with Risk

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

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

Risk adjustments take into account for all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Bank undertakes risk assessments to review financial and operational performance against business strategy and risk performance prior to distribution of the annual bonus. The Bank ensures that total variable remuneration does not limit its ability to strengthen its capital base. The extent to which capital needs to be built up is a function of the bank's current capital position and its ICAAP.

The bonus pool takes into account the performance of the Bank which is considered within the context of the Bank's risk management framework. This ensures that the variable pay pool is shaped by risk considerations and Bank-wide notable events.

The size of the variable remuneration pool and its allocation within the bank takes into account the full range of current and potential risks, including:

- the cost and quantity of capital required to support the risks taken;
- the cost and quantity of the liquidity risk assumed in the conduct of business; and
- Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

The Remuneration and Board Affairs Committee keeps itself abreast of the Bank's performance against the risk management framework. The Remuneration and Board Affairs Committee will use this information when considering remuneration to ensure returns, risks and remuneration are aligned.

The Bank has an ex-post risk assessment framework, which is a qualitative assessment to back-test actual performance against prior risk assumptions.

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

- There will be considerable contraction of the Bank's total variable remuneration;
- At an individual level, poor performance by the Bank will mean individual KPIs are not met and hence employee performance ratings will be lower;
- Reduction in the value of deferred shares or awards;
- Possible changes in vesting periods and additional deferral applied to unvested rewards; and
- Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or clawback of previous variable awards may be considered.

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

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

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

Any decision to take back an individual's award can only be made by the Bank's Remuneration and Board Affairs Committee.

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

- Reasonable evidence of willful misbehavior, material error, negligence or incompetence of the employee causing the Bank/the employee's business unit to suffer material loss in its financial performance, material misstatement of the Bank's financial statements, material risk management failure or reputational loss or risk due to such employee's actions, negligence, misbehavior or incompetence during the concerned performance year; and
- The employee deliberately misleads the market and/or shareholders in relation to the financial performance of the Bank during the concerned performance year.

Clawback can be used if the malus adjustment on the unvested portion is insufficient given the nature and magnitude of the issue.

## CORPORATE GOVERNANCE CONT.

### Incentive Plans

The employees of the bank are eligible for a variety of incentive plans to achieve a direct linkage amongst the remuneration and current /future performance of the bank. In this respect, the separate short term incentive plans (STIP) and long term incentive plans (LTIP), are duly devised in the light of prevailing laws and regulations.

Main components of said remuneration are as follows:

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

All deferred awards are subject to malus provisions. All phantom shares awards are released to the benefit of the employee after a six month retention period from the date of vesting.

More particularly, the employees in business lines can avail remuneration, under short term incentive plan (STIP) as follows:

Element of variable remuneration	Constitutions	Vesting period	Retention	Malus	Clawback
Upfront cash	40%	Immediate	-	-	Yes
Upfront shares	-	Immediate	6 Months	Yes	Yes
Deferred cash	10%	3 Years	-	Yes	Yes
Deferred share awards	50%	3 Years	6 Months	Yes	Yes

While the employees in other functions shall be subject to variable remuneration under such STIP as follows:

Element of variable remuneration	Constitutions	Vesting period	Retention	Malus	Clawback
Upfront cash	50%	Immediate	-	-	Yes
Upfront shares	10%	Immediate	6 Months	Yes	Yes
Deferred cash	-	3 Years	-	Yes	Yes
Deferred share awards	40%	3 Years	6 Months	Yes	Yes

The Remuneration and Board Affairs Committee, based on its assessment of role profile and risk taken by an employee could increase the coverage of employees that will be subject to deferral arrangements. There are no signing or guaranteed bonuses awarded during the current and prior year.

In addition to non-cash short term incentives, in order to motivate and align employee with the long term business plan of the bank, the bank may decide to selectively award long term incentive plans to employees contingent on the delivery of future performance targets for the bank. The Board Affairs & Remuneration Committee will confirm the employees eligible for the bank's LTIP scheme on

an annual basis. The performance horizon and quantum of award will also be determined on an annual basis, based on the performance requirements. All LTIP awards will be delivered on assessment of results achieved at the end of the performance period. LTIP vest immediately at the end of the performance period (a minimum of 3 years) and are subject to a six month retention period post vesting.

Currently, the Bank has decided to remunerate the covered staff, having salary exceeding BD100,000, by using LTIP. In this respect, the scheme of remuneration is duly elaborated as follows:

Element of variable remuneration	Constitution	Deferral period	Retention	Malus	Clawback
Upfront cash	40%	Immediate	-	-	Yes
Deferred share awards	60%	3 Years	6 Months	Yes	Yes

### External Consultants

The Bank appointed consultants to advise the Bank on amendments to its variable remuneration policy to bring it in line with the CBB's Sound Remuneration Practices and industry norms. This included assistance in designing an appropriate Share-based Incentive Scheme for the Bank.

### Board Committees

In accordance with the Board Charter, the Board principally through Board Committees is responsible for overseeing the establishment of systems of risk management by approving accounting policies, financial statements and reports, credit policies and standards, risk management policies and procedures and operational risk policies and systems of internal controls, taking into account the Bank Risk Appetite, the overall business strategy, management expertise and the external environment. The Board has defined general parameters to manage the Bank-wide risk profile to comply with the approved Bank Risk Appetite and tolerances which consider both downside risk and opportunities.

The Board has approved policies that support the implementation of a risk oversight and management framework for the Bank. These policies are overseen by the Board Committees with each Committee operating under a Board approved charter that is reviewed annually.

Each Committee has established a reporting structure that describes the relevant responsibilities in respect to oversight and monitoring of Board-approved risk management policies.

The Committees evaluate developments in respect to the Bank's structure and operations, as well as economic, industry and market developments that may impact the Bank's management of risk.

The Board Committees meet regularly and consist of executive and non-executive directors. The Board Committees in operation during the year under review are:

#### 1. Audit and Governance Committee

The Committee consists of three members. The Head of Internal Audit reports directly to the Chairman of the Audit and Governance Committee. The Committee is regularly informed about significant projects aimed at further improving processes and receives regular updates on major litigation matters as well as significant regulatory and compliance matters.

The primary function of the Audit Committee is to assist the Board in fulfilling its oversight role by:

- monitoring and assessing the integrity of the consolidated financial statements as well as disclosures of the financial condition, results of operations and cash flows;
- monitoring processes designed to ensure an appropriate internal control system, including compliance with legal and regulatory requirements;
- monitoring the qualifications, independence and performance of the external auditors and of Internal Audit; and
- Monitoring the adequacy of financial reporting processes and systems of internal accounting and financial controls.

## CORPORATE GOVERNANCE CONT.

The members, number of meeting held, and attendance of members were as follows:

SR No	Names	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	Maqbool Habib Khalfan	4	4	24 February 2015	4/4
2	Musa A. Shihadah			11 May 2015	4/4
3	Yousef Ali Fadel Ben Fadel			3 August 2015	4/4
				9 November 2015	

### 2. Remuneration & Board Affairs Committee

The Committee is responsible for assisting the Board in reviewing and overseeing the following responsibilities:

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

The Board is ultimately responsible for the approval of the remuneration package. The Committee is guided by the need to 'attract and retain' and at the same time link the rewards to clearly articulate corporate and individual performance parameters. The members, number of meeting held, and attendance of members are as follows:

SR No	Names	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	Yousef Ali Fadel Ben Fadel	2	2	15 January 2015	2/2
2	Adnan Ahmed Yousif*			5 November 2015	2/2
3	Abdulrahman Abdulla Mohamed,				2/2

\*Membership of Adnan Ahmed Abdulmalek is terminated in November 2015 to comply with HC Module. An independent member is elected to join the committee by the new year 2016

### 3. Executive Committee

The primary purpose of the Committee is to consider specific matters delegated to it by the full Board and then make recommendations thereon to the Board or take decisions based on authorities specifically delegated by the Board. The Board Executive Committee also has the power and authority to approve certain credit and investment proposals. The members, number of meeting held, and attendance of members are as follows:

SR No	Names	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	Adnan Ahmed Yousif	4	6	8 February 2015	6/6
2	Abdulrahman Abdulla Mohamed,			15 April 2015	6/6
3	Mohamed Essa AlMutaweh			21 June 2015	6/6
4	Abdullatif A. Raheem Janahi			23 July 2015	6/6
				11 October 2015	
				8 December 2015	6/6

### 4. Board Risk Management Committee

The primary responsibility of the Board Risk Management Committee is to ensure that the integrated risk management functions within the Bank are effectively discharged. The Committee has the overall responsibility for ensuring that the Bank develops appropriate risk policies and strategies for the relevant business activities.

The Risk Management Committee oversees the Bank's risk management framework, including the credit, market, liquidity and funding, operational, insurance, compliance and regulatory risks assumed by the Bank in the course of carrying on its business. It reviews regulator reports from Management on the measurement of risk and the adequacy and effectiveness of the Bank's risk management and internal controls systems.

A key purpose is to help monitoring the Bank's risk appetite for consideration by the Board, and agreeing and recommending a risk management framework to the Board that is consistent with the approved risk appetite. This framework, which is designed to achieve portfolio outcomes consistent with the Bank's risk/return expectations, includes:

- High-level risk management policies for each of the risk areas it is responsible for overseeing; and
- A set of risk limits to manage exposures and risk concentrations.

The Risk Committee consists of three members. The Risk Committee has its own Board approved charter. The Chairman of the Risk Committee invites members of management or others to attend the committee meetings, as appropriate.

The members, number of meeting held, and attendance of members were as follows:

SR No	Names	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	Maqbool Habib Khalfan	4	4	25 March 2015	4/4
2	Ashraf A. El Ghamrawi			11 May 2015	4/4
3	Khalid Abdulla Ateeq			13 September 2015	4/4
				30 November 2015	

### Conflict of Interest

Directors avoid any action, position or interest that conflicts with an interest of the Bank, or gives the appearance of a conflict. The Bank annually solicits information from Directors in order to monitor potential conflict of interest, and Directors are expected to be mindful of their fiduciary obligations to the Bank. In the event of a situation involving a potential conflict of interest, Directors are encouraged to seek advice from the Bank's Compliance Officer.

## CORPORATE GOVERNANCE CONT.

### Management Committees

In addition to the Board Committees, the Bank has in place mainly the following Management Committees with the Chief Executive Officer functioning as the Chairman of each committee. The members of committees comprise the Heads of Departments who are drawn from relevant and related functions:

- **Management Committee**

The Management Committee's role is to oversee the implementation of the strategic objectives of the Group in relation to its business direction, operations, risk, expansion plans and overall policies and procedures.

- **Asset and Liability Committee (ALCO)**

The Asset and Liability Committee's mandate is to monitor the liquidity and capital adequacy of the Group and review the Group's long term equity investments and its penetration into the different markets. The Committee reviews liquidity and cash flow of the Bank and the Group and sets balance sheet growth targets, besides monitoring the distribution of profits to investors.

- **Commercial / Corporate/ Retail Credit Committee**

The Credit Committee is the authority that approves credits and considers issues of Group credit policy and Group credit exposures, problem credits and provisioning levels.

- **Information Technology Steering Committee**

The IT Steering Committee's role is to draw up the Group's short and long term IT strategy and oversee and monitor its implementation throughout the Group with a view to effecting standardization in information and operation management.

- **Cash Management Committee**

Cash management committee is responsible for overseeing the management of available liquidity on a continuous basis.

There is a clear division of responsibility between the Board and the management. The CEO is supported by his team of senior management who are responsible for the implementation of Board resolutions, overall responsibilities of the day-to-day operations of the Bank's business and operational efficiency. The directors are kept abreast of the Bank's performance via the various monthly reports tabled at the Board meetings and Board Committee meetings.

### INTERNAL CONTROL

The Board is responsible for the adequacy and effectiveness of system of internal controls of the bank which is supported by segregation of duties, enhanced system of internal controls across all aspects of the business as well as strong support functions covering legal, regulatory, governance, reputation, finance, information technology, human resources and strategy. However, such a system is designed to manage the Bank's key areas of risk within an acceptable risk profile, rather than eliminate the risk of failure to achieve the policies and business objectives of the Bank.

The Bank's system of internal control includes:

- An organization structure with clearly defined authority limits and reporting mechanisms to senior levels of management and to the Board.
- A Risk Management function with responsibility for ensuring that risks are identified assessed and managed throughout the Bank.
- A set of policies and guidelines relating to credit risk management, asset and liability management, compliance, operational risk management and business continuity planning.
- An annual budgeting and monthly financial reporting system for all business units, which enables progress against plans to be monitored, trends to be evaluated and variances to be acted upon.
- An Internal Audit function to evaluate the adequacy and effectiveness of governance, risk and control systems, and to review management's compliance with policies and procedures.

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- Various appointed Committees are established by the Board to assist the Board in ensuring the effectiveness of Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.

- The Internal Audit Department of the Bank checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlights significant findings in respect of any non-compliance. Audits are carried out on all departments and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Audit Committee. Findings of the internal audit are submitted to the Audit Committee for review at their periodic meetings.
- The Audit Committee of the Bank reviews internal control issues identified by the respective Internal Audit Department, regulatory authorities, management, and external auditors and evaluate the adequacy and effectiveness of the risk management and internal control systems. The Audit Committee also reviews the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. The minutes of the Audit Committee meetings are tabled to the Board of the Bank on a periodic basis.

The governance arrangements, systems and controls employed by the Bank also to ensure Shari 'a compliance and on how these meet applicable AAOIFI standards, and if there is less than full compliance, an explanation of the reasons for non-compliance.

The Bank is committed to avoid recognizing any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity fund where the Bank uses these funds for social welfare activities and charities. The Statement of sources and uses of charity fund disclosed in the Annual Report provides further information, if there was any non-Shari'a-compliant earnings and expenditure occur and the manner in which they were disposed of and the annual zakah contributions of the Bank.

#### RISK MANAGEMENT

AIB is committed in complying with the best practices informed by Basel and IFSB guidelines and adhering to CBB requirements. Our Risk Management Framework aims at proactive management of risks in the full life cycle of a financial transaction, including its operating circumstances from origination to final disposal from the books of the Bank. The Bank maintains a prudent and disciplined approach to risk taking by upholding a comprehensive set of risk management policies, processes and limits, employing professionally qualified people with the appropriate skills, investing in technology and training, and actively promoting a culture of sound risk management at all levels.

Risk Management governance originates at Board level, and cascades through to the CEO and businesses, via policies and delegated authorities which ensures Board-level oversight and a clear segregation of duties between those who originate and those who approve risk exposures.

The Board has overall responsibility for validating and approving the policies and procedures, defining the risk tolerance, and establishing the risk strategy for effective risk management framework. The responsibility of risk governance lies with the different Board's and management's committees who in turn define and monitor the relevant risks to the organization (both financial and non-financial risks, including market, credit, liquidity, operational, compliance, strategic, reputational and legal).

The Bank follows a policy of enterprise-wide risk management (ERM), which aligns strategy, policies, charters, people, processes, technology and knowledge in order to evaluate and manage the opportunities, threats and uncertainties the Bank may face in its going efforts to create shareholder value. The ERM places emphasis on accountability, responsibility, independence, reporting, communications and transparency. The risk management framework of the Bank is structured upon:

- Core Risk Principles - overriding principles governing all activities and risk monitoring procedures; and
- Specific Risk Policies - appropriate policies, framework documents, procedures and processes implemented to manage specific risks to which the Bank is exposed.

The Bank's risk ERM is based on three lines of defense: (i) business management, (ii) independent control functions and (iii) Internal Audit:

- **Business Management.** Each of the Bank's business units, including material-risk taker personals, own and manage the risks, including compliance risks, inherent in or arising from the business, and are responsible for having controls in place to mitigate key risks, performing manager assessments of internal controls, and promoting a culture of compliance and control.
- **Independent Control Functions.** The Bank's independent control functions, including Compliance, Finance, Legal and Risk, set standards according to which the Bank and its businesses are expected to manage and oversee risks, including compliance with applicable laws, regulatory requirements, policies and standards of ethical conduct. The Bank's Head of Credit and Head of Risk Management Departments both are responsible for formulating and monitoring the Bank's policies relating to all aspects of risk, developing the framework for risk measurement and coordinating with the relevant departments for all necessary steps for adhering to the Basel requirements under the CBB rules, and the guidelines of the Parent Bank (ABG). They are also responsible for introducing and implementing risk measurement software, monitoring the Bank's compliance with risk measurement standards and providing the management with reports on the various risks. Risk management also provides subject matter expertise on their

## CORPORATE GOVERNANCE CONT.

respective risk areas and report directly to the CEO and Board Risk Committee. In addition, among other things, the independent control functions provide advice and training to the Bank's businesses and establish tools, methodologies, processes and oversight of controls used by the businesses to foster a culture of compliance and control and to satisfy those standards.

- **Internal Audit.** The Bank's Internal Audit function independently reviews activities of the first two lines of defense discussed above based on a risk-based audit plan and methodology approved by the Bank's Board of Directors. Risk appetite statement reflects the risk appetite is the level and type of risk which the Bank is willing to assume, in order to achieve its strategic and business objectives keeping in perspective the obligations to its stakeholders.

Risk appetite of the Bank is both a qualitative and quantitative measure and reflects its level of risk tolerance in normal as well as in stressed scenarios. It is expressed as a measurable key performance indicator (KPI), a tolerance limit or as a qualitative guideline.

The Bank has a well-defined Risk Appetite Framework, which consists of the Risk Appetite Statement, with both qualitative and quantitative measures, along with:

- well defined performance metrics in the form of KPIs,
- risk limits, exposure criteria, restrictions and controls, lending and investment standards as laid out in the internal risk policies and procedures manual,
- capital and liquidity benchmarks which are monitored in the Asset Liability Management Committee meetings,
- key business and risk management objectives, goals and strategy which are defined in business, investment and risk management strategies, and
- Management and oversight structures in the Bank through Management and Board committees. Our risk appetite defines the desired performance levels which, in turn, are embedded into management of the various risks within the Bank as well as the Capital of the Bank. Our risk appetite is integrated into the strategic, capital, and risk management planning process across business verticals

As noted above, independent Risk Management Department monitors and controls major risk exposures and concentrations across the Bank. This requires the aggregation of risks, within and across businesses, as well as subjecting those risks to various stress scenarios in order to assess the potential economic impact they may have on the bank. Stress tests are in place across the Bank's entire portfolio. These bank-wide stress reports measure the potential impact to the Bank and its component businesses of changes in various types of key risk factors (e.g., interest rates, credit spreads, etc.), as developed internally by independent risk management. These bank-wide stress tests are produced on a monthly basis, and results are reviewed by the Bank senior management and Board of Directors.

Further, the Board annually or periodically, reviews the risk management policies, procedures, limits, and risk strategies to cope with the changing economic environment and AIB's risk appetite.

We believe that accurate, reliable and timely information is vital to support decisions regarding risk management at all levels. On an ongoing basis, the bank will also continue to strengthen its risk management processes and invest in relevant risk management infrastructures in order to be more robust and responsive to the increasingly complex business environment. The requirements span a diverse range of risk functionality including market and credit risk analysis systems, budgeting, strategic planning, asset and liability management, performance measurement, operational risk and regulatory reporting, as well as trading and trade processing systems and those systems supporting our staff.

Data reconciliation is established to provide for the integrity of the information used and appropriate security controls around all systems. Back-up and recovery procedures are defined and business continuity plans approved and communicated to promote resilience and minimize the impact of an incident.

The Bank is committed to meeting the highest levels of ethical standards in all areas of its operations. The Compliance Department continued in 2015 to carry out its activities inherent to its area ensuring the bank's operations are in line with all applicable laws and regulations, sending periodic regulatory information to the supervisory bodies, advises and keeps senior management informed on the implication of compliance laws and regulations that have a bearing on the Bank's operations, etc.

### Management of Credit Risk

The Bank's risk management philosophy is implemented by a well-defined policy, trained and experienced staff, and effective systems. Credit Risk Management Policy of the Bank dictates the Credit Risk Strategy. The Policy spell out the target markets, risk acceptance / avoidance levels, risk tolerance limits, preferred levels of diversification and concentration, credit risk measurement, monitoring and controlling mechanisms. AIB has tailored credit approval processes to suit the customer, product, sector and exposure types.

The credit risk policy articulates the credit risk management framework, including:

- key credit risk management principles;
- delegation of authority;
- the credit risk management program;
- counterparty credit risk management for financing, trading and investment activities;
- aggregate limits, beyond which credit applications must be escalated to the Board for approval; and
- single name/aggregation exposures, beyond which exposures must be reported to the Board.

The Credit Risk Management Policy is reviewed frequently to ensure up to date guidelines for new credit approvals, renewals or changes in the existing terms and conditions of the previously approved credit policies. The Bank has a dedicated team of experienced credit review professionals who identify risk at an early stage and take proactive measures to minimize the impact.

The Bank has comprehensive credit rating / scoring models being applied in the spheres of retail and non-retail portfolios of the Bank. Our Credit department tracks arrears to ensure operational efficiency and compliance with the granting and follow-up policy by identifying changes in trends and variances from tolerance levels. Arrears percentages are reported daily and are evaluated on product, branch, industry, regional, operational (provincial) manager and national levels. Branch performance and targets include arrears targets, appropriately balanced with sales and profit targets.

Proactive credit risk management practices in the form of studies of rating-wise distribution, Portfolio Analysis of retail lending assets, periodic industry review, Review of Country, Currency, Counter-party and Single-Obligor exposures are only some of the prudent measures, the Bank is engaged in mitigating risk exposures.

The current focus is on augmenting the Bank's abilities to quantify risk in a consistent, reliable and valid fashion, which will ensure advanced level of sophistication in the Credit Risk Measurement and Management in the years ahead.

#### Management of Liquidity and Market Risk

The Bank manages liquidity and market risk via its Asset and Liability Committee (ALCO) process. ALCO is primarily entrusted with the task of liquidity and market risk management. The Committee decides on product pricing, mix of assets and liabilities, stipulates liquidity and profit rate risk limits, monitors them, articulates Bank's profit rate view and determines the business strategy of the Bank.

Bank has well-established framework for Liquidity and Market Risk management with the Asset Liability Management Policy and the Treasury Policy forming the fulcrum for procedures, processes and structure. It has a major objective of protecting the Bank's net profit income in the short run and market value of the equity in the long run for enhancing shareholders wealth.

In accordance with the Basel recommendations on liquidity management, the Bank measures liquidity according to two criteria: "normal business", reflecting day-to-day expectations regarding the funding of the Bank; and "crisis scenario", reflecting simulated extreme business circumstances in which the Bank's survival may be threatened. The important aspect of the Market Risk includes profit rate risk management and the pricing of assets and liabilities. Further, Bank views the Asset Liability Management exercise as the total balance sheet management with regard to its size, quality and risk.

ALCO has determined the most appropriate liquidity horizon for the Bank as 3 months for the normal business scenario and 6 months for the crisis business scenario. This means that holding sufficient liquid funds for 3 months is acceptable for normal business purposes but 6 months would be more prudent in the event of a liquidity crisis.

The Bank's liquidity policy is to hold sufficient liquid assets to cover its committed statement of financial position requirements, plus its budgeted expenses for the liquidity horizon, plus its forecast investment commitments over the liquidity horizon. The Bank continues to strengthen its liquidity management activities in order to ensure that the Bank maintains a stable funding base and strong liquidity during the prevailing period of global market crisis. In tune with this, Bank ensures adequate liquidity at all times through systematic funds planning, maintenance of liquid investments and focusing on more stable funding sources, regular stress testing was implemented and liquidity strategy updates were regularly advised to the Board.

#### Management of Operational Risk

The Bank manages operational risk through internal controls and standard operating procedures that are updated regularly to reflect the current business environment. The Bank systematically reviews its business areas to minimize the risk of financial losses due to sanctions, claims and reputational damage resulting from non-compliance with legislation, rules and standards.

The bank has established a consistent framework for monitoring, assessing and communicating operational risks and the overall operating effectiveness of the internal control environment across the bank. The Operational Risk Management Framework (Op. Risk Framework), approved by the Board, has been developed with the objective to ensure that operational risks within the bank are identified, monitored, managed and reported in a structured, systematic and consistent manner.

## CORPORATE GOVERNANCE CONT.

The management of Operational Risk has two key objectives:

- To minimize the impact of losses suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering an extreme (or unexpected) loss; and
- To improve the effective management of the bank and strengthen its brand and external reputation.

A key component of the Op. Risk Framework is a set of a core operational risk standards which provides guidance on the baseline control to ensure a controlled and sound operating environment. The bank has implemented SunGard system to support the operational risk management processes. The process for operational risk management includes the following steps:

- Identify and assess key operational risks;
- design controls to mitigate identified risks;
- establish key risk and control indicators;
- implement a process for early problem recognition and timely escalation;
- produce a comprehensive operational risk report; and
- Ensure that sufficient resources are available to actively improve the operational risk environment and mitigate emerging risks.

The Bank has comprehensive system of internal controls, systems and procedures to monitor and mitigate risk. The bank also institutionalized the approval process of new product, services, and outsourcing to identify the risk inherent in such activities.

Information Technology (IT) risk is managed in accordance to an IT Risk Management Framework (which covers risk governance, communication, monitoring, assessment, mitigation and acceptance), supported by a set of IT policies and standards, control processes and risk mitigation programs. Centralized functional control is exercised over all computer system developments and operations.

Compliance in the Bank is controlled centrally under the Bank Compliance Officer who is approved by the CBB to ensure divisional compliance in all of the Bank's operations and activities. The internal audit function of the Bank through the Risk Based Internal Audit, compliments the Bank's ability to control and mitigate risk.

The Bank is continually enhancing the Business Continuity Planning (BCP) programme for an ongoing and actively management of the Bank's major critical business operations and activities at the Head Office, data center, and branches locations.

AIB continually refines and strengthens existing policies, procedures and internal controls measures; conduct internal reviews, compliance monitoring, and comprehensive audits to prevent or minimize unexpected losses, and when necessary to cope with the growth in AIB's size and complexity.

### Capital Management

Capital Management is an ongoing process of ensuring adequate capital is available to meet regulatory capital requirements and ensure optimum capital usage. The Bank has implemented a dedicated capital management system which calculates the capital adequacy ratio in compliance with CBB and Basel II guidelines. Using this system, exposures are measured at the most granular level so that account level data is correctly used for calculation of risk weights, credit conversions and allocation of credit risk mitigants. AIB has also adopted the Basel II Standardized Approach to measure regulatory capital requirement on credit risk and market risk. For operational risk, the regulatory capital requirement is calculated based on Basic Indicator Approach. AIB has adopted "Pillar I Plus" approach for ICAAP where the bank can assess the additional capital requirements on the Pillar 2 risks like credit concentration risk, profit rate risk and other risks relevant to AIB. This also includes the capital charge estimations resulting from stress testing.

### Compliance

Compliance risk is the potential that the procedures implemented by the entity to ensure compliance with relevant statutory, regulatory and supervisory requirements are not adhered to and/or is inefficient and ineffective. The Bank manages compliance risk through the following key activities:

- Creating awareness through the training of employees and other affected stakeholders on the impact and responsibilities related to legislative requirements.
- Monitoring and reporting on the level of compliance with legislative requirements.
- Providing assurance that the risks relating to regulatory requirements are identified, understood and effectively managed.

The Bank is committed to, and requires all its employees to display, the highest standards of integrity, professionalism and ethical behavior, and to comply with all relevant laws, rules and standards when conducting the business of the Bank. The Bank's compliance function is an independent function that identifies, evaluates, advises on, monitors and reports on the Bank's compliance risk. The Risk management

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

#### CODE OF BUSINESS CONDUCT AND ETHICS FOR MEMEBRS OF THE BOARD OF DIRECTORS

The Bank's Code of Business Conduct and Ethics applies to members of the Board, as well as Executive Management, officers, employees, agents, consultants and others, when they are representing or acting for the Bank. The Board of Directors, as well as officers and employees, act ethically at all times and acknowledge their adherence to the Bank's policies. Any waiver of the Code of Business Conduct and Ethics for a director or executive officer may be granted only by the Board or the appropriate Board committee, and must be promptly disclosed to the stockholders.

The Code is intended to focus the Board and each director on areas of ethical risk, provide guidance to directors to help them recognize and deal with ethical issues, provide mechanisms to report unethical conduct, and help foster a culture of honesty and accountability. Each director must comply with the letter and spirit of this Code. Directors should communicate any suspected violations of this Code promptly to the Chairman of the Audit Committee and the Chairman of the Corporate Governance Committee. Violations will be investigated by the Board or by a person or persons designated by the Board and appropriate action will be taken in the event of any violations of the Code.

The Code is intended to serve as a source of guiding principles for directors. Directors are encouraged to bring questions about particular circumstances that may implicate one or more of the provisions of this Code to the attention of the Chairman of the Audit Committee, who may consult with inside or outside legal counsel as appropriate.

The code envisages and expect from the board:

- adherence to the highest standards of honest and ethical conduct, including proper and ethical procedures in dealing with actual or apparent conflicts of interest between personal and professional relationships.
- Full, fair, accurate, sensible, timely and meaningful disclosures in the periodic reports required to be filed by the Bank with Government and regulatory agencies.
- Compliance with applicable laws, rules and regulations.
- To redress misuse or misapplication of the Bank's assets and resources.
- The highest level of confidentiality and fair dealing within and outside the Bank.

#### Conflict of interest:

A "conflict of interest" occurs when personal interest of any member of the Board of Directors interferes or appears to interfere in any way with the interests of the Bank. Every member of the Board of Directors has a responsibility to the Bank, its stakeholders and to each other. Although this duty does not prevent them from engaging in personal transactions and investments, it does demand that they avoid situations where a conflict of interest might occur or appear to occur. They are expected to perform their duties in a way that they do not conflict with the Bank's interest, some of the more common conflicts from which directors must refrain, however, are set out below:

- **Business Interests** – If any member of the Board of Directors considers investing in securities issued by the Bank's customer, supplier or competitor, they should ensure that these investments do not compromise their responsibilities to the Bank. Many factors including the size and nature of the investment; their ability to influence the Bank's decisions; their access to confidential information of the Bank, or of the other entity, and the nature of the relationship between the Bank and the customer, supplier or competitor should be considered in determining whether a conflict exists. Additionally, they should disclose to the Bank any interest that they have which may conflict with the business of the Bank.
- **Related Parties** - As a general rule, the Directors should avoid conducting Bank's business with a relative or any counterparty in which the relative or other person is associated in any significant role. If such a related party transaction is unavoidable, they must fully disclose the nature of the related party transaction to the appropriate authority as per the Corporate Governance Guidelines which are approved by the Board. Any dealings with a related party must be conducted in such a way that no preferential treatment is given to that party.
- **Use of Bank's Assets and Resources** - Each member of the Board of Directors has a duty to the Bank to advance its legitimate interests while dealing with the Bank's assets and resources. Members of The Board of Directors are prohibited from:
  - Using the Bank property, information or position for personal gain;
  - Acting on behalf of the Bank in any transaction in which they or any of their relative(s) have a significant direct or indirect interest.

## CORPORATE GOVERNANCE CONT.

- **Gifts** - Soliciting, demanding, accepting or agreeing to accept anything where any such gift is more than modest in value, or where acceptance of the gifts could create the appearance of a conflict of interest;

In the case of any other transaction or situation giving rise to conflicts of interest, the appropriate authority should after due deliberations decide on its impact.

### Confidentiality:

Directors should maintain the confidentiality of information entrusted to them by the Company and any other confidential information about the Company that comes to them, from whatever source, in their capacity as a director, except when disclosure is authorized or legally mandated. For purposes of this Code, "confidential information" includes all non-public information relating to the Company.

### COMMUNICATION POLICY

The Bank uses all available avenues to communicate with its stakeholders, in line with the principle of transparency and disclosure that is integral to good corporate governance. This includes wide use of corporate publications, website, direct mailers, electronic mail and local & regional media (through press releases), for the purposes of advertising and providing information on the Bank's progress.

Our commitment to providing timely, accurate and balanced disclosure of all material information to a broad audience is guided by the Disclosure Policy of the Parent Group (ABG). Furthermore the Bank maintains a website at [www.albaraka.bh](http://www.albaraka.bh), which includes information of interest to various stakeholders including the regulatory authorities. Information available on the website includes the Annual Report, reviewed quarterly financials of the Bank, and carries updates of any significant events and regulatory requirements. The Bank's quarterly results are published in both Arabic and English newspapers, are posted on the Bank's website, and the provision of at least the last three years of financial data on the Bank's website.

The Board attaches a high degree of importance to continuous communication with shareholders, especially direct dialogue with them at the Bank's annual general meetings. Shareholders are therefore encouraged to actively participate at such meetings.

The Board oversees communications with shareholders and other stakeholders. This includes reviewing and/or approving key disclosure documents such as the financial statements, etc.

The Bank communicates with shareholders through the Annual Report and by providing information at the Annual General Meeting. Individual shareholders can raise matters relating to their shareholdings and the business of the Bank at any time throughout the year. The Bank provide for detailed information about its Corporate Governance structure and other related information. Shareholders are given the opportunity to ask questions at the Annual General Meeting.

According to our policy, ABG's President, and the Bank CEO are the primary spokespersons responsible for communicating Company information to the investment community and the media. For purpose of these guidelines, the investment community refers to existing and potential investors of the Bank, analysts and market professionals. Where appropriate, the Bank may authorize other officers of the Bank to communicate with the investment community or the media as part of the Bank's investor relations or public communications program.

Investors and customers queries are dealt with one-on-one by senior management in the Bank, and the Bank's relationship managers. Additional information for the investor community is provided through:

- one-on-one meetings and conference calls with executive management;
- road shows, investor conferences and conference calls; and
- Financial and subject-specific presentations.

### Customer-Centric Initiatives

As always, efficient customer service and customer satisfaction are the primary objectives of the Bank in its day to day operations. The Bank is highly responsive to the needs and satisfaction of its customers, and is committed to the belief that all technology, processes, products and skills of its people must be leveraged for delivering superior Banking experience to its customers without fail.

The Bank is focused towards providing excellent customer service through all delivery channels and has been making continuous efforts for enhancing the level of customers' satisfaction by leveraging technology to provide e-Banking in 2013 and alternative delivery channels best suited to the diverse needs of different customers. The varied interests and expectations of customers are taken care of by improving upon the various processes and procedures.

All our stakeholders, including investors, may use the Bank's website for logging a query or a complaint, through the "Customer Care" page available on the website. The query is automatically channeled to the appropriate department responsible to handle their issues.

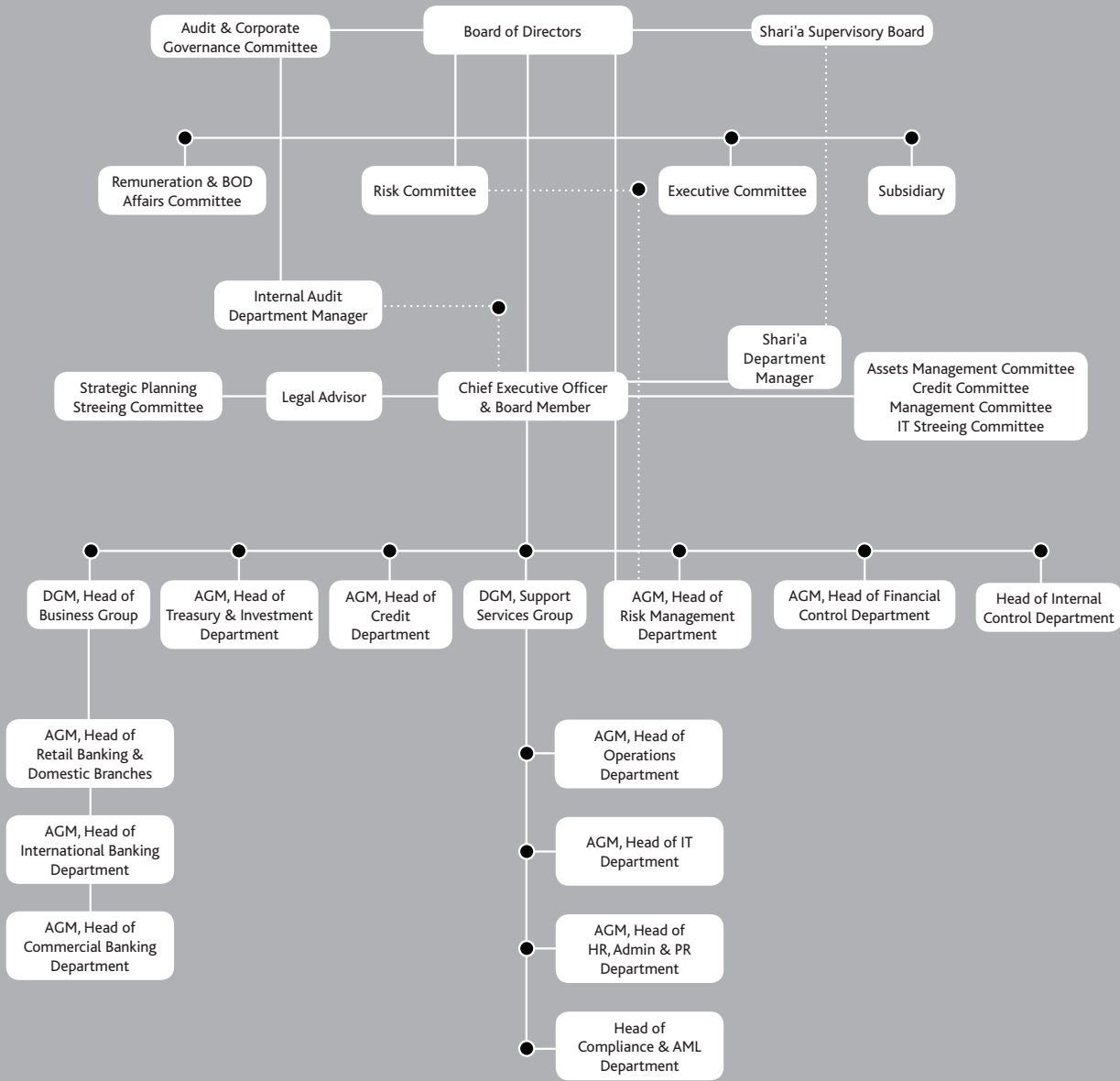
The Bank maintains comprehensive policy on handling of Whistleblowing and Customer Complaints, approved by the Board. All employees of the Bank are aware of and abide by this. The Bank has a designated Whistleblowing and Customer Complaints Team for handling of all internal and external complaints and its contact details are displayed on the Bank's website and at the Branches. Complaints are normally investigated by persons not directly related to the subject matter of the complaint. The Bank endeavors to address all complaints within five working days. Wherever this is not possible, the customer is contacted directly and a time frame for rectification of his complaint advised. A periodical report on status of complaints is also submitted to CBB and to AIB's Board of Directors.

#### LEGAL AND REGULATORY RISK AND ANTI-MONEY LAUNDERING

Strict compliance with all relevant regulations is one of the Bank core value. Legal risks are mitigated through legal counsel review of transactions and documentation, as appropriate. Where possible, the Bank uses standard formats for transaction documentation. To prevent potential association with any money laundering activities, the Bank has designed and implemented a comprehensive set of policies and procedures. Adherence to the Bank's policies and procedures is reinforced through periodic staff trainings and internal reviews, as well as internal and external reviews by auditors.

The Anti-money Laundering (AML) and Counter-Terrorist Financing policy is the foundation on which the Bank's implementation of KYC norms, AML standards, CFT measures and obligation of the Bank according to regulation and directives issued by CBB. The roles of the Bank's MLRO and Deputy MLRO is to oversee the proper implementation of the requirements of the Anti- Money Laundering Law, as amended, on covered and suspicious transactions as well as the freezing of accounts, and to ensure complying with the requirements and obligations set out in relevant legislation, rules and industry guidance for the financial services sector. The Bank continuously reviews the policies and the adopted measures to ensure the ongoing application of, and adherence to, best practice. Regular training sessions are conducted on KYC-AML-CFT guidelines for all the staff.

# ORGANISATION CHART



## SOCIAL RESPONSIBILITY



The Bank continued in 2015 generous contributions and financial donations in the service of society through sponsorships and donations to charities, local clubs, and centers of scientific and religious as well as supporting needy families in Bahrain.

We in Al Baraka Islamic Bank contribute to the development of communities and local economies in which we operate as part of our being an Islamic financial institution, where we are believers that this role represents a key feature of the business model which we are committed. Because Al Baraka Islamic Bank is considered a pioneer in Islamic banking, we strive to maintain our leading position as an institution committed to social responsibility.

During 2015, the Bank continued to carry out its social responsibility by directing its products and services for the construction of the communities in which it operates, and by improving the quality of these products and services, as well as through the support of financing small and medium-sized enterprises and developing youth skills. The Bank also continued its generous contributions and financial donations in the service of society through sponsorships and donations to charities, local clubs, and centers of scientific and religious as well as supporting needy families in Bahrain. The Bank also has a special program to provide assistance to charities and humanity centers during the holy month of Ramadan.

The Bank continues its sponsorship of many banking and financial events and conferences in Bahrain such as the World Conference of Islamic banks and the Conference of the Accounting and Auditing Organization for Islamic Financial Institutions as the Bank is one of the main sponsors for them.

The Bank also recruited numbers of students who are in the final stages of their university studies or recent graduates in order to refine their knowledge and rehabilitate them as a part of the Bank's role in the society.

# SHARI'A SUPERVISORY BOARD'S REPORT

For financial year ended 31 December 2015

**In the Name of Allah, the Most Gracious, the Most Merciful**

**To the Shareholders of Al Baraka Islamic Bank**

Praise be to Allah, the Almighty, and Peace and Blessings be upon our Prophet Muhammad, his Folk, and Companions All.

By virtue of the resolution of the General Assembly to appoint the Shari'a Supervisory Board of Al Baraka Islamic Bank (the "Board"), and assigning us with these duties, we hereby provide you with the following report:

We, at the Shari'a Supervisory Board of Al Baraka Islamic Bank, have reviewed the principles adopted and the contracts pertinent to the transactions of the Bank for the period from 1/1/2015 to 31/12/2015. We have observed the due review and revision necessary to express our opinion on the Bank's compliance with the rulings and principles of the Noble Islamic Shari'a as well as its compliance with the Fatwa, resolutions, principles and guidelines previously issued or set by the Board. The management of the Bank is entrusted with implementation of such rulings, principles and Fatwa while the Board's responsibility is limited to expressing an independent opinion in light of the transactions submitted and presented to it.

We have exercised proper observation and review that covered review of contracts and procedures followed in the Bank by testing each type of transactions, and we have obtained all the information and explanations necessary to express an opinion on the extent to which the Bank's activities are in compliance with the rulings of the Noble Islamic Shari'a. In our opinion, Al Baraka Islamic Bank's contracts, documents and operations during the period from 01-01-2015 to 31-12-2015, presented to us, have all been concluded as per the rulings and principles of the Noble Islamic Shari'a. and the management has committed itself to segregate all the unintended gains obtained from sources or means prohibited by the provisions and principles of Islamic Shari'a and disburse of it towards charitable causes under the supervision of the Shari'a Supervisory Board, and management is not authorized to pay the Zakat on behalf of the shareholders, and as such the responsibility for payment of the Zakat lies with the shareholders in accordance with the Zakat calculation approved by the Shari'a Supervisory Board, which is USD 0.507 per share.

We invoke the Almighty Allah to rightly guide the Bank's management to better serve our noble religion, our dear country and to put everyone on the right path.

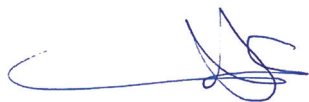
Verily, Allah is the Arbiter of All Success.

Peace be with you.

Peace and blessings be upon our Prophet, Muhammad, his Folk and Companions All.

Date: 01/02/2016

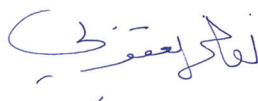
Kingdom of Bahrain.



Sheikh Dr. Abdulsattar Abughuddah  
Head of Shari'a Supervisory Board



Sheikh Essam Mohammed Ishaq  
Member of Shari'a Supervisory Board



Sheikh Dr. Nedham Yaqoobi  
Member of Shari'a Supervisory Board



Mohammed Jassim  
Head of Shari'a Department

## FINANCIAL STATEMENTS

For financial year ended 31 December 2015

52	Independent Auditors' Report
53	Consolidated Statement of Financial Position
54	Consolidated Statement of Income
55	Consolidated Statement of Changes in Owners' Equity
56	Consolidated Statement of Cash Flows
57	Consolidated Statement of Changes in Off-balance Sheet Equity of Investment Account holders
58	Notes to the Consolidated Financial Statements
95	Basel III, Pillar III Disclosures

# INDEPENDENT AUDITORS' REPORT

For financial year ended 31 December 2015

## Report on the Consolidated Financial Statements

We have audited the accompanying consolidated statement of financial position of Al Baraka Islamic Bank B.S.C (c) ("the Bank") and its subsidiary ("the Group") as of 31 December 2015 and the related consolidated statements of income, cash flows, changes in owners' equity and changes in off-balance sheet equity of investment accountholders 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 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 amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 financial position of the Group as of 31 December 2015, the results of its operations, its cash flows, changes in owners' equity and changes in off-balance sheet equity of investment accountholders for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI.

## Report on other regulatory requirements

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, or 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 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 Group.



Partner's registration no: 45, 22nd February 2016  
Manama, Kingdom of Bahrain

# CONSOLIDATED STATEMENT OF FINANACIAL POSITION

At 31 December 2015

	Notes	2015 US\$ '000	2014 US\$ '000
<b>ASSETS</b>			
Cash and balances with banks and financial institutions	3	236,879	300,006
Sales receivables	4	609,684	620,990
Ijara Muntahia Bittamleek	5	266,398	221,040
Musharaka	6	154,260	116,382
Investments	7	450,811	441,973
Investment in real estate	8	5,974	5,974
Ijara income receivables	9	23,466	13,144
Premises and equipment	10	25,084	23,273
Goodwill	11	17,659	18,407
Other assets	12	64,358	73,832
<b>TOTAL ASSETS</b>		<b>1,854,573</b>	<b>1,835,021</b>
<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBT AND OWNERS' EQUITY</b>			
<b>LIABILITIES</b>			
Due to banks and financial institutions		112,135	90,408
Current accounts		232,586	211,810
Other liabilities	13	68,547	52,715
<b>TOTAL LIABILITIES</b>		<b>413,268</b>	<b>354,933</b>
<b>Equity of investment accountholders</b>	14	<b>1,244,594</b>	<b>1,289,703</b>
<b>Subordinated debt</b>	15	<b>22,722</b>	<b>20,508</b>
<b>Owners' Equity</b>			
Share capital	16	122,458	122,458
Reserves		20,275	20,856
Retained earnings		12,926	8,453
<b>Equity attributable to parent's shareholders</b>		<b>155,659</b>	<b>151,767</b>
Non-controlling interest		18,330	18,110
<b>Total owners' equity</b>		<b>173,989</b>	<b>169,877</b>
<b>TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS, SUBORDINATED DEBT AND OWNERS' EQUITY</b>		<b>1,854,573</b>	<b>1,835,021</b>
<b>OFF-BALANCE SHEET ITEMS: EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>		<b>104,139</b>	<b>111,648</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	17	<b>216,982</b>	<b>272,718</b>



Khalid Rashid Al Zayani  
Chairman



Adnan Ahmed Yousif  
Deputy Chairman



Mohamed Essa Al-Mutaweh  
Chief Executive Officer &  
Board Member

The attached notes 1 - 31 from part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2015

	Notes	2015 US\$ '000	2014 US\$ '000
<b>INCOME</b>			
Income from jointly financed sales		40,330	46,168
Income from jointly financed, other financings and investments	18	38,947	32,829
<b>Income from jointly financed assets</b>		<b>79,277</b>	<b>78,997</b>
Return on equity of investment account holders before Group's share as a Mudarib		(69,244)	(72,635)
Group's share as a Mudarib		17,547	13,849
<b>Return on equity of investment account holders</b>		<b>(51,697)</b>	<b>(58,786)</b>
<b>Group's share as a Mudarib and Rabalmal</b>		<b>27,580</b>	<b>20,212</b>
Group's income from self financed sales		3,701	2,734
Group's income from self financed, other financings and investments	18	13,669	16,118
Revenue from banking services	19	9,278	7,297
Other income	20	3,092	3,259
Group's Mudarib / agency fee from off-balance sheet equity of investment account holders		77	99
<b>TOTAL OPERATING INCOME</b>		<b>57,397</b>	<b>49,719</b>
<b>OPERATING EXPENSES</b>			
Staff expenses		(26,960)	(24,360)
Depreciation	10	(3,045)	(2,949)
Profit on due to banks and financial institutions		(107)	(3)
Other operating expenses	21	(20,678)	(18,776)
<b>TOTAL OPERATING EXPENSES</b>		<b>(50,790)</b>	<b>(46,088)</b>
<b>NET OPERATING INCOME</b>		<b>6,607</b>	<b>3,631</b>
Reversal (Provision) for impairment - net	22	1,002	(860)
<b>INCOME BEFORE TAXATION</b>		<b>7,609</b>	<b>2,771</b>
Tax Expense	23	(1,586)	(701)
<b>INCOME FOR THE YEAR</b>		<b>6,023</b>	<b>2,070</b>
Attributable to:			
Equity shareholders of the parent		4,970	1,347
Non-controlling interest		1,053	723
		<b>6,023</b>	<b>2,070</b>



Khalid Rashid Al Zayani  
Chairman



Adnan Ahmed Yousif  
Deputy Chairman



Mohamed Essa Al-Mutaweh  
Chief Executive Officer &  
Board Member

The attached notes 1 - 31 from part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN OWNERS EQUITY

For the year ended 31 December 2015

	Equity attributable to shareholders of the parent										
	Share capital US\$ '000	Statutory US\$ '000	General US\$ '000	Reserves			Foreign exchange US\$ '000	Retained earnings US\$ '000	Total US\$ '000	Non- con- trolling interest US\$ '000	Total owners equity US\$ '000
				Employee defined benefit plan US\$ '000	Cumulative changes in fair value of investments US\$ '000	Revaluation reserve of premises and equipment US\$ '000					
Balance at 1 January 2015	122,458	21,981	8,687	(138)	(46)	-	(9,628)	8,453	151,767	18,110	169,877
Cumulative changes in fair value	-	-	-	-	(75)	-	-	-	(75)	(41)	(116)
Foreign currency translation reserve	-	-	-	-	-	-	(2,161)	-	(2,161)	(773)	(2,934)
Changes in fair value of premises and equipment	-	-	-	-	-	1,193	-	-	1,193	-	1,193
Net income for the year	-	-	-	-	-	-	-	4,970	4,970	1,053	6,023
Remeasurment losses on defined benefit plan	-	-	-	(35)	-	-	-	-	(35)	(19)	(54)
Transfer to statutory reserve	-	497	-	-	-	-	-	(497)	-	-	-
<b>BALANCE AT 31 DECEMBER 2015</b>	<b>122,458</b>	<b>22,478</b>	<b>8,687</b>	<b>(173)</b>	<b>(121)</b>	<b>1,193</b>	<b>(11,789)</b>	<b>12,926</b>	<b>155,659</b>	<b>18,330</b>	<b>173,989</b>
Balance at 1 January 2014	122,458	21,846	8,687	-	(79)	-	(11,977)	7,241	148,176	16,623	164,799
Cumulative changes in fair value	-	-	-	-	33	-	-	-	33	18	51
Foreign currency translation reserve	-	-	-	-	-	-	2,349	-	2,349	822	3,171
Net income for the year	-	-	-	-	-	-	-	1,347	1,347	723	2,070
Remeasurment losses on defined benefit plan	-	-	-	(138)	-	-	-	-	(138)	(76)	(214)
Transfer to statutory reserve	-	135	-	-	-	-	-	(135)	-	-	-
<b>BALANCE AT 31 DECEMBER 2014</b>	<b>122,458</b>	<b>21,981</b>	<b>8,687</b>	<b>(138)</b>	<b>(46)</b>	<b>-</b>	<b>(9,628)</b>	<b>8,453</b>	<b>151,767</b>	<b>18,110</b>	<b>169,877</b>

The attached notes 1 - 31 from part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	2015 US\$ '000	2014 US\$ '000
<b>OPERATING ACTIVITIES</b>		
Net income before taxation	7,609	2,771
Adjustments for:		
Depreciation	3,045	2,949
(Reversal) Provision for impairment - net	(1,002)	860
Gain on sale of premises and equipment	(54)	(42)
Gain on sale of investments	(901)	(4,117)
Unrealised remeasurement gain	-	(425)
<b>Operating profit before changes in operating assets and liabilities</b>	<b>8,697</b>	<b>1,996</b>
Net changes in operating assets and liabilities:		
Balance with central banks in mandatory reserves	(39,809)	(15,882)
Sales receivables	73,662	(90,261)
Mudaraba financing	-	1,729
Ijara Muntahia Bittamleek	(45,358)	(94,461)
Musharaka	(38,146)	(47,676)
Ijara income receivables	(10,763)	4,106
Other assets	8,512	(23,125)
Other liabilities	15,778	1,755
Due to banks and other financial institutions	21,727	(38,591)
Current accounts	20,776	43,910
Equity of investment accountholders	(45,109)	171,018
Taxation paid	(675)	(692)
<b>Net cash used in operating activities</b>	<b>(30,708)</b>	<b>(86,174)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of investments	(220,788)	(413,131)
Investments sold / matured	215,435	339,607
Purchase of premises and equipment	(4,314)	(2,196)
Sale of premises and equipment	99	45
<b>Net cash used in investing activities</b>	<b>(9,568)</b>	<b>(75,675)</b>
<b>FINANCIANG ACTIVITIES</b>		
Subordinated debt	2,214	20,508
<b>Net cash from financing activities</b>	<b>2,214</b>	<b>20,508</b>
Foreign currency translation adjustments	(1,580)	1,637
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(39,642)</b>	<b>(139,704)</b>
Cash and cash equivalents at 1 January	313,976	453,680
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER (note 24)</b>	<b>274,334</b>	<b>313,976</b>

The attached notes 1 - 31 from part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN OFF-BALANCE SHEET EQUITY OF INVESTMENT ACCOUNT HOLDERS

For the year ended 31 December 2015

	Balance at 1 January 2015 US\$ '000	Net withdrawals US\$ '000	Gross income US\$ '000	Mudarib's / agency fee US\$ '000	Balance at 31 December 2015 US\$ '000
Sales receivables	101,930	(8,958)	1,782	(77)	94,677
Investments	9,718	(256)	-	-	9,462
	111,648	(9,214)	1,782	(77)	104,139

	Balance at 1 January 2014 US\$ '000	Net withdrawals US\$ '000	Gross income US\$ '000	Mudarib's / agency fee US\$ '000	Balance at 31 December 2014 US\$ '000
Sales receivables	106,619	(6,362)	1,772	(99)	101,930
Investments	30,159	(20,441)	-	-	9,718
	136,778	(26,803)	1,772	(99)	111,648

The attached notes 1 - 31 from part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 1 INCORPORATION AND PRINCIPAL ACTIVITY

Al Baraka Islamic Bank B.S.C. (c) (the "Bank") is a closed shareholding company incorporated in the Kingdom of Bahrain on 21 February 1984. The Bank operates under a Retail Bank's licence number RB/025 issued by the Central Bank of Bahrain (CBB). The Bank has six commercial branches in the Kingdom of Bahrain. The Bank is 91% owned by Al Baraka Banking Group ("Ultimate Parent").

The principal activities of the Bank and its subsidiary (the "Group") are taking demand, saving and investment accounts, providing Murabaha finance, Ijara financing and other Shari'a compliant forms of financing as well as managing investors' money on the basis of Mudaraba or agency for a fee, providing commercial banking services and other investment activities. The Bank's registered office is at Building 238, Road 1704, Block 317, Manama, Kingdom of Bahrain.

The consolidated financial statements were approved by the Board of Directors on 22nd February 2016.

## 2 ACCOUNTING POLICIES

### 2.1 Basis of preparation

The consolidated financial statements are prepared on historical cost basis, except for investment in real estate, debt-type instruments through profit or loss, equity-type instruments through equity and land owned by the Bank (classified as premises and equipment) that have been measured at fair value.

The consolidated financial statements are presented in United States Dollars, being the reporting currency of the Group. All values are rounded of nearest US Dollar (US\$) thousand unless otherwise indicated. However, the functional currency of the Bank is Bahraini Dinars and the subsidiary is Pakistani Rupees. Items included in the consolidated financial statements of each entity are measured using respective functional currency.

### Statement of compliance

The consolidated financial statements are prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group and in conformity with the Bahrain Commercial Companies Law, the CBB and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives. In accordance with the requirements of AAOIFI, for matters which are not covered by the AAOIFI standards, the Group uses the relevant International Financial Reporting Standards ('the IFRS') issued by International Accounting Standards Board.

### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary as at and for the year ended 31 December each year. The financial statements of the subsidiary is prepared for the same reporting year as the Bank, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses are eliminated in full on consolidation.

Subsidiary is fully consolidated from the date control is transferred to the Bank and continue to be consolidated until the date that control ceases. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Non-controlling interest in a subsidiary's net assets is reported as a separate item in the Group's owners' equity. In the consolidated statement of income, non-controlling interest is included in net profit, and shown separately from that of the shareholders.

Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in owners' equity since the date of combination. Losses applicable to the non-controlling interest in excess of the non-controlling interest in a subsidiary's equity are allocated against the interests of the Group except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

Transactions with non-controlling interests are handled in the same way as transactions with external parties. Sale of participations to non-controlling interests result in a gain or loss that is recognised in the consolidated statement of income. Changes in the ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transaction.

The principal subsidiary of the Bank, which is consolidated in these consolidated financial statements is follows:

Bank	Ownership for 2015 / 2014	Year of incorporation	Country of incorporation	No. of branches/ offices at 31 December 2015 / 2014
<b>Held directly by the Bank</b>				
Al Baraka Bank (Pakistan) Limited*	64.64%	2004	Pakistan	135/130

\*Al Baraka Bank (Pakistan) Limited became a subsidiary on 21 December 2010.

The State Bank of Pakistan (SBP) vide BSD Circular No. 7 of 2009 dated 15 April 2009 required the minimum paid up capital (free of losses) for banks / development financial institutions (DFI) to be raised to Rs. 10 billion (US \$ 95.47 million). Further the banks / DFIs are also required to maintain a capital adequacy ratio of 10% at all times.

In order to meet the regulatory capital requirements, Al Baraka Bank (Pakistan) Limited (ABPL) prepared a capitalization plan which was approved by SBP vide its letter no. BPRD/BA&CP/608/019652/2013 dated 28 December 2013 on the following terms and conditions:

- i) The Bank is required to maintain a minimum paid up capital (net of losses) (MCR) of at least Rs 6 billion (US \$ 57.28 million) at all times and will have to meet the full MCR of Rs 10 billion (US \$ 95.47 million) by 31 December 2016.
- ii) As a short term arrangement, ABPL has been allowed to raise a foreign currency sub-ordinated debt of US \$ 11 million from the Bank (Al Baraka Islamic Bank B.S.C. (c)). The said sub-ordinated debt shall be deposited with the SBP as interest free deposit till the time ABPL fully meets the minimum paid up capital requirements.
- iii) The above foreign currency deposit with the SBP shall be increased to Rs 2.1 billion (US \$ 20.05 million) by 31 December 2014 and Rs 2.8 billion ( US \$ 26.73 million ) by 31 December 2015. Accordingly the Bank has injected Rs 89.03 million (US \$ 8.5 million) during the year.
- iv) The foreign currency sub-ordinated debt will not be withdrawn unless ABPL achieves full compliance with MCR. However any withdrawal will be subject to prior approval of the SBP. In the event ABPL is not MCR compliant by 31 December 2016, the sub-ordinated debt will be converted into the paid up capital of ABPL.
- v) For regulatory purposes, the foreign currency sub-ordinated debt is allowed to be included in ABPL's capital and ABPL will be required to maintain a capital adequacy ratio (CAR) of at least 16% which may be reduced depending on the level of increase in the MCR.

Further, the Bank as the Parent is fully committed to comply with the current and future regulatory requirements.

### Investment in Itqan Capital

The Bank has ownership interest of 83.07% in Itqan Capital (the "Company"). The Bank via a management agreement dated 1 July 2012 assigned the control to govern the financial and operating policies of the Company to the Ultimate Parent. The Bank has authorised the Ultimate Parent to represent it in the shareholders' meetings and to exercise control on the Company to do any or all acts and deeds and exercise all powers of the Bank pursuant to the Charter Document referred in the management agreement and or under any applicable laws.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

The financial statements of the Company are not consolidated as it is controlled by the Ultimate Parent pursuant to the terms of the management agreement. The Ultimate Parent consolidates the financial statements of the Company in its consolidated financial statements which are prepared in accordance with AAOIFI standards and the same was approved by the CBB.

The investment acquired is initially recognised at cost, being the fair value of consideration given including acquisition charges associated with the investment. Subsequently, the investment is carried at cost less impairment losses, if any.

## 2.2 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements, for the year ended 31 December 2014, except for the adoption of new standards and interpretations effective as of 1 January 2015 and change in accounting policy with respect to the Group's premises and equipment.

### 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 consolidation of investments held by 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'. Due to the adoption of this standard certain disclosures with respect to investment account holders and bases of profit allocation are enhanced without having any significant impact on the financial statements of the Group."

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

## 2.3 Change in accounting policy

During the year the Group changed its accounting policy for a class of premises and equipment (land) from the cost model to the revaluation model. As per the original policy, subsequent to initial recognition, land classified under premises and equipment was carried at cost less accumulated impairment losses. As per the revised policy subsequent to initial recognition, the land classified under premises and equipment is re-measured at fair value with the resulting unrealised gains/losses being recognised in the consolidated statement of changes in owners' equity as mentioned below in the notes for significant accounting policies on premises and equipment. As per the accounting standard this change in accounting policy is to be applied prospectively and accordingly an revaluation surplus of US \$ 1,193 thousand has been recognised in the Group's consolidated statement of financial position and consolidated statement of changes in owners' equity.

## 2.4 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below:

### a Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash in hand, balances with central banks in non-restricted accounts, balances with other banks and financial institutions and sales receivables with an original maturity of three months or less.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## b Sales receivables

### *Murabaha receivables*

Murabaha receivables are stated net of deferred profits, any amounts written off and provision for doubtful debts, if any.

Murabaha receivables are sales on deferred payment terms. The Bank arranges a murabaha transaction by buying a commodity (which represents the object of the murabaha) and then sells this commodity to murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is repaid in installments by the murabeh over the agreed period. (Promise made in the murabaha to the purchase orderer is not obligatory upon the customer or the Bank considers promise made in the murabaha to the purchase orderer as obligatory).

### *Wakala receivables*

Wakala receivables are stated cost plus accrued profit, less provision for doubtful amount.

### *Salam receivables*

Salam receivables is the outstanding amount at the end of the year less any provision for doubtful amount.

### *Istisna'a receivables*

Istisna'a receivables is the outstanding amount at the end of the year less any provision for doubtful amount.

## c Mudaraba financing and Musharaka

Mudaraba financing and Musharaka are partnerships in which the Group contributes capital. These contracts are stated at the fair value of consideration given less impairment.

## d Ijara Muntahia Bittamleek and Ijara income receivables

Ijara muntahia bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the ijara (lease) term, provided that all Ijarah instalments are settled.

Assets acquired for leasing (Ijara) are stated at cost, less accumulated depreciation. Depreciation is provided on the straight-line method over the period of the lease or useful life whichever is lower.

Ijara income receivables represent outstanding rentals at the end of the year less any provision for doubtful amount.

## e Investments

Investments comprise equity-type instruments at fair value through statement of income and through equity, debt-type instruments at amortised cost and investment in real estate.

### *Investment in real estate*

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

### *Equity-type instruments at fair value through equity*

This includes all equity-type instruments that are designated as fair value through equity upon initial recognition. Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised proportionately in owners' equity and equity of investment accountholders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in owners' equity or equity of investment accountholders is recognised in consolidated statement of income.

### *Debt-type instruments at fair value through statement of income*

These include debt-type investments held for trading purposes and those investments that are designated under this category on initial recognition. Subsequent to acquisition, investments designated at fair value through consolidated statement of income are re-measured at fair value with unrealised gains or losses recognised in consolidated statement of income.

### *Debt-type instruments at amortised cost*

Debt-type instruments which are managed on a contractual yield basis and are not held for trading and has not been designated at fair value through statement of income are classified as debt-type instruments at amortised cost. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such investment is recognised in the consolidated statement of income, when the investment is de-recognised or impaired.

## **f Premises and equipment**

Premises and equipment are stated at cost less accumulated depreciation and accumulated impairment in value except for land which is carried at fair value subsequent to initial recognition in accordance with the change in accounting policy of the Group during the year (note 2.3). The cost of additions and major improvements are capitalised; maintenance and repairs are charged to the consolidated statement of income as incurred. Gains or losses on disposal are reflected in other operating income. Depreciation is calculated using the straight-line method at rates intended to write-off the cost of the assets over their estimated useful lives. Any subsequent change in fair value of land is recognised in the consolidated statement of changes in owner's equity as per the revised policy.

## **g Fair values**

Fair value is the value representing the estimate of the amount of cash or cash equivalent that would be received for an asset sold or the amount of cash or cash equivalent paid for a liability extinguished or transferred in an orderly transaction between a willing buyer and a willing seller at the measurement date.

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

- (i) For investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the consolidated statement of financial position date.
- (ii) For unquoted investments, fair value is determined by reference to recent significant buy or sell transactions with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.
- (iii) For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for investments with similar terms and risk characteristics.
- (iv) Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less provision for impairment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## **h Business combination and goodwill**

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets and liabilities (including contingent liabilities) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the consolidated statement of income in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the 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 acquiree are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

## **i Equity of investment accountholders**

All equity of investment accountholders are measured by the amount received during the time of contracting. At the end of the financial period equity of investment accountholders is measured at the amount received plus accrued profit and related reserves less amounts settled. Investment risk reserves and profit equalisation reserves are made at the Parent level.

## **j Investment risk reserve**

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

## **k Profit equalisation reserve**

Profit equalisation reserves are amounts appropriated out of the Mudaraba income, before allocating the mudarib share, in order to maintain a certain level of return on investments for equity of investment accountholders.

## **l Off-balance sheet equity of investment accountholders**

Off-balance sheet equity of investment accountholders represent funds received by the Group from third parties for investment in specified products as directed by the investment accountholders. These assets are managed in a fiduciary capacity and the Group has no entitlement to these assets. Clients bear all of the risks and earn all of the rewards on these investments. Off-balance sheet equity of investment accountholders are not included in the consolidated statement of financial position since the Group does not have the right to use or dispose these investments except within the conditions of the contract between the Group and off-balance sheet equity of investment accountholders.

## **m Revenue recognition**

### *Sales receivables*

Profit from sales transactions (murabaha) is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised on a time-apportioned basis over the period of the transaction. Where the income from a contract is not contractually determinable or quantifiable, it is recognised when the realisation is reasonably certain or when actually realised. Income related to accounts that are 90 days overdue is excluded from the consolidated statement of income.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

### *Mudaraba financing*

Income on mudaraba financing is recognised when the right to receive payment is established or on distribution by the mudarib, whereas losses are charged to income on declaration by the mudarib.

### *Wakala financing*

Income on Wakala financing is accrued on a time apportioned basis over the period of the contract based on the principal amounts outstanding.

### *Ijara Muntahia Bittamleek*

Ijara income is recognised on a time apportioned basis over the Ijara term and is stated net of depreciation. Income related to non-performing ijara muntahia bittamleek accounts that are above 90 days is excluded from the consolidated statement of income.

### *Musharaka*

Income on musharaka is recognised when the right to receive payment is established or on distribution.

Group's share of income from equity of investment accountholders (as a Mudarib and Rabalmaal)

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

### *Fees and commission income*

Fees and commission income including structuring fees is recognised when earned.

### *Dividends*

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

Mudarib's share of off-balance sheet equity of investment accountholders

The Group shares profit for managing off-balance sheet equity of investment accountholders based on the terms and conditions of related contracts.

### *Income from investments*

Income from investments is recognised when earned.

### *Rental income*

Rental income is accounted for on a straight-line basis over the Ijara terms.

## **n Return on equity of investment accountholders**

Investors' share of income is calculated based on the income generated from joint investment accounts after deducting the expenses related to investment pool "mudarib expenses". Mudarib expenses include all expenses incurred by the Group, including specific provisions, but excluding staff costs and depreciation. The Group's "mudarib profit" is deducted from the investors' share of income before distributing such income. In some cases, equity of investment accountholders withdrawn before maturity and without completing three months are normally not entitled to any income. Equity of investment accountholders held for more than three months and withdrawn before their maturity are entitled to income only after deducting a penalty charge.

The basis applied by the Group in arriving at the investment accountholders share of income is [total investment income less investment pool expenses] divided by [average funds generating income (shareholders and investment accountholders) times average funds of equity of investment accountholders].

## **o Investment pool expenses**

Investment pool expenses include business, administrative, general and other expenses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## p Taxation

There is no tax on corporate income in the Kingdom of Bahrain. The subsidiary in Pakistan pays tax as per Pakistan tax regulations.

### *Current*

Provision for current taxation is based on taxable income in accordance with the tax laws as applicable in Pakistan.

### *Deferred*

The Group accounts for deferred taxation on material temporary differences using the liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences. Deferred tax debits are recognised only if there is a reasonable expectation of realisation in the foreseeable future. Deferred tax is reduced to the extent that it is no longer probable that related tax benefits will be realised.

## q Contingencies and Commitments

"Contingencies are possible obligation or assets that arises from past events and whose existence will be confirmed only by occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Further, the obligation arisen from past events where the liability cannot be determined with reasonable certainty or probability of outflow of resourced cannot be determined are also contingencies.

A commitment is a binding contract for the exchange of a specified quantity of resourced at a specific price on a specified future dates or date."

## r Derecognition

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

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

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

## s Earnings prohibited by Shari'a

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

## t Foreign currencies

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

As at the reporting date, the assets and liabilities in foreign currencies are translated into the presentation currency of the Group (United States Dollar) at the rate of exchange ruling at the consolidated statement of financial position date and their income and expenses are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of owners' equity. On disposal of a foreign operation, the deferred cumulative amount recognised in owners' equity relating to that particular foreign operation is recognised in the consolidated statement of income.

### u Impairment of financial assets

An assessment is made at each consolidated statement of financial position 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 statement of income. Specific provisions are created to reduce all impaired financial contracts to their realisable cash equivalent value. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment value was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated statement of income. In the case of equity-type instruments at fair value through equity, impairment is reflected directly as a write down of the financial asset. Impairment losses on equity-type instruments at fair value through equity are not reversed through the consolidated statement of income while any subsequent increases in their fair value are recognised directly in owners' equity.

### v Judgements and estimates

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

#### *Impairment and uncollectibility of financial assets*

An assessment is made at each consolidated statement of financial position date to determine whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the assessment by the Group of the value to it of anticipated future cash flows, is recognised in the consolidated statement of income. Specific provisions are created to reduce all impaired financial contracts to their realisable cash equivalent value.

#### *Fair valuation of investments*

The determination of fair values of unquoted investments requires management to make estimates and assumptions that may affect the reported amount of assets at the date of consolidated financial statements.

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

#### *Going concern*

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

#### *Classification of investments*

Management decides on acquisition of an investment whether it should be classified as equity-type instrument at fair value through statement of income, equity-type instrument at fair value through equity, debt-type instrument at fair value through statement of income or debt-type instrument at amortised cost.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

**w Employees' end of service benefits**

*Defined contribution plan*

Provision is made for leaving indemnity payable under the Bahraini Labour Law applicable to non-Bahraini employees' accumulated periods of service at the consolidated statement of financial position date. Moreover provision for indemnity payable is also made for Bahraini employees.

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

The subsidiary in Pakistan also operates a recognised contributory provident fund for all permanent employees. Equal monthly contributions are made, both by the subsidiary and the employees, to the fund at a rate of 10 percent of basic salary.

*Defined benefit plan*

The subsidiary in Pakistan operates an approved funded gratuity scheme for all its permanent employees. Annual contributions are made to the scheme in accordance with the actuarial recommendation. The actuarial valuation is carried out using the projected unit credit method.

**x Zakah**

The responsibility of payment of zakah is on individual shareholders and investment accountholders. In Pakistan, zakah is deducted at source from accountholders as required by local laws. Zakah per share is presented in the Shari'a Supervisory Board Report.

**y Joint and self financed**

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

**z Offsetting**

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

**aa Shari'a supervisory board**

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

**ab Trade date accounting**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

### 3 CASH AND BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS

	2015 US\$ '000	2014 US\$ '000
Cash in hand	23,696	18,725
Balances with State Bank of Pakistan		
Current account	4,271	4,115
Capital deposit account	19,500	11,000
Mandatory reserves	61,227	33,570
	<b>84,998</b>	<b>48,685</b>
Balances with CBB		
Current account	18,573	20,574
Mandatory reserves	25,607	21,955
	<b>44,180</b>	<b>42,529</b>
Balances with other banks and financial institutions	84,005	190,067
	<b>236,879</b>	<b>300,006</b>

The mandatory reserves with central banks are not available for use in the day-to-day operations.

### 4 SALES RECEIVABLES

	2015			2014		
	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000
Commodities	-	143,846	143,846	-	80,614	80,614
Salam financing	-	47,976	47,976	-	56,890	56,890
Istisna'a financing	-	51,609	51,609	-	40,211	40,211
Murabaha and others	3,800	390,113	393,913	5,739	495,879	501,618
Wakala	-	25,197	25,197	-	16,560	16,560
Gross sales receivable	3,800	658,741	662,541	5,739	690,154	695,893
Deferred profits	(346)	(21,013)	(21,359)	(587)	(26,795)	(27,382)
	<b>3,454</b>	<b>637,728</b>	<b>641,182</b>	<b>5,152</b>	<b>663,359</b>	<b>668,511</b>
Provision for impairment (note 22)	-	(31,498)	(31,498)	-	(47,521)	(47,521)
Net sales receivable	<b>3,454</b>	<b>606,230</b>	<b>609,684</b>	<b>5,152</b>	<b>615,838</b>	<b>620,990</b>

Sales receivables which are non-performing as of 31 December 2015 amounted to US\$ 55.212 million (2014: US\$ 93.723 million).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 5 IJARA MUNTAHIA BITTAMLEEK

	2015			2014		
	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000
<b>Building</b>						
Cost	-	212,334	212,334	-	151,992	151,992
Accumulated depreciation	-	35,050	35,050	-	26,583	26,583
Net book value	-	177,284	177,284	-	125,409	125,409
<b>Equipment</b>						
Cost	21,906	55,639	77,545	-	77,963	77,963
Accumulated depreciation	2,431	22,509	24,940	-	15,917	15,917
Net book value	19,475	33,130	52,605	-	62,046	62,046
<b>Others</b>						
Cost	-	50,764	50,764	-	44,420	44,420
Accumulated depreciation	-	14,255	14,255	-	10,835	10,835
Net book value	-	36,509	36,509	-	33,585	33,585
<b>TOTAL</b>						
Cost	21,906	318,737	340,643	-	274,375	274,375
Accumulated depreciation	2,431	71,814	74,245	-	53,335	53,335
Net book value	19,475	246,923	266,398	-	221,040	221,040

## 6 MUSHARAKA

	2015			2014		
	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000
Musharaka	-	156,973	156,973	-	118,947	118,947
Provision for impairment (note 22)	-	(2,713)	(2,713)	-	(2,565)	(2,565)
	-	154,260	154,260	-	116,382	116,382

Musharaka which are impaired as of 31 December 2015 amounted to US\$ 3.008 million (2014: US\$ 3.397 million).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### AT 31 December 2015

#### 7 INVESTMENTS

	2015			2014		
	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000
<b>i) Debt-type instruments at fair value through statement of income</b>						
<b>Unquoted</b>						
Sukuk	-	-	-	-	20,314	20,314
<b>ii) Debt-type instruments at amortised cost</b>						
<b>Quoted</b>						
Sukuk	62,132	98,869	161,001	102,183	35,236	137,419
<b>Unquoted</b>						
Sukuk	188,411	25,986	214,397	72,855	137,915	210,770
	250,543	124,855	375,398	175,038	173,151	348,189
<b>iii) Equity-type instruments at fair value through equity</b>						
<b>Quoted</b>						
Listed equity shares	2,812	275	3,087	2,099	231	2,330
<b>Unquoted</b>						
Equity Investments	57,392	498	57,890	58,040	519	58,559
Managed funds	1,000	5,000	6,000	1,000	5,021	6,021
Real estate related	8,595	2,821	11,416	8,680	3,793	12,473
	69,799	8,594	78,393	69,819	9,564	79,383
Less: Provision for impairment (note 22)	(1,995)	(985)	(2,980)	(2,120)	(3,793)	(5,913)
<b>Total investments</b>	<b>318,347</b>	<b>132,464</b>	<b>450,811</b>	<b>242,737</b>	<b>199,236</b>	<b>441,973</b>

Included in quoted equity type instruments, US \$ 2,885 thousand (2014: US \$ 2,162 thousand) of investments are fair valued using quoted prices in active markets.

Within unquoted investments which are held at fair value through equity are investments amounting to US \$ 73,027 thousand (2014: US \$ 74,131 thousand) which are held at cost less provision for impairment. These are mainly investments in unlisted companies whose shares are not traded on active markets. The investments are primarily in closely-held companies located in the Gulf Co-operation Council ("GCC"). The investments are held at cost less provision for impairment due to the unpredictable nature of their future cash flows and the lack of other suitable methods for determining a reliable fair value.

The Group's investments in sukuk held at amortised cost amounting to US \$ 374,899 thousand (2014: US \$ 345,366 thousand) has a fair value amounting to US \$ 371,485 thousand (2014: US \$ 344,148 thousand).

Investments stated at a carrying amount of US \$ 161,002 thousand (2014: US \$ 136,114 thousand) are placed in custody of a financial institution against a borrowing line.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 8 INVESTMENT IN REAL ESTATE

	2015 US\$ '000	2014 US\$ '000
Building	5,974	5,549
Changes in fair value (note 20)	-	425
	<b>5,974</b>	<b>5,974</b>

During 2014, the Group has revalued its investment in real estate based on valuation performed by independent valuers. The carrying values of the investment was adjusted to reflect the changes in fair value with the corresponding impact to the consolidated statement of income to the extent of crediting back previously recognised fair value losses.

## 9 IJARA INCOME RECEIVABLES

	2015			2014		
	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000	Self financed US\$ '000	Jointly financed US\$ '000	Total US\$ '000
Ijara income receivables	1,101	24,218	25,319	-	14,629	14,629
Provision for impairment (note 22)	-	(1,853)	(1,853)	-	(1,485)	(1,485)
	<b>1,101</b>	<b>22,365</b>	<b>23,466</b>	<b>-</b>	<b>13,144</b>	<b>13,144</b>

Total Ijara Muntahia Bittamleek and ijara income receivables, which are non-performing as of 31 December 2015, amounted to US \$ 10.445 million (2014: US \$ 8.707 million).

## 10 PREMISES AND EQUIPMENT

	Land and Buildings US\$ '000	Computer Software & license US\$ '000	Office furniture and equipment US\$ '000	Vehicles US\$ '000	Total US\$ '000
Cost:					
At 1 January 2015	21,975	8,467	18,613	971	50,026
Additions	927	1,202	1,967	218	4,314
Disposals	-	-	(144)	(173)	(317)
Revaluation	1,193	-	-	-	1,193
Exchange difference on opening balance	(487)	(107)	(424)	(28)	(1,046)
At 31 December 2015	<b>23,608</b>	<b>9,562</b>	<b>20,012</b>	<b>988</b>	<b>54,170</b>
Depreciation:					
At 1 January 2015	4,464	7,558	13,979	752	26,753
Provided during the year	811	713	1,406	115	3,045
Disposals	-	-	(107)	(165)	(272)
Exchange difference on opening balance	(54)	(80)	(277)	(29)	(440)
At 31 December 2015	<b>5,221</b>	<b>8,191</b>	<b>15,001</b>	<b>673</b>	<b>29,086</b>
Net book values:					
<b>At 31 December 2015</b>	<b>18,387</b>	<b>1,371</b>	<b>5,011</b>	<b>315</b>	<b>25,084</b>
At 31 December 2014	17,511	909	4,634	219	23,273
Estimated useful lives for calculation of depreciation	20-30 years	4-5 years	1-10 years	4-5 years	

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 11 GOODWILL

	2015 US\$ '000	2014 US\$ '000
At 1 January	18,407	17,561
Foreign exchange translations	(748)	846
	<b>17,659</b>	<b>18,407</b>

Goodwill acquired through business combination has been entirely allocated to a single cash generating unit (CGU), Al Baraka Bank (Pakistan) Limited by the Group's management.

The recoverable amount of the CGU was determined based on value in use calculation using cash flow projections from financial budgets approved by the Group's senior management covering a five year period. Management determined budgeted spreads based on the CGU's past performance and its expectation of market development.

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 key assumptions used to determine the recoverable amount of the Group's cash generating units will not result in an impairment.

## 12 OTHER ASSETS

	2015 US\$ '000	2014 US\$ '000
Collaterals pending sale	17,262	11,829
Deferred tax (note 12.1)	13,298	14,558
Advance against financing transactions	12,629	21,071
Advance against capital expenditure	5,322	6,135
Accounts receivable	5,194	7,454
Advance tax (note 23)	2,128	2,472
Income receivable	842	1,871
Others	10,575	11,753
<b>Total</b>	<b>67,250</b>	<b>77,143</b>
Provision for impairment (note 22)	(2,892)	(3,311)
	<b>64,358</b>	<b>73,832</b>

**12.1** The above net deferred tax asset has been recognised in accordance with the Group's accounting policy. The management based on financial projections prepared during the year, estimates that sufficient taxable profits would be available in future against which the deferred tax asset could be realised.

## 13 OTHER LIABILITIES

	2015 US\$ '000	2014 US\$ '000
Accounts payable	17,649	9,787
Margins received	17,487	15,428
Security deposit against Ijara Muntahia Bittamleek	12,743	10,193
Bills payable	8,437	6,765
Provision for employees benefits	7,389	5,762
Charity fund	580	1,022
Others	4,262	3,758
	<b>68,547</b>	<b>52,715</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 14 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH)

The Group manages and deploys Equity of IAH according to its Article of Association – Chapter 3 on Rules of Business. In this respect, the Bank invests its own funds separately or jointly with amount received from Equity of Investment Account Holders. These funds received are managed in accordance with Shari' a requirements and standard of prudence is applied in the context of managing the overall portfolios to enable the Bank to exercise its fiduciary responsibilities. The Group is authorised by Equity of Investment Accountholders to invest the funds on the basis of mudaraba, murabaha, salam, ijara transactions and other forms of contract in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

	2015 US\$ '000	2014 US\$ '000
IAH - Banks	1,024,282	1,051,686
IAH - Non-banks	217,415	235,105
Profit equalisation reserve (note 14.1)	558	574
Investment risk reserve (notes 14.2)	2,339	2,338
	<b>1,244,594</b>	<b>1,289,703</b>

### 14.1 Movement in profit equalisation reserve

	2015 US\$ '000	2014 US\$ '000
Balance at 1 January	574	573
Amount apportioned from income allocable to equity of investment accountholders	-	23
Foreign exchange loss	(16)	(22)
Balance at 31 December	<b>558</b>	<b>574</b>

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

### 14.2 Movement in investment risk reserve

	2015 US\$ '000	2014 US\$ '000
Balance at 1 January	2,338	2,418
Amount apportioned from income allocable to equity of investment accountholders	2	-
Exchange difference	(1)	(1)
Amount apportioned to provision (note: 22)	-	(79)
Balance at 31 December	<b>2,339</b>	<b>2,338</b>

The Group deducts investment risk reserve as per approved policy from the profit distributable to equity of investment accountholders of its Bahrain operations, after allocating the Mudarib share in order to cater against future losses for equity of IAH.

The profit equalisation reserve and investment risk reserve will revert to investment accountholders as per terms and conditions of the Mudaraba contract.

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

The Group's share, as Mudarib, in the profits of equity of investment accountholders is upto a maximum of 70% (2014: upto 70%) as per the terms of IAH agreements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

The Group has charged a total administrative expense of US \$ 3.405 million (2014: US \$ 2.98 million) to equity of investment account holders.

### 14.3 Equity of Investment Accountholders rate of return

	Average 2015 Rate of return %			Average 2014 Rate of return %		
	Bahrain		Pakistan	Bahrain		Pakistan
	BD	USD		BD	USD	
Saving Accounts	0.12%	0.11%	3.18%	0.34%	0.32%	5.03%
One Month Investment Account	0.64%	-	3.55%	1.20%	-	5.87%
Three Months Investment Account	0.74%	0.83%	4.22%	1.39%	0.83%	6.40%
Six Months Investment Account	0.84%	0.89%	3.65%	1.58%	0.89%	5.79%
Nine Months Investment Account	0.85%	-	-	1.67%	0.95%	-
1 Year Investment Account	0.98%	0.95%	4.66%	1.76%	0.95%	7.82%
2 Years Investment Account	1.12%	1.06%	4.75%	2.06%	-	7.98%
3 Years Investment Account	1.26%	-	5.25%	2.06%	-	8.10%
4 Years Investment Account	-	-	4.70%	-	-	8.00%
5 Years Investment Account	-	-	5.54%	-	-	9.00%

### 14.4 Equity of Investment Accountholders by type

	2015 US\$ '000	2014 US\$ '000
Saving Accounts	483,160	467,517
One Month Investment Account	64,609	84,255
Three Months Investment Account	152,089	149,266
Six Months Investment Account	135,906	208,083
Nine Months Investment Account	3,825	909
1 Year Investment Account	288,860	260,057
2 Year Investment Account	62,356	53,762
3 Year Investment Account	41,217	30,707
4 Year Investment Account	5,643	161
5 Year Investment Account	6,929	34,986
	<b>1,244,594</b>	<b>1,289,703</b>

### 14.5 Equity of Investment Accountholders by maturity

	2015 US\$ '000	2014 US\$ '000
Accounts on demand	483,160	467,517
Accounts on a contractual basis *	761,434	822,186
	<b>1,244,594</b>	<b>1,289,703</b>

\* These can be withdrawn subject to deduction of profit upon management discretion.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 15 SUBORDINATED DEBT

During 2014, ABPL issued unsecured, sub-ordinated and privately placed mudaraba sukuk having a carrying amounting of US \$ 16,708 thousand as of 31 December 2015 (31 December 2014: US \$ 20,508 thousand). The issuance of Sukuk was to comply with regulatory requirements related to CAR as stated in note 2.1 to these consolidated financial statements. The tenor of the Sukuk is seven years maturing in 2021. The principal repayment, started after six month of the drawdown date and is being made semi-annually on a straight line basis.

On 3 June 2015, the Ultimate Parent provided subordinated Murabaha financing having a carrying amount of US \$ 6,014 thousand as of 31 December 2015. The Murabaha facility availed is intended to support the capital adequacy ratio of the Group and is subordinated to all other liabilities. The tenor of the Murabaha is seven years maturing in 2022. The principal repayment of subordinated Murabaha will be upon maturity of the contract and is subject to CBB's prior approval.

## 16 OWNERS' EQUITY

	2015 US\$ '000	2014 US\$ '000
<i>(i) Share capital</i>		
Authorised 6,000,000 ordinary shares (2014: 6,000,000) of US\$ 100 each	600,000	600,000
	2015 US\$ '000	2014 US\$ '000
Issued and fully paid 1,224,578 ordinary shares (2014: 1,224,578) of US\$ 100 each	122,458	122,458

### *Additional information on shareholding pattern*

Names and nationalities of the major shareholder and the number of shares where they have an interest of 5% or more of outstanding shares:

Name	Domicile	No. of shares	% holding
Al Baraka Banking Group B.S.C.	Bahrain	1,115,755	91.11%

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

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

	2015			2014		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	58,823	12	4.81%	58,823	12	4.81%
1% up to less than 5%	50,000	1	4.08%	50,000	1	4.08%
	108,823	13	8.89%	108,823	13	8.89%

### *(ii) Statutory reserve*

In accordance with the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net income for the year is transferred to the statutory reserve until such time as the reserve reaches 50% of the Bank's paid-up share capital. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the CBB. An amount of US \$ 0.497 million was transferred to statutory reserve for the year ended 31 December 2015 (31 December 2014 : US \$ 0.135 million).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

(iii) **General reserve**

In accordance with the Bank's articles of association, the Bank may transfer any amount, as approved by the General Assembly, out of net income for the year to the general reserve after appropriating statutory reserve. The general reserve is distributable, subject to the approval of the CBB.

(iv) **Cumulative changes in fair value**

This represents the net unrealised fair value changes relating to the equity of the parent on equity-type instruments at fair value through equity and investment in real estate.

(v) **Revaluation reserve on premises and equipment**

This represents the net surplus on revaluation relating to the equity of the parent on premises and equipment carried at fair value in books of accounts.

(vi) **Foreign exchange reserve**

This represents the translation reserve arising as a result of consolidation of the foreign subsidiary.

(vii) **Employee defined benefit plan reserve**

This represents the reserve created in lieu of actuarial gains or losses on defined benefit liabilities and planned assets.

### 17 CONTINGENCIES AND COMMITMENTS

	2015 US\$ '000	2014 US\$ '000
Letters of credit	80,740	84,996
Guarantees	64,291	67,302
Foreign exchange contracts	39,453	80,281
Acceptances	29,254	37,066
Taxation	2,413	2,365
Others	831	708
	<b>216,982</b>	<b>272,718</b>

#### Law Suits

During the year 2010, a constitutional petition and certain suits have been filed by a client in Pakistan in the Honourable High Court of Sindh against Al Baraka Bank (Pakistan) Limited wherein the client has claimed that he was offered 24 million ordinary shares of Al Baraka Bank (Pakistan) Limited at an aggregate value of US \$ 2.86 million (2014: US \$ 2.98 million) as sale consideration against the commercial property sold to the Al Baraka Bank (Pakistan) Limited.

He further claimed that in addition to the said property, he has also paid US \$ 0.57 million (2014: US \$ 0.59 million) towards the purchase consideration for the above referred shares. However, the said shares or any other consideration against the property has not been received by the client. Based on the above, the client has alleged that Al Baraka Bank (Pakistan) Limited is involved in illegal business.

Al Baraka Bank (Pakistan) Limited contends that the aforesaid allegations of the client are baseless and without any merit and that the subject property has been duly purchased and paid for by Al Baraka Bank (Pakistan) Limited. Further, in the opinion of legal advisor of Al Baraka Bank (Pakistan) Limited, the petitioner is not likely to be successful in securing the reliefs requested in the said petitions.

In terms of the merger agreement dated 16 August 2010 between sponsors shareholders of Al Baraka Bank (Pakistan) Limited and the Bank, the Emirates Financial Holdings LLC (EFH) will keep the Bank fully indemnified, safe and secured against all losses, costs, claims, damages of any nature whatsoever resulting to the Al Baraka Bank (Pakistan) Limited on account of the client's Litigations including any additional or ancillary litigation or proceedings filed by the client's Group in relation to the subject matter. In this regard, Al Baraka Bank (Pakistan) Limited has invoked the indemnity and has submitted a legal notice upon EFH.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 18 INCOME FROM JOINTLY AND SELF FINANCED, OTHER FINANCINGS AND INVESTMENTS

	2015 US\$ '000	2014 US\$ '000
Income from investments	21,774	21,963
Ijara Muntahia Bittamleek (note 18.1) - net	17,970	13,669
Musharaka	11,534	8,882
Gain on sale of investments	901	4,118
Mudaraba financing	-	5
Dividends	235	103
Rental income	202	207
<b>Total</b>	<b>52,616</b>	<b>48,947</b>
	2015 US\$ '000	2014 US\$ '000
Income from jointly financed, other financings and investments	38,947	32,829
Income from self financed, other financings and investments	13,669	16,118
	<b>52,616</b>	<b>48,947</b>

### 18.1 Ijara Muntahia Bittamleek

	2015 US\$ '000	2014 US\$ '000
Income from Ijara Muntahia Bittamleek	67,380	48,325
Depreciation on Ijara Muntahia Bittamleek	(49,410)	(34,656)
	<b>17,970</b>	<b>13,669</b>

## 19 REVENUE FROM BANKING SERVICES

	2015 US\$ '000	2014 US\$ '000
Fees and commissions	5,357	4,243
Letters of credit and acceptances	3,133	2,327
Guarantees	788	727
	<b>9,278</b>	<b>7,297</b>

## 20 OTHER INCOME

	2015 US\$ '000	2014 US\$ '000
Foreign exchange gain - net	1,692	2,040
Fair value gain on investment in real estate (note 8)	-	425
Others	1,400	794
	<b>3,092</b>	<b>3,259</b>

## 21 OTHER OPERATING EXPENSES

	2015 US\$ '000	2014 US\$ '000
Administrative expenses	6,783	5,903
Premises costs	8,101	7,340
Business expenses	4,474	4,446
General expenses	1,320	1,087
	<b>20,678</b>	<b>18,776</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

### 22 MOVEMENT IN PROVISIONS FOR IMPAIRMENT

2015	Sales receivables US\$ '000	Musharaka US\$ '000	Investments US\$ '000	Ijara income receivables US\$ '000	Other assets US\$ '000	Total US\$ '000
Provision at beginning of the year	47,521	2,565	5,913	1,485	3,311	60,795
Charged during the year	7,734	408	41	613	51	8,847
Written back during the year	(6,796)	(140)	(2,741)	(172)	-	(9,849)
	938	268	(2,700)	441	51	(1,002)
	48,459	2,833	3,213	1,926	3,362	59,793
Written off during the year	(15,643)	(16)	(122)	-	(288)	(16,069)
Exchange difference on opening balance	(1,318)	(104)	(111)	(73)	(182)	(1,788)
Provision at end of the year	31,498	2,713	2,980	1,853	2,892	41,936
Notes	4	6	7	9	12	

2014	Sales receivables US\$ '000	Musharaka US\$ '000	Investments US\$ '000	Ijara income receivables US\$ '000	Other assets US\$ '000	Total US\$ '000
Provision at beginning of the year	43,742	5,927	5,019	1,415	2,656	58,759
Charged during the year	7,377	446	1,174	123	536	9,656
Written back during the year	(4,195)	(4,094)	(376)	(121)	(10)	(8,796)
	3,182	(3,648)	798	2	526	860
	46,924	2,279	5,817	1,417	3,182	59,619
Written off during the year	(32)	-	-	-	-	(32)
Transferred to investment risk reserve (note 14.2)	79	-	-	-	-	79
Exchange difference on opening balance	550	268	96	68	129	1,129
Provision at end of the year	47,521	2,565	5,913	1,485	3,311	60,795
Notes	4	6	7	9	12	

The total general provision maintained against financing facilities as of 31 December 2015 amounted to US\$ 2,130 thousand (2014: US\$ 1,487 thousand).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 23 TAXATION

Taxation relates to subsidiary in Pakistan and comprise:

	2015 US\$ '000	2014 US\$ '000
<b>Consolidated statement of financial position:</b>		
Advance tax - net	2,128	2,472
<b>Consolidated statement of income:</b>		
Current tax	751	791
Deferred tax	835	(90)
	1,586	701

## 24 CASH AND CASH EQUIVALENTS

For the purpose of cash flows, cash and cash equivalents represent:

	2015 US\$ '000	2014 US\$ '000
Cash in hand	23,696	18,725
Balances with central banks in current accounts	22,844	24,689
Balances with other banks and financial institutions	84,005	190,067
Sales receivables - international commodities (with an original maturity of 90 days or less)	143,789	80,495
	274,334	313,976

## 25 RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, directors of the Group, entities owned or controlled, jointly controlled or significantly influenced by them, companies affiliated by virtue of shareholding in common with that of the Group, Shari'a supervisory board and external auditors.

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

	Shareholders		Other Related Parties		Total	
	2015 US\$ '000	2014 US\$ '000	2015 US\$ '000	2014 US\$ '000	2015 US\$ '000	2014 US\$ '000
<b>Assets</b>						
Cash and balances with banks and financial institutions	120	38	89	202	209	240
Sales receivables	-	-	35,499	49,637	35,499	49,637
Mudaraba financing	-	-	-	-	-	-
Ijara Muntahia Bittamleek	-	-	740	2,439	740	2,439
Musharaka	-	-	1,420	1,305	1,420	1,305
Ijara income receivables	-	-	78	64	78	64
Investments	-	-	71,625	72,505	71,625	72,505
Other assets	2,672	2,537	1	4,731	2,673	7,268
	2,792	2,575	109,452	130,883	112,244	133,458
<b>Liabilities:</b>						
Due to banks and financial institutions	5,401	4,491	1,627	3,208	7,082	7,699
Current accounts	100	77	2,586	2,865	2,686	2,942
Other liabilities	6	21	2,103	186	2,109	207
	5,507	4,589	6,316	6,259	11,823	10,848
<b>Equity of investment account holders</b>	<b>16,976</b>	<b>8,826</b>	<b>54,181</b>	<b>67,070</b>	<b>71,157</b>	<b>75,896</b>
<b>Subordinated debt</b>	<b>6,014</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,014</b>	<b>-</b>
<b>Off-balance sheet equity of investment account holders</b>	<b>-</b>	<b>-</b>	<b>89,480</b>	<b>84,782</b>	<b>89,480</b>	<b>84,782</b>
<b>Contingencies and commitments</b>	<b>-</b>	<b>-</b>	<b>10,242</b>	<b>11,989</b>	<b>10,242</b>	<b>11,989</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

### 25 RELATED PARTY TRANSACTIONS (CONTINUED)

The transactions with the related parties included in the statement of income are as follows:

	Shareholders		Other Related Parties		Total	
	2015 US\$ '000	2014 US\$ '000	2015 US\$ '000	2014 US\$ '000	2015 US\$ '000	2014 US\$ '000
<b>Income</b>						
Income from jointly financed sales	-	-	1,171	1,388	1,171	1,388
Income from jointly financed, other financings and investment	-	-	459	290	459	290
Group's income jointly self financed, other financings	-	-	725	483	725	483
Other Income	574	574	-	-	574	574
Group's Mudarib/agency fee, from off-balance sheet equity of investment account holders	77	99	-	-	77	99
	<b>651</b>	<b>651</b>	<b>2,355</b>	<b>2,161</b>	<b>3,006</b>	<b>2,834</b>
<b>Expenses:</b>						
Return on equity of investment account/holders before group's share as a Mudarib	63	54	763	1,160	826	1,214
Other expenses	104	-	1,468	1,213	1,572	1,213
	<b>167</b>	<b>54</b>	<b>2,231</b>	<b>2,373</b>	<b>2,398</b>	<b>2,427</b>

Compensation of key management personnel is as follows:

Key management personnel includes the staff in grade of senior manager and above.

	2015 US\$ '000	2014 US\$ '000
Salaries	3,726	3,237
Other benefits	2,279	2,050
	<b>6,005</b>	<b>5,287</b>

### 26 RISK MANAGEMENT

Risk management is an integral part of the Group's decision-making process. The risk management committee and executive committees, guide and assist with overall management of the Group's consolidated statement of financial position risks. The Group manages exposures by setting limits approved by the Board of Directors.

#### a) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a regular basis.

The table below summarises the maturity profile of the Group's assets and liabilities as of 31 December 2015 based on contractual periods to cash conversion from the consolidated statement of financial position date. However, expected periods to cash conversion where there are no contractual terms.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AT 31 December 2015

	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Over 20 years	No fixed maturity	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>ASSETS</b>										
Cash and balances with banks	105,887	4,799	39,359	-	-	-	-	-	86,834	236,879
Sales receivables	307,063	148,187	59,184	53,265	14,194	2,217	-	-	25,574	609,684
Ijara Muntahia Bittamleek	12,564	7,334	19,240	72,862	56,679	38,951	45,735	12,846	187	266,398
Musharaka	2,242	2,208	3,663	17,001	78,748	39,696	10,407	-	295	154,260
Investments	13,403	313	7,000	160,566	97,160	110,650	1,000	-	60,719	450,811
Investment in real estate	-	-	-	5,974	-	-	-	-	-	5,974
Ijara income receivables	1,354	800	2,041	1,179	1,064	3,437	3,903	1,096	8,592	23,466
Premises and equipment	-	-	-	-	-	-	-	-	25,084	25,084
Goodwill	-	-	-	-	-	-	-	-	17,659	17,659
Other assets	23,952	935	23,104	-	13,448	-	-	-	2,919	64,358
<b>Total assets</b>	<b>466,465</b>	<b>164,576</b>	<b>153,591</b>	<b>310,847</b>	<b>261,293</b>	<b>194,951</b>	<b>61,045</b>	<b>13,942</b>	<b>227,863</b>	<b>1,854,573</b>
<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>										
<b>SUBORDINATED DEBT AND OWNERS' EQUITY</b>										
Due to banks and financial institutions	40,932	8,550	24,653	38,000	-	-	-	-	-	112,135
Current accounts	232,586	-	-	-	-	-	-	-	-	232,586
Other liabilities	54,944	704	799	5,824	6,095	181	-	-	-	68,547
<b>Total liabilities</b>	<b>328,462</b>	<b>9,254</b>	<b>25,452</b>	<b>43,824</b>	<b>6,095</b>	<b>181</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>413,268</b>
Equity of investment accountholders	545,015	197,445	179,775	184,423	67,607	52,747	17,582	-	-	1,244,594
Subordinated debt	1,705	-	1,364	5,456	8,183	6,014	-	-	-	22,722
Total owners' equity	-	-	-	-	-	-	-	-	173,989	173,989
<b>Total liabilities, Equity of investment accountholders subordinated debt and owner's equity</b>	<b>875,182</b>	<b>206,699</b>	<b>206,591</b>	<b>233,703</b>	<b>81,885</b>	<b>58,942</b>	<b>17,582</b>	<b>-</b>	<b>173,989</b>	<b>1,854,573</b>
Net gap	(408,717)	(42,123)	(53,000)	77,144	179,408	136,009	43,463	13,942	53,874	-
Cumulative net gap	(408,717)	(450,840)	(503,840)	(426,696)	(247,288)	(111,279)	(67,816)	(53,874)	-	-
Off-balance sheet equity of investment accountholders	17,827	76,850	9,462	-	-	-	-	-	-	104,139

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

### 26 RISK MANAGEMENT (CONTINUED)

#### a) Liquidity risk (Continued)

The table below summarises the maturity profile of the Group's assets and liabilities as of 31 December 2014 based on expected periods to cash conversion from the consolidated statement of financial position date. However, expected periods to cash conversion where there are no contractual terms.

	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Over 20 years	No fixed maturity	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>ASSETS</b>										
Cash and balances with banks	139,009	22,268	72,204	11,000	-	-	-	-	55,525	300,006
Sales receivables	288,054	143,205	64,542	59,191	12,148	6,317	-	-	47,533	620,990
Ijara Muntahia Bittamleek	8,786	6,485	16,338	73,606	50,840	30,589	27,425	6,879	92	221,040
Musharaka	2,123	3,963	3,148	10,933	46,056	43,123	6,126	-	910	116,382
Investments	42,797	5,625	27,789	148,498	122,533	30,894	1,000	-	62,837	441,973
Investment in real estate	-	-	-	5,974	-	-	-	-	-	5,974
Ijara income receivables	390	410	1,094	4,028	2,816	1,925	1,646	413	422	13,144
Premises and equipment	-	-	-	-	-	-	-	-	23,273	23,273
Goodwill	-	-	-	-	-	-	-	-	18,407	18,407
Other assets	22,905	3,715	17,825	-	25,708	-	-	-	3,679	73,832
<b>Total assets</b>	<b>504,064</b>	<b>185,671</b>	<b>202,940</b>	<b>313,230</b>	<b>260,101</b>	<b>112,848</b>	<b>36,197</b>	<b>7,292</b>	<b>212,678</b>	<b>1,835,021</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Over 20 years	No fixed maturity	Total
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS SUBORDINATED AND OWNER'S EQUITY</b>										
Due to banks and financial institutions	53,841	14,567	-	22,000	-	-	-	-	-	90,408
Current accounts	211,810	-	-	-	-	-	-	-	-	211,810
Other liabilities	42,970	862	720	4,331	3,822	10	-	-	-	52,715
<b>Total liabilities</b>	<b>308,621</b>	<b>15,429</b>	<b>720</b>	<b>26,331</b>	<b>3,822</b>	<b>10</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>354,933</b>
Equity of investment accountholders	562,429	231,351	172,522	173,138	150,263	-	-	-	-	1,289,703
Subordinated debt	2,026	-	1,422	5,687	5,687	5,686	-	-	-	20,508
Total owners' equity	-	-	-	-	-	-	-	-	169,877	169,877
<b>Total liabilities, Equity of investment accountholders subordinated debt and owner's equity</b>	<b>873,076</b>	<b>246,780</b>	<b>174,664</b>	<b>205,156</b>	<b>159,772</b>	<b>5,696</b>	<b>-</b>	<b>-</b>	<b>169,877</b>	<b>1,835,021</b>
Net gap	(369,012)	(61,109)	28,276	108,074	100,329	107,152	36,197	7,292	42,801	-
Cumulative net gap	(369,012)	(430,121)	(401,845)	(293,771)	(193,442)	(86,290)	(50,093)	(42,801)	-	-
Off-balance sheet equity of investment accountholders	25,278	76,000	10,370	-	-	-	-	-	-	111,648

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

### 26 RISK MANAGEMENT (CONTINUED)

#### b) Market risk

Market risk arises from fluctuations in profit rates, equity prices and foreign exchange rates.

##### *Profit rate risk*

Profit rate risk is the risk that the Group will incur a financial loss as a result of mismatch in the profit rate on the Group's assets and IAH. The profit distribution to IAH is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

The Group is exposed to displaced commercial risk in the event of having equity of IAH profit rates that are lower than market rates. The Group has mitigated this risk through the setting up of reserves that will be used in case of a drop in IAH profit rates. The policies and procedures for displaced commercial risk are formulated and implemented at the segment level (Pakistan and Bahrain).

##### *Foreign exchange risk*

Foreign exchange risk arise from the movement of the rate of exchange over a period of time. Positions are monitored on a regular basis to ensure positions are maintained within established approved limits.

Following is the Group's exposure to different currencies in equivalent Bahraini Dinars:

	2015		
	Operational equivalent Long US\$ '000	Strategic equivalent Long US\$ '000	Total equivalent Long US\$ '000
Pakistani Rupees	28,452	33,509	61,961
Euro	(323)	-	(323)
Kuwaiti Dinars	13,225	-	13,225
Pound Sterling	(2,256)	-	(2,256)
Others	(59)	-	(59)
	2014		
	Operational equivalent Long US\$ '000	Strategic equivalent Long US\$ '000	Total equivalent Long US\$ '000
Pakistani Rupees	27,442	33,108	60,550
Euro	(2,678)	-	(2,678)
Kuwaiti Dinars	9,427	-	9,427
Pound Sterling	328	-	328
Others	187	-	187

The strategic currency risk represents the amount of equity of the subsidiary.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

### Foreign currency risk sensitivity analysis

In order to measure its exposures to currency risk, the Group stress tests its exposures following the standard shocks approach, which calculates the effect on assets and income of the Group as a result of 20% appreciation and depreciation in foreign currencies in relation to the reporting currency of the Group. This is calculated using various percentages based upon the judgment of the management of the Group.

Following is the sensitivity analysis that calculates the effect of a reasonable possible movement of the currency exchange rate against the US Dollar with all other variables held constant on the consolidated statement of income and the consolidated statement of owners' equity. The impact of a similar increase / (decrease) in exchange rates will be approximately opposite to the impact disclosed below:

Currency 2015	Particular	Change	Exposures in US\$ '000	Effect on profit and loss/Equity US\$ '000
Pakistani Rupees	Net long Position	20%	61,961	12,392
Euro	Net short Position	20%	(323)	(65)
Kuwaiti Dinars	Net long Position	20%	13,225	2,645
Pound Sterling	Net short Position	20%	(2,256)	(451)

Currency 2014	Particular	Change	Exposures in US\$ '000	Effect on profit and loss/Equity US\$ '000
Pakistani Rupees	Net long Position	20%	60,550	12,110
Euro	Net short Position	20%	(2,678)	(536)
Kuwaiti Dinars	Net long Position	20%	9,427	1,885
Pound Sterling	Net long Position	20%	328	66

### Equity price risk

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

In order to measure the risk of equity on its financial position, the Group adopts a sensitivity analysis on its equity portfolio for 10% increase and decrease of the portfolio's value:

Market indices	Change in equity price 2015 %	Effect on equity 2015 US\$ '000	Change in equity price 2014 %	Effect on equity 2014 US\$ '000
Karachi Stock Exchange	10%	309	10%	233

As at the consolidated statement of financial position date, the Group had unquoted investments held at cost less provision for impairment of US \$ 73.027 million (31 December 2014: US \$ 74.131 million). The impact of changes in the value of these unquoted investments and the related impact on equity will only be reflected when the investment is sold or deemed to be impaired.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AT 31 December 2015

### 26 RISK MANAGEMENT (CONTINUED)

#### b) Market risk (continued)

##### *Concentration of investment portfolio*

Concentration of an investment portfolio arises when a number of investments are made in entities engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would be affected by changes in economic, political or other conditions. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration. The industry and geographical concentration of the Group's investment portfolio is as follows:

31 December 2015	*GCC US\$ '000	Rest of the world US\$ '000	Total US\$ '000
Banking	42,914	37,362	80,276
Government	89,687	173,354	263,041
Investment companies	82,976	-	82,976
Manufacturing	-	2,544	2,544
Real estate	9,183	6,608	15,791
Others	50	6,133	6,183
	224,810	226,001	450,811

\* GCC countries comprise members of the Gulf Co-operation Council being Kingdom of Bahrain, State of Kuwait, Sultanate of Oman, State of Qatar, Kingdom of Saudi Arabia and the United Arab Emirates.

31 December 2014	*GCC US\$ '000	Rest of the world US\$ '000	Total US\$ '000
Banking	42,465	39,927	82,392
Government	37,799	211,745	249,544
Investment companies	69,849	-	69,849
Manufacturing	-	2,560	2,560
Real estate	15,156	6,694	21,850
Others	5,071	10,707	15,778
	170,340	271,633	441,973

#### c) 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 controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by the personal guarantees of the counterparty, by collateral in form of mortgage of the objects financed or other tangible security.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AT 31 December 2015

## **Type of credit risk**

Financing contracts mainly comprise Sales receivables, Istisna'a receivables, Musharaka, Ijara financing, and Ijara Muntahia Bittamleek.

### *Sales receivables*

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

### *Istisna'a receivables*

Istisna'a is a sale agreement between the Group as the seller and the customer as the ultimate purchaser whereby the Group undertakes to have manufactured (or acquire) goods and sell it to the customer for an agreed upon price on completion at future date.

### *Musharaka*

An agreement between the Group and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared as per the agreement set between both parties while the loss is shared in proportion to their shares of capital or the enterprise.

### *Ijara Muntahia Bittamleek*

This is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijara (lease) term, provided that all Ijara installments are settled.

## **General credit policies and guiding principles**

The following principles summarise the Group's financing and investing policies and form the framework of all financing decisions:

- 1) Financing will be extended when the Group can confidently expect that it will be repaid by the customer as agreed. This necessitates a thorough knowledge of the customer and clear understanding of the risks underlying the credit requests.
- 2) Financing should be extended where there are at least two clear sources of repayments.
- 3) It is generally preferred that the repayments are from cash generated by the customers' productive and ongoing income or activities.
- 4) Amounts, profits/other charges and terms under the prevailing market conditions for any proposed financing are to be consistent with the perceived quality of the risk being undertaken.
- 5) Financing should generally be extended where the Group's seniority as creditors is pari passu or better than any other financing.
- 6) Financing should be structured appropriately considering the purpose of the credit and the source of repayment.
- 7) Financing needs to be assessed on a stand alone basis as well as on portfolio basis to assess its impact on the total financing portfolio.
- 8) Compliance with all applicable local statutory and regulatory directives guidelines should be ensured in all cases.
- 9) Proprietary and ethical standards should be taken into account in all financing decisions.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

### 26 RISK MANAGEMENT (CONTINUED)

#### c) Credit risk (continued)

##### Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk by type of Islamic financing contracts before the effect of mitigation through the use of collateral or other credit enhancements.

	Gross Maximum Exposure to Credit Risk	
	2015 US\$ '000	2014 US\$ '000
Sales receivables	609,684	620,990
Musharaka	154,260	116,382
Ijara Muntahia Bittamleek and Ijara income receivables	289,864	234,184
Contingencies and commitments	213,738	269,645

##### Credit quality by type of Islamic financing contracts

The table below shows the credit quality by type of Islamic financing contracts, based on the Group's Credit Rating System (CRS). The balances presented are gross of impairment provision.

Type of Islamic Financing Contract	31 December 2015			
	Neither past due nor non performing US\$ '000	Past due but performing US\$ '000	Non performing Islamic financing contracts US\$ '000	Total US\$ '000
Sales receivables	546,701	39,269	55,212	641,182
Musharaka	152,964	1,001	3,008	156,973
Ijara Muntahia Bittamleek and Ijara income receivables	280,644	628	10,445	291,717
	980,309	40,898	68,665	1,089,872

Type of Islamic Financing Contract	31 December 2014			
	Neither past due nor non performing US\$ '000	Past due but performing US\$ '000	Non performing Islamic financing contracts US\$ '000	Total US\$ '000
Sales receivables	559,739	15,049	93,723	668,511
Musharaka	114,786	764	3,397	118,947
Ijara Muntahia Bittamleek and Ijara income receivables	226,365	597	8,707	235,669
	900,890	16,410	105,827	1,023,127

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## Aging analysis of past due but performing Islamic financing contracts

	31 December 2015			
	Less than 30 days US\$ '000	31 to 60 days US\$ '000	61 to 90 days US\$ '000	Total US\$ '000
<b>Type of Islamic Financing Contract</b>				
Sales receivables	27,461	6,957	4,851	39,269
Musharaka	493	179	329	1,001
Ijara Muntahia Bittamleek and Ijara income receivables	429	123	76	628
	<b>28,383</b>	<b>7,259</b>	<b>5,256</b>	<b>40,898</b>

	31 December 2014			
	Less than 30 days US\$ '000	31 to 60 days US\$ '000	61 to 90 days US\$ '000	Total US\$ '000
<b>Type of Islamic Financing Contract</b>				
Sales receivables	12,651	2,113	285	15,049
Musharaka	17	513	234	764
Ijara Muntahia Bittamleek and Ijara income receivables	282	274	41	597
	<b>12,950</b>	<b>2,900</b>	<b>560</b>	<b>16,410</b>

## Aging of Non-Performing Facilities

	31 December 2015				Total US\$ '000
	3-6 Months US\$ '000	6-12 Months US\$ '000	1-3 Years US\$ '000	3 Years & above US\$ '000	
Sales receivables	7,838	2,993	2,284	42,097	55,212
Musharaka	48	-	353	2,607	3,008
Ijara Muntahia Bittamleek and Ijara income receivables	6,992	505	2,114	834	10,445
	<b>14,878</b>	<b>3,498</b>	<b>4,751</b>	<b>45,538</b>	<b>68,665</b>

	31 December 2014				Total US\$ '000
	3-6 Months US\$ '000	6-12 Months US\$ '000	1-3 Years US\$ '000	3 Years & above US\$ '000	
Sales receivables	25,189	1,126	14,101	53,307	93,723
Musharaka	82	4	616	2,695	3,397
Ijara Muntahia Bittamleek and Ijara income receivables	6,469	656	807	775	8,707
	<b>31,740</b>	<b>1,786</b>	<b>15,524</b>	<b>56,777</b>	<b>105,827</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## 26 RISK MANAGEMENT (CONTINUED)

### c) Credit risk (continued)

As at 31 December 2015 the fair value of the collateral that the Group holds relating to non performing facilities amounts to US \$ 24.194 million (2014: US \$ 19.220 million). The utilisation of the collaterals will be on customer by customer basis and will be limited to the customer's total exposure.

#### Credit Risk Mitigation

For exposures secured by real estate or other collateral, the Group carries out regular and periodic collateral verification and evaluation. This collateral verification is conducted by an independent qualified assessor or Collateral Analyst at the Group. The frequency of such collateral verification is determined as a part of the credit or investment policy and approval process. The Group allows cars, premises and equipment, plant and machinery etc, as collateral for a credit and investment product but does not accept perishable assets. The Group does not accept any assets as collateral if the assets are susceptible for obsolescence. The Group also ensure that these assets are insured in order to be accepted as collateral.

Collaterals listed hereunder attract capital relief from capital adequacy requirements:

- 1) Hamish Jiddiyah (HJ) (Good faith deposit): The Group takes this type of collateral in the transactions for which non-binding promises to perform is given by the customer. If a customer does not honour his promise to perform, the Group has recourse to the HJ. HJ is taken by the Group at the inception of the transaction but before signing the contracts. HJ constitutes partial guarantee to the Group for the performance of the contract by the customer. The Group will still have recourse to the customers for the unsecured position in case of default.
- 2) Third party guarantee: The Group should have recourse to the guarantor in case of customer's default. In order to qualify as eligible collateral, the guarantee should be unconditional and irrevocable. The guarantor must be solvent and, if applicable, should provide the Group with signed audited financial statements.
- 3) Underlying assets of the lease contract: The underlying asset must be of monetary value and the Group must have legal access to it, own it and sell it to cover the open exposure with the customers in question. The assets have also to be free of any kind of encumbrance. In the same lease contract a customer can pledge other assets that customers own other than the underlying assets in the contract. In order for the Group to consider these assets as pledged assets, it must meet all the conditions for the underlying assets under the lease contract. It must be legally enforceable, accessible, saleable and free of any kind of encumbrance. The value of the pledged asset must be used only to offset the amount against the customers.

Any excess amount resulting from the closure of the pledge by the Group should be returned to the customer (pledger). The Group is conducting at least annual evaluation of the pledged assets and keeping adequate documentation of this evaluation.

- 4) Cash deposit free from any legal encumbrance with the subsidiary either in the form of equity of investment accountholders or off-balance sheet equity of investment accountholders.
- 5) Rated and unrated senior Sukuk issued by financial institutions or sovereigns.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

## Credit Quality

Countries, governments and financial institutions will be rated on the basis of their unsecured medium term foreign currency obligations. This means that for governments and financial institutions the cross-border risk will also be part of the rating and the country's rating will be, in most cases, the ceiling on the financial institution's rating. Corporates will be rated on their senior unsecured medium term local currency obligations, unless the credit granted is across border or in foreign currency. In the latter case, the obligor's country's rating will be the ceiling on corporates' rating. Where all credit to a government is in local currency, the rating for that government is the best i.e. 1 on the rating scale, however, if the exposure to the government includes foreign currency, the rating for that government will be the same as the country's rating.

A rating is a forward looking indication of creditworthiness. It is based on an evaluation of past performance, present conditions and outlook for the future. For the purpose of rating, the Group is using only those External Credit Assessment Institutions (ECAIs) which are allowed/ approved by the CBB and are mainly used in Banking exposures.

The basic approach of the major credit rating agencies to rating is the same as what the Group credit policies require i.e. a comprehensive fundamental analysis of all relevant quantitative and non quantitative factors aimed at identifying actual and potential vulnerability. Credit rating will be applied to Countries and Single Obligor. Single Obligor, in turn are categorised as financial institutions, corporates and governments. CRS therefore rates obligors (issuers) and not facilities. The obligor rating of countries and single obligors will identify the relative probability of default but will not take into account the impact of collateral security, structure etc in the event of default. Facility ratings by contrast, combine both the probability of default and loss severity in case of defaults. However, initially the Group wide policy will be to set up obligor ratings only (which does not prevent individual subsidiary internally to also rate facilities).

During the year 2015, US \$ 16.213 million (2014: US \$ 11.358 million) of financing facilities were renegotiated. Exposures amounting to US \$ 6.746 million of the restructured facilities are non-performing as of 31 December 2015 (2014: US \$ 1.485 million).

## d) Operational risk

The Group categorises operational risk loss events into the following categories:

### Infrastructure risks

Availability of information technology is of paramount importance to the Group's infrastructure. The operations of the Group might be disrupted and severe operational risks could occur.

In order to protect the Group from the infrastructure risk as outlined above, the Group is taking necessary measures as indicated in the Business Continuity Plan and/or Disaster Recovery Plan to cater for these risks.

### Information technology risks

The main risks that the Group is exposed to in this context is from inadequate software and hardware quality, unauthorized access, by third parties or employees, etc.

### Staff risk

The main risks that might arise from staff risks are risks due to larceny, fraud, corruption, crime, etc. In order to prevent these risks from occurring, the Group has established a corporate culture which entails constructive ways of dealing with mistakes. The Group has also established an approval control steps in business processes as well as creating separate control processes. Further, the Group has already established measures of organisational structure in terms of segregation of duties as well as diverse training measures to reduce human error.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

### 27 CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT

The distribution by geographic region and industry sector was as follows:

	Assets		Liabilities		Equity of investment accountholders	
	2015 US\$ '000	2014 US\$ '000	2015 US\$ '000	2014 US\$ '000	2015 US\$ '000	2014 US\$ '000
<b>Geographical region</b>						
Middle East	864,876	654,708	193,479	132,527	608,038	518,359
Europe	65,625	117,626	2,446	1,278	57	178
Asia	880,636	984,444	213,910	216,117	521,207	660,435
Others	43,436	78,243	26,155	25,519	115,292	110,731
	<b>1,854,573</b>	<b>1,835,021</b>	<b>435,990</b>	<b>375,441</b>	<b>1,244,594</b>	<b>1,289,703</b>

	Assets		Liabilities		Equity of investment accountholders	
	2015 US\$ '000	2014 US\$ '000	2015 US\$ '000	2014 US\$ '000	2015 US\$ '000	2014 US\$ '000
<b>Industry sector</b>						
Trading and manufacturing	437,136	496,158	65,358	59,840	119,957	122,438
Banks and financial institutions	649,319	636,488	157,696	124,726	279,943	333,325
Construction	63,022	44,097	8,943	9,982	12,147	12,495
Others	705,096	658,278	203,993	180,893	832,547	821,445
	<b>1,854,573</b>	<b>1,835,021</b>	<b>435,990</b>	<b>375,441</b>	<b>1,244,594</b>	<b>1,289,703</b>

### 28 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the value representing the estimate of the amount of cash or cash equivalent that would be received for an asset sold or the amount of cash or cash equivalent paid for a liability extinguished or transferred in an orderly transaction between a willing buyer and a willing seller at the measurement date.

Investments as described in note 7, includes certain equity-type instruments at fair value through equity which are carried at cost, due to the unpredictable nature of their future cash flows and the lack of other suitable methods for arriving at a reliable fair value for these investments.

### 29 SEGMENTAL INFORMATION

Segmental information is presented in respect of the Group's geographical segments. The geographical segments are based upon the location of the units responsible for recording the transactions and reflects the manner in which financial information is evaluated by management and the Board of Directors.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

For financial reporting purposes, the Group is divided into two geographical segments, Middle East and Other Asian Countries. Other Asian Countries predominantly includes operations in Pakistan.

The results reported for the geographic segments are based on the Group's internal financial reporting systems. The accounting policies of the segments are the same as those applied in the preparation of the Group's consolidated financial statements as set out in note 2. Transactions between segments are conducted at estimated market rates on an arm's length basis.

The segmental results of the Group were as follows:

	Middle East		Other Asian Countries	
	2015 US\$' 000	2014 US\$' 000	2015 US\$' 000	2014 US\$' 000
Assets	1,014,042	884,224	840,531	950,797
Liabilities and equity of investment accountholders and Subordinated debt	930,005	775,416	750,579	889,728
Total income	26,976	21,078	30,421	28,641
Total operating expenses	(23,777)	(21,228)	(27,013)	(24,860)
Net operating income	3,199	(150)	3,408	3,781
Reversal / (Provision) for impairment - net	(154)	175	1,156	(1,035)
Taxation	-	-	(1,586)	(701)
Income for the year	3,045	25	2,978	2,045

## 30 SOCIAL RESPONSIBILITY

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

## 31 COMPARATIVE FIGURES

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

**Content**

1	INTRODUCTION	95
2	CAPITAL ADEQUACY	95
3	RISK MANAGEMENT	99
	a) Credit risk	99
	b) Market risk	108
	c) Equity of Investment Accountholders	109
	d) Off-balance sheet equity of Investment Accountholders	115
	e) Liquidity risk	117
4	OTHERS	118

# BASEL III, PILLAR III DISCLOSURES

For the year ended December 2015

## 1 INTRODUCTION

Al Baraka Islamic Bank B.S.C. (c) (the "Bank") is a closed shareholding company incorporated in the Kingdom of Bahrain on 21 February 1984. The Commercial Registration of the Bank was renewed on 7 January 2008 to change the status from exempt closed joint stock company to closed joint stock company. The Bank operates under a Retail Bank's licence number RB/025 issued by the Central Bank of Bahrain (CBB). The Bank has six commercial branches in the Kingdom of Bahrain.

The principal activities of the Bank and its subsidiary (the "Group") are taking demand, saving and investment accounts, providing Murabaha finance, Ijara financing and other Shari'a compliant forms of financing as well as managing investors' money on the basis of Mudaraba or agency for a fee, providing commercial banking services and other investment activities. The Bank's registered office is at Building 238, Road 1704, Block 317, Manama, Kingdom of Bahrain.

For details on the Group's subsidiary as of 31 December 2015, refer note 2 of the consolidated financial statements of the Group.

The public disclosures under this section have been prepared in accordance with the Central Bank of Bahrain ("CBB") requirements outlined in its Public Disclosure Module ("PD"), Section PD-3: Public Disclosure requirements, CBB Rule Book, Volume II for Islamic Banks.

## 2 CAPITAL ADEQUACY

To assess its capital adequacy requirements in accordance with the CBB requirements, the Group adopts the standardised approach for its credit risk, basic indicator approach for its operational risk and standardised measurement approach for its market risk. The CBB capital adequacy requirement is minimum accepted level for capital adequacy. The credit committee of the Group identify and approve assets suitable for funding by equity of Investment Accountholders ("IAH").

For the purpose of computing the Capital Adequacy Ratio ("CAR") and preparation of the PIRI form, the Group's financial subsidiary (Al Baraka Bank (Pakistan) Limited) and significant investment Itqan Capital Company are consolidated, as per the requirement of the CA Module, effectively from 01 January 2015 based on the approval obtained from the CBB. As a result of consolidation of Itqan Capital for regulatory purposes, the amounts in certain tables within the quantitative disclosures might not match the amounts reported in the audited consolidated financial statements of the Group. Therefore, they might not be comparable with the audited financial statements in certain cases and accordingly the comparative information within the disclosures represent unconsolidated balances with respect to Bank's investment in Itqan Capital and might not be comparable with the disclosures of the current year ended 31 December 2015.

**Table – 1. Capital structure**

The following table summarises the eligible capital after deductions for Capital Adequacy Ratio (CAR) calculation in accordance with Basel III requirements as of:

	31 December 2015		
	CET 1 US \$ '000	AT1 US \$ '000	Tier 2 US \$ '000
<b>Common Equity Tier 1 (CET1)</b>			
Issued and fully paid ordinary shares	122,458	-	-
General reserves	8,687	-	-
Legal / Statutory reserves	22,478	-	-
Retained earnings	884	-	-
Current year cumulative net income / losses	2,037	-	-
Unrealized gains and losses on available for sale financial instruments	(416)	-	-
Gains and losses resulting from converting foreign currency subsidiaries to the parent currency	(11,789)	-	-
Other reserves	(173)	-	-
<b>Total CET1 capital before minority interest</b>	<b>144,166</b>	-	-
Minority interest in banking subsidiaries	19,370	-	-
<b>Total CET1 capital prior to regulatory adjustments</b>	<b>163,536</b>	-	-
<b>Less:</b>			
Goodwill	34,741	-	-
Intangible assets	505	-	-
Deferred tax assets	6,716	-	-
<b>Total CET 1 capital after the regulatory adjustments above (CET 1a)</b>	<b>121,574</b>	-	-

## BASEL III, PILLAR III DISCLOSURES

For the year ended December 2015

### 2 CAPITAL ADEQUACY (continued)

Table – 1. Capital structure (continued)

	31 December 2015		
	CET 1	AT1	Tier 2
	US \$ '000	US \$ '000	US \$ '000
<b>Other Capital (AT1 &amp; T 2)</b>			
Instruments issued by parent company	-	-	6,000
Instruments issued by subsidiaries	-	48	14,319
Assets revaluation reserve - property, plant, and equipment	-	-	1,193
General loan loss provisions	-	-	2,130
<b>Total Available AT1 &amp; T2 Capital</b>		48	23,642
<b>Total CET 1 Capital</b>	121,574		
<b>Total T1 Capital</b>		121,622	
<b>Total Capital</b>			145,264

The following table summarises the eligible capital after deductions for Capital Adequacy Ratio (CAR) calculation in accordance with Basel II requirements as of:

	31 December 2014	
	Tier 1	Tier 2
	US \$ '000	US \$ '000
<b>Components of capital</b>		
Issued and fully paid ordinary shares	122,458	-
General reserves	8,687	-
Legal / statutory reserves	21,980	-
Others	(9,766)	-
Retained profit brought forward	8,453	-
Minority interest in consolidated subsidiaries	18,111	-
<b>Less:</b>		
Goodwill	18,407	-
Unrealised gross losses arising from fair valuing equity securities	45	-
<b>Tier 1 Capital Before PCD Deductions</b>	151,471	-
Profit equalization reserve		574
Investment risk reserve		2,338
Subordinated term debt		20,508
Collective impairment loss provision		1,488
<b>Tier 2 Capital before PCD deductions</b>		24,909
<b>Total available capital</b>		176,380
<b>Deductions</b>		
Unconsolidated majority-owned or -controlled banking, securities or other financial entities	(27,171)	(27,171)
Excess amount over maximum permitted large exposure limit	(1,269)	(1,269)
Additional deduction from Tier 1 to absorb deficiency in Tier 2	(3,531)	-
<b>Total Deductions</b>	(31,970)	(28,440)
<b>Tier 1 and Tier 2 eligible capital</b>	119,500	-
<b>Total eligible capital</b>		119,500

## BASEL III, PILLAR III DISCLOSURES

For the year ended December 2015

### 2 CAPITAL ADEQUACY (continued)

**Table – 2. Capital requirement by type of islamic financing contracts**

The following table summarises the capital requirements by type of islamic financing contracts:

	31 December 2015	31 December 2014
	Capital requirements US \$ '000	Capital requirements US \$ '000
Type of islamic financing contracts		
Sales receivables	19,937	22,044
Ijara Muntahia Bittamleek & Ijara income receivable	10,948	7,920
Musharaka	5,537	4,359
	<b>36,422</b>	<b>34,323</b>

**Table – 3. Capital requirement for market risk**

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

	31 December 2015		31 December 2014	
	Self Financed US \$ '000	URIA US \$ '000	Self Financed US \$ '000	URIA US \$ '000
Market risk - standardised approach				
Sukuk risk	-	-	-	60
Foreign exchange risk	6,017	-	5,772	-
<b>Total of market risk - standardised approach</b>	<b>6,017</b>	<b>-</b>	<b>5,772</b>	<b>60</b>
Multiplier	12.50	12.50	12.50	12.50
	<b>75,213</b>		<b>72,150</b>	<b>750</b>
Eligible Portion for the purpose of the calculation	100%	30%	100%	30%
<b>Risk Weighted Exposures («RWE») for CAR Calculation</b>	<b>75,213</b>	<b>-</b>	<b>72,150</b>	<b>224</b>
<b>Total market RWE</b>		<b>75,213</b>		<b>72,374</b>
		12.50%		12.00%
<b>Minimum capital requirement</b>		<b>9,402</b>		<b>8,685</b>

**Table – 4. Capital Requirements for operational risk**

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

	31 December 2015	31 December 2014
	US \$ '000	US \$ '000
Indicators of operational risk		
Average gross income	86,867	72,331
<b>Multiplier</b>	<b>12.5</b>	<b>12.5</b>
	<b>1,085,838</b>	<b>904,138</b>
Eligible Portion for the purpose of the calculation	15%	15%
<b>Total operational RWE</b>	<b>162,876</b>	<b>135,621</b>
	12.50%	12.00%
<b>Minimum capital requirement</b>	<b>20,359</b>	<b>16,274</b>

## BASEL III, PILLAR III DISCLOSURES

For the year ended December 2015

### 2 CAPITAL ADEQUACY (continued)

#### Management of Operational Risk

The policy framework envisages a fully functional risk framework which documents operational risk identification, assessment, control, mitigation and reporting. The Operational Risk Management Framework ("Op. Risk Framework"), approved by the Board, has been developed with the objective to ensure that operational risks within the Group are identified, monitored, managed and reported in a structured, systematic and consistent manner.

"The management of Operational Risk has two key objectives:

- To minimise the impact of losses suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering an extreme (or unexpected) loss; and
- To improve the effective management of the Bank and strengthen its brand and external reputation.

The Bank has comprehensive system of internal controls, systems and procedures to monitor and mitigate risk. The Bank also institutionalised the approval process of new product, services, and outsourcing to identify the risk inherent in such activities.

Information Technology (IT) risk is managed in accordance to an IT Risk Management Framework (which covers risk governance, communication, monitoring, assessment, mitigation and acceptance), supported by a set of IT policies and standards, control processes and risk mitigation programs. Centralised functional control is exercised over all computer system developments and operations.

Compliance in the Bank is controlled centrally under the Bank Compliance Officer who is approved by the CBB to ensure divisional compliance in all of the Bank's operations and activities. The Internal audit function of the Bank through the Risk Based Internal Audit, compliments the Bank's ability to control and mitigate risk.

The Bank is continually enhancing the Business Continuity Planning (BCP) programme for an ongoing and actively management of the Bank's major critical business operations and activities at the Head Office, data centre, and branches locations.

The Bank continually refines and strengthens existing policies, procedures and internal controls measures; conduct internal reviews, compliance monitoring, and comprehensive audits to prevent or minimise unexpected losses, and when necessary to cope with the growth in the Bank's size and complexity.

## BASEL III, PILLAR III DISCLOSURES

For the year ended December 2015

### 2 CAPITAL ADEQUACY (continued)

**Table – 5. Capital adequacy ratios**

The following are capital adequacy ratios for total capital and tier 1 capital as of:

	31 December 2015			31 December 2014	
	US \$	US \$	US \$	US \$	US \$
	Total capital ratio	Tier 1 capital ratio	CET 1 Capital Ratio	Total capital ratio	Tier 1 capital ratio
Capital adequacy ratio of the Group	16.97%	14.21%	14.20%	15.39%	15.39%
Al Baraka Bank Pakistan Limited	25.17%	19.99%	13.91%	27.02%	18.98%
Itqan Capital	34.48%	34.48%	34.48%	-	-

\*The subsidiaries' Capital adequacy ratio computed in accordance with the CBB requirements.

#### Legal restrictions on capital and income mobility

Distribution of profits, mobilization of capital, realization of reserves and equivalent funds from subsidiaries are subject to compliance with local laws and regulations prevalent in countries of their incorporation. Further, the Group can support its subsidiaries after obtaining procedural approvals from Central Bank of Bahrain. However, there is no specific legal restriction on the Group to place funds in the form of deposit or capital.

**Table - 6. The Group's subsidiary capital adequacy ratios as per local laws**

The following is the Group's subsidiary, ABPL, capital adequacy ratio prepared on the basis of SBP requirements, which may differ from the CBB requirements, as of:

	31 December 2015			31 December 2014	
	US \$	US \$	US \$	US \$	US \$
	Total capital ratio	Tier 1 capital ratio	CET 1 Capital Ratio	Total capital ratio	Tier 1 capital ratio
Capital adequacy ratio	14.47%	11.62%	11.62%	14.24%	10.50%

### 3 RISK MANAGEMENT

Risk management is an integral part of the Group's decision-making process. The risk management committee and executive committees, guide and assist with overall management of the Group's consolidated statement of financial position risks. The Group manages exposures by setting limits approved by the Board of Directors. The Group risk management strategies have been effectively implemented during the year in line with the objective defined.

#### a) Credit risk

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Group controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by the personal guarantees of the counterparty, by collateral in form of mortgage of the objects financed or other tangible security.

# BASEL III, PILLAR III DISCLOSURES

For the year ended December 2015

## 3 RISK MANAGEMENT (continued)

### a) Credit risk (continued)

Table – 7. Credit risk exposure

The following table summarises the amount of gross funded and unfunded credit exposures and average gross funded and unfunded exposures as of:

	31 December 2015				31 December 2014			
	Self financed		Financed by IAH		Self financed		Financed by IAH	
	Total gross credit exposure	* Average gross exposure over the year	Total gross credit exposure	* Average gross credit risk exposure over the year	Total gross credit exposure	* Average gross credit exposure over the year	Total gross credit exposure	* Average gross credit exposure over the year
	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000
<u>Funded exposure</u>								
Cash and balances with banks and financial institutions	171,873	199,268	66,048	95,131	203,164	185,040	96,842	98,265
Sales receivables	3,454	6,458	606,230	592,279	5,152	7,428	615,838	624,199
Mudaraba financing	-	-	-	-	-	5	-	-
Ijara Muntahia Bittamleek	19,475	15,175	246,923	239,746	-	107	221,040	173,574
Musharaka	-	-	154,260	137,103	-	3,360	116,382	97,302
Investments	291,142	265,395	132,464	177,269	242,737	210,786	199,237	162,452
Investment in real estate	7,446	6,342	-	-	5,974	5,880	-	-
Ijara income receivables	1,101	907	22,365	21,592	-	97	13,144	18,735
Premises and equipment	27,214	24,728	-	-	23,273	23,447	-	-
Other assets	50,583	48,171	16,304	20,798	46,611	70,113	27,220	25,878
<u>Unfunded exposure</u>								
Contingencies and commitments	174,285	177,317	-	-	189,364	193,700	-	-
	746,573	743,761	1,244,594	1,283,918	716,275	699,963	1,289,703	1,200,405

\*Average balances are computed based on quarter end balances.

# BASEL III, PILLAR III DISCLOSURES

For the year ended December 2015

## 3 RISK MANAGEMENT (continued)

### a) Credit risk (continued)

Table – 8. Credit risk – geographic breakdown

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

	31 December 2015				31 December 2014			
	Self financed		Financed by IAH		Self financed		Financed by IAH	
	Middle East	Other Asian countries	Middle East	Other Asian countries	Middle East	Other Asian countries	Middle East	Other Asian countries
	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Cash and balances with banks	44,260	127,613	37,851	28,197	58,504	144,660	40,348	56,494
Sales receivables	3,454	-	356,758	249,472	5,153	-	320,587	295,250
Ijara Muntahia Bittamleek	19,475	-	201,884	45,039	-	-	178,841	42,200
Musharaka	-	-	101	154,159	-	-	3,042	116,258
Investments	171,123	120,019	106,128	26,336	169,176	73,559	71,102	125,217
Investment in real estate	7,446	-	-	-	5,974	-	-	-
Ijara income receivables	1,101	-	20,412	1,953	-	-	11,552	1,592
Premises and equipment	11,713	15,501	-	-	8,375	14,898	-	-
Other assets	10,444	40,139	1,861	14,443	5,702	40,909	5,867	21,353
	269,016	303,272	724,995	519,599	252,884	274,026	631,339	658,364

\* Segmental information is presented in respect of the Group's geographical segments. The geographical segments are based upon the location of the units responsible for recording the transactions and reflects the manner in which financial information is evaluated by management and the Board of Directors. For financial reporting purposes, the Group is divided into two geographical segments, Middle East and Other Asian Countries. Other Asian Countries predominantly includes operations in Pakistan.

# BASEL III, PILLAR III DISCLOSURES

For the year ended December 2015

## 3 RISK MANAGEMENT (continued)

### a Credit risk (continued)

#### Table – 9. Credit risk – counterparty type breakdown

The following table summarises the distribution of funded and unfunded exposure by counterparty type as of:

	31 December 2015			31 December 2014				
	Self financed		Financed by IAH		Self financed		Financed by IAH	
	Funded	Funded	Funded	Unfunded	Funded	Funded	Funded	Funded
	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Cash items	11,344	-	12,352	-	9,789	-	8,935	-
Claims on Sovereigns	332,128	-	64,549	-	234,729	-	184,288	-
Claims on Public Sector Entities	55,482	3,907	52,530	-	18,153	1,760	71,992	-
Claims on banks	42,559	41,604	256,581	-	103,163	73,360	185,222	-
Claims on corporate	6,862	128,334	612,872	-	13,539	112,747	638,951	-
Claims on Investment Firms	-	-	-	-	-	-	1,519	-
Mortgage	-	-	155,495	-	-	-	92,162	-
Past dues receivables	-	-	34,733	-	673	-	55,501	-
Regulatory Retail Portfolio	440	-	28,662	-	737	-	16,640	-
Equity investment	11,243	-	350	-	56,441	-	341	-
Investment in Funds	1,050	-	5,000	-	1,050	-	5,021	-
Holding of Real Estate	58,421	-	7,298	-	36,615	-	3,231	-
Other assets	52,759	440	14,172	-	52,022	1,497	25,900	-
	572,288	174,285	1,244,594	-	526,911	189,364	1,289,703	-

For the purpose of rating, the Group is using External Credit Assessment Institutions (ECAIs) Standard & Poors, Moodys, Capital Intelligence, Fitch and Islamic Rating Agency (IRA) for assigning risk weight to assets.

## BASEL III, PILLAR III DISCLOSURES

For the year ended December 2015

### 3 RISK MANAGEMENT (continued)

#### a) Credit risk (continued)

Table – 10. Credit risk – related party transactions

The following table summarises the balances with related parties as of:

	31 December 2015		31 December 2014	
	Self financed Funded US \$ '000	Financed by IAH Funded US \$ '000	Self financed Funded US \$ '000	Financed by IAH Funded US \$ '000
Cash and balances with bank	-	209	-	241
Sales Receivable	-	35,499	-	49,637
Musharaka	-	1,420	-	1,305
Ijara Muntahia Bittamleek	-	740	-	2,439
Investments	17,283	-	17,885	278
Ijara Income Receivable	-	78	-	64
Other Assets	2,672	1	2,537	4,731
Contingencies and commitments	10,242	-	11,989	-
	<b>30,197</b>	<b>37,947</b>	<b>32,411</b>	<b>58,695</b>

The Group's intra-group transactions are as follows:

	31 December 2015 Self financed US \$ '000	31 December 2014 Self financed US \$ '000
<b>Assets</b>		
Investment in a subsidiary	61,961	61,961
Subordinated debt	19,500	11,000
Equity investment in Itqan Capital	54,342	54,342
Other receivables	952	952
	<b>136,755</b>	<b>128,255</b>
<b>Contingencies and commitments</b>		
Acceptances	2,385	-
Guarantees	285	285
Letters of credit	187	1,317
	<b>2,857</b>	<b>1,602</b>

## BASEL III, PILLAR III DISCLOSURES

For the year ended December 2015

### 3 RISK MANAGEMENT (continued)

#### a) Credit risk (continued)

Table – 11. Credit risk – concentration of risk

The Group follows the Central Bank of Bahrain's guidelines with respect to the definition and measurement of large exposures at the consolidated level as stipulated in the Central Bank of Bahrain Rulebook for Islamic Banks.

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

Counterparties *	Funded and unfunded US \$ '000
Counterparty # 1	121,684
Counterparty # 2	104,857
Counterparty # 3	88,163
Counterparty # 4	79,522
Counterparty # 5	44,181
Counterparty # 6	42,568
Counterparty # 7	39,389
Counterparty # 8	32,411
Counterparty # 9	28,226

\* Some exposures include outstanding amount raised as off balances sheet equity of investment accountholders and other off balance sheet items. Further, these exposures are either exempt or undertaken after obtaining due approval from Central Bank of Bahrain.

The following are the balances representing the concentration of risk to individual counterparties as of 31 December 2014:

Counterparties *	Funded and unfunded US \$ '000
Counterparty # 1	167,449
Counterparty # 2	78,537
Counterparty # 3	57,288
Counterparty # 4	54,342
Counterparty # 5	51,193
Counterparty # 6	48,685
Counterparty # 7	42,423
Counterparty # 8	31,259
Counterparty # 9	27,466
Counterparty # 10	22,493
Counterparty # 11	20,824

\* These exposures includes outstanding amount raised as off balances sheet equity of investment accountholders and other off balance sheet items. Further, these exposures are either exempt or undertaken after obtaining due approval from Central Bank of Bahrain.

## BASEL III, PILLAR III DISCLOSURES

For the year ended December 2015

### 3 RISK MANAGEMENT (continued)

#### a) Credit risk (continued)

##### Past due and non-performing facilities

Past due represents instalments that are not received on the contractual repayments date. The Group defines non-performing facilities as the facilities that are overdue for period of 90 days or more. These exposures are placed on a non-accrual status with income being recognised to the extent that it is actually received/distributed. It is the Group's policy, except for the subsidiary which is following their local regulations, that when an exposure is overdue for a period of 90 days or more, the whole financing facility extended is considered as past due, not only the overdue instalments/payments.

##### Highly leveraged counter parties

Highly leveraged counter parties are determined by the Credit Department on case by case basis according to industry types and credit policies and procedures of the Group. Each industry has clear established leverage ratios set in place internally which are considered threshold for measuring how leveraged is our counterpart (Low, Medium/Acceptable or High). Any excess over such determined ratios, the customer is classified as highly leveraged with high risk. This ratio will have a big impact on Internal Rating / Grading of the customer.

**Table – 12. Credit risk – credit quality of Islamic financing contracts by counterparty type**

The following table summarises the aging of non performing facilities disclosed by counterparty type as of:

	31 December 2015					31 December 2014				
	Aging of non performing facilities					Aging of non performing facilities				
	Past due but performing	Non-performing Islamic financing contracts	90 days to 1 year	1 year to 3 years	Over 3 years	Past due but performing	Non-performing Islamic financing contracts	90 days to 1 year	1 year to 3 years	Over 3 years
	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Corporates	27,938	36,312	14,404	2,755	19,152	8,721	60,335	29,548	12,733	18,054
Investment Firms	5	18,805	-	-	18,805	-	34,974	-	-	34,974
Individuals	374	3,431	2,543	353	535	206	5,588	3,914	1,121	552
Others	12,581	10,117	1,429	1,643	7,046	7,483	4,930	63	1,670	3,196
	40,898	68,665	18,376	4,751	45,538	16,410	105,827	33,525	15,524	56,776

**Table – 13. Credit Risk – provision against financing facilities by counterparty type**

The following table summarises the total provisions against financing facilities disclosed by counterparty type as of 31 December 2015:

	Specific allowances						
	Opening Balance	Charges during the year	Write-Back during the year	Write-offs during the year	Transferred to investment risk reserve	Exchange difference on opening balance	Balance at the end of the year
	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Corporates	24,637	2,810	(2,415)	(94)	-	(1,002)	23,936
Investment Firms	21,936	3,870	(3,870)	(15,481)	-	(345)	6,110
Individual	879	179	(188)	(82)	-	(22)	766
Others	2,631	1,244	(633)	(13)	-	(107)	3,122
	50,083	8,103	(7,106)	(15,670)	-	(1,476)	33,934

A collective provision of US \$ 642 thousand was charged during the year and accumulated balance has been increased to US \$ 2,130 thousand as at 31 December 2015.

## BASEL III, PILLAR III DISCLOSURES

For the year ended December 2015

### 3 RISK MANAGEMENT (continued)

#### a) Credit risk (continued)

The following table summarises the total provisions against non performing financing facilities disclosed by counterparty type as of 31 December 2014:

	Specific allowances						Balance at the end of the year US \$ '000
	Opening Balance US \$ '000	Charges during the year US \$ '000	Write-Back during the year US \$ '000	Write-offs during the year US \$ '000	Transferred to investment risk reserve US \$ '000	Exchange difference on opening balance US \$ '000	
Corporates	23,769	6,437	(6,682)	(32)	-	1,145	24,637
Investment Firms	22,810	-	(500)	-	-	(374)	21,936
Individual	1,615	226	(1,063)	-	79	22	879
Others	2,151	541	(165)	-	-	104	2,631
	50,345	7,204	(8,410)	(32)	79	897	50,083

A collective provision of US \$ 748 thousand was charged during the year and accumulated balance has been increased to US 1,488 thousand as at 31 December 2014.

Table – 14. Credit risk – non performing facilities and provisions

The following table summarises the total non performing facilities and provisions disclosed by geographical area as of:

	31 December 2015			31 December 2014		
	Non-performing Islamic financing contracts US \$ '000	Specific provision US \$ '000	Collective provision* US \$ '000	Non-performing Islamic financing contracts US \$ '000	Specific provision US \$ '000	Collective provision* US \$ '000
Middle East	30,069	6,484	1,860	64,261	22,265	1,323
Other Asian countries	38,596	27,450	270	41,565	27,818	165
	68,665	33,934	2,130	105,826	50,083	1,488

\* Collective provision is calculated based on estimates by the management keeping in view general economic and market conditions, effecting investment and financing portfolio of the Group.

Table – 15. Credit risk – restructured Islamic financing contracts

The following table summarises the total outstanding Islamic financing contracts that were restructured during the year as of:

	31 December 2015 Total US \$ '000	31 December 2014 Total US \$ '000
Restructured Islamic financing contracts	16,213	11,359

There is no significant impact of the renegotiated Islamic financing contracts on the provisions as well as present and future earnings. In addition, the magnitude of the restructuring activities is immaterial.

## BASEL III, PILLAR III DISCLOSURES

For the year ended December 2015

### 3 RISK MANAGEMENT (continued)

#### a) Credit risk (continued)

Table – 16. Counterparty credit risk exposure

The following table summarises the counterparty credit risk exposure covered by collateral as of:

	31 December 2015		31 December 2014	
	Gross positive FV of contracts	* Collateral held	Gross positive FV of contracts	* Collateral held
	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Cash and balances with banks and financial institutions	237,921	-	300,006	-
Sales receivables	609,684	397,567	620,990	417,441
Ijara Muntahia Bittamleek	266,398	113,649	221,041	115,342
Musharaka	154,260	154,159	119,300	116,258
Investments	423,606	-	439,055	-
Investment in real estate	7,446	-	5,974	-
Ijara income receivables	23,466	-	13,144	-
Premises and equipment	27,214	-	23,273	-
Other assets	66,887	-	73,832	-
	1,816,882	665,375	1,816,615	649,041

\* Collaterals values have been restricted to outstanding exposure of financing facilities.

Table – 17. Counterparty credit risk exposure

The following table summarises exposure by type of Islamic financing contract that is covered by eligible collateral after the application of haircuts as of:

	31 December 2015		31 December 2014	
	Gross positive FV of contracts	Collateral held	Gross positive FV of contracts	Collateral held
	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Ijara Muntahia Bittamleek & Ijara income receivable	289,864	82,512	234,185	83,383

## BASEL III, PILLAR III DISCLOSURES

For the year ended December 2015

### 3 RISK MANAGEMENT (continued)

#### b) Market risk

Market risk arises from fluctuations in profit rates, equity prices and foreign exchange rates.

**Table – 18. Market risk capital requirements**

The following table summarises the capital requirement for each category of market risk as of:

	31 December 2015		31 December 2014	
	Equity/ Sukuk risk US \$ '000	Foreign exchange risk US \$ '000	Equity/ Sukuk risk US \$ '000	Foreign exchange risk US \$ '000
RWE	-	75,213	224	72,150
Capital requirement	-	9,402	27	8,658
Maximum value of RWE	3	75,428	224	73,633
Minimum value of RWE	-	70,968	-	71,651

**Table – 19. Equity position risk in Banking Book**

The following table summarises the total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 31 December 2015:

	Total gross exposure US \$ '000	Average gross exposure over the period US \$ '000	Publicly held US \$ '000	Privately held US \$ '000	Capital requirement US \$ '000
Sukuk	375,722	392,309	161,001	214,720	4,201
Managed funds	6,000	6,020	-	6,000	306
Private equity	14,643	14,295	11,237	3,406	1,989
Real estate related	27,243	31,386	-	27,243	12,831
	423,608	444,010	172,238	251,369	19,327

Investments stated at a carrying amount of US \$ 161,002 thousand are placed in custody of a financial institution against a borrowing line.

The following table summarises the total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 31 December 2014:

## BASEL III, PILLAR III DISCLOSURES

For the year ended December 2015

### 3 RISK MANAGEMENT (continued)

#### b) Market risk

	Total gross exposure	Average gross exposure over the period	Publicly held	Privately held	Capital requirement
	US \$ '000	US \$ '000	US \$ '000	US \$ '000	US \$ '000
Sukuk	345,366	320,836	137,418	207,947	10,240
Managed funds	6,021	6,018	-	6,021	205
Private equity	59,855	36,702	2,162	57,693	2,661
Real estate related	10,416	7,521	-	10,416	1,957
	421,658	371,077	139,580	282,077	15,063

Investments stated at a carrying amount of US \$ 136,114 thousand are placed in custody of a financial institution against a borrowing line.

#### Table – 20. Equity gains or losses in Banking Book

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

	31 December 2015	31 December 2014
	US \$ '000	US \$ '000
Cummulative realised gains arising from sale or liquidation	901	4,118
Total unrealised losses recognised in the balance sheet but not through P&L	(416)	(45)
Unrealised gross losses included in Tier One Capital	(416)	(45)
Assets revaluation reserve - property, plant, and equipment	1,193	-

#### c) Equity of Investment Accountholders

The Group manages and deploys Equity of IAH according to its Article of Association – Chapter 3 on Rules of Business. In this respect, the Bank invests its own funds separately or jointly with amount received from Equity of Investment Account Holders. These funds received are managed in accordance with Shari' a requirements and standard of prudence is applied in the context of managing the overall portfolios to enable the Bank to exercise its fiduciary responsibilities. The Group is authorised by Equity of Investment Accountholders to invest the funds on the basis of Mudaraba, Murabaha, Salam, Ijara transactions and other forms of contract in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

The composition, characteristics, diversification, and concentration of portfolios are monitored within appropriate risk limits and indicators detailed in the Group's credit risk, liquidity risk, and other risks policies of the group. The strategic objectives of the investments of the funds are:

- Investment in Shari' a compliant opportunities;
- Targeted returns;
- Compliance with credit and Investment policy and overall business plan; and
- Diversified portfolio.

Funds are invested in Shari' a compliant commercial or consumer financing as well as short, medium, and long term investments excluding strategic investments. A due diligence process is in place which is consistent with business and risk policy guidelines of the Group after deduction of mandatory reserves and making allowance for short-term liquidity requirements.

## BASEL III, PILLAR III DISCLOSURES

For the year ended December 2015

### 3 RISK MANAGEMENT (continued)

#### c) Equity of Investment Accountholders (continued)

Under all the aforesaid arrangement the Group can commingle the IAH funds with its own funds (Self-Financed). Some of the assets right from inception is designated exclusively as Self Financed by the Group. These self financed assets are deducted from total assets to arrive at "Jointly Financed Assets". To segregate the Jointly Financed Assets into self financed and Investment accountholders (IAH), the Group applies formula to identify the proportional share of each fund's in the Jointly Financed Assets .

The Group's share of profit as a Mudarib for managing equity of IAH and their share of income is based on the terms and conditions of the related Mudarib agreements. These funds are invested in Islamic modes of financing and investments including murabaha, musharaka, mudaraba and ijara. The Group is offering these accounts for saving and term accounts ranging from 3 months to 5 years. There are no separate designations for portfolio managers, investment advisors and trustee. IAH accounts are managed at Head Office and subsidiary levels by relevant departments.

Investors' share of income is calculated based on the income generated from joint investment accounts after deducting the expenses related to investment pool "mudarib expenses". Mudarib expenses include all expenses incurred by the Group, including specific provisions, but excluding staff cost and depreciation. The Group's "mudarib profit" is deducted from investors' share of income before distributing such income. In some cases, equity of IAH withdrawn before maturity and without completing three months are not entitled to any income. Equity of IAH held for more than three months and withdrawn before their maturity are entitled to income only after deducting a penalty charge equivalent to three months income.

The basis applied by the Group in arriving at the investment accountholders share of income is [total investment income less investment pool expenses] divided by [average funds generating income (shareholders and equity of investment accountholders) times average funds of equity of IAH].

#### Investment risk reserve

The Group deducts investment risk reserve as per approved policy from time to time from the profit distributable to equity of investment accountholders of its Bahrain operations, after allocating the Mudarib share in order to cater against future losses for equity of IAH.

#### Profit equalisation reserve

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

#### Displaced commercial risk

The Group is exposed to displaced commercial risk in the event of having equity of IAH profit rates that are lower than market rates. The Group has mitigated this risk through the setting up of reserves that will be used in case of a drop in IAH profit rates. The policies and procedures for displaced commercial risk are formulated and implemented at the segment level (Pakistan, Bahrain offshore, Bahrain Commercial).

#### Complaint procedure / awareness programs

A complaint management system is established; procedures on handling complaints have been developed, new Complaints form has been introduced, a number of complaints channels are available where customers can communicate through branches, call centre, email, dedicated staff number and web-site. Monitoring procedures have been developed as well.

The Group uses its website, print and electronic media for consumer awareness program and to inform about new products.

#### Penalty charges

A financial penalty of US \$ 0.4 thousand (2014: US \$ 5.5 thousand) was charged by the CBB during the year ended 31 December 2015.

## BASEL III, PILLAR III DISCLOSURES

For the year ended December 2015

### 3 RISK MANAGEMENT (continued)

#### c) Equity of Investment Accountholders (continued)

A financial penalty of US \$ 3 thousand (2014: US \$ 297 thousand ) was charged by SBP to the Group's subsidiary in Pakistan during the year ended 31 December 2015.

#### Non-Shari'a complaint income

The Group has received US \$ 348 thousand (2014: US \$ 392 thousand) from customers as penalty for default are other non sharia compliant sources, which was disposed through charity contribution.

**Table – 21. Equity of Investment Accountholders**

The following table summarises the breakdown of equity of IAH and the analysis of profit equalisation reserve, investment risk reserve and return on equity of IAH as of:

	31 December 2015	31 December 2014
	US \$ '000	US \$ '000
IAH - Banks	217,415	235,105
IAH - Non-banks	1,024,282	1,051,686
Profit equalisation reserve	558	574
Investment risk reserve	2,339	2,338
	<b>1,244,594</b>	<b>1,289,703</b>

**Table – 22. Ratio of reserves to total IAH**

The following table summarises the ratio of reserves to the total amount of equity of IAH as of:

	31 December 2015	31 December 2014
PER to IAH (%)	0.04%	0.04%
IRR to IAH (%)	0.19%	0.18%

**Table – 23. Equity of Investment Accountholders by Islamic financing product type**

The following table summarises the percentage of IAH financing for each type of Shari's-compliant contract to total equity of IAH financing as of:

	31 December 2015	31 December 2014
Sales receivable	58.87%	63.53%
Musharaka	14.98%	12.31%
Ijara Muntahia Bittamleek & Ijara income receivable	26.15%	24.16%

## BASEL III, PILLAR III DISCLOSURES

For the year ended December 2015

### 3 RISK MANAGEMENT (continued)

#### c) Equity of Investment Accountholders (continued)

**Table – 24. Equity of Investment Accountholders by Counterparty Type**

The following table summarises the percentage of equity of investment accountholders for each category of counterparty to total equity of investment accountholder as of:

#### Counterparty type

	31 December 2015	31 December 2014
Banks	17.61%	18.32%
Investment Firms	2.86%	5.69%
Corporates	16.64%	20.23%
Residential	51.08%	45.63%
Others	11.80%	10.13%

**Table – 25. Investment Accountholders share of profit**

The following table summarises the share of profits earned by and paid out to equity of IAH and the Group as Mudarib for the year ended:

	31 December 2015	31 December 2014
Administrative expenses charged to equity of investment accountholders	3,405	2,979
Share of profits earned by IAH, before transfers to/from reserves	69,244	72,635
Percentage share of profit earned by IAH before transfer to/from reserves	5.40%	6.05%
Share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	51,697	58,786
Percentage share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	4.03%	4.90%
Share of profit paid out to Bank as mudarib	17,547	13,849
Mudarib Fee to total Investment Profits	25.34%	19.07%

**Table – 26. Movement in profit equalisation reserve**

The following table summarises the movement in profit equalisation reserve during the year ended:

	31 December 2015 US \$ '000	31 December 2014 US \$ '000
Balance at 1 January	574	573
Amount apportioned from income allocable to equity of Investment accountholders	-	23
Foreign exchange loss	(16)	(22)
	558	574
Percentage of the profit earned on equity of investment accountholders appropriated to profit equalisation reserve	0.00%	0.03%

## BASEL III, PILLAR III DISCLOSURES

For the year ended December 2015

### 3 RISK MANAGEMENT (continued)

#### c) Equity of Investment Accountholders (continued)

**Table – 27. Movement in investment risk reserve**

The following table summarises the movement in investment risk reserve during the year ended:

	31 December 2015 US \$ '000	31 December 2014 US \$ '000
Balance at 1 January	2,338	2,418
Amount apportioned from income allocable to equity of investment accountholders	2	-
Exchange difference	(1)	(1)
Amount apportioned to provision	-	(79)
	2,339	2,338
Percentage of the profit earned on equity of investment accountholders appropriated to investment risk reserve	Nil	Nil

The profit equalisation reserve and investment risk reserve will revert to IAH as per terms and conditions of the Mudaraba contract.

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

The Group's share, as Mudarib, in the profits of IAH is up to a maximum of 70% (31 December 2014: up to 70%) as per the terms of IAH agreements.

**Table – 28. Equity of Investment Accountholders by type of assets**

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

	Opening Actual Allocation US \$ '000	Movement US \$ '000	Closing Actual Allocation US \$ '000
Cash and balances with banks	96,842	(30,794)	66,048
Sales receivable	615,838	(9,608)	606,230
Ijara Muntahia Bittamleek	221,040	25,883	246,923
Musharaka	116,382	37,878	154,260
Investments	199,237	(66,773)	132,464
Ijara income receivables	13,144	9,221	22,365
Other assets	27,220	(10,916)	16,304
	1,289,703	(45,109)	1,244,594

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets for the year ended 31 December 2014:

## BASEL III, PILLAR III DISCLOSURES

For the year ended December 2015

### 3 RISK MANAGEMENT (continued)

#### c) Equity of Investment Accountholders (continued)

	Opening Actual Allocation US\$ '000	Movement  US\$ '000	Closing Actual Allocation US\$ '000
Cash and balances with banks	97,475	(633)	96,842
Sales receivable	553,924	61,914	615,838
Ijara Muntahia Bittamleek	126,580	94,461	221,040
Musharaka	65,057	51,325	116,382
Investments	245,511	(46,274)	199,237
Ijara income receivables	16,685	(3,540)	13,144
Other assets	13,533	13,688	27,220
	1,118,765	170,941	1,289,703

**Table – 29. Equity of Investment Accountholders profit earned and paid**

The following table summarises the amount and percentage of profits earned and paid out to profit sharing investment accounts over the past five years:

	Profit earned		Profit paid to IAH	
	US\$ '000	age%	US\$ '000	age%
2015	69,244	5.40%	51,697	4.03%
2014	72,635	6.05%	58,786	4.90%
2012	68,754	6.37%	55,662	5.15%
2011	75,886	7.75%	61,441	6.27%
2010	86,985	8.33%	68,601	6.57%

**Table - 30. Treatment of assets financed by Equity of Investment Accountholders**

The following table summarises the treatment of assets financed by IAH in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of 31 December 2015:

	RWA US\$ '000	RWA for capital adequacy purposes US\$ '000	Capital charges US\$ '000
<b>Type of Claims</b>			
Claims on Sovereign	46,229	13,869	1,734
Claims on PSEs	18,157	5,447	681
Claims on Banks	143,416	43,025	5,378
Claims on Corporates	576,966	173,090	21,636
Mortgage	162,104	48,631	6,079
Regulatory Retail Portfolio	15,733	4,720	590
Past due facilities	44,930	13,479	1,685
Investment in securities	9,786	2,936	367
Holding of Real Estates	29,191	8,757	1,095
Other Assets	14,172	4,252	532
	1,060,684	318,206	39,777

The following table summarises the treatment of assets financed by IAH in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of 31 December 2014:

## BASEL III, PILLAR III DISCLOSURES

For the year ended December 2015

### 3 RISK MANAGEMENT (continued)

#### c) Equity of Investment Accountholders (continued)

Type of Claims	RWA	RWA for capital adequacy purposes	Capital charges
	US\$ '000	US\$ '000	US\$ '000
Claims on Sovereign	55,453	16,636	1,996
Claims on PSEs	11,255	3,377	405
Claims on Banks	131,680	39,504	4,740
Claims on Corporates	594,264	178,279	21,394
Claims on Investment Firms	760	228	27
Mortgage	95,117	28,535	3,424
Regulatory Retail Portfolio	9,068	2,720	326
Past due facilities	73,171	21,951	2,634
Investment in securities	5,502	1,651	198
Holding of Real Estates	6,462	1,939	233
Other Assets	27,220	8,166	980
	1,009,952	302,986	36,357

#### d) Off-balance sheet equity of Investment Accountholders

Off-balance sheet equity of Investment accountholders is invested and managed in accordance with Shari'a requirements.

The Group as fund manager will manage and administer the investment account in a proper, diligent and efficient manner in accordance with applicable laws and local regulations.

The Group has appropriate procedures and controls in place commensurate to the size of its portfolio which includes:

- Organizing its internal affairs in a responsible manner, ensuring it has appropriate internal controls and risk management systems and procedures and controls designed to mitigate and manage such risks;
- Observing high standards of integrity and fair dealing in managing the scheme to the best interest of its investors; and
- Ensuring that the Group has the requisite level of knowledge and experience for the tasks that is undertaken and is competent for the work undertaken.

**Table – 31. Off-balance sheet equity of Investment Accountholders by Islamic product type**

The following table summarises the breakdown of Off-balance sheet equity of IAH by type of Islamic financing contracts as of:

#### Islamic products

	31 December 2015	31 December 2014
Sales receivables	90.91%	91.30%
Investments	9.09%	8.70%

## BASEL III, PILLAR III DISCLOSURES

For the year ended December 2015

### 3 RISK MANAGEMENT (continued)

#### d) Off-balance sheet equity of Investment Accountholders (continued)

**Table – 32. Off-balance sheet equity of Investment Accountholders by counterparty type**

The following table summarises the percentage of financing for each category of counterparty to total financing as of:

#### Counterparty type

	31 December 2015	31 December 2014
Banks	78.12%	68.07%
Corporate	21.88%	31.93%

**Table – 33. Off-balance sheet equity of Investment Accountholders by type of assets**

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

	Opening actual allocation US\$ '000	Movement US\$ '000	Closing actual allocation US\$ '000
Sales receivables	101,930	(7,253)	94,677
Investments	9,718	(256)	9,462
	111,648	(7,509)	104,139

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the year ended 31 December 2014:

	Opening actual allocation US\$ '000	Movement US\$ '000	Closing actual allocation US\$ '000
Sales receivables	106,619	(4,688)	101,930
Investments	30,159	(20,441)	9,718
	136,778	(25,129)	111,648

**Table – 34. Off-balance sheet equity of Investment Accountholders historical returns**

The following table summarises the historical returns over the past five year:

	31 December 2015	31 December 2014	31 December 2011	31 December 2010	31 December 2009
Gross Income	1,782	1,772	105	1,209	459
Mudarib Fee	77	99	47	168	110

## BASEL III, PILLAR III DISCLOSURES

For the year ended December 2015

### 3 RISK MANAGEMENT (continued)

#### d) Off-balance sheet equity of Investment Accountholders (continued)

The Group's share of profit as a Mudarib for managing Off-balance sheet equity of Investment accountholders and their share of income is based on the terms and conditions of the related mudarib agreements. These mudarib agreements are done at the individual Counter party level.

#### e) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on regular basis. The liquidity management policy at a minimum includes the following:

- a. Provide clear guidance on the composition and role of the asset/liability committee or such other committee or department responsible for managing liquidity.
- b. Establish approval processes to ensure adherence to liquidity risk management processes.
- c. Require periodic calculations to determine the extent to which the segments are funding long-term assets with short-term liabilities.
- d. Establish liquidity ratio benchmarks, e.g. parameters for the funding of long-term assets with short-term liabilities to guide liquidity management and the method for computing liquidity indicators.
- e. Establish limits on the degree of concentrations that are deemed acceptable. This should:
  - i) Ensure diversification of funding by origin and term structure by, for example, guarding against concentration by individuals or groups of depositors, types of deposit instruments, market sources of deposit, geographical sources, term to maturity, and deposit currencies. Where concentrations occur, the segments manage their assets and liquidity profile to mitigate the risk; and
  - ii) Set procedures for the orderly restoration of the liquidity position in the event of loss of funding where such concentrations are unavoidable. In addition, the segments conduct an impact analysis on its dependency on any such concentrations.
- f. Provide for periodic review of the deposit structure. The review should include the volume and trend of various types of deposits offered, maturity distributions of time deposits, profit rate paid on each type of deposit, prevailing market profit rate, limits on large time deposits, public funds, and non-resident deposits.
- g. Provide for the review of alternate funding sources including stand-by facilities and lines of credit.
- h. Establish a framework for the composition of assets.
- i. Assess the acceptable mismatch in combination with currency commitments. The segments undertake separate analysis of their strategy for each currency individually. They set and regularly review limits on the size of cash flow mismatches over particular time horizons for foreign currencies in aggregate, and for each significant currency.

#### Table – 35. Liquidity ratios

The following table summarises the liquidity ratios as of:

	31 December 2015	31 December 2014
Liquid assets to total assets*	20.53%	20.74%
Short term assets to short term liabilities	60.90%	68.96%

\* Includes cash and bank balances and short term commodities including statutory / madatory reserves held with the central banks.

## BASEL III, PILLAR III DISCLOSURES

For the year ended December 2015

### 3 RISK MANAGEMENT (continued)

#### d) Off-balance sheet equity of Investment Accountholders (continued)

Table – 36. Quantitative indicators of financial performance and position

	31 December 2015	31 December 2014	31 December 2011	31 December 2010	31 December 2009
Return on average equity	3.5%	1.2%	0.6%	-6.1%	1.4%
Return on average assets	0.3%	0.1%	0.1%	-0.8%	0.2%
Cost to Income Ratio	88.5%	92.7%	91.1%	98.4%	91.0%

\* Return based on total income and equity (including non-controlling interest)

### 4 OTHERS

The responsibility for payment of Zakat is on individual shareholders and investment accountholders. However, in Pakistan, Zakah is deducted at source from the Equity of Investment accountholders as required by local laws.

