بنك الاستثمار الدولي
INTERNATIONAL INVESTMENT BANK

ANNUAL REPORT
2 0 1 5

Principal bankers and professional advisors

Principal Bankers
Ahli United Bank, Bahrain
Al Salam Bank, Bahrain
Kuwait Finance House, Bahrain
Union National Bank, Abu Dhabi

External Auditors
Ernst & Young, Bahrain

External Legal Counsel
Zu'bi & Partners Attorneys & Legal Consultants, Bahrain

بسم الله الرحمن الرحيم

CONTENTS

IIB'S INVESTMENT PHILOSOPHY ENTAILS ESTABLISHING STRATEGIC ALLIANCES WITH REGIONAL AND INTERNATIONAL INSTITUTIONS.

IIB has an authorized capital of US$**200** million and its paid-up capital was increased during 2007 from US$ 43 million to US$ 110 million.

PROFILE

International Investment Bank B.S.C. (c) (IIB) was incorporated as an Islamic investment bank on 6 October 2003, under commercial registration number 51867 as a Bahrain Joint Stock Company (closed). Operating under an Islamic wholesale banking licence issued by the Central Bank of Bahrain, IIB commenced investment activities on 13 October 2003. IIB has an authorized capital of US$ 200 million and its paid-up capital was increased during 2007 from US$ 43 million to US$ 110 million, through a combined rights issue and private placement issue. The Bank's shareholders are high net worth individuals, business houses and institutions from the GCC states. The core business activities of the Bank include investing on its own account and investment, underwriting and placement in real estate and private equity in conformity with Islamic Shari'ah. It aims to offer its clients an internationally diversified range of investments generated through its network of strategic partnerships.

VISION

To be a regional leader in private equity investments and real estate investments, mainly through the provision and management of high-quality, globally-diversified investment offerings in accordance with the principles of Islamic Shari'ah, to maximize shareholder value, to generate superior risk-adjusted returns for clients, to provide excellent career opportunities to all employees and to deal fairly with all stakeholders.

MISSION

To originate, manage and ultimately exit from a well diversified range of innovative investment products in association with leading international strategic partners, to provide high-quality advisory services to clients, to operate in accordance with the highest standards of corporate governance, risk management, due diligence and ethical standards, and to attract and retain the best-qualified employees available.

FIVE-YEAR FINANCIAL SUMMARY
FOR THE YEAR ENDED 2015

Earnings (US$ millions)	2015	2014	2013	2012	2011
Total income	5.8	3.8	10.7	14.2	3.1
Total expenses	8.8	6.0	6.1	6.4	5.7
Operating profit (loss)	(3.0)	(2.2)	4.7	7.8	(2.6)
Share of profit (loss) of associate	-	0.7	0.4	4.0	(3.4)
Fair value losses, Impairment losses, provisions and FX	(23.3)	(6.6)	0.9	(3.6)	(3.4)
Net income (loss)	(26.3)	(8.1)	6.0	8.2	(9.4)
Financial Position (US$ millions)					
Total assets	229.2	271.4	174.8	165.3	148.5
Cash and due from Financial Institutions	39.4	62.6	37.9	35.5	61.5
Investments	186.1	204.6	124.1	106.9	75.9
Term finance and Wakala payable	95.0	98.0	-	-	-
Equity (attributable to equity holders of the parent)	126.0	160.0	164.4	155.0	145.3
Ratios					
Profitability					
Return on average equity (%)	(16.3)	(5.1)	3.8	5.5	(6.2)
Return on average assets (%)	(10.5)	(3.6)	3.5	5.2	(6.1)
Earnings per share (cents)	(22)	(8)	6	8	(9)
Cost-to-income ratio (%)	151.4	131.5	56.5	45.1	183.6
Capital					
Capital adequacy ratio (regulatory minimum 12%)	21.7	47	48	48	54
Equity / total assets (%)	57.1	62.7	98.2	98.0	97.8
Liquidity and Other					
Investments / total assets (%)	81.2	75.4	71.0	64.7	51.1
Liquid assets / total assets (%)	17.2	23.1	21.7	21.5	41.4
Assets under management (US$ millions)	282.3	311.4	323.7	324.3	294.8
Number of employees (at year end)	33	30	31	32	33

Total income

US$5.8 million

Total assets

US$229.2 million

Capital

57.1%

Equity / total assets

BOARD OF DIRECTORS' REPORT
FOR THE YEAR ENDED 2015

Saeed Abdul Jalil Al Fahim
Chairman

On behalf of the Board of Directors, it is my privilege to present the Annual Report and the Consolidated Financial Statements of International Investment Bank ("IIB") for the year ended 31 December 2015.

Total assets

US$229.2 million

Total assets decreased from US$ 271.4 million at the 2014 year end to US$ 229.2 million as at 31 December 2015.

Total expenses

US$8.8million

Total expenses incurred in 2015 were US$ 8.8 million, an increase of US$ 2.8 million as compared with 2014.

Financial Performance 2015 Review

Statement of Income

During 2015 the Board decided to make a "voluntary change in accounting policy" in order to reflect the fair values of each investment, where the accounting standards permitted. The effect is to accelerate the recognition of fair value losses and to reflect them, where permitted, in the statement of income instead of directly in equity.

As a result, a "fair value loss on investments classified as fair value through income statement" of US$ 12.3 million has been recorded in 2015. When other Impairment and provision charges are added on investments and receivables, the total valuation-related expense in the Statement of income was US$ 23.2 million compared with an equivalent charge of US$ 5.9 million in 2014.

The Bank earned a total income of US$ 5.8 million in 2015, an increase of US$ 2.0 million (52.5 percent) over 2014. A net income of US$ 4.6 million was earned from two aircraft leases (ijarah assets) in 2015, being a combination of net rentals plus a realised gain on disposal, compared with US$ 0.9 million last year. Investment banking fees and other income declined in 2015 to US$ 0.3 million from US$ 1.7 million in 2014, due mainly to lower investment structuring, placement and management fees.

Total expenses incurred in 2015 were US$ 8.8 million, an increase of US$ 2.8 million as compared with 2014. Financing costs on a US$ 30.0 million Wakala payable were US$ 2.1 million (2014: US$ nil). Additional staff, legal and professional costs of US$ 1.1 million were incurred during 2015 as a result of the Board's decision to make changes in future strategy and to strengthen the Bank's senior management.

After reflecting a lower share of net earnings from an associate, the operating loss for 2015 increased from US$ 1.4 million in 2014 to US$ 3.0 million. After deducting the impairment and provision charges explained above, IIB incurred a net loss for the year of US$ 26.3 million, compared with US$ 8.1 million in the previous year.

Statement of Financial Position

Total assets decreased from US$ 271.4 million at the 2014 year end to US$ 229.2 million as at 31 December 2015, mainly reflecting the net loss for 2015 of US$ 26.3 million, fair value losses booked in equity in accordance with the applicable accounting standards of US$ 10.7 million and the recurring depreciation charge on the ijarah asset of US$ 3.5 million.

Total equity of US$130.9 million reflects a decrease from 31 December 2014 of US$ 39.1 million, principally from the net loss for the year and impairment charges booked in equity. IIB's Capital Adequacy Ratio remained strong at 21.7 percent on 31 December 2015 as compared to the 12.5 percent minimum ratio required by the Central Bank of Bahrain. The liquid assets of US$ 39.4 million represented 17.2 percent of total assets at the end of 2015, underscoring the Bank's strong liquidity position.

The total investment portfolio was valued at US$ 186.1 million at 31 December 2015. While IIB's investment strategy remained cautious, we have successfully completed two investment acquisitions, comprising a US$ 5.0 million participation in a Government of Bahrain sukuk offering and an aircraft purchase-and-lease transaction at a total cost, inclusive of financing, of US$ 141.2 million that was successfully exited in October 2015 at an annualised return to IIB of approximately 33 percent. Additional shares were acquired in three existing investments at a total cost of US$ 17.5 million. The Bank also exited or partially exited from three investments that generated cash proceeds, including the aircraft sale above, of US$ 27.2 million.

The Bank's comprehensive valuation exercise as at 31 December 2015 of all investments was completed with the assistance of expert independent valuers and consultants. In line with the AAOIFI standards and reflecting the accounting policy change referred to above, net unrealized losses of US$ 10.7 million have been reflected in equity and net impairment and provision charges of US$ 23.2 million were charged to the income statement for the year, making a total valuation related deduction from total equity of US$ 33.9 million for the year.

Strategic Review

Following the resignation and departure of the previous Chief Executive Officer at the end of May 2015, the Board members offered the position to a candidate with considerable executive experience gained from employment in regional and international banks, who joined IIB in August 2015. Prior to this appointment, the Board commissioned an experienced regional-based consultant to perform a detailed strategic and operational review of IIB. Following the acceptance of his report, the Board and the management have been working together to implement the main recommendations. This strategy has included the early exit from several legacy and under-performing investments, three of which have been exited or partially exited by year end 2015. Secondly, the previous Business Development Department and the Asset Management Department have been merged into a new Investment Department in order to better coordinate the purchase, management and exit from investments, headed by a recently appointed Chief Investment Officer and an experienced deputy. Thirdly, several heads of department have been changed through the recruitment of experienced managers with the required skills and experience. We expect these strategic and operational changes plus the updated business model to lead to new business opportunities and related income generation to return the Bank to profitability within a twelve month horizon.

2016 Outlook

The Bank's priorities during 2016 will be liquidity and capital adequacy maintenance; management of existing investments with exits for all non-strategic investments as soon as possible; highly selective and fully researched new investments; further movement from murabaha / wakala short-term financial instruments into higher yielding liquid assets; and a return to profitability through achieving the budgeted net profit.

IIB Recommendations - Appropriations and Zakat

The Board has recommended that no dividend will be paid for the year as the Bank has incurred a net loss. As in the previous years, shareholders will directly pay their respective Zakat on their equity investments in the Bank. Using the Net Asset method of computation, the Zakat payable per share for 2015 is US$0.001 (2014: US$0.007 per share).

Board Membership

The only change in the membership of the Board of Directors during 2015 was the appointment of Mr. Wasim Saifi as an Independent Non-Executive Director with effect from 22nd November 2015.

Acknowledgments

The Board of Directors extend their sincere thanks to our valued shareholders, investors and strategic partners for their loyal support. I would also take this opportunity to thank our esteemed and eminent Shari'ah Supervisory Board, executive management team and staff for their dedicated and committed service throughout the year. We also thank the Central Bank of Bahrain and Bahrain's Ministry of Industry and Commerce for their invaluable guidance and support.

Saeed Abdul Jalil Al Fahim
Chairman

CORPORATE GOVERNANCE
FOR THE YEAR ENDED 2015

The Board of Directors is responsible for the overall governance of the Bank through continuous review and adherence to international best practice and standards. The Board determines the Bank's strategy, provides direction to the Executive Management, ensures that the control framework is functioning in accordance with best practice and monitors Executive Management's performance.

BOARD OF DIRECTORS
FOR THE YEAR ENDED 2015

The Board meets regularly throughout the year in order to control strategic, financial, operational, internal control and compliance issues.

As at 31 December 2015, the Board of Directors comprised 10 Directors.

BOARD OF DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 2015

HE Mr. Saeed Abdul Jalil Al Fahim
Chairman

Executive Director

- Chairman - Al Fahim Group, UAE
- Chairman - Mubarak & Brothers Property & Financial Investment, Abu Dhabi, UAE
- Former Board Member - National Bank of Abu Dhabi, Abu Dhabi, UAE
- Former Board Member - United Arab Bank, Sharjah, UAE

Mr. Ahmed Salem Bugshan
Vice Chairman and Chairman of Nomination and Remuneration Committee

Independent Non-Executive Director

- Chairman - President and Chief Executive Officer - Saudi Industrial Projects Co. (SIPCO), KSA
- Chief Executive Officer - Saudi Industrial Beverages Co. (SIBCO), KSA
- Chairman - Saudi Steel Profile Mfg. Co. Ltd., KSA
- Board Member - Ewaan Global Residential Co, KSA
- Director - Savoy Hotel, Sharm El Sheikh, Egypt
- Board Member - Tirana Tourism Investment Co., Cairo, Egypt
- Chairman - BMC Al-Mahdar Co, Yemen

Mr. Abdul Wahab Mohammed Al Wazzan
Chairman Audit & Corporate Governance Committee

Independent Non-Executive Director

- Chairman and Board Member - National International Holding Company, Kuwait
- Second Vice Chairman - Kuwait Chamber of Commerce & Industry, Kuwait
- Board Member - Kuwait Petroleum Corporation, Kuwait
- Former Chairman - Kuwait Real Estate Bank (Kuwait International Bank), Kuwait

Mr. Ali Hashim Sadiq Hashim
Chairman Executive Committee and Member Nomination and Remuneration Committee

Independent Non-Executive Director

- Vice Chairman & CEO - Hashim Industry, Jeddah, KSA
- Chairman - Gulf Manufacturers, Egypt
- Chairman - Rawasi Al Khaleej, Sharjah, UAE
- Chairman - Tahweel Industries Co., UAE
- Vice Chairman & CEO - Gulf Packaging Systems Co. Ltd., KSA
- Vice Chairman & CEO - Prime Plastic Products, KSA
- Vice Chairman & CEO - 3P Stretch Co., KSA
- Vice Chairman & CEO - 3P Pipe Co., KSA
- Partner & Director - Arabian Gulf Manufacturers, KSA
- Partner & Director - Safra Co. Ltd., KSA
- Director - Jeddah Graphic, KSA

Dr. Bader Ibrahim Mohammad Bin Saedan
Member Executive Committee

Independent Non-Executive Director

- CEO & Board Member - Al Saedan Real Estate Company, KSA
- Chairman of the Board of Directors - Saudi Maintenance Made Simple, KSA
- Chairman - Curzon Asset Management, UK
- Director – Tunisian Saudi Real Estate Co., Tunisia
- Director - Mawten R.E., KSA
- Director- Real Estate Committee in the Chamber of Commerce and Industry, Riyadh, KSA
- Member - Saudi Council of Engineers, KSA
- Member - General Assembly of the Charitable Society for Orphans, KSA

Mr. Ali Haider Suliman Al Haider
Member Audit & Corporate Governance Committee

Independent Non-Executive Director

- Vice Chairman - Suliman & Brothers Co. W.L.L., Qatar;
- Vice Chairman - Salam Bounian, Qatar; Board
- Member - Salam International, Qatar
- Board Member - Al Safa Trading Company, Qatar

BOARD OF DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 2015

Mr. Fareed Bader
Member Audit & Corporate Governance Committee and Member Executive Committee

Independent Non-Executive Director

- Chairman & Founder - Bader Group of Companies, Kingdom of Bahrain
- Chairman - Sphinx Management and Property Development
- Chairman - Gulf Membrane and Coating Industries, Kingdom of Bahrain
- Chairman - Infura Consulting (Business Management Solutions)
- Chairman - Aramis (Software Solutions)
- Chairman - Green Product Industry (Energy Saving Homes)
- Chairman - Green Tech. M.E.
- Vice Chairman - Universe Environment Bahrain B.S.C., Kingdom of Bahrain (Recycling)

Mr. Aabed Al-Zeera
Independent Non-Executive Director

- Chief Executive Officer of International Investment Bank B.S.C. (c) from 2003 to 2015.

Mr. Daniel Taylor
Executive Director

- CEO - Al Fahim Investments
- Director B2B Hotels & Properties LLC
- Director - B2B LLC
- Director - RMAL Hospitality PJSC
- Director - Marjan Geoservices LLC Committee of the Australian Business Group, Abu Dhabi.

Mr. Wasim Saifi
Independent Non-Executive Director

- CEO, Global Head of Islamic Banking and Member of the Board of Directors – Standard Chartered Saadiq Bhd, Kuala Lumpur
- Member of the Board of Directors – AMMB Holdings Berhad, Malaysia
- Member of the Board of Directors – Ambank Islamic Berhad, Malaysia

BOARD OF DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 2015

Board Terms and Start Date of Current Term

All the current members of the Board of Directors were appointed on 27 March 2014, except for Mr. Daniel Taylor who was appointed on 30 June 2014 and Mr. Wasim Saifi who was appointed on 22nd of November 2015. They hold their office for a term of three years.

Induction, Orientation and Training of New Directors

The Chairman of the Board ensures that each newly appointed director receives a formal and tailored induction to ensure his contribution to the Board from the beginning of his term. The induction process includes:

a. Meetings with senior management;
b. Visits to the Bank facilities;
c. Presentations regarding strategic plans;
d. Significant financial, accounting and risk management issues;
e. Compliance programs;
f. Meetings with internal and external auditors and legal counsel (as required); and
g. Familiarisation of the Corporate Governance Guidelines

Written Code of Ethics and Business Conduct

The Bank has documented a Code of Ethics and Business Conduct, including a code applicable to the Directors.

The aforementioned documents are available with the management and can be provided to the shareholders on request.

Election System of Director

The new members are inducted to the Board of Directors through a nomination process on a 3-year renewable term. The new members are nominated by the Board who are later ratified/approved by the General Assembly Meeting of the Bank. The Central Bank of Bahrain then approves the nominations for their term.

Material Transactions that Require Board Approval

Every investment and every funds transfer of US$ 50 million or above requires the approval of the Board of Directors.

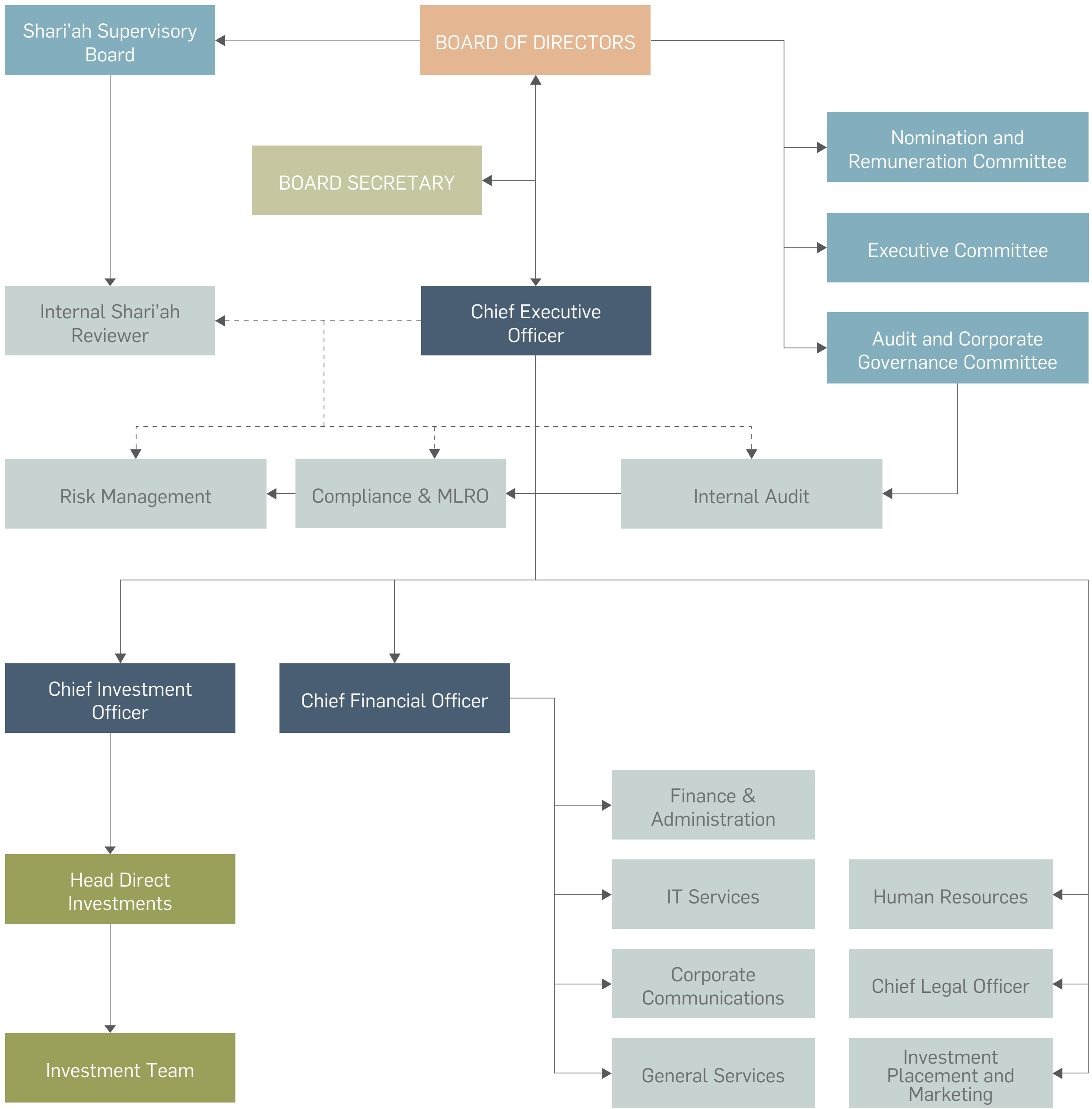
Assessment of Directors

The Board of Directors, its committees and individual directors are regularly assessed with respect to their effectiveness and contribution.

Conflict of Interest

The Annual Disclaimers of potential conflict of interest have been received from the Board of Directors and senior management. Should any conflict of interest arise, the concerned member of the Board of Directors or senior management will declare his interest in the matter under discussion and will absent himself from any vote on the matter.

ORGANIZATIONAL STRUCTURE
FOR THE YEAR ENDED 2015



CORPORATE GOVERNANCE (CONTINUED)
FOR THE YEAR ENDED 2015

Board of Directors' Meetings

The Board of Directors of the Bank meet at least four times in a year either in person, or via teleconference or video conference.

The following table shows the dates of the Board of Directors' meetings and their attendance during the year.

Meeting Date	Names Of Attendees	Names of Directors not attended
24-02-2015	H.E. Saeed A. J. Alfahim	Mr. Aabed Al Zeera
	Mr. Ahmed Bugshan	
	Mr. Abdul Wahab Al Wazzan	
	Mr. Ali Hashem	
	Mr. Ali Suleiman Al Haider	
	Dr. Bader Al Saedan	
	Mr. Daniel Taylor	
	Mr. Fareed Bader	
24-06-2015	H.E. Saeed A. J. Alfahim	Mr. Ahmed Bugshan
	Mr. Abdul Wahab Al Wazzan	
	Mr. Ali Hashem	
	Mr. Ali Suleiman Al Haider	
	Dr. Bader Al Saedan	
	Mr. Daniel Taylor	
	Mr. Fareed Bader	
06-10-2015	H.E. Saeed A. J. Alfahim	Mr. Ahmed Bugshan
	Mr. Abdul Wahab Al Wazzan	Dr. Bader Al Saedan
	Mr. Ali Hashem	
	Mr. Ali Suleiman Al Haider	
	Mr. Daniel Taylor	
	Mr. Fareed Bader	
22-11-2015	H.E. Saeed A. J. Alfahim	Mr. Abdul Wahab Al Wazzan
	Mr. Ahmed Bugshan	Mr. Ali Hashem
	Dr. Bader Al Saedan	
	Mr. Ali Suleiman Al Haider	
	Mr. Daniel Taylor	
	Mr. Fareed Bader	
	Mr. Aabed Al Zeera	
09-12-2015	H.E. Saeed A. J. Alfahim	Mr. Ali Suleiman Al Haider
	Mr. Ahmed Bugshan	Mr. Aabed Al Zeera
	Mr. Abdul Wahab Al Wazzan	
	Dr. Bader Al Saedan	
	Mr. Ali Hashem	
	Mr. Daniel Taylor	
	Mr. Fareed Bader	

Compliance with HC Module

The Bank regularly monitors the compliance with the provisions of the High-Level Controls (H.C.) Module of the Rulebook issued by the Central Bank of Bahrain relating to the roles and responsibilities of the Board of Directors, Board Committees, Disclosure Requirements and Management Strategy. The Bank has complied with the HC module and amendments during 2015 except that the Chairman does not meet the definition of an "Independent Director" as required by clause HC-1.4.6 in the CBB Rulebook and the Bank has not complied with the requirements of chapter 5 of HC Module.

Directors' responsibility for Audited, Consolidated, Financial Statements (AFS)

The Board is responsible for the Audited Consolidated Financial Statements (AFS) which accurately disclose the Bank's financial position. The Board has delegated the responsibility of the preparation of accurate financial statements to the Audit and Corporate Governance Committee. In addition, the Bank has instituted appropriate systems and controls, including internal audit to ensure regular financial reporting, disclosures and monitoring.

Board Committees

The Board has established three sub-committees and a Shari'ah Supervisory Board, comprising expert independent Shari'ah scholars to assist the Board in expeditiously and effectively discharging its responsibilities. This committee structure ensures appropriate oversight by the Board of Directors while permitting efficient day-to-day management of the Bank. The minimum number of meetings for Board sub-committees is four per annum, except for Nomination and Remuneration Committee, which has a minimum of two meetings per annum.

The members as at 31 December 2015 and summary terms of reference are as follows:

Executive Committee

Mr. Ali Hashim Sadiq Hashim, Chairman
Dr. Bader Ebrahim Al Saedan, Member
Mr. Fareed Bader, Member

Assists the Board with the review of the Bank's strategy, annual budget and forecasts, risk policies, management committees' activities and actions. The following table shows dates and attendance details of the Executive Committee meetings during the year.

Meeting Date	Names Of Attendees	Names of Non-Attendees
27-05-2015	Mr. Ali Hashem	
	Dr. Bader Al Saedan	
	Mr. Fareed Bader	
10-09-2015	Mr. Ali Hashem	
	Dr. Bader Al Saedan	
	Mr. Fareed Bader	
15-09-2015	Mr. Ali Hashem	
	Dr. Bader Al Saedan	
	Mr. Fareed Bader	
25-11-2015	Mr. Ali Hashem	Mr. Fareed Bader
	Dr. Bader Al Saedan	

CORPORATE GOVERNANCE (CONTINUED)
FOR THE YEAR ENDED 2015

Audit and Corporate Governance Committee

Mr. Abdul Wahab Mohammed Al-Wazzan, Chairman

Mr. Ali Haider Suliman Al Haider, Member

Mr. Fareed Bader, Member

Assists the Board in reviewing the integrity of the financial statements, compliance with legal and regulatory requirements, the Bank's internal audit function and the independent auditor's qualifications, independence and performance.

The following table shows dates and attendance details of the Audit and Corporate Governance Committee meetings during the year.

Meeting Date	Names of Attendees	Names of Non-Attendees
29-03-2015	Mr. Abdul Wahab Al Wazzan	
	Mr. Ali Suleiman Al Haider	
	Mr. Fareed Bader	
22-04-2015	Mr. Abdul Wahab Al Wazzan	
	Mr. Ali Suleiman Al Haider	
	Mr. Fareed Bader	
19-05-2015	Mr. Abdul Wahab Al Wazzan	Dr. Bader Ebrahim Al Saedan
	Mr. Ali Suleiman Al Haider	
	Mr. Fareed Bader	
21-05-2015	Mr. Abdul Wahab Al Wazzan	Dr. Bader Ebrahim Al Saedan
	Mr. Ali Suleiman Al Haider	
	Mr. Fareed Bader	
06-07-2015	Mr. Abdul Wahab Al Wazzan	Dr. Bader Ebrahim Al Saedan
	Mr. Ali Suleiman Al Haider	
	Mr. Fareed Bader	
27-07-2015	Mr. Abdul Wahab Al Wazzan	Dr. Bader Ebrahim Al Saedan
	Mr. Ali Suleiman Al Haider	
	Mr. Fareed Bader	
08-11-2015	Mr. Abdul Wahab Al Wazzan	Dr. Bader Ebrahim Al Saedan
	Mr. Ali Suleiman Al Haider	
	Mr. Fareed Bader	

Nominations and Remuneration Committee

Mr. Ahmed Salem Bugshan, Chairman
Mr Ali Hashim Sadeq, Member

Assists the Board in assessing candidates and recommending Board and management appointments, as well as to establish and update the remuneration policies and procedures including the level of remuneration paid to executive management.

The following shows the date and attendance details of the Nominations and Remuneration Committee meeting during the year:

Meeting Date	Names of Attendees	Names of Non-Attendees
11-07-2015	Mr. Ahmed Bugshan	
	Mr. Ali Hashem	

Independent Shari'ah Supervisory Board

Being an Islamic Bank, IIB's Shari'ah Supervisory Board regularly reviews all investment products and business activities to ensure compliance with Islamic Shari'ah principles, approves the Bank's financial statements and participates with management in the development of suitable investment products and services. IIB's Shari'ah Supervisory Board comprises three prominent Bahraini Islamic scholars who provide the Bank with pragmatic Islamic opinions.

Brief biographies are as follows:

Sheikh Doctor Nizam Yaquby, Chairman

Sh. Dr. Nizam Yaquby holds a Doctorate in Islamic studies and B.A degree in Economics from McGill University in Canada. He is also a member of many local and international Islamic Supervisory Boards of institutions, including the Central Bank of Bahrain, AAIOFI, Bahrain Islamic Bank, Gulf Finance House, ABC Islamic Bank, HSBC Amanah, Abu Dhabi Islamic Bank, Islamic Rating Agency, IIFM and Dow Jones Islamic Index and many more. Sh. Dr. Yaquby has participated in many conferences worldwide and is a very well-known Islamic scholar with many publications in both Arabic and English to his name.

Sheikh Doctor Osama Mohammed Saad Bahar, Member

Sh. Dr. Osama Bahar holds a Doctorate from Lahaye University in the Netherlands, a Master's Degree from Al Emam Al Awzae University in Lebanon and a Bachelor's degree in Islamic Shari'ah from Prince Abdul Qader Al Jaazaeri University of Islamic Studies in Algeria. Currently, he is Head of Shari'ah Compliance at First Energy Bank. Also, he is a member of the Shari'ah Board of Global Banking Corporation, Reef (Real Estate Finance), Ithmaar Bank, International Tharawat, Family Bank and Alizz Islamic Bank (Oman).

Sheikh Abdul Nasser Omar Al Mahmood, Member

Sh. Abdul Nasser is a member of the Islamic Supervisory Board of International Investment Bank, Ebdaa Bank, Eskan Bank, Capinnova Investment Bank and Bahrain Development Bank. Also, he works as an Executive Senior manager in the Shari'ah audit department at Khaleeji Commercial Bank. He holds a Masters in Business Administration from the Gulf University and is working on a thesis in Shari'ah Control and Review in Islamic banks. He also holds a Bachelor's degree in Shari'ah and Islamic Studies from Qatar University and an Advanced Diploma in Islamic Commercial from Bahrain Institution of Banking Finance.

Investment Development

The department is responsible for the investment and business development activities including origination, structuring and execution of investment programs and activities, obtaining the required internal and regulatory approvals and evaluating investments in quoted and unquoted equities. It develops investments and asset allocation strategies / activities and completes the detailed due diligence and documentation in conjunction with consultants, partners, accounting firms and law firms. It also develops strategic relationships and performs the detailed evaluation of potential divestments. The department also monitors the Bank's investments in private companies, real estate income generating properties and real estate development projects including effective record keeping relative to each investment to ensure efficient monitoring, cash inflow maximization and exit planning of investments. It works closely with project sponsors to optimize the overall project implementation timetable, minimize project costs, and deliver project quality in order to ensure that planned project returns are achieved. The department arranges Shari'ah-compliant corporate finance for projects designed to leverage equity funding and to maximize free cash flows to equity and return of equity. It executes planned exits in a timely and methodical manner to deliver investor returns.

In addition, it is responsible for investor reporting and relations including the preparation of periodic investment status reports.

Investment Placement

The department is responsible for advising investors and placing IIB's investment offerings with sophisticated investors. Whilst mandated with the responsibility of maximizing investment placement, the department ensures that every investment placed with investors is consistent with the investment objectives and risk tolerance of those investors. Moreover, in order to achieve best practice governance within the framework of the ethical and regulatory requirements of the Central Bank of Bahrain, investments are placed with only those investors who have provided the detailed "Know Your Customer" (KYC) documents and have complied with all legal formalities associated with the placement of each investment.

Support, Administration & Internal Controls

The business departments and executive management of the Bank are supported by a network of well structured and staffed departments, as follows:

- Financial Control Department, including Treasury, Operations and General Services
- Legal and Board Secretary Department
- Compliance and AML Department
- Risk Management Department
- Information Technology Department
- Internal Audit Department
- Human Resources & Administration Department
- Corporate Communications Department

The Bank's operations and transactions are subjected to commensurate controls, checks and balances and segregation of duties to ensure that each transaction is originated, approved, executed and accounted for in conformity with not only Shari'ah standards but also best practice.

For example, to ensure strong segregation of duties, the Bank's operations are structured to ensure that no employee can originate, execute and account for a transaction. At least two individuals are involved in each transaction, including two signatories on every funds transfer. Each transfer is approved and executed in accordance with "Levels of Authority" approved by the Board of Directors.

CORPORATE GOVERNANCE (CONTINUED)
FOR THE YEAR ENDED 2015

Department Heads report to the Chief Executive Officer. There are three exceptions to ensure objectivity and independence from executive management: the Head of Risk Management Department, the Head of Internal Audit Department and the Head of Compliance Department report to the Chairman of the Audit and Corporate Governance Committee with an administrative reporting to the Chief Executive Officer. The duties of all staff are clearly defined in detailed job descriptions which are reviewed from time to time to ensure conformity with the current requirements of the business.

Being an Islamic bank, IIB must ensure that all its activities are in compliance with Shari'ah principles. Compliance is achieved through the adoption of policies and procedures that are Shari'ah compliant and through regular discussions with members of the Shari'ah Supervisory Board who review the documentation relating to the Bank's transactions. Consultants perform regular reviews of the Bank's activities and have confirmed that the Bank is Shari'ah compliant.

Compensation & Incentive Structures

The Directors may recommend for themselves an annual retainer fee that is approved at the subsequent Annual General Meeting. Plus reimbursement of their travel and accommodation expenses in connection with attending Board meetings. The members of the Shari'ah Supervisory Board receive a flat fee that the Board of Directors approves annually, and a fee for each meeting attended and reimbursement of their actual travel and accommodation expense. Remuneration Committee and the Chief Executive Officer agrees the annual salaries of all other employees. All staff are eligible to participate in the discretionary annual bonus pool which is awarded on the basis of achievement of both corporate and individual goals.

Other benefits are payable to employees in line with normal industry practice and are approved in aggregate by the Board of Directors. An allocation for a staff stock option scheme was approved by the General Assembly. The scheme is yet to be implemented.

Executive Management

Management Committees

The Board has established five governance committees, namely the Management Committee, Investment Committee, Risk Management Committee, Assets & Liabilities Committee and IT Steering Committee. These committees comprise senior management and heads of departments who are best qualified to make decisions on issues such as funding, asset utilization, IT, investment purchase/sale and management of all types of risks, including market, credit, liquidity and operational risks. The members as at 31 December 2015 and the summary terms of reference are as follows:

Management Committees

Executive Management Committee

Mr. Subhi Benkhadra, Chairman
Mr. Marcus Scott
Mr. Michael Ross-McCall
Mr. Narayanan Ganapathy
Mr. Subhash Jalan
Mr. Fadi Al Qassim
Mr. Alyas Al Meftah
Mr. Ninan Varkey
Ms. Mai Abul

Monitors the execution of the strategic business plan, provides a forum to assimilate viewpoints, adopt best practices in the management of the Bank and provides guidelines to carry out the day-to-day affairs of the Bank, within the overall approved procedures laid down by the Board.

Management Investment Committee

Mr. Subhi Benkhadra, Chairman
Mr. Marcus Scott
Mr. Fadi Al Qassim
Mr. Narayanan Ganapathy
Mr. Subhash Jalan
Mr. Alyas Al Meftah

Manages the investment portfolio, makes recommendations on proposed investments, exits and approves the final share allocation to investors

Assets & Liabilities Committee

Mr. Narayanan Ganapathy, Chairman
Mr. Michael Ross-McCall
Mr. Subhash Jalan
Mr. Ninan Varkey
Ms. Haleema Ebrahim

Manages liquidity, the profit rate risk inherent in the Bank's asset and liability portfolio and capital adequacy and ensures the mix of assets and liabilities is appropriate.

Risk Management Committee

Mr. Michael Ross-McCall, Chairman
Mr. Narayanan Ganapathy
Mr. Subhash Jalan
Mr. Ninan Varkey
Mr. Murtaza Ghulam

Performs a risk review of new business deals to be underwritten by IIB, performs a review of existing business deals underwritten by IIB and monitors all types of risks faced by IIB including market, credit and operational risks.

I.T. Steering Committee

Mr. Michael Ross-McCall, Chairman
Mr. Narayanan Ganapathy
Mr. Subhash Jalan
Mr. Said Itani
Mr. Murtaza Ghulam

Ensures a first class IT and communication service to users, supervises projects to select and implement new systems, provides IT strategic direction and ensures that a bank-wide disaster recovery plan is prepared and implemented.

Chairman and Executive Management

H.E. Saeed Abdul Jalil Al Fahim, Chairman

H.E. Saeed Al Fahim is the Chairman of Al Fahim Group, one of the most successful groups of companies in the UAE operating chiefly in the automotive dealership, hospitality and hotel, oil and gas, real estate and insurance sectors. He obtained a degree in Business Administration from Bowling Green University, USA and Shendi University in Sudan has awarded him an Honorary Doctorate in Business Administration in appreciation of his distinguished contribution to Sudan's rural development. He holds a number of company directorships.

Mr. Subhi Benkhadra, Chief Executive Officer

Mr. Benkhadra is an experienced CEO with particular competence in conventional and Sharia'a compliant investment banking, real estate development and turnaround situations across various sectors. He has previously led financial institutions in the UK and Middle East and has an exceptional understanding of Arab and Islamic markets. Starting his career at the United Bank of Kuwait PLC in 1987, he more recently held the position of Chief Executive Officer at Investment Trust Limited (UK), Esterad Investment Company BSC (Bahrain), European Islamic Investment Bank (UK) and Baniyas Investment and Development Co LLC (UAE). He has also served on the Boards of Abu Dhabi Islamic Bank Egypt, Accelerator Technology Co (Jordan) and Brighton College Schools (UAE). Mr. Benkhadra graduated from the University of Bath in 1987 with a BSc in Environmental Engineering and holds an MBA in Finance from City University Business School. He is also an ex-member of the Board of Directors of the Arab Bankers' Association in London.

Michael Ross-McCall, Chief Financial Officer

Mr. Ross-McCall heads the Finance and Administration Department with additional responsibility for Treasury, Operations, Human Resources, General Services and Corporate Communications. He holds a Law Degree from Edinburgh University and is a member of the Institute of Chartered Accountants of Scotland. Following several years of employment with Ernst & Young and Price Waterhouse, he worked in the banking sector for more than 20 years, holding senior positions at Wells Fargo, Bank of Bahrain and Kuwait (BBK) and Bahraini Saudi Bank.

Marcus Scott, Chief Investment Officer

Mr. Scott is the Chief Investment Officer and heads the Investment Department. He holds an MPhil in Management Studies from the University of Oxford and a Bachelor of Commerce from the University of Auckland.

Mr. Narayanan Ganapathy, Executive Director

Mr. Ganapathy is a member of the Investment Department, dealing mainly with the evaluation and acquisition of new investments. He is a CFA charter holder, a member of the Institute of Chartered Accountants of India and holds a Master's degree in Finance from London Business School. He has over twelve years of international banking and corporate finance experience that he gained at KPMG, Deutsche Bank, London and Investate Realty in the Kingdom of Bahrain.

Mr. Subhash Jalan, Executive Director

Mr. Jalan is a member of the Investment Department, dealing principally with the management and sale of existing investments. He is a CFA charter holder, a member of the Institute of Chartered Accountants of India and holds the CISA (Certified Information System Auditor) qualification from USA. He has substantial investment experience in private equity including venture capital funds, buyout funds, direct equity, mezzanine funds and real estate investments. His previous work experience includes being Investments Director at Foulath in Bahrain, Vice President for manufacturing projects at Gulf Investment Corporation in Kuwait, Group Investment Manager at MH Alshaya Co. in Kuwait and Senior Investment Officer at Industrial Bank of Kuwait.

Other Senior Officers

Alyas Al-Meftah, Director, Investment Placement

Mr. Al-Meftah heads IIB's Investment Placement activity with particular emphasis on the western province of Saudi Arabia. Holding a degree in Business Administration and International Studies, he has progressively held more senior positions with international organizations. In particular, he was Sales Territory Manager with a leading logistics company as well as Marketing Manager with one of the region's leading real estate development projects.

Mr. Ali Redha, Director, Internal Audit

Mr. Redha is a member of the American Institute of Certified Public Accountants (AICPA). He has over 13 years of experience in auditing and banking at KPMG, Daar Al-Maal Al-Islami (DMI Group), Shamil Bank, Ithmaar Bank and Bahraini Saudi Bank. He joined IIB in 2005 in order to establish the internal audit department and reports to the Chairman of the Audit and Corporate Governance Committee.

Fadi Al-Qassim, Director, Investment

Mr. Al Qassim is a director in the Investment Department. He holds a B.Sc. in Civil Engineering from the University of Bahrain. He has 25 years' experience in civil design, engineering and monitoring projects up to their hand-over to owners.

Mr. Augustine Peter, Director, Finance

Mr. Peter holds the position of Director, Finance, with responsibility for the financial management of the group and for maintaining the financial records and preparation of financial statements of the Bank, as well as its subsidiaries and special purpose vehicles. He holds a bachelor's degree from the University of Calicut, India, and is a member of the Institute of Chartered Accountants of India. Prior to joining the Bank in 2007, he had extensive experience in the area of Financial Audit, Financial Management, and MIS Management. both in India as well as in Bahrain. He has more than 20 years of experience that covers banks, investment companies, audit firms, and stock exchanges.

Said Itani, Head – IT

Mr. Itani has a diploma in systems programming, analysis, and design. He has more than 35 years' experience in the IT sector, latterly in Saudi Arabia and Bahrain. From 1995 to 2002 he was IT Division Manager at Bank Al-Jazira in Jeddah and from 2002 to 2006 he was Head of IT, Security and Property at UBS-Noriba Bank in Bahrain.

BOARD OF DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 2015

Mr. Ninan Varkey, Head – Risk Management

Mr. Varkey holds a degree in Commerce and is a member of the Institute of Chartered Accountants of India. He carries over 20 years of experience in the financial services industry. He has held positions as President of Cochin Stock Exchange, India, and Vice President of leading financial service companies in India. He headed the risk management function at the commodity derivative business of Infrastructure Leasing Finance-Investsmart, India, before joining IIB.

Sawsan Al-Ansari, Head of Human Resources and Administration

Sawsan Al-Ansari brings to IIB more than three decades of experience in the areas of information technology, financial control, and human resources. Having previously worked at United Gulf Bank and American Express Bank, she joined IIB in 2009.

Mr. Mohammed Juma Habib, Head – Compliance

Mr. Habib heads the Compliance Department and is IIB's MLRO. He is a Certified Compliance Professional ("CCP"), a member of the International Academy of Financial Management and holds a B.Sc. in Banking and Finance from the University of Bahrain. He is also a certified anti-money laundering specialist and holds a CAMS credential issued by the Association of Certified Anti-Money Laundering Specialists (ACAMS). Prior joining IIB, he worked at Bahrain Islamic Bank and Bank of Bahrain and Kuwait.

Mai Abul, Chief Legal Officer and Board Secretary

Ms. Abul is the Chief Legal Officer and Board Secretary. She holds both Bachelor and Masters degrees in Business Law from Monash University, Melbourne, Australia. She is a transactional lawyer specialising in Islamic banking and finance projects and investments. Ms. Abul previously served as board secretary of Bahrain Mumtalakat Holding Company B.S.C. (c).

Charitable Contributions

The Bank made contributions and donations to Bahraini charities in 2015 aggregating to US$ nil (2014: nil).

Non-Sharia Income

Any income derived from any investment or business that does not conform to Shari'ah principles is considered as Non-Shari'ah income and is not recognized as the income of the Bank. If any such income arises in the course of the business, it is contributed to charity through Charitable Institutions.

For the year 2015 , there was no Non-Shari'ah income for the Bank.

Review of Internal Control Process and Procedures

The Board is fully aware that the system of internal control cannot eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board confirms that there is an on-going process of managing significant risks faced by the Bank and reviewing the system of internal control for the year under review. The key elements are described below:

- Formal organisation structure that clearly defines the framework for the line of reporting and hierarchy of authority
- Policies and Procedures Manual on key activities that lay down the objective, scope, policies and operating procedures for the Bank which are subject to regular review and improvement
- Regular internal audit visits to departments within the Bank to ensure compliance with the Bank's Policies and Procedures and to review effectiveness of internal control systems
- Clearly defined authorisation limits at appropriate levels are set out for controlling and approving capital expenditure and expenses
- Regular Senior Management meetings are held to discuss and resolve major issues arising from business operations
- Quarterly meetings for the Audit and Corporate Governance Committee and the Board are held to discuss internal audit reports, periodic financial statements and issues that warrant Audit and Corporate Governance Committee and Board attention; in respect of risk management framework, a Risk Management Committee was established, to evaluate, monitor and manage the risks that may impede the achievements of the Bank's business objectives

Minor internal control weaknesses were identified during the year of review. None of the weaknesses have resulted in any material losses, contingencies or uncertainties.

Nature and approval process of related party transactions

The balance with related parties mainly comprises investments in associates. Associates are the companies where the Bank holds 20% or more of the share capital by way of direct investment or investment through Special Purpose Vehicles in its ordinary course of business.

Such investments also go through the same approval processes as required for all investments of the Bank.

Transactions with related parties in 2015 mainly comprise of share of loss from associates and remuneration paid to the Shari'ah Supervisory Board.

Changes in Organization Structure

Changes to the Organization Structure of the Bank during the year include:

- The Direct Investment and Business Development department merged with the Asset Management department to form the Investment department.

Departmental Structure

Executive Management	
Subhi Benkhadra	Chief Executive Officer (CEO)
Fareeda Rostam	PA to the CEO
Investment	
Marcus Scott	Chief Investment Officer
Narayanan Ganapathy	Executive Director
Subhash Jalan	Executive Director
Fadi Al-Qassim	Director
Murtaza Ghulam	Principal
Atif Naveed	Principal
Sadaf Gill	Associate
Reem Al-Sairafi	Officer
Marieta Cano	Executive Secretary
Ruby Castro	Executive Secretary
Investment Placement & Investor Relations	
Alyas Al-Meftah	Director
Bashar Al-Shaikh	Principal
Omar Shaheen	Principal, Investor Relations
Bushra Ali Al-Madhi	Officer, Investor Relations
Khatoon Ahmed	Officer, Investor Relations
Finance	
Michael Ross McCall	Chief Financial Officer (CFO)
Augustine Peter	Director
Haleema Ebrahim	Associate Treasury
Hassan Abbas	Officer
Sayed Mahmood Alawi	Administration Officer
Internal Audit	
Ali Redha	Head of Internal Audit
Risk Management	
Ninan Varkey	Principal / Head
Compliance & (MLRO)	
Mohammed Juma Habib	Head of Compliance & MLRO
Legal	
Mai Abdul Aziz Hasan Abul	Chief Legal Officer and Board Secretary
Information Technology	
Said Itani	Head of Information Technology
Sayed Hussein Mahdi	Associate
Internal Shari'ah Review	
Mahmood Al-Qassab	Coordinator
Human Resource & Administration	
Sawsan Al-Ansari	Head of HR and Administration
Hussain Ali Jassim	General Services
Maryam Al-Madeh	Receptionist & General Secretary

BOARD OF DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 2015

Ownership Details of the Bank

The following table shows the distribution of ownership of the Bank by nationalities as on the reporting date.

Country	Number of shareholders	Number of shares	Percentage
Kingdom of Bahrain	7	2,406,158	2.19%
State of Kuwait	39	16,452,201	14.96%
State of Qatar	11	6,931,862	6.30%
Kingdom of Saudi Arabia	34	28,882,213	26.26%
United Arab Emirates	19	52,323,363	47.57%
Total	110	106,995,797	97.28%
Treasury shares	1	3,000,000	2.72%
Overall Total	111	109,995,797	100.00%

The following table shows the distribution of ownership by directors and senior managers of the bank as on the reporting date.

Name	Position	Number of shares	Percentage
Saeed A. Jalil Al Fahim	Chairman	26,374,704	23.98%
Rashid A. Jalil Al Fahim	Board Member	-	0.00%
Ahmed Salem Bugshan	Board Member	3,908,404	3.55%
Ali Hashem Sadeq	Board Member	3,908,404	3.55%
Bader Ebrahim Al Saedan	Board Member	1,650,000	1.50%
Ali Haider Al Haider	Board Member	1,627,907	1.48%
Abdulwahab Al Wazzan	Board Member	813,953	0.74%
Fareed G. Bader	Board Member	350,000	0.32%
Aabed A. R. Al Zeera	Board Member	162,791	0.15%
Daniel Taylor	Board Member	-	-
Wasim Saifi	Board Member	-	-

The following table shows the distribution of ownership by size of shareholding in the Bank as on the reporting date.

Shareholding size	Number of shareholders	Number of shares	Percentage
Above 5% ownership	1	26,374,704	23.98%
Less than 5% ownership	110	83,621,093	76.02%
Total	111	109,995,797	100.00%

There was no trading in the Bank's shares by directors and senior managers of the Bank during the year.
There are no shareholdings in the Bank by the Bahrain Government or any other Governments.

Remuneration to Board Members

The remuneration paid to Board members for the year 2015 was US$ 75,000 (2014: US$ 62,000).

Fees paid to External Auditors

Information relating to the fee paid to external auditors for audit and non-audit services including quarterly review of prudential returns, and Public Disclosures reviews are maintained at the Bank. This information is available to shareholders on request.

Communications Strategy

A summary of the Bank's quarterly and annual financial statements is published in local and regional newspapers. The Bank maintains a website www.iib-bahrain.com which contains the last five years of annual financial data as at 31 December, together with summary financial data covering the interim quarterly financial statements. It also contains a profile of the Bank, details of the principal products and services, profiles of the senior managers and regular press releases concerning investment transactions and other developments.

Inquiries are made to the relevant departments by email to: info@iib-bahrain.com

Client Enquiries and Complaints

The Bank has assigned a designated team in Investor Relations to maintain a log of the client queries / complaints. A brief of client inquiry / complaint is prepared and forwarded to the concerned Investment Manager, who prepares a draft response. It is then forwarded to the Chief Investment Officer who approves the response, which is then forwarded to the client. An entry is made in the log of queries / complaints to record the Bank's response.

Additional Governance Controls

The Board has approved a number of policies, which are communicated to management and all staff. These cover subjects including risk management, anti-money laundering, ethical behaviours, personal conduct, financial control, human resources and business continuity.

Corporate governance is also supported by the ongoing reviews performed by the Internal Audit Department and the External Auditors. The reviews confirm that the policies and internal control procedures conform to best practice and are being fully complied with by management and staff.

CHIEF EXECUTIVE OFFICER'S REVIEW OF OPERATIONS
FOR THE YEAR ENDED 2015

Subhi Benkhadra
Chief Executive Officer

2015 was a very difficult year, during which the Bank recorded substantial losses. However, the institution and its new management team are committed to rapidly improving performance.

Costing (US$)

39.4million

Total liquid assets at year end 2015 of US$ 39.4 million representing 17.2% of total assets

In addition to a net loss for 2015 of US$ 26.3 million, unrealized losses attributable to the fair value of Bank assets of US$ 10.7 million have been recognized directly in equity. The net loss of US$ 26.3 million includes significant non-cash and other non-recurring items. The non-cash items of US$ 23.2 million, or 88.2%, of the net loss relate to impairment of investment assets (US$ 15.6 million) as well as to changes in accounting policies (US$ 7.6 million) that the Board believes most appropriate to reflecting the financial position of the Bank. The other non-recurring expenses of a further US$ 1.8 million or 6.8% of the net loss relate primarily to the changes of management, brokerage fees, legal fees and consultancy fees. It is important to emphasise that IIB will not incur these expenses in future periods, providing a strong base for the 2016 results.

It is also key to highlight that IIB's balance sheet remains very strong, with little debt and total liquid assets at year end 2015 of US$ 39.4 million representing 17.2% of total assets. This places us in an excellent position to exploit opportunities that arise from the currently difficult global and regional business environment. Many asset owners have remained highly leveraged post the last financial crisis and are now increasingly vulnerable to the sale of good assets at low valuations.

The Bank's assets are now appropriately valued and are largely in defensive sectors, such as Hungry Bunny and Al Fareeda in the KSA and Queenex in the UAE; or in markets that are outperforming, such as Proptex in the USA, Sarajevo City Center in Bosnia and Finnair in Europe. Management has identified strategies to guide these assets to stronger performance and is encouraged by progress to date. The Bank is also very focused on accelerating exits at strong values, and it is hoped that at least one major divestment will occur over 2016.

As clients continue to seek relatively low risk assets that generate attractive yields, we will also be focusing on offerings that meet this demand during 2016.

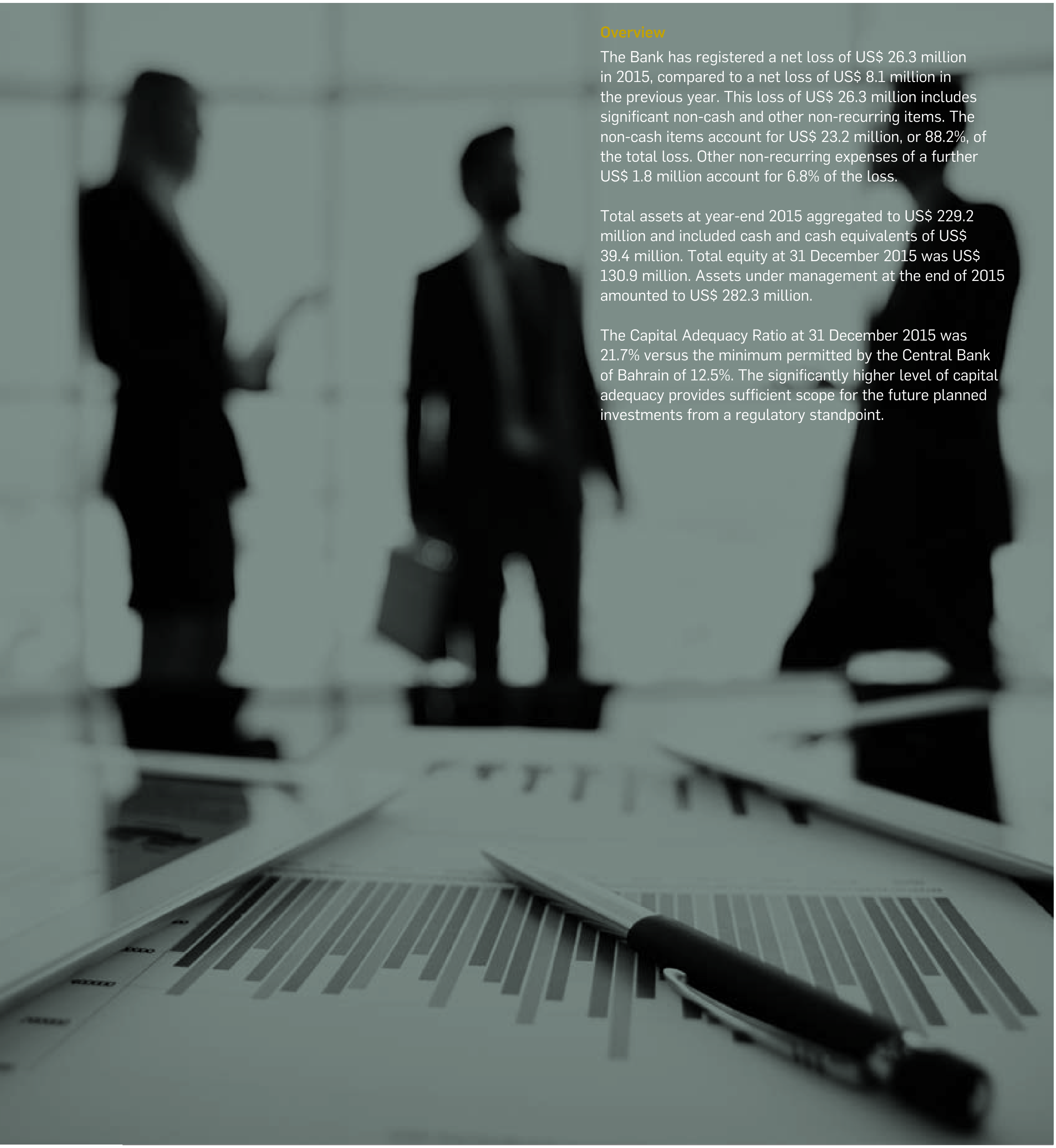
Management is committed to ensuring that IIB Shareholders and investors are appropriately informed about IIB's future. The senior management team will also be spending more time meeting with shareholders and investors in order to communicate news about the Bank and its performance, and to more immediately understand their investment objectives.

IIB's management team has been strengthened across the investment, legal, compliance, and internal audit areas. During 2015 we merged the Direct Investment & Business Development Department with the Asset Management Department to create a new Investment Department led by the newly appointed Chief Investment Officer. This important change in the organization structure is already producing a more focused and effective approach to investment acquisition, management and disposal.

With a strong management team and a healthy liquidity position, we enter 2016 with a high degree of optimism for IIB and the ability to grow shareholder value on a consistent basis.

Subhi Benkhadra
Chief Executive Officer

FINANCIAL REVIEW
FOR THE YEAR ENDED 2015



Overview

The Bank has registered a net loss of US$ 26.3 million in 2015, compared to a net loss of US$ 8.1 million in the previous year. This loss of US$ 26.3 million includes significant non-cash and other non-recurring items. The non-cash items account for US$ 23.2 million, or 88.2%, of the total loss. Other non-recurring expenses of a further US$ 1.8 million account for 6.8% of the loss.

Total assets at year-end 2015 aggregated to US$ 229.2 million and included cash and cash equivalents of US$ 39.4 million. Total equity at 31 December 2015 was US$ 130.9 million. Assets under management at the end of 2015 amounted to US$ 282.3 million.

The Capital Adequacy Ratio at 31 December 2015 was 21.7% versus the minimum permitted by the Central Bank of Bahrain of 12.5%. The significantly higher level of capital adequacy provides sufficient scope for the future planned investments from a regulatory standpoint.

FINANCIAL REVIEW
FOR THE YEAR ENDED 2015

Consolidated Statement of Income

Income

The Bank's total income for 2015 was US$ 5.8 million compared with US$ 3.8 million in 2014. US$ 4.6 million (79.3%) of the 2015 income was derived from investment in ijarah assets (aircraft purchased and leased) plus the gain on sale of an aircraft held for 7 months generating a capital gain of US$ 1.8 million and an I.R.R. of 33%. Investment banking fees in 2015 were substantially lower due to non-recurring structuring, placement and management fees in 2014 of US$ 1.0 million. Income on due from financial and other institutions reduced slightly in 2015 from lower average cash balances and profit rates. The other income mainly comprised receipts of dividends and rental income from a residential tower in Bahrain.

Share of profit (loss) from Associates

The small loss in 2015 related to a real estate investment in the UAE in which the Bank holds a 27% shareholding. Share of profit and loss on three investments held through subsidiaries were reflected in prior years.

Expenses

Total expenses in 2015 aggregated to US$ 8.8 million, an increase of US$ 2.8 million compared to US$ 6.0 million in 2014. Finance expenses were US$ 2.1 million (2014: US$ nil) relating to the taking of a Wakala payable in order to provide additional liquidity for investment. Non-recurring expenses of US$ 1.8 million were incurred, primarily due to the management changes during 2015, brokerage fees, legal fees and consultancy fees. Expenses related to acquiring, managing and exiting from investments declined by US$ 0.5 million. Excluding finance expenses, staff costs accounted for 57% of the total expenses and deal acquisition plus asset management costs (mainly legal fees, consultants' fees and travel) accounted for a further 7%, with the remaining 36% being attributed to occupancy, depreciation, legal & professional and general operating costs.

Impairment, Provisions and Foreign Exchange

IIB booked unrealized impairment losses on investments and receivables in 2015 of US$ 23.2 million in the consolidated statement of income (2014: US$ 5.9 million), of which US$ 7.6 million was attributed to the change in accounting policy pertaining to three investments in associates. The remaining impairment and provision expense related to several investments with a wide geographical and industry mix, from a combination of foreign currency changes, changes in listed prices and changes in valuations received from expert real estate valuers and from in-house valuation models.

In addition, fair value and foreign currency losses of US$ 10.7 million were reflected directly in equity (2014: gain of US$ 3.8 million) in accordance with the applicable accounting standards. Therefore the combined unrealized losses from valuing investments at year end 2015 was US$ 33.8 million, compared to a net US$ 2.1 million in 2014.

The Bank incurred a foreign exchange loss of US$ 0.1 million in 2015 (2014: US$ 0.8 million) mainly from adverse net changes in currency rates on receivables and bank balances denominated in the Euro and Sterling Pound.

Consolidated Statement of Financial Position

Assets

Cash and cash equivalents at year-end 2015 were US$ 39.4 million and represented 17.2% of total assets. The total amount includes cash, balances with banks and due from financial institutions comprising commodity murabaha and wakala placements with financially-sound banks located in the GCC region with a maximum maturity period of 90 days. With the addition of investments in quoted equities valued at US$ 6.1 million and in a listed Bahrain government sukuk of US$ 5.0 million, liquid and semi-liquid assets aggregated to US$ 50.5 million or 22.0% of total assets.

Receivables at 31 December 2015 of US$ 2.2 million (2014: US$ 2.6 million) comprised net murabaha financing of US$ 1.9 million to two IIB-managed unquoted entities injected as quasi-capital or to assist with working capital requirements and other net receivables of US$ 0.3 million where full recovery is expected.

Total investments at 2015 year end decreased by US$ 18.5 million (9.0%) since 31 December 2014 to US$ 186.1 million. The net reduction is mainly due to net purchases of US$ 17.9 million less net unrealized fair value provisions and impairments of US$ 33.9 million. Following the change in accounting policy, investments in associates as at year end 2014 of US$ 43.2 million have been reclassified as investments as at the 2015 year end.

The Bank successfully concluded six investments in 2015 costing US$ 45.1 million: a purchase and lease-back of a Boeing 777-300ER aircraft costing US$ 141.2 million with equity investment of US$ 22.6 million in the UAE; a participation in a 10-year Government of Bahrain sukuk issue costing US$ 5.0 million; and further investments in three existing holdings located in Saudi Arabia, USA and Bosnia. There were four exits or partial exits from investments during 2015: the aircraft purchased earlier in the year and a partial exit through share buy-back and partial sale / capital reduction from three assets located in the UK and the UAE generating total proceeds of US$ 27.2 million.

Total assets under management, computed on the year end value of the total equity provided by IIB and its investors, reduced from US$ 311.4 million at year end 2014 to US$ 282.3 million, mainly due to the net purchases minus the net negative changes in asset valuations.

Liabilities and equity

In December 2014, the Bank obtained a US$ 30.0 million medium term (due in March 2019) financing in the form of a wakala payable, to augment the funds available for future investment activity.

Term finance of US$ 64.5 million comprised funds obtained from two financial institutions that partly financed the purchase of an ijara aircraft and lease-back. Repayments are spread over an initial 12-year period and are covered by the rental income receivable. Other liabilities of US$ 3.3 million mainly comprised payables by subsidiary companies of US$ 0.9 million, accrued expenses and payables to suppliers.

Total equity reduced from US$ 171.1 million to US$ 130.9 million at 2015 year end. The change in 2015 comprised the net loss for the year of US$ 26.3 million; the net loss from unrealized movements in fair values and foreign currency translation on investments amounting to US$ 10.7 million booked directly in equity; and a decrease in non-controlling interest mainly from the share of a 2015 net loss and buy-back of shares by IIB in a US-based subsidiary.

FINANCIAL STATEMENTS 2015

Independent Auditors' Report and
Consolidated Financial Statements
31 December 2015

SHARI'AH SUPERVISORY BOARD REPORT

INTERNATIONAL INVESTMENT BANK

ON THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDING DECEMBER 31, 2015

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

BANK PERFORMANCE

The Shari'ah Supervisory Board ("SSB") was presented with all the investment deals and transactions that were conducted by the International Investment Bank ("Bank") during the course of the year ending December 31, 2015. The SSB reviewed the principles and contracts relating to all these investments and transactions in order to issue an independent opinion on whether the Bank followed the principles of the Islamic Shari'ah, specific fatwas, and guidelines issued by the SSB, where the Bank's management is responsible for ensuring that its operations are carried out in compliance with SSB rulings.

INTERNAL SHARI'AH REVIEW

The SSB has conducted regular Shari'ah audits on all the operations of the Bank, and reviewed all related contracts and documents.

BOARD MEETINGS

The SS6 held five meeting during the year ending December 31, 2015.

The SSB responsibility is to present an independent view of the Bank's operations and to communicate it to the shareholders.

In our opinion:

1. The Bank's contracts, transactions and deals for the year ending December 31, 2015 comply with the rules and principles of the Islamic Shari'ah.
2. The Bank's allocation of profit and charging of losses relating to investment accounts comply with the rules and principles of the Islamic Shari'ah.
3. No earnings have been realized from non-Shari'ah compliant sources during the fiscal year.
4. The Bank's calculation of Zakat complies with the rules and principles of the Islamic Shari'ah and has been calculated as USD 0.001 per share in accordance with the Net Asset Method described in the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI") standards and it is the responsibility of the shareholders to pay their Zakat allocation.

We beseech the Almighty to grant us excellence and success.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh

Sh. Nizam Yabouby
Chairman

Dr. Osama Bahar
Member

Sh. Abdul Nasser Al-Mahmoud
Member

Building a better working world

Ernst & Young
P.O. Box 140
14th Floor, South Tower
Bahrain World Trade Center
Manama
Kingdom of Bahrain

Tel: +973 1753 5455
Fax: +973 1753 5405
manama@bh.ey.com
ey.com/mena
C.R. No. 6700

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

OF INTERNATIONAL INVESTMENT BANK B.S.C.(c)

INTERNATIONAL INVESTMENT BANK B.S.C.(c)

We have audited the accompanying consolidated statement of financial position of International Investment Bank B.S.C. (c) ["the Bank"] and its subsidiaries [together "the Group"] as of 31 December 2015, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ["AAOIFI"]. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the 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, and the results of its operations, its cash flows and changes in equity for the year then ended in accordance with Financial Accounting Standards issued by AAOIFI.

Other matters

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

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; and

b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements.

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, 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 consolidated financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests. The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank.

Ernst & Young

Partner's registration no: 121
28 February 2016
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	Note	2015 US$ '000	Restated 2014 US$ '000	Restated as at 1 January 2014 US$ '000
ASSETS				
Cash and balances with banks		**3,654**	3,560	1,885
Due from financial institutions	3	**35,751**	59,075	36,012
Receivables	4	**2,181**	2,609	11,815
Investments	5	**82,483**	93,708	89,852
Investment in ijarah asset, net of depreciation	6	**72,113**	75,612	-
Investment in real estate	7	**5,547**	5,412	5,172
Musharaka	8	**25,144**	25,144	25,144
Investment in associate	9	**835**	4,704	3,972
Other assets		**1,346**	1,405	612
Equipment and vehicles		**180**	194	290
TOTAL ASSETS		**229,234**	271,423	174,754
LIABILITIES AND EQUITY				
LIABILITIES				
Term finance	10	**64,468**	68,019	-
Wakala payable	11	**30,560**	30,000	-
Other liabilities	12	**3,258**	3,327	3,072
TOTAL LIABILITIES		**98,286**	101,346	3,072
OWNERS' EQUITY				
Share capital	13	**109,996**	109,996	109,996
Treasury shares	13	**(6,798)**	(6,798)	(6,798)
Share premium		**51,240**	51,240	72,050
Reserves	13	**3,161**	13,824	9,984
Accumulated deficit		**(31,595)**	(8,210)	(20,810)
Total equity attributable to equity holders of the parent		**126,004**	160,052	164,422
Non-controlling interest		**4,944**	10,025	7,260
TOTAL EQUITY		**130,948**	170,077	171,682
TOTAL LIABILITIES AND EQUITY		**229,234**	271,423	174,754

Saeed Abdul Jalil Al Fahim
Chairman of the Board of Directors

Subhi Benkhadra
Chief Executive Officer

Abdul Wahab Mohammed Al Wazzan
Director and Chairman of Audit and Corporate Governance Committee

The attached explanatory notes 1 to 25 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2015

	Note	2015 US$ '000	Restated 2014 US$ '000
Income			
Net income from investment in ijarah assets	14	**2,734**	417
Gain on sale of investments and ijarah asset		**2,042**	503
Income from investment in real estate		**407**	414
Investment banking fees and other income	15	**268**	1,695
Income on due from financial institutions		**236**	327
Income from investment carried at amortised cost		**117**	450
TOTAL INCOME		**5,804**	3,806
Expenses			
Staff costs		**3,854**	3,183
Finance expenses		**2,060**	-
Legal and professional expenses		**784**	352
Premises costs		**287**	295
Other operating expenses	17	**1,782**	2,137
TOTAL EXPENSES		**8,767**	5,967
Share of (loss) / profit from associate		**(14)**	731
OPERATING LOSS BEFORE FAIR VALUE MOVEMENT IN INVESTMENTS AND FOREIGN EXCHANGE LOSS		**(2,977)**	(1,430)
Fair value loss on investments classified as fair value through income statement		**(12,310)**	(109)
Impairment and provision against investments classified as fair value through equity	5	**(8,138)**	(1,360)
Provision against investment in associate	9	**(1,577)**	(2,000)
Provision on receivables and prepayments	4.1	**(1,178)**	(2,440)
Loss on foreign exchange		**(78)**	(786)
NET LOSS FOR THE YEAR		**(26,258)**	(8,125)
Attributable to:			
Equity holders of the parent		**(23,385)**	(8,210)
Non-controlling interest		**(2,873)**	85
		(26,258)	(8,125)

Saeed Abdul Jalil Al Fahim
Chairman of the Board of Directors

Subhi Benkhadra
Chief Executive Officer

Abdul Wahab Mohammed Al Wazzan
Director and Chairman of Audit and Corporate Governance Committee

The attached explanatory notes 1 to 25 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Note	2015 US$ '000	Restated 2014 US$ '000
OPERATING ACTIVITIES			
Net loss for the year		**(26,258)**	(8,125)
Adjustments for:			
Fair value loss / (gain) on investments classified as fair value through income statement		**12,310**	109
Impairment loss on investments classified as fair value through equity		**8,138**	1,360
Share of loss / (profit) from associate		**14**	(731)
Depreciation		**7,002**	2,424
Provision against investment in associate		**1,577**	2,000
Wakala profit expense		**2,060**	-
Provision on receivables and prepayments		**1,178**	2,440
Amortisation of deferred expense		**103**	-
Gain on sale of investments and ijarah asset		**(2,042)**	(503)
Reversal of unrealised fair value losses on investment in real estate		**-**	(113)
Operating profit / (loss) before changes in operating assets and liabilities		**4,082**	(1,139)
Changes in operating assets and liabilities:			
Receivables		**(7,993)**	(4,429)
Other assets		**(45)**	(793)
Other liabilities		**2,242**	255
Term finance		**(3,551)**	-
Net cash used in operating activities		**(5,265)**	(6,106)
INVESTING ACTIVITIES			
Proceeds from disposal of investments		**27,175**	12,798
Proceed from disposal of equipments		**9**	-
Purchase of investments		**(45,113)**	(11,764)
Purchase of equipments		**(36)**	(190)
Net cash (used in) / generated from investing activities		**(17,965)**	844
FINANCING ACTIVITY			
Wakala payable		**-**	30,000
Net cash generated from financing activities		**-**	30,000
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		**(23,230)**	24,738
Cash and cash equivalents at beginning of the year		**62,635**	37,897
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**39,405**	62,635
Cash and cash equivalents comprise:			
Cash and balances with banks		**3,654**	3,560
Due from financial institutions with original maturities of ninety days or less		**35,751**	59,075
		39,405	62,635

The attached explanatory notes 1 to 25 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

				Reserves						
	Share capital US$ '000	Treasury shares US$ '000	Share premium US$ '000	Statutory reserve US$ '000	Cumulative changes in fair value reserve US$ '000	Foreign Currency translation reserve US$ '000	Total reserves US$ '000	Accumula-ted deficit US$ '000	Non-controlling interest US$ '000	Total US$ '000
Balance at 1 January 2015	109,996	(6,798)	51,240	6,980	9,780	(2,936)	13,824	(8,210)	10,025	170,077
Reclassification to income statement on impairment of equity investment	-	-	-	-	(1,471)	-	(1,471)	-	-	(1,471)
Fair value loss on investments classified through equity - net	-	-	-	-	(6,354)	-	(6,354)	-	-	(6,354)
Acquisition of non-controlling interest	-	-	-	-	-	-	-	-	(1,906)	(1,906)
Exchange loss on translationof foreign operations	-	-	-	-	-	(2,838)	(2,838)	-	(302)	(3,140)
Net loss for the year	-	-	-	-	-	-	-	(23,385)	(2,873)	(26,258)
Balance at 31 December 2015	**109,996**	**(6,798)**	**51,240**	**6,980**	**1,955**	**(5,774)**	**3,161**	**(31,595)**	**4,944**	**130,948**
Balance at 1 January 2014	109,996	(6,798)	72,050	6,980	3,729	(725)	9,984	(20,810)	7,260	171,682
Fair value gain on investments classified through equity - net	-	-	-	-	6,051	-	6,051	-	-	6,051
Exchange loss on translationof foreign operations	-	-	-	-	-	(2,211)	(2,211)	-	(157)	(2,368)
Retained loss adjustment	-	-	(20,810)	-	-	-	-	20,810	-	-
Net (loss) / profit for the year	-	-	-	-	-	-	-	(8,210)	85	(8,125)
Transferred to statutory reserve	-	-	-	-	-	-	-		2,837	2,837
Balance at 31 December 2014	109,996	(6,798)	51,240	6,980	9,780	(2,936)	13,824	(8,210)	10,025	170,077

The attached explanatory notes 1 to 25 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

1. CORPORATE INFORMATION AND ACTIVITIES

International Investment Bank B.S.C. (c) ["the Bank"] operates under a Wholesale Islamic Banking License issued by the Central Bank of Bahrain ["the CBB"]. The core business activities of the Bank include investing on its own account and investment, underwriting and placement in real estate and private equity and corporate finance in conformity with Islamic Shari'a.

The Bank was incorporated on 6 October 2003, under commercial registration number 51867 as a Bahrain Joint Stock Company (closed). The Bank's registered office is at 37th floor, Al Moayyed Tower, PO Box 11616, Manama, Kingdom of Bahrain.

The Bank and its subsidiaries (together the "Group") operate in the Kingdom of Bahrain and the Cayman Islands.

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 28 February 2016.

2. ACCOUNTING POLICIES

a) Basis of preparation

These consolidated financial statements have been prepared under the historical cost convention except for equity-type investments and investment in real estate which have been measured at fair value.

The consolidated financial statements are presented in United States Dollar ["US$"] which is the Bank's functional currency. All values are rounded to nearest thousand dollar, unless otherwise indicated.

b) Statement of compliance

The consolidated financial statements of the Group have been 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 Bank, 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. For matters not covered by FAS, the Group uses the relevant International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

c) Restatement of comparative figures

During the year ended 31 December 2015, the management has assessed that since the business model of the Bank closely reflects that of a venture capitalist (VC), it can avail the option of reclassifying its investments in associates as investments through income statement. Since FAS 24 scopes out the investments made by VC, guidance is sought from International Financial Reporting Standard (IFRS). As per International Accounting Standard ('IAS') 28 'Investments in associates and Joint Ventures', when an investment in an associate is held by an entity that is a venture capital organization, the entity may elect to measure investments in those associates at fair value through income statement in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'. The management of the Bank is of the view that by changing its current accounting policy, the presentation of its financial statements will provide information that is reliable and is more relevant to users of the financial statements.

In accordance with FAS 1 ' General Presentation and Disclosure in the Financial Statements of Islamic Banks and Financial Institutions', if the management of the Islamic Bank decides to change an accounting policy, the new policy should be applied retrospectively by restating the financial statements for the last period presented. The Bank has restated it consolidated statement of financial position, consolidated statement of income, consolidated statement of cash flows and respective notes to the consolidated financial statements.

The details of the restatement are:

	Previously reported US$ '000	As reported herein US$ '000
31 December 2014		
a) Consolidated statement of financial position		
Investments	50,554	93,708
Investment in associate	47,858	4,704
b) Consolidated statement of income		
Unrealised fair value gain on investment classified as fair value through income statement	-	(109)
31 December 2013		
a) Consolidated statement of financial position		
Investments	48,472	89,852
Investment in associate	45,352	3,972

There is no restatement adjustment in the consolidated statement of equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2015

2. ACCOUNTING POLICIES (continued)

d) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2015. The financial information of the subsidiaries (including special purpose entities that the Bank consolidates) are prepared for the same reporting year as the Bank, using consistent accounting policies.

A subsidiary is an entity over which the Group has power to control, which is other than fiduciary in nature. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases to exist. Control is achieved where the Group has the power, directly or indirectly, to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate. A change in the Group's ownership of a subsidiary, without a loss of control, is accounted for as an equity transaction.

All intra-group balances, transactions, income and expenses are eliminated in full.

Non-controlling interest represents the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Group. Non-controlling interests are presented separately in the consolidated statement of income and within equity in the consolidated statement of financial position, separately from owners' equity. Any losses applicable to the non-controlling interest in excess of the non-controlling interests are allocated against the interests of the non-controlling interest even if this results in the non-controlling interest having a deficit balance. Transaction with the non controlling interest are handled in the same way as transactions with external parties.

The following are the Group's subsidiaries as at 31 December 2015:

Name of subsidiary	Country of incorporation	Year of incorporation	Equity interest	Industry
Istethmary Sarajevo City Centre-I Limited	Cayman Islands	2009	93.77%	SPV for investment in real estate
Istethmary Al Fareeda Company B.S.C (c)	Kingdom of Bahrain	2008	100.00%	SPV for investment in real estate
Bahrain Bunny Shares & Securities Co. W.L.L.	Kingdom of Bahrain	2012	63.10%	SPV for investment in fast food industry
Multifamily Residential Ltd-I ("MR-I")	Cayman Islands	2013	100.00%	SPVs for investment in real estate
Multifamily Residential Ltd-II ("MR-II")	Cayman Islands	2013	100.00%	
IIBN Aircraft Lease SPC Limited	Cayman Islands	2014	100.00%	SPVs for investment in aircraft lease

e) Significant accounting judgements and estimates

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

Going concern

The Group's management has made an assessment of the Group's 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 a going concern basis.

Fair value

Fair value is the price that would be received upon the sale of an asset or that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value of unquoted investments at fair value through equity or income statement

Where the fair value of the Group's investment portfolio cannot be derived from an organised market, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgement by management is required to establish fair values. The judgements include consideration of comparable assets, discount rates and the assumptions used to forecast cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

2. ACCOUNTING POLICIES (continued)

Fair value of investment in real estate

The fair value of investment in real estate is determined by independent real estate valuation experts. The determination of the fair value of such assets requires the use of judgement and estimates by independent valuation experts that are based on local market conditions existing at the date of the consolidated statement of financial position.

Impairment

Investment at fair value through equity

The Group treats investments classified as fair value through equity as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment. In making this judgment, the Group evaluates, among other factors, normal volatility in share price and duration and the extent to which the fair value of quoted equities is less than its cost and the future cash flows and the discount factors for unquoted equities.

Financial instruments at amortised cost

The Group reviews its doubtful financial contracts on each reporting date to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty, and actual results may differ resulting in future changes to such provisions.

Impairment provisions against investment in ijarah assets

At the end of each reporting period an assessment is made to determine whether any evidence of impairment exists in the Group's investment in ijarah assets by comparing the carrying amount to the recoverable amount. The recoverable amount is determined by independent valuation experts with specific expertise in the valuation of such assets. Judgment is applied by the independent valuation experts in determining the cash flows, discount rates and in identification of assets comparable to the asset being valued.

Useful life of an aircraft

Management assigns useful lives to aircrafts based on the intended use of assets and the economic lives of those assets. Subsequent changes in circumstances such as technological advances or prospective utilisation of the assets concerned could result in the actual useful lives differing from initial estimates.

Provision of other receivables

An aging analysis is prepared for all other receivable balances reflecting the period between the initial income recognition date and the reporting date. Reflecting the age of each receivable, a provision is booked in accordance with the definitions and percentages in the following table:

Period since initial recognition	Status	Minimum Provision
Under 12 months	Regular	0%
Over 12 months	Sub-standard	25%
Over 24 months	Doubtful	50%
Over 36 months	Loss	100%

f) Summary of significant accounting policies

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

i) Foreign currency translation

The consolidated financial statements are presented in United States Dollar, which is the Group's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency at the rate of exchange prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using rates of exchange prevailing at the consolidated statement of financial position date. All differences are taken to the consolidated statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

2. ACCOUNTING POLICIES (continued)

f) Summary of significant accounting policies (continued)

Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rates at the dates of initial recognition. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates prevailing at the date when the fair value was determined. Translation gains or losses on non-monetary items carried at fair value are included in equity as part of the fair value adjustment on investments classified as fair value through equity.

Group companies
As at the reporting date, the assets and liabilities of subsidiaries are translated into the Group's presentation currency (US$) at the rate of exchange prevailing at the consolidated statement of financial position date, and their statements of income are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are recognised directly in equity. On disposal of a foreign subsidiary, the cumulative amount recognised in equity relating to that particular foreign subsidiary is recognised in the consolidated statement of income.

ii) Financial instruments

Date of recognition
All financial assets and liabilities are initially recognised on the trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument.

Initial and subsequent measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are initially recognised at their cost being the fair value of the consideration given plus any directly attributable incremental costs of acquisition or issue, except in the case of financial assets recorded at fair value through statement of income. In case of financial assets carried at fair value through statement of income, the incremental costs of acquisition or issue are immediately expensed in the consolidated statement of income.

Cash and balances with banks
Cash and balances with banks are carried at amortised cost in the consolidated statement of financial position.

Due from financial institutions
Due from financial institutions comprise of commodity murabaha receivables and are stated net of deferred profit and provision for impairment, if any.

Murabaha receivables are sales on deferred terms. The Bank arranges a murabaha transaction by buying a commodity (which represents the object of the murabaha) and then resells this commodity to the 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.

Musharaka
Musharaka is a form a partnership between the Bank and its clients / investors whereby each party contributes to the capital in partnership in equal or varying degrees to establish a new project or share in an existing one, and whereby each of the parties becomes an owner of the capital on a permanent or declining basis and shall have his due share of profits. However, losses are shared in proportion to the contributed capital.

Musharaka is recognised at the amount paid or made available, when it is paid to the partner or made available to him on account of the musharaka. The Group's share in the musharaka is measured at the date of consolidated statement of financial position at historical cost. Profits in respect of the Group's share in musharaka transactions are recorded to the extent the profits are distributed and declared and losses are recognised to the extent that such losses are being deducted from the Group's share of musharaka capital.

Investments
Investments are classified as follows:

- Investments at fair value through equity
- Investments at amortised cost
- Investments at fair value through statement of income

Fair value through equity
After initial recognition, investments designated as fair value through equity are remeasured at fair value. Unrealised gains and losses are recognised directly in equity in the 'fair value reserve'. When the investment is disposed of or determined to be impaired, the cumulative gain or loss, previously transferred to the fair value reserve, is recognised in the consolidated statement of income. Where the Group holds more than one investment in the same security they are deemed to be disposed of on a weighted average basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

2. ACCOUNTING POLICIES (continued)

f) Summary of significant accounting policies (continued)

ii) Financial instruments (continued)

Amortised cost

These instruments are managed on a contractual yield basis and are not held for trading and have not been designated at fair value through statement of income. 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 and amortising it using the effective profit rate method. Any gain or loss on such investment is recognised in the consolidated statement of income, when the investment is de-recognised or impaired.

Fair value through statement of income

Investments at fair value through statement of income include investments designated upon initial recognition as investments at fair value through statement of income. Financial assets carried at fair value through statement of income are recognised at fair value, with transaction costs recognised in the consolidated statement of income.

The Group also utilises the exemption available in accordance with IAS 28 and FAS 24 as applicable to venture capital organisations and classifies such investments in joint ventures and associates as "investments at fair value through statement of income". Financial assets carried at fair value through statement of income are recognised at fair value, with transaction costs recognised in the consolidated statement of income.

iii) Derecognition of financial instruments

Financial assets

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

- the rights to receive cash flows from the asset has expired; or
- 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
- the Group has transferred its right to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the assets, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Financial liabilities

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

iv) Investment in real estate

Real estate held for rental or capital appreciation purposes, or both, is classified as investment in real estate. Investment in real estate is initially recognised at cost including transaction costs and subsequently re-measured at fair value with the resulting unrealised gains being recognised in the statement of changes in equity under fair value reserve. Losses after adjusting any unrealised gain in equity, are taken to the consolidated statement of income. In the case of unrealised losses that have been recognised in the statements of income in previous periods, the unrealised gains related to the current financial period are recognised to the extent of crediting back such previous losses in the consolidated statement of income. Any excess of such gains over such prior-period losses are added to the "fair value reserve" in the consolidated statement of financial position.

v) Impairment of financial assets

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

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in profit or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

2. ACCOUNTING POLICIES (continued)

f) Summary of significant accounting policies (continued)

v) Impairment of financial assets (continued)

Investments classified as fair value through equity

In the case of equity investments designated as fair value through equity, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of income) is recycled from fair value reserve and recognised in the statement of income. Impairment losses on equity investments are not reversed through the statement of income; increases in their fair value after impairment are recognised directly in equity.

Investments carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in the collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of a provision account and the amount of the loss is recognised in the consolidated statement of income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective profit rate. If a financial asset has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable.

vi) Offsetting of financial instruments

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

vii) Investment in associate

The Group's investments in associates are accounted for under the equity method of accounting. These are entities over which the Group exercises significant influence. Significant influence is presumed to exist if the Bank holds, directly or indirectly through its subsidiaries, 20% or more of the voting rights in an entity, unless it can be clearly demonstrated otherwise. Conversely, the significant influence may also exist through agreements with the entity's other shareholders or the entity itself regardless of the level of shareholding that the Bank has in the said entity.

Under the equity method, an investment in an associate is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised or individually tested for impairment.

After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in the associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of income.

The consolidated statement of income reflects the share of the results of operations of the associate. Where there has been income or expense recognised in the other comprehensive income of the associate, the Group recognises its share of any such income or expense, when applicable, directly in equity. Gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of stake in the associate.

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognised in the consolidated statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

2. ACCOUNTING POLICIES (continued)

f) Summary of significant accounting policies (continued)

ix) Investment in ijarah assets

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

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

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

x) Wakala payable

Wakala payable is recorded at amortised cost including the transaction cost, if any. There is no restriction on the Group for the use of funds received under wakala agreement. Profit on these is accrued on a time-apportioned basis over the period of the contract based on the principal amounts outstanding.

xi) Revenue recognition

The Group earns acquisition, structuring, placement and brokerage fees during the acquisition and placement process for rendering services including: structuring of transactions, acquiring and leasing properties, placements with investors and arranging financing. These fees are recognised when earned, generally on receipt of cash and signed share purchase agreements by the Group.

Management fees represent a recurring fee earned by the Group for rendering management and administrative services. Management fees are recognised as and when services are rendered.

Income on due from financial institutions represents income from murabaha receivables. Murabaha income is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding. Income that is overdue by 90 days or more is excluded from the income of the year.

Rental income from investment in real estate is recognised on the basis of contractual amounts receivable on a time apportioned basis and recorded on a net basis in the statement of income as income from investment in real estate.

Rental income from investment in ijarah assets is recognised on the basis of contractual amounts receivable on a time apportioned basis.

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

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

xii) Employees' end of service benefits

Provision is made for leaving indemnity payable under the Bahrain Labour Law applicable to non-Bahraini employees based upon accumulated periods of service at the statement of financial position date.

Bahraini employees of the Group are covered by contributions made to the General Organisation of Social Insurance Scheme (GOSI) as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due. Provision for leaving indemnity is also made for Bahraini employees having salary above the limit prescribed by Bahrain Labour Law.

xiii) Zakat

In accordance with its Articles of Association, the Bank is not required to pay Zakat on behalf of its shareholders.

xiv) Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with banks and amounts due from financial institutions with original maturities of ninety days or less.

xv) Fiduciary assets

Assets held in a fiduciary capacity are not reported in the consolidated statement of financial position, as they are not the assets of the Group.

xvi) Proposed dividend

Proposed dividends are included as part of equity and only recognised as liabilities when approved by the shareholders.

xvii) Provisions

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

2. ACCOUNTING POLICIES (continued)

f) Summary of significant accounting policies (continued)

xviii) Treasury shares

Own equity instruments which are acquired (treasury shares) are deducted from equity. No gain or loss is recognised in the consolidated statement of income on the purchase and sale of the Group's own equity instruments. No dividends are paid on treasury shares.

xix) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). CODM is a person or group that allocates resources to and assesses the performance of the operating segments of the entity. The Group has determined the Chief Executive Officer as its CODM.

xx) New standards, amendments and interpretations

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'. Upon adoption of this standard, applicable from 1 January 2016, certain disclosures with respect to investment account holders and bases of profit allocation will be enhanced without having any significant impact on the financial statements of the Group.

3. DUE FROM FINANCIAL INSTITUTIONS

	2015 US$ '000	2014 US$ '000
Commodity murabaha	**35,767**	59,086
Deferred income	**(16)**	(11)
	35,751	59,075

These represent short term placements entered with financial institutions carrying profit rate ranging from 0.65% to 0.91% (2014: 0.45% to 0.75%) per annum and maturities up to 1 January 2016.

4. RECEIVABLES

	Note	**2015 US$ '000**	2014 US$ '000
Commodity murabaha receivable from investee companies		**3,504**	5,930
Receivable from investee companies		**1,371**	1,204
Management fee receivables		**1,101**	3,140
Other receivables		**216**	3
		6,192	10,277
Provision	4.1	**(4,011)**	(7,668)
		2,181	2,609

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

4. RECEIVABLES (continued)

4.1 Movement in provisions

	Commodity murabaha receivables from investee companies 2015 US$ '000	Receivables from investee companies 2015 US$ '000	Management fee receivable 2015 US$ '000	Total 2015 US$ '000	Total 2014 US$ '000
As at 1 January	**3,993**	**585**	**3,090**	**7,668**	5,228
Charge during the year	**-**	**1,178**	**-**	**1,178**	2,440
Provision written off against receivables	**(2,426)**	**(416)**	**(1,993)**	**(4,835)**	-
	(2,426)	**762**	**(1,993)**	**(3,657)**	2,440
As at 31 December	**1,567**	**1,347**	**1,097**	**4,011**	7,668

5. INVESTMENTS

	2015 US$ '000	Restated 2014 US$ '000	Restated as at 1 January 2014 US$ '000
Equity Type			
Fair value through equity			
Quoted	**6,105**	8,514	8,487
Unquoted	**25,281**	39,465	30,485
	31,386	47,979	38,972
Fair value through income statement			
Unquoted	**47,110**	47,179	41,380
Provision for impairment - net	**(1,000)**	(1,450)	(500)
Debt Type			
At amortised cost			
Unquoted	**4,987**	-	10,000
	82,483	93,708	89,852

Movement in provision - net

	2015 US$ '000	2014 US$ '000
Provision as at 1 January	**1,450**	500
Charge for the year	**4,192**	1,360
Provision written-off against investments	**(4,642)**	(410)
As at 31 December	**1,000**	1,450

5.1. During the year, the Bank recorded an impairment loss amounting to US$ 3,946 thousand (2014: Nil) on its investments classified as fair value through equity.

5.2. Quoted and unquoted investments include US$ 4,897 thousand (2014: US$ 6,529 thousand) and US$ 1,869 thousand (2014: US$ 2,068 thousand) respectively, held on behalf of the Bank, in the name of related parties for which risk and rewards are borne by the Bank.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

6. INVESTMENT IN IJARAH ASSET, NET OF DEPRECIATION

The investment in ijarah asset represents aircraft indirectly acquired, during 2015, through an equity investment in IIBN Lease SPC Limited (a subsidiary of the Bank).

	2015 US$ '000	2014 US$ '000
Cost:		
At 1 January	**77,750**	-
Additions	**140,847**	77,750
Disposal	**(140,847)**	-
At 31 December	**77,750**	77,750
Depreciation:		
At 1 January	**2,138**	-
For the year	**7,382**	2,138
Disposal	**(3,883)**	-
At 31 December	**5,637**	2,138
Net book value:		
At 31 December	**72,113**	75,612

In March 2015, an aircraft with a carrying value of US$ 140,847 thousand was leased by IIBN Aircraft Lease 2 Ltd (IIBN L2), a Cayman entity in which IIB has an indirect stake of 97% through SPV, IIBN Aircraft Fin 2 Ltd, also a Cayman registered company. This aircraft was subleased by IIBN L2 to Emirates Aircraft for a non cancellable lease of 9 years.

In October 2015, the aircraft was sold by IIBN L2. Based on a 97% indirect stake, the Bank recorded a capital gain of US$ 1.841 million.

7. INVESTMENT IN REAL ESTATE

Investment in real estate comprises of an eleven-storey residential tower, in Kingdom of Bahrain, with 23 apartments. During the year the property has generated an average net monthly income of US$ 34.5 thousand (2014: US$ 34.5 thousand). The property is stated at fair value, determined based on valuations performed by two independent professional valuers as of 31 December 2015.

8. MUSHARAKA

This represents equity participation by the Bank through Shari'a compliant debt and equity structure entities. 11 USCOs (held by a PropCo.) which are based in United States of America (USA), entered into an economic interest agreement with Atlas Multifamily three LLC (the "Company") based on which it has 95% economic interest in the Company. The management of the Bank believes that the economic interest agreement in substance is a Musharaka arrangement. The PropCo is accumulating net rental yields. However, due to pending regulatory approvals, PropCo is not able to transfer their yields to the Group. Therefore, the Group has not recorded any income on Musharaka during 2014 and 2015.

9. INVESTMENT IN ASSOCIATE

	Ownership	**2015 US$ '000 Carrying value**	Restated 2014 US$ '000 Carrying value	Restated as at 1 January 2014 US$ '000 Carrying value
IIB UAE Investments Limited	**27.32%**	**4,184**	6,476	5,744
Provisions		**(3,349)**	(1,772)	(1,772)
		835	4,704	3,972

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

9. INVESTMENT IN ASSOCIATE (continued)

Following is the summarised financial information of the Group's investment in associates based financial information as at 31 December 2015:

	2015 US$ '000	2014 US$ '000
Total assets	**23,944**	36,013
Total liabilities	**(981)**	(4,654)
Net assets	**22,963**	31,359
Total income	**-**	4,345
Total expenses	**62**	858
Net (loss) / income	**(62)**	3,487
Share of (loss) / profit from associate	**(14)**	731

9.1 During 2007, Bay Development Properties Limited ("the Company"), in which IIB UAE Investments Limited owns 64.80% of the equity, entered into a conditional sale/purchase agreement with a buyer and a master developer to sell an investment property. Subsequently, the Company terminated this sale/purchase agreement on the basis that the buyer and the master developer failed to fulfill their contractual obligations. The parties then commenced a court action against the Company for specific performance of the sale/purchase agreement.

Since 2007, there have been a number of Court and Appeal Court hearings and decisions. On 28 January 2015, the Court of Cassation gave its final verdict on the case, in which the Court of Cassation decided on two matters as follows:

(a) Ordered the master developer to pay an amount of AED 42 million (US$ 11.44 million);

(b) Ordered the re-trial by the Court of Appeals for the payment of AED 130 million from the buyer (US$ 35.34 million).

Subsequently, the Court issued a cheque amounting to AED 42 million (US$ 11.44 million) on 19 March 2015 which has been received by the Company. The Court of Cassation has ordered a retrial of the case with buyer. The Court of Appeal issued its verdict on 27 May 2015 in favor of the Company, and ordered the buyer to pay AED 130 million (US$ 35.39 principal plus 9% profit). The buyer submitted an appeal request with the Court of Cassation but the Court of Cassation rejected their claim. The Company started execution procedures with the Court of Execution in October 2015, and is still in process. The Company filed for criminal proceedings against the Managing Director of the buyer on the grounds of issuing cheques with no bank account. On October 26, 2015, the Court of First Instance issued its verdict sentencing the Managing Director to 3 years imprisonment. The buyer has appealed this verdict with the Court of Appeal and on November 17, 2015 the court rejected their appeal. The buyer has appealed further with the Court of Cassation. On January 29, 2016 the Court of Cassation rejected the appeal and the imprisonment sentence has been maintained.

The plot of land was offered to auction sale on July 20, 2015, and sold to a third party for AED 92 million (US$ 25.05 million). The Company managed to obtain approval from the Court Committee to include its name as one of the beneficiaries based on the execution order. The Committee approved to include its name and once the Dubai Courts approve the formality of the sale, the Company will receive its share of the sale proceeds.

The buyer also has another asset in Business Bay that was sold in auction in June 2015. The Company has submitted a request to the Court Committee to include its name as a beneficiary, and still waiting for approval.

10. TERM FINANCE

	2015 US$ '000	2014 US$ '000
Balance at beginning of the year	**68,019**	-
Funds acquired during the year	**120,000**	70,000
Repayments	**(123,551)**	(1,981)
	64,468	68,019

The above financings have been obtained by the Bank's subsidiary to purchase ijarah assets (note 7). The financing comprises of two components, a senior loan and a mezzanine loan. The profit on these financings ranges between 4.34% to 6.50% and these financings mature on 22 July 2026. There is no recourse to the Bank on these financings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2015

11. WAKALA PAYABLE
During December 2014, the Bank obtained wakala financing on an unsecured basis from a ministry in the Kingdom of Bahrain. The maturity of wakala is in December 2018 and it carries a fixed profit rate of 6% per annum.

12. OTHER LIABILITIES

	2015 US$ '000	2014 US$ '000
Employee related accruals	754	632
Advance rent received	69	542
Accrued expenses	1,508	158
Other payables	927	1,995
	3,258	3,327

13. OWNERS' EQUITY
13.1 Share capital

	2015 US$ '000	2014 US$ '000
Authorised: 200,000,000 ordinary shares of US$ 1 each	200,000	200,000
Issued and fully paid: 109,996,000 ordinary shares of US$ 1 each	109,996	109,996

13.2 Treasury Shares

	2015		2014	
	Number of shares '000	Value US$ '000	Number of shares '000	Value US$ '000
At 31 December	3,000	6,798	3,000	6,798

13.3 Statutory reserve
The statutory reserve has been created in accordance with the Bahrain Commercial Companies Law. The Bank transfers 10% of its annual profits to its statutory reserve until such time as the reserve equals 50% of the issued share capital of the Bank. The reserve is not available for distribution, except in circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain. No transfer to statutory reserve has been made on account of loss during the year.

13.4 Cumulative changes in fair value reserve
This represents unrealised fair valuation gains or losses on investments and unrealised fair value gain on investment in real estate. This reserve is distributable upon value realisation, which takes place at the time of actual exit or derecognition.

13.5 Foreign currency translation reserve
This represents foreign currency movements on translation of assets classified as fair value through equity and subsidiaries denominated in foreign currencies.

14. NET INCOME FROM INVESTMENT IN IJARAH ASSETS

	2015 US$ '000	2014 US$ '000
Rental income from investment in ijarah assets	15,798	4,931
Other ijarah operational expenses	(650)	(252)
Financing cost of investment in ijarah assets	(5,361)	(2,124)
Depreciation on ijarah assets	(7,053)	(2,138)
	2,734	417

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2015

15. INVESTMENT BANKING FEES AND OTHER INCOME

	2015 US$ '000	2014 US$ '000
Dividend	**202**	69
Management fees	**50**	1,022
Other income	**16**	2
Placement fees	**-**	489
Reversal of unrealised fair value losses on investment in real estate	**-**	113
	268	1,695

16. STAFF COSTS

	2015 US$ '000	2014 US$ '000
Salaries and other staff related costs	**3,732**	3,044
End of service benefits	**122**	139
	3,854	3,183

17. OTHER OPERATING EXPENSES

	Note	2015 US$ '000	2014 US$ '000
Deal related expenses		**459**	949
Directors' expenses		**215**	50
Shari'a Supervisory Board expenses		**123**	109
Advertisement expenses		**99**	111
Business travel expenses		**93**	245
Depreciation		**51**	286
IT expenses		**45**	46
Others	17.1	**697**	341
		1,782	2,137

17.1 Others include expense on account of regulatory penalties amounting to US$ 290 thousand (2014: Nil).

18. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Related parties represent associated companies, major shareholders, directors and key management personnel of the Bank, the Bank's Shari'a Supervisory Board and entities controlled, jointly controlled or significantly influenced by such parties. Transactions with related parties arise from the ordinary course of business.

The significant balances with related parties are as follows:

	Shareholders/ directors US$ '000	Others US$ '000	Total 2015 US$ '000	Restated 2014 US$ '000
Assets				
Investments	6,766	-	**6,766**	8,674
Musharaka	-	25,144	**25,144**	25,144
Investment in associate	-	835	**835**	4,704
Receivable from investee companies	-	-	**-**	6,118

Transactions with related parties during the year are as follows:

	Shareholders/ directors US$ '000	Others US$ '000	Total 2015 US$ '000	Restated 2014 US$ '000
Expenses				
Directors' expense	215	-	**215**	62
Shari'a Supervisory Board expenses	-	123	**123**	109

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2015

18. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (continued)

Compensation of key management personnel was as follows:

	2015 US$ '000	2014 US$ '000
Short term employee benefits	**2,806**	2,169
End of service benefits and social service benefits	**201**	242
	3,007	2,411

19. SEGMENT INFORMATION

For management purposes, the Group is organized into business units based on the nature of their operations and services, which are all conducted from the Group's head office in the Kingdom of Bahrain. The three business units comprise of investment banking, investment management and treasury & equity management.

The investment banking unit mainly originates, structures, packages and sells down investments in real estate (both development and revenue generating assets) and private equity sectors. It earns structuring and placement fees through placement of investment. Its expenses comprises of due diligence and structuring fees paid to lawyers, consultants, accountants and other professional advisors.

The investment management unit supervises and manages the portfolio of structured assets on behalf of the investors together with the Group's portfolio of listed and unlisted direct investments. It earns annual management fees on the structured assets during the life of the investment plus fees at exit provided that the stipulated internal rate of return is achieved, together with dividends and gains / losses at the time of disposal.

The treasury and equity management unit manages the Group's liquid assets, cash flow forecasting and assets and liabilities, together with the profit rate, foreign exchange and market risks. It earns profit from short term placements to corporate and banking entities based on murabaha and wakala principles.

The following tables show the segmental information of the Group's income and expenses:

a) Income and expenditure

	Investment banking & placement 2015 US$ '000	**Investment management 2015 US$ '000**	**Treasury & equity management 2015 US$ '000**	**Total 2015 US$ '000**
Income	**50**	**5,426**	**236**	**5,712**
Expenses	**(3,624)**	**(872)**	**(2,356)**	**(6,852)**
	(3,574)	**4,554**	**(2,120)**	**(1,140)**
Fair value loss on investments	**-**	**(12,310)**	**-**	**(12,310)**
Provisions for impairment	**-**	**(10,893)**	**-**	**(10,893)**
Unallocated expenses	**-**	**-**	**-**	**(1,915)**
Net loss	**(3,574)**	**(18,649)**	**(2,120)**	**(26,258)**

The table below shows the segmental details of income and expenses for the year 2014 (restated).

	Investment banking & placement 2014 US$ '000	Investment management 2014 US$ '000	Treasury & equity management 2014 US$ '000	Total 2014 US$ '000
Income	489	2,271	323	3,083
Expenses	(2,062)	(503)	(1,904)	(4,469)
	(1,573)	1,768	(1,581)	(1,386)
Fair value gain on investments	-	622	-	622
Provisions for impairment	-	(5,800)	-	(5,800)
Unallocated expenses	-	-	-	(1,561)
Net loss	(1,573)	(3,410)	(1,581)	(8,125)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

19. SEGMENT INFORMATION (continued)

b) Assets and liabilities

Segmental information of the assets and liabilities of the group, based on the income streams, for the year 2015 is given below:

	Investment banking & placement 2015 US$ '000	Investment management 2015 US$ '000	Treasury & equity management 2015 US$ '000	Total 2015 US$ '000
Assets	**25,144**	**162,317**	**41,773**	**229,234**
Liabilities	**-**	**95,028**	**-**	**95,028**
Unallocated liabilities	**-**	**-**	**-**	**3,258**

Segmental details of the assets and liabilities of the group, based on the income streams, for the year 2014 is given below:

	Investment banking & placement 2014 US$ '000	Investment management 2014 US$ '000	Treasury & equity management 2014 US$ '000	Total 2014 US$ '000
Assets	25,144	181,305	64,974	271,423
Liabilities		98,019		98,019
Unallocated liabilities	-	-	-	3,327

Liabilities amounting to US$ 3,258 thousand (2014: US$ 3,327 thousand) are considered as unallocated on the basis that these do not relate to any of the reportable segment.

c) Geographical segment information

Segmental details of the assets and liabilities of the group, between domestic and overseas, for the year 2015 is given below:

	Domestic 2015 US$ '000	Overseas 2015 US$ '000	Total 2015 US$ '000
Assets	**55,354**	**173,880**	**229,234**
Liabilities	**33,820**	**64,466**	**98,286**

Segmental details of the assets and liabilities of the group, between domestic and overseas, for the year 2014 is given below:

	Domestic 2014 US$ '000	Overseas 2014 US$ '000	Total 2014 US$ '000
Assets	74,970	196,453	271,423
Liabilities	33,327	68,019	101,346

20. COMMITMENTS

	2015 US$ '000	2014 US$ '000
Operating lease relating to rented premises		
Expiring within one year	**213**	213
Expiring in one to three years	**258**	471
	471	684

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

21. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of financial assets and liabilities analysed according to when they are expected to be recovered or settled. See note 22.3 "Liquidity risk and funding management" for the Bank's contractual undiscounted repayment obligations.

As at 31 December 2015	Up to 3 months US$ '000	3 to 12 months US$ '000	Subtotal less than 12 months US$ '000	1 to 3 years US$ '000	3 to 5 years US$ '000	Undated US$ '000	Total US$ '000
ASSETS							
Cash and balances with banks	**3,654**	**-**	**3,654**	**-**	**-**	-	**3,654**
Due from financial institutions	**35,751**	**-**	**35,751**	**-**	**-**	-	**35,751**
Receivables	**1,325**	**142**	**1,467**	**82**	**632**	-	**2,181**
Investments	**-**	**-**	**-**	**77,496**	**4,987**	-	**82,483**
Investment in ijarah asset, net of depreciation	**-**	**-**	**-**	**-**	**72,113**	-	**72,113**
Investment in real estate	**-**	**-**	**-**	**5,547**	**-**	-	**5,547**
Investment in associate	**-**	**-**	**-**	**835**	**-**	-	**835**
Musharaka	**-**	**-**	**-**	**-**	**25,144**	-	**25,144**
Other assets (including equipment)	**173**	**1,166**	**1,339**	**5**	**2**	**180**	**1,526**
Total assets	**40,903**	**1,308**	**42,211**	**83,965**	**102,878**	**180**	**229,234**
LIABILITIES							
Term finance	**874**	**2,677**	**3,551**	**11,657**	**49,260**	-	**64,468**
Wakala payable	**560**	**-**	**560**	**30,000**	**-**	-	**30,560**
Other liabilities	**2,189**	**315**	**2,504**	**754**	**-**	**-**	**3,258**
Total liabilities	**3,623**	**2,992**	**6,615**	**42,411**	**49,260**	**-**	**98,286**
Net gap	**37,280**	**(1,684)**	**35,596**	**41,554**	**53,618**	**180**	**130,948**

As at 31 December 2014 (restated)							
ASSETS							
Cash and balances with banks	3,560	-	3,560	-	-	-	3,560
Due from financial institutions	59,075	-	59,075	-	-	-	59,075
Receivables	76	1,592	1,668	428	513	-	2,609
Investments	-	-	-	93,708		-	93,708
Investment in ijarah asset, net of depreciation					75,612		75,612
Investment in real estate	-	-	-	5,412	-	-	5,412
Investment in associate	-	-	-	4,704		-	4,704
Musharaka	-	-	-	-	25,144	-	25,144
Other assets (including equipment)	1,352	47	1,399	3	3	194	1,599
Total assets	64,063	1,639	65,702	104,255	101,272	194	271,423
LIABILITIES							
Term finance	874	2,677	3,551	11,657	52,811	-	68,019
Wakala payable	-	-	-	30,000	-	-	30,000
Other liabilities	2,629	66	2,695	632	-	-	3,327
Total liabilities	3,503	2,743	6,246	42,289	52,811	-	101,346
Net gap	60,560	(1,104)	59,456	61,966	48,461	194	170,077

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

22. RISK MANAGEMENT

22.1 Introduction

Risk is inherent in the Group's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The main risks to which the Group is exposed are credit risk, liquidity risk, market risk, operational risk and legal risk.

a) Risk management structure

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

Shari'a Supervisory Board
The Shari'a Supervisory Board reviews the principles and contracts relating to the transactions conducted by the Group to judge whether it followed the principles of the Islamic Shari'a and specific fatwas, rulings and guidelines issued.

Executive Committee
The Executive Committee comprising of the Board members considers and approves requests to purchase and sell individual investments up to the limit imposed by the Board.

Investment Committee
Potential deals are presented to the Investment Committee and Risk Management Committee for consideration and those worthy of further evaluation are forwarded to the Executive Committee for initial approval to initiate detailed due diligence procedures.

Risk Management Committee
The Risk Management Committee has the overall responsibility for establishing the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions.

Risk Management Department
The Risk Management Department is responsible for implementing the appropriate risk management strategy and methodology for the Group. It ensures that there are adequate control procedures in place such that the risks exposed to are within the approved limits.

Assets & Liabilities Committee
The Assets & Liabilities Committee is responsible for monitoring liquidity risk, profit rate risk, foreign currency limits/exposures, capital adequacy and the overall asset/liability mix.

Audit Committee
The Audit Committee is appointed by the Board and consists of three non-executive Board members. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and risk management, the audit thereof, the soundness of the internal controls of the Group, the measurement system of risk assessment and relating these to the Group's capital, and the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

Internal Audit
Risk management processes throughout the Group are audited at least annually by the Internal Audit Department, based on the risk-based audit plan approved by the Audit Committee. Audit staff examine both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, then reports its findings and recommendations to the Audit Committee.

b) Risk measurement and reporting systems

Currently, the Group's assets mainly comprise cash and balances with banks, due from financial institutions, receivables and investments (including investment in real estate, investment in ijarah asset and investment in associates). Balances with banks and due from financial institutions represent deposits with GCC incorporated banks with investment grade credit ratings. Investments comprise mainly retentions in the Bank's investment offerings, which are illiquid.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

22. RISK MANAGEMENT (continued)

22.1 Introduction (continued)

c) Excessive risk concentration

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

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

22.2. Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group manages credit risk by setting limits for individual counterparties. Counterparty limits are set by the Board of Directors, monitored by the Risk Management Department and reviewed regularly.

a) Risk concentrations of the maximum exposure to credit risk

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

	Note	**Gross credit exposure 2015 US$ '000**	Gross credit exposure 2014 US$ '000
Credit risk items:			
Balances with banks		**3,652**	3,558
Due from financial institutions	3	**35,751**	59,075
Receivables	4	**2,181**	2,609
Musharaka	8	**25,144**	25,144
Other assets		**1,346**	1,405
Total Credit Risk Exposure		**68,074**	91,791

The above disclosure is considered to be reasonably representative of the level of credit risk of the Group, as there has been no significant fluctuation in the credit risk assets during the year.

b) Geographic distribution of the gross funded exposures

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

As at 31 December 2015	**Balances with banks US$ '000**	**Due from financial institutions US$ '000**	**Receivables US$ '000**	**Musharaka US$ '000**	**Other assets US$ '000**	**Total US$ '000**
Geographical region:						
Bahrain	**2,172**	**35,751**	-	-	**203**	**38,126**
Europe	**1,081**	-	**1,378**	-	**1,143**	**3,602**
Other GCC countries	**399**	-	**240**	-	-	**639**
Africa	-	-	**50**	-	-	**50**
Asia	-	-	-	-	-	-
North America	-	-	**513**	**25,144**	-	**25,657**
	3,652	**35,751**	**2,181**	**25,144**	**1,346**	**68,074**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

22. RISK MANAGEMENT (continued)

22.2. Credit risk (continued)

b) Geographic distribution of the gross funded exposures (continued)

As at 31 December 2014	Balances with banks US$ '000	Due from financial institutions US$ '000	Receivables US$ '000	Musharaka US$ '000	Other assets US$ '000	Total US$ '000
Geographical region:						
Bahrain	2,495	59,075	192	-	157	61,919
Europe	800	-	1,571	-	1,248	3,619
Other GCC countries	263	-	130	-	-	393
Africa	-	-	101	-	-	101
Asia	-	-	102	-	-	102
North America	-	-	513	25,144	-	25,657
	3,558	59,075	2,609	25,144	1,405	91,791

c) Industry distribution of the gross funded exposures

The following table summarises the industry distribution of exposures broken down into significant areas by major types of credit exposures as follows:

As at 31 December 2015	**Balances with banks US$ '000**	**Due from financial institutions US$ '000**	**Receivables US$ '000**	**Musharaka US$ '000**	**Other assets US$ '000**	**Total US$ '000**
Industry sector:						
Real estate-income generating	**-**	**-**	**1,891**	**25,144**	**-**	**27,035**
Banking and financial institutions	**3,652**	**35,751**		**-**	**-**	**39,403**
Manufacturing	**-**	**-**		**-**	**-**	**-**
Automotive	**-**	**-**	**50**	**-**	**-**	**50**
Others	**-**	**-**	**240**	**-**	**1,346**	**1,586**
	3,652	**35,751**	**2,181**	**25,144**	**1,346**	**68,074**

As at 31 December 2014						
Industry sector:						
Real estate development	-	-	232	-	-	232
Real estate- income generating	-	-	2,084	25,144	-	27,228
Banking and financial institutions	3,558	59,075	143	-	-	62,776
Manufacturing	-	-	55	-	-	55
Automotive	-	-	69	-	-	69
Others	-	-	26	-	1,405	1,431
	3,558	59,075	2,609	25,144	1,405	91,791

d) Credit quality per class of financial assets

The Group uses the ratings assigned by External Credit Assessment Institutions ["ECAI"] to ascertain credit quality of financial assets. ECAI considered by the Group are Standard and Poor's, Moody's and Fitch. The counterparties for which a rating is not available are classified under "unrated". The table below analyses the credit quality of the Bank's maximum credit exposure as per the credit ratings of the counterparties:

	2015 US$ '000	2014 US$ '000
Credit rating:		
A- and better	**1,669**	2,313
BB+ and better	**4,641**	4,676
Unrated	**61,764**	84,802
	68,074	91,791

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

22. RISK MANAGEMENT (continued)

22.2. Credit risk (continued)

e) Ageing of financial assets

As at 31 December 2015	**Neither past due nor impaired US$ '000**	**Past due but not impaired US$ '000**	**Past due and individually impaired US$ '000**	**Total US$ '000**
Balances with banks	3,652	-	-	3,652
Due from financial institutions	35,751	-	-	35,751
Receivables	729	-	1,452	2,181
Musharaka	25,144	-	-	25,144
Other assets	**1,346**	**-**	**-**	**1,346**
	66,622	**-**	**1,452**	**68,074**

As at 31 December 2014				
Balances with banks	3,558	-	-	3,558
Due from financial institutions	59,075	-	-	59,075
Receivables	1,184	-	1,425	2,609
Musharaka	25,144	-	-	25,144
Other assets	1,405	-	-	1,405
	90,366	-	1,425	91,791

Past due represents amount overdue for 90 days or more. These are real estate exposures located mainly in Europe.

f) Rescheduled receivables

Receivables amounting to US$ Nil (2014: US$ Nil) have been rescheduled during the year.

g) Maximum exposure to credit risk

Concentration of risk is managed by client/counterparty. The maximum credit exposure to any client or counterparty as of 31 December 2015 was US$ 32,025 thousand (2014: US$ 54,936 thousand).

22.3. Liquidity risk and funding management

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 arranges diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

Contractual maturities of undiscounted cash flows of financial liabilities

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations as 31 December 2015. Repayments which are subject to notice are treated as if notice were to be given immediately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

22. RISK MANAGEMENT (continued)

22.3 . Liquidity risk and funding management (continued)

	On demand US$ '000	Less than 3 months US$ '000	3 to 12 months US$ '000	1 to 5 years US$ '000	Total US$ '000
At 31 December 2015					
Term finance	-	-	-	64,468	64,468
Wakala payable	560	450	900	33,600	35,510
Other liabilities	3,258	-	-	-	3,258
Total undiscounted liabilities	**3,818**	**450**	**900**	**98,068**	**103,236**
At 31 December 2014					
Term finance				68,019	68,019
Wakala payable				30,000	30,000
Other liabilities	3,327	-	-	-	3,327
Total undiscounted liabilities	3,327	-	-	98,019	101,346

22.4 Market risk

Market risk is the risk to earnings resulting from adverse movements in foreign currency rates, profit rate yield curves and equity prices. To enable effective monitoring and managing of exposures, all market risks associated with the Bank's investments are managed and monitored using basic sensitivity analysis.

a) Equity price risk

Equity price risk is the risk that the fair value of equity investments decreases as a result of fluctuations in the respective stock market indices. The Group has fair value through equity investments quoted on overseas stock exchanges. Based on the values at 31 December 2015, a change in the quoted price of plus or minus 10% would change the value of these investments by plus or minus US$ 611 thousand (2014: US$ 851 thousand) with a corresponding increase or decrease in equity, except in case where impairment loss accrued which will result in decrease being taken to statement of income.

The Group also has unquoted investments carried at fair value using either net asset values or valuations from independent valuers. Based on the values at 31 December 2015, a change in the valuation of 10% would change the value of these investments by plus or minus US$ 7,239 thousand (2014: US$ 8,664) thousand) with a corresponding increase or decrease in equity.

b) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to adverse changes in foreign currency rates. Certain investments and other financial assets and liabilities are in other currencies and give rise to foreign currency risk.

The Bahraini Dinar (BHD), Saudi Riyal (SAR) and UAE Dirham (AED) are pegged to the US$ and resultantly positions in these currencies are not considered to represent significant currency risk. The Group had the following net foreign currency exposures at 31 December 2015:

	2015 US$ '000	2014 US$ '000
Euro	**5,329**	3,691
GBP	**631**	4,311
AZN (Azerbaijani Manat)	**1,237**	4,406
Others	**954**	1,384
	8,151	13,792

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

22. RISK MANAGEMENT (continued)

22.4 Market risk (continued)

Sensitivity Analysis

The following table demonstrates the sensitivity to a reasonably possible movement of currency rates against the US$ (functional and reporting currency) based on the above positions as on 31 December, with all other variables held constant.

	Change in exchange rate (+/-) %	2015 Effect on net loss /equity (+/-) US$ '000	2014 Effect on net income/ equity (+/-) US$ '000
Euro	**10%**	**533**	369
GBP	**10%**	**63**	431
AZN (Azerbaijani Manat)	**10%**	**124**	441
Others	**10%**	**95**	138

c) Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of the financial instruments. The Group currently has limited exposure to profit rate risk. The Group's assets that are exposed to profit rate risk comprise of due from financial institutions and have repricing dates no longer than three months. During 2015, a +/- 0.25% change in the profit rate, with all other variables constant, would have resulted in a +/- US$ 59 thousand (2014: +/- US$ 78 thousand) impact on the consolidated statement of income.

d) Legal risk

Legal risk is the risk arising from the potential that unenforceable contracts, lawsuits, or adverse judgements can disrupt or otherwise adversely affect the operations of the Bank. The Bank has mitigated its exposure to legal risk by entering into professional service arrangements with well-established local and international law firms. The policies and procedures of the Bank ensure that investments are made, funds are transferred, contracts are entered into, legal agreements are signed and any other binding arrangement is executed only after a rigorous legal due diligence has been performed either by the Legal and Compliance Department or external legal counsel.

23. CAPITAL MANAGEMENT

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision as adopted by the Central Bank of Bahrain.

The primary objectives of the Bank's capital management are to ensure that the Bank complies with regulatory capital requirements and that the Bank maintains healthy capital ratios in order to support its business and to maximise shareholders' value. During the past year, the Bank has complied in full with all its externally imposed capital requirements.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue new capital. No changes were made in the objectives, policies and processes from the previous years.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

23. CAPITAL MANAGEMENT (continued)

23.1. Capital adequacy ratio

	Note	2015 US$ '000
Regulatory capital base:		
Tier 1 capital	23.2	**122,265**
Total regulatory capital		**122,265**
Risk weighted assets	23.3	**563,547**
Total capital adequacy ratio		**21.70%**
Minimum regulatory ratio		**12.5%**

23.2. Tier 1 Capital

	2015 US$ '000
Share capital	**109,996**
Treasury shares	**(6,798)**
Share premium	**51,240**
Statutory reserve	**5,588**
Cumulative changes in fair value reserve	**(4,674)**
Accumulated deficit	**(33,087)**
Tier 1 Capital	**122,265**

23.3 Risk weighted assets

	2015 US$ '000
Credit risk weight assets	**496,938**
Market risk weight assets	**31,125**
Operational risk weight assets	**35,484**
	563,547

Capital adequacy ratio for 2014 was calculated to be 47.34%. This included the regulatory capital of USD 101,103 thousand and risk-weighted assets of USD 213,571 thousand, calculated in accordance with Basel II regulations as adopted by the CBB.

Credit risk-weighted assets

The Bank uses the standardised approach, which requires banks to use external credit ratings to combine them into categories to which standardized risk weightings are applied. For regulatory purposes, credit risk-weighted assets include investments and receivables.

Market risk-weighted assets

The Bank does not maintain a trading book and, as a result, market risk-weighted assets result from the net foreign currency positions of the Bank.

Operational risk-weighted assets

In calculating operational risk-weighted assets, the Bank uses the basic indicator approach which calculates operational risk-weighted assets as a proportion of the average of three years' revenues.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

Set out below is an overview of financial instruments, other than cash and cash equivalents, held by the Group:

	Cost / Amortised cost US$ '000	Fair value through income statement US$ '000	Fair value through equity US$ '000	Total US$ '000
31 December 2015				
Financial assets:				
Due from financial institutions	**35,751**	**-**	**-**	**35,751**
Receivables	**2,181**	**-**	**-**	**2,181**
Investments	**4,987**	**47,110**	**30,386**	**82,483**
Musharaka financing	**25,144**	**-**	**-**	**25,144**
Other assets	**253**	**-**	**-**	**253**
Total	**68,316**	**47,110**	**30,386**	**145,812**
Financial liabilities:				
Term finance	**64,468**	**-**	**-**	**64,468**
Wakala payable	**30,560**	**-**	**-**	**30,560**
Other liabilities	**3,258**	**-**	**-**	**3,258**
Total	**98,286**	**-**	**-**	**98,286**
31 December 2014 (restated)				
Financial assets:				
Due from financial institutions	59,075		-	59,075
Receivables	2,609		-	2,609
Investments		47,179	46,529	93,708
Musharaka financing	25,144		-	25,144
Other assets	208		-	208
Total	87,036	47,179	46,529	180,744
Financial liabilities:				
Term finance	68,019			68,019
Wakala payable	30,000			30,000
Other liabilities	3,327	-	-	3,327
Total	101,346	-	-	101,346

Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing fair value of financial assets and liabilities:

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

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

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

The following table shows an analysis of financial assets recorded at fair value by level of the fair value hierarchy for the current year:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

24. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	2015			
	Level 1 US$ '000	**Level 2 US$ '000**	**Level 3 US$ '000**	**Total US$ '000**
Non-trading investments				
Quoted	**6,105**	**-**	**-**	**6,105**
Unquoted	**-**	**23,950**	**52,428**	**76,378**
	6,105	**23,950**	**52,428**	**82,483**

	2014 (restated)			
	Level 1 US$ '000	Level 2 US$ '000	Level 3 US$ '000	Total US$ '000
Non-trading investments				
Quoted	8,514	-	-	8,514
Unquoted	-	30,015	55,179	85,194
	8,514	30,015	55,179	93,708

There has been no transfers from level 1 and level 2 to level 3 during the years 2014 and 2015.

The following is a description of the determination of fair value of financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing instruments.

Financial Investments at fair value through equity

Fair value through equity financial assets valued using a valuation technique or pricing models primarily consist of unquoted equities.

These assets are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Movements in level 3 financial instruments measured at fair value

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

	Unquoted 2015 US$ '000	Restated Unquoted 2014 US$ '000
Balance at 1 January	**12,025**	9,990
Fair value gain / (loss) recorded in equity	**486**	(971)
Provision against unquoted investment	**(3,693)**	(1,019)
Restatement adjustment (reclassification)	**43,610**	43,154
Purchases, sales and settlements, net	**-**	4,025
Balance at 31 December	**52,428**	55,179

For the above financial instruments categorised as level 3, the Group has used reasonably possible alternative assumptions and adjusted the discount rate by 10% as a key unobservable model input. The effect of this will result in +/- US$ 831 thousand (31 December 2014: +/- US$ 1,423 thousand) adjustment in the carrying value of level 3 investments and related cumulative fair value change.

25. SOCIAL RESPONSIBILITY

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

ADDITIONAL PUBLIC DISCLOSURES

31 December 2015

ADDITIONAL PUBLIC DISCLOSURES

31 December 2015

1. CAPITAL STRUCTURE

1.1 Capital Base

The Bank's capital base comprises of Tier 1 capital which includes nominal share capital, share premium, statutory reserve, accumulated deficit, unrealised gain arising from fair valuing equity securities, fair value reserve on foreign currency translation less the cost of treasury shares. The Bank does not have Tier 2 Capital.

The issued and paid up share capital of the Bank was US$ 109,996 thousand at 31 December 2015 and 2014, comprising of 109,996 thousand shares of US$ 1 each.

The Bank's regulatory capital base of US$ 122.265 million as at 31 December 2015 (31 December 2014: US$ 101.1 million) comprised Tier 1 capital of US$ 122.265 million (31 December 2014: US$ 101.103 million) and Tier 2 capital of Nil (31 December 2014: negative US$ 26.8 million) as disclosed in note 23 of the annual consolidated financial statements.

There have been no changes to the capital structures during the year.

There are no restrictions in distributing profits by the subsidiaries of the Bank. However, such distribution should go through the legal and regulatory channels applicable in each jurisdiction. Mobilisation of capital, reserves and equivalent funds out of the subsidiaries to the parent is subject to the local rules and regulations. The parent is not subject to any restriction to support its subsidiary in the form of deposits or capital.

1.2 Capital Adequacy

The purpose of capital management is to ensure the efficient utilization of capital in relation to business requirements and growth, risk profile and shareholders' returns. But the primary concern is capital protection from loss.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may issue ordinary shares, buy back ordinary shares or adjust the amount of dividend payment to shareholders. No changes have been made in the objectives, policies and processes from the previous years.

As compared to the minimum capital adequacy ratio ("CAR") of 12.5% prescribed by the Central Bank of Bahrain (CBB), the Bank's ratio at year-end 2015 was 21.70% (2014: 47.34%).

Given the Capital Adequacy Ratio of the Bank as at 31 December 2015, it has ample capacity to record additional investments and still meet the minimum capital adequacy requirement of 12.5%. However, it plans to continue its conservative approach to liquidity and only modest investment purchases are planned for 2016.

1.3 Capital requirement by type of Islamic Financing Contract

As at 31 December 2015	Gross credit exposure US$ '000	Credit risk weighted assets US$ '000	Capital requirement US$ '000
Claims on banks - murabaha placements	35,751	7,150	894
Due from investee companies - murabaha	3,504	3,504	438
Musharaka	25,144	58,979	7,372
	64,399	**69,633**	**8,704**

1.4 Market risk weighted assets

The Bank's capital charge in respect of market risk in accordance with the Standardized Approach is as follows:

	2015	
	Risk weighted assets US$ '000	Period end capital requirement US$ '000
Foreign exchange risk	31,119	3,890

The Bank has no exposure to profit rate risk, equity position risk or options risk, as the Bank does not maintain any trading book.

Positions are monitored on a quarterly basis to ensure they are maintained within established limits. The Bank's exposure in foreign currencies consists of exposures from banking activities, as it does not have a trading book in foreign currencies.

ADDITIONAL PUBLIC DISCLOSURES

31 December 2015

1. CAPITAL STRUCTURE (Continued)

	2015 Assets / liabilities net US$ '000
Euro	**29,564**
Pound Sterling	**601**
Others	**954**
Market risk weighted exposure	**31,119**

1.5 Operational risk

In accordance with the Basic Indicator approach methodology, operational risk and related capital requirements are as follows:

	Gross income		
	2013 US$ '000	2012 US$ '000	2008 US$ '000
Total gross income	**12,084**	**14,569**	**30,122**

	2015 US$ '000
Indicator of operational risk	
Average gross income multiply by number of years	**18,925**
Eligible portion for the purpose of calculation	**15%**
Multiplier	**12.5**
Operational risk weighted exposure	**35,484**
Capital requirement (12.5%)	**4,436**

The operational risk has been calculated by the Bank by considering the total gross income of the years in which it has earned gross profits. Since, the Bank suffered gross losses in the years 2015, 2014, 2011, 2010 and 2009 therefore, those have been excluded from the calculation of operational risk.

2. RISK MANAGEMENT

The Board of Directors is charged with the overall responsibility for risk management. It approves and periodically reviews the risk policies and strategy of the Bank. It is assisted by the Executive Committee, Management Committee, Investment Committee and Audit & Corporate Governance Committee.

The Risk Management Committee has the overall responsibility for establishing the risk framework and strategy, principles, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions. The Risk Management Department is responsible for implementing the appropriate risk management strategy and methodology for the Bank. It ensures that risks do not exceed the approved limits. The Risk Management Department also carries out internal capital adequacy assessments to determine the adequacy of overall capital in relation to the Bank's risk profile and formulates the strategy for maintaining the capital levels. The capital provides the Bank with a cushion to absorb losses without endangering client funds.

The various risks to which the Bank is exposed and the principal risk management techniques are summarized below. Further information on risk management is contained in Note 22 to the annual consolidated financial statements.

2.1 Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The principle business of the Bank is Investment Banking. The process of managing the credit risk starts at the origination of the investment activity and compliance with investment criteria, guidelines and policies. The Bank manages credit risk by setting limits for individual counterparties, countries, regions and industry sectors. Limits are authorized by the Board of Directors based on management's recommendations, monitored by the Risk Management Department and reviewed regularly by the Risk Management Committee. Details of maximum exposure to credit risk by balance sheet components, geographical region, industry sector and credit rating are contained in note 22 to the annual consolidated financial statements in accordance with the requirements of International Financial Reporting Standard (IFRS) 7.

ADDITIONAL PUBLIC DISCLOSURES

31 December 2015

2. RISK MANAGEMENT (Continued)

2.1 Credit Risk (Continued)

The table below shows the maximum exposure to credit risk for the balance sheet components. There is no unfunded exposure and no significant use of master netting and collateral agreements.

	Gross credit exposure 2015 US$ '000	Gross credit exposure 2014 US$ '000
Credit risk items:		
Murabaha with financial institutions	**35,751**	59,075
Murabaha with corporates	**1,937**	1,937
Investments	**88,862**	25,144
Ijarah	**72,113**	103,824
Musharaka	**25,144**	75,612
Receivables and other assets	**5,425**	5,831
Total Credit Risk Exposure	**229,232**	**271,423**

The above disclosure is considered to be reasonably representative of the level of credit risk of the Bank during the year, as there has been no significant fluctuation in the credit risk assets during the year ended 31 December 2015.

2.1.1 Distribution of the gross funded exposures

(a) Geographical distribution of the gross funded exposures

The following table summarises the geographical distribution of exposure broken down into significant areas by major types of credit exposure:

As at 31 December 2015	**Murabaha with financial institutions US$ '000**	**Murabaha with corporates US$ '000**	**Investments US$ '000**	**Musharaka US$ '000**	**Ijarah asset US$ '000**	**Receivables and other assets US$ '000**	**Total US$ '000**
Geographical region:							
Bahrain	**32,025**	**-**	**16,415**	-	-	**2,744**	**51,184**
Europe	**-**	**1,424**	**27,257**	-	**72,113**	**2,111**	**102,905**
North America	**-**	**513**	**-**	**25,144**	-	**58**	**25,715**
Other GCC	**3,726**	**-**	**43,000**	-	-	**418**	**47,144**
Africa	**-**	**-**	**953**	-	-	**56**	**1,009**
Asia	**-**	**-**	**1,237**	-	-	**38**	**1,275**
	35,751	**1,937**	**88,862**	**25,144**	**72,113**	**5,425**	**229,232**

As at 31 December 2014							
Geographical region:							
Bahrain	59,075	-	12,065	-	-	2,996	74,136
Europe	-	1,424	33,418	-	75,612	2,221	112,675
North America	-	513	-	25,144	-	-	25,657
Other GCC	-	-	52,551	-	-	476	53,027
Africa	-	-	1,384	-	-	57	1,441
Asia	-	-	4,406	-	-	81	4,487
	59,075	1,937	103,824	25,144	75,612	5,831	271,423

ADDITIONAL PUBLIC DISCLOSURES

31 December 2015

2. RISK MANAGEMENT (Continued)

2.1.1 Distribution of the gross funded exposures

(b) Industrial distribution of the gross funded exposures

The following table summarises the industrial distribution of funded exposure broken down by major types of credit exposures:

As at 31 December 2015	**Murabaha with financial institutions US$ '000**	**Murabaha with corporates US$ '000**	**Invest-ments US$ '000**	**Musharaka US$ '000**	**Ijarah asset US$ '000**	**Receivables and other assets US$ '000**	**Total US$ '000**
Industry sector:							
Real estate development	-	-	51,731	-	-	237	51,968
Real estate-income generating	-	1,937	8,489	25,144	-	-	35,570
Banking and finance	35,751	-	1,491	-	-	2,386	39,628
Manufacturing	-	-	11,845	-	-	46	11,891
Airline / Automotive	-	-	954	-	72,113	2,198	75,265
Others	-	-	14,352	-	-	558	14,910
	35,751	1,937	88,862	25,144	72,113	5,425	229,232

As at 31 December 2014	Murabaha with financial institutions US$ '000	Murabaha with corporates US$ '000	Invest-ments US$ '000	Musharaka US$ '000	Ijarah assets US$ '000	Receivables and other assets assets US$ '000	Total US$ '000
Industry sector:							
Real estate development	-	-	61,447	-	-	162	61,609
Real estate-income generating	-	1,937	8,313	25,144	-	140	35,534
Banking and finance	59,075	-	4,406	-	-	3,641	67,122
Manufacturing	-	-	23,963	-	-	163	24,126
Airline / Automotive	-	-	907	-	75,612	1,314	77,833
Others	-	-	4,788	-	-	411	5,199
	59,075	1,937	103,824	25,144	75,612	5,831	271,423

2.1.2 Single counterparty exposures

Protection against excessive credit risk is through country, industry and counterparty threshold limits. Single name concentrations are monitored on an individual basis. Under the CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's approval for any planned exposure to a single counterparty exceeding 15% of the capital base.

The Bank's exposure in excess of 15% of the obligor limit to individual counterparties based on regulatory "total available capital" at 31 December 2015 is shown below:

	2015		2014	
	C.A.R Limit (15%) US$ '000	**On balance sheet exposure US$ '000**	C.A.R Limit (15%) US$ '000	On balance sheet exposure US$ '000
Counterparty A	18,340	25,659	24,631	25,783
Counterparty B	18,340	24,931	24,631	25,657
Counterparty C	18,340	24,062	-	-

There were no off-balance sheet exposures (2014: nil).

ADDITIONAL PUBLIC DISCLOSURES

31 December 2015

2. RISK MANAGEMENT (Continued)

2.1.3 Ageing of financial assets

As at 31 December 2015	Neither past due nor impaired US$ '000	Past due but not impaired US$ '000	Past due and individually impaired US$ '000	Total US$ '000
Balances with banks	**3,652**	**-**	**-**	**3,652**
Due from financial institutions	**35,751**	**-**	**-**	**35,751**
Receivables	**729**	**-**	**1,452**	**2,181**
Musharaka	**25,144**	**-**	**-**	**25,144**
Other assets	**1,346**	**-**	**-**	**1,346**
	66,622	**-**	**1,452**	**68,074**

As at 31 December 2014:	Neither past due nor impaired US$ '000	Past due but not impaired US$ '000	Past due and individually impaired US$ '000	Total US$ '000
Balances with banks	3,558	-	-	3,558
Due from financial institutions	59,075	-	-	59,075
Receivables	1,184	-	1,425	2,609
Musharaka	25,144	-	-	25,144
Other assets	1,405	-	-	1,405
	90,366	-	1,425	91,791

Past due and individually impaired are overdues of more than 1 year but less than 3 years. Past due and individually impaired exposure pertains to Bank's real estate exposure in Europe.

2.1.4 Credit risk concentrations and thresholds

Protection against excessive credit risk is through country, industry and counterparty threshold limits. Single name concentrations are monitored on an individual basis. Under the CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's approval for any planned exposure to a single counterparty exceeding 15% of the capital base.

2.1.5 Excessive risk concentration

Bank policies and procedures include specific guidelines to focus on country and counterparty limits and maintaining a diversified portfolio.

2.1.6 Impairment of assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset or group of financial assets may be impaired. If such evidence exists, an impairment loss is recognised in the consolidated statement of income.

Evidence of impairment may include indications that the investee company is experiencing significant financial difficulty, default or delinquency in profit or principal payments, the probability that they will enter bankruptcy or other financial re-organisation and that there is a measurable decrease in the estimated future cash flows such as changes in arrears or economic conditions that correlate with defaults.

Impairment is determined as follows:

a) for assets carried at amortised cost, impairment is based on the present value of estimated future cash flows discounted at the original effective profit rate;

b) for assets carried at fair value, impairment is the difference between cost and fair value; and

c) for assets carried at cost, impairment is based on the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

ADDITIONAL PUBLIC DISCLOSURES

31 December 2015

2. RISK MANAGEMENT (Continued)

2.1.7 Impairment losses on financial assets

On a quarterly basis, the Bank assesses whether any provision for impairment should be recorded in the statement of income. Considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty and actual results may differ resulting in future changes in such provisions.

2.1.8 Geographical distribution of exposures

The geographical distribution of exposures, impaired assets and the related impairment provisions are analyzed as follows:

	31 December 2015			31 December 2014		
	Gross funded credit exposure US$ '000	**Gross impaired exposures US$ '000**	**Provision against exposures US$ '000**	Gross funded credit exposure US$ '000	Gross impaired exposures US$ '000	Provision against exposures US$ '000
Geographical region:						
Bahrain	**51,184**	**2,984**	**518**	74,136	7,802	5,174
Europe	**102,905**	**7,057**	**2,432**	112,675	39,854	5,012
North America	**25,715**	**50**	**3**	25,657	-	-
Other GCC countries	**47,144**	**20,016**	**4,556**	53,027	17,101	2,326
Africa	**1,009**	**983**	**23**	1,441	1,399	15
Asia	**1,275**	**2,102**	**827**	4,487	4,769	363
	229,232	**33,192**	**8,359**	271,423	70,925	12,890

The impaired security is reflected at fair value based on the relevant closing stock market price as at 31 December 2015. The criteria used to allocate exposures to particular geographical areas is the country to which the funds were transferred.

2.1.9 Industrial sector analysis of the exposures

The industrial sector analysis of exposures, impaired assets and the related impairment provisions is as follows:

	31 December 2015			31 December 2014		
	Gross funded credit exposure US$ '000	**Gross impaired exposures US$ '000**	**Provision against exposures US$ '000**	Gross funded credit exposure US$ '000	Gross impaired exposures US$ '000	Provision against exposures US$ '000
Industry sector:						
Real estate-development	**51,968**	**4,593**	**3,556**	61,609	47,191	5,380
Real estate-income generating	**35,570**	**6,745**	**2,435**	35,534	3,888	487
Banking and						
financial institutions	**39,628**	**2,376**	**827**	67,122	4,769	363
Manufacturing	**11,891**	**8,910**	**518**	24,126	8,397	5,675
Automotive / Airline	**75,265**	**988**	**23**	77,833	926	19
Others	**14,910**	**9,581**	**1,000**	5,199	5,754	966
	229,232	**33,193**	**8,359**	271,423	70,925	12,890

ADDITIONAL PUBLIC DISCLOSURES

31 December 2015

2. RISK MANAGEMENT (Continued)

2.1.10 Large exposures

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

The following are the large exposures of US$ 1,000,000 and over as of 31 December 2015:

Banks	Large exposure (banks) US$ '000	% of exposure to equity	Non-banks	Large exposure (non-banks) US$ '000	% of exposure to equity
Bank A	33,093	27.07%	Counterparty A	25,659	20.99%
Bank B	3,726	3.05%	Counterparty B	24,931	20.39%
Bank C	1,081	0.88%	Counterparty C	24,062	19.68%
			Counterparty D	8,779	7.18%
			Counterparty E	8,497	6.95%
			Counterparty F	5,547	4.54%
			Counterparty G	5,107	4.18%
			Counterparty H	4,897	4.01%
			Counterparty I	3,500	2.86%
			Counterparty J	2,755	2.25%
			Counterparty K	2,381	1.95%
			Counterparty L	1,425	1.17%
			Counterparty M	1,189	0.97%
			Counterparty N	1,067	0.87%

2.1.11 Exposure by external credit rating

The Bank uses ratings issued by Standard & Poor's, Moody's, Capital Intelligence and Fitch to derive the risk weightings under the CBB's Basel 2 capital adequacy framework. Where ratings vary between rating agencies, the highest rating from the lowest two ratings is used to represent the rating for regulatory capital adequacy purposes. The following are gross credit risk exposures considered for Capital Adequacy Ratio calculations comprising of banking book exposures:

	31 December 2015			31 December 2014		
	Gross credit exposure US$ '000	**Rated exposure US$ '000**	**Unrated exposure US$ '000**	Gross credit exposure US$ '000	Rated exposure US$ '000	Unrated exposure US$ '000
Cash and claims on banks	**39,405**	**2,395**	**37,010**	62,635	6,989	55,646
Equity portfolio	**114,006**	**-**	**114,006**	128,968	-	128,968
Other exposures	**75,822**	**-**	**75,822**	79,820	-	79,820
	229,233	**2,395**	**226,838**	271,423	6,989	264,434

ADDITIONAL PUBLIC DISCLOSURES

31 December 2015

2. RISK MANAGEMENT (Continued)

2.1.12 Intra-group transactions including exposures to related parties

Related parties represent associated companies, major shareholders, directors and key management personnel of the Bank and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are on an arm's length basis and are identical to those applicable to transactions with all other parties. Exposures as at 31 December 2015 are as follows:

Exposures to related parties:

	2015 Gross credit exposure US$ '000	2014 Gross credit exposure US$ '000
Claims on associates	4,184	4,703
Claims on investee companies	3,505	5,930
	7,689	10,633

2.2 Liquidity Risk And Funding Management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under both normal and stress circumstances. The Assets & Liabilities Committee (ALCO) monitors future cash flows and liquidity required for working capital and investment acquisition. The Bank's investments generally have a long-term maturity and hence, as a matter of policy, the long-term investments are funded from IIB's own capital. The Bank maintains significant cash and cash equivalent balances and also has access to geographically diversified funding sources, although no deposit liabilities or long-term funding by external counterparties were booked during 2015. The ratio of liquid assets (defined as cash, balances with banks, due from financial institutions and quoted investments) to total assets at 31 December 2015 is 17.19% (2014: 23.08%). Details of liquidity risk and funding management are contained in Note 22.3 to the annual consolidated financial statements.

The table below shows an analysis of financial assets and liabilities as at 31 December 2015 analysed according to when they are expected to be recovered or settled.

	Within 1 month US$ '000	1-3 months US$ '000	3-6 months US$ '000	6-12 months US$ '000	1-5 years US$ '000	Above 5 years US$ '000	Total US$ '000
ASSETS							
Cash and claims on banks	24,450	14,955	-	-	-	-	39,405
Receivables	-	1,395	22	50	715	-	2,182
Investment in quoted equities	-	-	-	-	6,105	-	6,105
Investment in unquoted equities	-	-	-	-	71,388	-	71,388
Investment property	-	-	-	-	5,547	-	5,547
Investment in Ijarah asset	-	-	-	-	-	72,113	72,113
Investment in Sukuk	-	-	-	-	-	4,987	4,987
Investment in associates	-	-	-	-	835	-	835
Musharaka	-	-	-	-	25,144	-	25,144
Other assets	121	61	29	33	1,101	180	1,526
Total assets	24,571	16,412	51	83	110,836	77,280	229,234
LIABILITIES							
Term finance	-	-	-	-	-	64,468	64,468
Wakala payable	-	-	-	-	30,560	-	30,560
Other liabilities	2,544	697	17	-	-	-	3,258
Total liabilities	2,544	697	17	-	30,560	64,468	98,286
Net gap	22,028	15,715	34	83	80,276	12,812	130,947

ADDITIONAL PUBLIC DISCLOSURES

31 December 2015

2. RISK MANAGEMENT (Continued)

2.2 Liquidity Risk And Funding Management (Continued)

The table below shows an analysis of financial assets and liabilities as at 31 December 2014 analysed according to when they are expected to be recovered or settled.

	Within 1 month US$ '000	1-3 months US$ '000	3-6 months US$ '000	6-12 months US$ '000	1-5 years US$ '000	Above 5 years US$ '000	Total US$ '000
ASSETS							
Cash and claims on banks	62,635	-	-	-	-	-	62,635
Receivables	-	102	1,515	50	942	-	2,609
Investment in quoted equities	-	-	-	-	8,514	-	8,514
Investment in unquoted equities	-	-	-	-	42,040	-	42,040
Investment property	-	-	-	-	5,412	-	5,412
Investment in Ijarah asset	-	-	-	-	-	75,612	75,612
Investment in associates	-	-	-	-	47,858	-	47,858
Musharaka	-	-	-	-	25,144	-	25,144
Other assets	140	41	44	81	616	677	1,599
Total assets	62,775	143	1,559	131	130,526	76,289	271,423
LIABILITIES							
Other liabilities	253	177	615	1,534	2,579	493	3,072
Total liabilities	253	177	615	1,534	2,579	493	3,072
Net gap	62,522	(34)	944	(1,403)	127,947	75,796	268,351

2.3 Market Risk

Market risk is the risk to earnings resulting from adverse movements in foreign currency rates, profit rate yield curves and equity prices. The Bank has no significant concentration of market risk and does not have a significant trading portfolio of equities or foreign currencies. It is exposed to market risk from currency rate fluctuations on its foreign currency denominated assets and liabilities.

To enable effective monitoring and managing of exposures, all market risks associated with the Bank's investments are managed and monitored using basic sensitivity analyses reflecting such factors as volatility, liquidity and concentration. The investments in unquoted equities, comprising the Bank's retentions in its investment offerings and selective participations in private placements, are generally illiquid without a ready market to effect an exit.

Note 22.4 to the annual consolidated financial statements details the Bank's exposure to equity price risk, foreign currency risk and profit rate risk. The Bank's investment in Sukuk are not exposed to any market risk as they are sovereign.

2.4 Operational Risk

Operational Risk is the risk of direct or indirect loss resulting from breaches in internal controls, processing errors, inadequate information systems, fraud, or external events. Its impact can be in the form of a financial loss, loss of reputation or loss of competitive position. Operational risk is inherent in all business activities and can never be eliminated entirely but can only be mitigated or minimized. The Bank minimizes its exposure to such risk by ensuring that appropriate management control mechanisms, infrastructure, systems, internal controls and human resources are in place. IIB has developed an operational risk framework, reviewed by experienced external consultants, that provides for identification, measurement, monitoring and control of potential risk events. A number of processes are used throughout the Bank including risk and control self-assessments, key risk indicators (KRIs), event management, new product review / approval procedures and business continuity plans.

In addition, Internal Audit Department issues regular reports including an annual organization-wide risk assessment and the external auditors make recommendations on internal controls and processes. Business units are responsible for managing the operational risks relevant to their activities, supported by a disaster recovery program covering computer backup, data recovery and business continuity.

Head of Risk Management maintains a risk register for capturing loss event data and events. On a quarterly basis matters logged are discussed with the departmental heads. During the current year no significant loss events occurred.

ADDITIONAL PUBLIC DISCLOSURES

31 December 2015

2. RISK MANAGEMENT (Continued)

2.5 Legal Risk

Legal Risk is the risk arising from the potential that unenforceable contracts, lawsuits, or adverse judgements can disrupt or otherwise adversely affect the operations of the Bank. It has professional service arrangements with well-established local and international law firms. The policies and procedures of the Bank ensure that investments are made, funds are transferred, contracts are entered into, legal agreements are signed and any other binding arrangement is executed only after a rigorous legal due diligence has been performed either by the Legal and Compliance Departments or external legal counsel. The Bank fully complied with all applicable laws and regulations during the year ended 31 December 2015.

The Bank has the following subsidiaries, namely:

3. INVESTMENT IN SUBSIDIARIES

Name of the subsidiary	Located in	Currency		2015	2014
Istethmary Al Fareeda	Kingdom	SAR	Net assets	**71,732,442**	88,978,372
Company B.S.C. (c)	of Bahrain		Net profit	**82,762**	975,061
Istethmary Sarajevo	Cayman	Euro	Net assets	**21,936,000**	21,512,000
City Centre	Islands		Net profit/(loss)	**262,000**	(2,205,000)
Bahrain Bunny Shares and	Kingdom	SAR	Net assets	**28,960,435**	59,914,469
Securities W.L.L.	of Bahrain		Net loss/profit	**(29,817,647)**	2,390,846
Multifamily Residential	Cayman	USD	Net assets	**8,770,294**	9,350,420
Ltd-I ("MR-I")	Islands		Net loss	**(28,130)**	-
Multifamily Residential	Cayman	USD	Net assets	**16,314,410**	17,365,067
Ltd-II ("MR-II")	Islands		Net loss	**(28,130)**	-
IIB Aircraft Lease	Cayman	USD	Net assets	**10,423,983**	9,437,000
SPC Limited	Islands		Net profit	**882,044**	427,000

The Bank is not exposed to currency risk in the case of investment in Istethmary Al Fareeda Company B.S.C. (c), Bahrain Bunny Shares and Securities W.L.L, MR-I, MR-II and IIB Aircraft Lease I Limited as these are denominated in SAR and USD.

The effect of 10% change In foreign exchange rate on the Bank's statement of equity In respect of Istethmary Sarajevo City Centre amounts to US$ 2,396 thousand (2014: US$ 2,151 thousand) and on the Bank's statement of income amounts to US$ 29 thousand (2014: US$ 221 thousand), which has also been included in sensitivity analysis shown in note 22.4 to the annual consolidated financial statements.

The Bank does not make use of any foreign currency hedges to hedge against the movement in foreign exchange rates of investment in foreign subsidiaries.