

**ITHMAAR BANK B.S.C.**

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**Ithmaar Bank B.S.C.**  
**Consolidated financial statements for the year ended 31 December 2015**

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## **Ithmaar Bank B.S.C.**

**In the Name of Allah, the Beneficent, the Merciful**

**Report of the Sharia Supervisory Board on the activities of Ithmaar Bank B.S.C. for the Financial Year from 1 January 2015 until 31 December 2015, corresponding to the Period from 10 Rabi Al-Awwal 1436 H until 20 Rabi Al-Awwal 1437 H.**

Praise be to Allah, the Lord of the worlds, and peace and blessings be upon our Master, Mohammed, the leader of Prophets and Messengers, and upon his scion and companions, and upon those who follow his guidance until the Day of Judgment.

The Sharia Supervisory Board of Ithmaar Bank B.S.C. performed the following acts during the financial year from 1 January 2015 until 31 December 2015:

1. Issued fatwas and Sharia resolutions related to the Bank's products and activities and followed them up through the Bank's internal Sharia Audit Department while also guiding the management towards Sharia-compliant transactions.
2. Studied different mechanisms of financing and prepare its documents with the concerned departments in order to develop products.
3. Examined the books, records and transactions through the Sharia Compliance Department and auditing some of their samples as per established auditing standards.
4. Examined the statement of financial position, income statement and the Bank's overall banking activities through it.

We have reviewed the principles and contracts relating to transactions and products launched by the Bank during the period from 1 January 2015 to 31 December 2015. We have also conducted the required inspection to provide our opinion on whether the Bank had complied with the provisions and principles of Islamic Sharia, as well as fatwas, resolutions and specific guidance that was issued by us.

The management is responsible for ensuring that the Bank operates in accordance with the provisions and principles of Islamic Sharia and accounting standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). Our responsibility is to express an independent opinion based on our observation of the Bank's operations, and prepare a report.

In view of the above, the Sharia Supervisory Board hereby resolves as follows:

i: With regard to the Bank's business in general:

- a. The Bank's overall investment activities and banking services were conducted in full compliance with the principles and provisions of Islamic Sharia and in accordance with the Sharia Supervisory Board-approved standard contracts.
- b. Gains made from sources prohibited by Sharia were identified and transferred to the Charity Fund.
- c. All the amounts collected as customers' donations and commitments on late payments were posted to the Charity Fund.
- d. Zakat is calculated in accordance to Sharia Standard on Zakat issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Shareholders are responsible for payment of Zakat on their shares.

ii: Conventional assets and liabilities transferred from former Ithmaar Bank before conversion and restructure:

The Sharia Supervisory Board identified and reviewed the conventional assets and liabilities transferred from the former Ithmaar Bank before conversion and restructure, and issued a Fatwa that allows the Bank to convert these assets and liabilities into Islamic alternatives, or dispose them, in an agreed time period, provided that the Bank appropriately discloses to its shareholders in its annual report all amounts of income and expenses associated with these conventional assets and liabilities. This Fatwa conforms to the provisions of Sharia Standard – 6

**Ithmaar Bank B.S.C.**

**Report of the Sharia Supervisory Board on the activities of Ithmaar Bank B.S.C. for the Financial Year from 1 January 2015 until 31 December 2015, corresponding to the Period from 10 Rabi Al-Awwal 1436 H until 20 Rabi Al-Awwal 1437 H. (continued)**

"Conversion of a Conventional Bank to an Islamic Bank" of AAOIFI. The Sharia Supervisory Board confirms that the Management, with the grace of Allah, has resolved all sharia issues pertaining to 14 assets out of total of 21 assets, and working to dispose of the remaining assets in accordance with these criteria.

As the period fixed by the Sharia Supervisory Board to dispose of these assets and liabilities expired by the end of the financial year 2015, and noting the serious and continuous efforts taken by the Management to dispose of these assets and resolve related issues, one of those efforts being set up of Sharia Supervisory Board in Faysal Bank Limited Pakistan to follow up the activities. Therefore based on management's request the Sharia Supervisory Board have no objection to extend for another new year up to 31 December 2016 during which the Bank will attempt to sell these assets or convert them to Islamic alternatives. The Sharia Supervisory Board is continuously and periodically reviews progresses on these assets and guides the Bank's Management on solutions and appropriate actions to be taken in this respect.

To ensure compliance with its Fatwa and directions, the Sharia Supervisory Board has reviewed the income statement of the Bank for the year ended 31 December 2015 and has satisfied itself that the Bank has appropriately disclosed the income and expense arising from the conventional assets and liabilities (note 41). Accordingly, the Sharia Supervisory Board guides the shareholders of the Bank to dispose of impermissible earnings, which has been calculated in the current year's financial statements, at 1.64 US cents per share.

We pray to Almighty Allah to grant success to the Bank and its employees and guide them in developing Islamic products and continue to comply with the Sharia principles and to grant them success for everything He pleases. May peace and blessings be upon our Master, Mohammed, and upon his scion and companions.

**His Eminence Shaikh Abdulla Al Manee'a**  
Chairman

**His Eminence Shaikh Mohsin Al-Asfoor**  
Member

**His Eminence Shaikh Nizam Yacooby**  
Member

**His Eminence Shaikh Dr. Osama Bahar**  
Member

Manama  
Kingdom of Bahrain  
20 February 2016

**Ithmaar Bank B.S.C.****Directors' Report for the year ended 31 December 2015**

The Directors submit their report dealing with the activities of Ithmaar Bank B.S.C (the "Bank") for the year ended 31 December 2015, together with the audited consolidated financial statements of the Bank and its subsidiaries (collectively the "Group") for the year then ended.

**Principal activities**

The Bank holds an Islamic retail banking licence issued by the Central Bank of Bahrain.

The principal activities of the Group are a wide range of financial services, including retail, commercial, asset management, private banking, takaful, equipment leasing and real estate development.

**Consolidated financial position and results**

The consolidated financial position of the Group as at 31 December 2015, together with the consolidated results for the year then ended is set out in the accompanying consolidated financial statements.

The Group has reported a net loss of \$60.8 million for 2015 attributable to the equity shareholders of the Bank, as compared to a net loss of \$15 million for 2014. Total assets at 31 December 2015 amounted to \$8,138.6 million (31 December 2014: \$7,860.9 million).

The Bank's consolidated Capital adequacy ratio under Basel III as at 31 December 2015 was 12.81% (31 December 2014: 12.11% computed under Basel II) as compared to a minimum regulatory requirement of 12.5% (31 December 2014: 12%). The Bank's risk weighted exposures and eligible capital are set out in note 39 of the accompanying consolidated financial statements.

**Directors**

The following served as Directors of the Bank during the year ended 31 December 2015:

HRH Prince Amr Mohamed Al Faisal (Chairman)  
Mr. Khalid Abdulla-Janahi  
Tunku Dato' Ya'acob Bin Tunku Abdullah  
Mr. Abdel Hamid Abo Moussa  
Sheikha Hissah Bint Saad Al-Sabah  
Sheikh Zamil Abdullah Al-Zamil  
Mr. Nabeel Khalid Kanoo  
Mr. Mohammed Bucheerei  
Mr. Abdullellah Ebrahim Al-Qassimi  
Mr. Imtiaz Ahmad Pervez  
Mr. Omar Abdi Ali  
Mr. Graham R. Walker

**Directors' sitting fees**

Directors' sitting fees for 2015 amounted to \$291,500 (2014: \$348,000).

**Ithmaar Bank B.S.C.****Directors' Report for the year ended 31 December 2015 (continued)****Interests of Directors**

The interests of the Directors in the shares of the Bank are disclosed below:

Name	Number of Shares	
	31 December 2015	31 December 2014
HRH Prince Amr Mohamed Al Faisal	106,100	106,100
Mr. Khalid Abdulla-Janahi	20,749,693	20,749,693
Tunku Dato' Ya'acob Bin Tunku Abdullah	106,100	106,100
Mr. Abdel Hamid Abo Moussa	106,100	106,100
Sheikha Hissah Bint Saad Al-Sabah	106,100	106,100
Sheikh Zamil Abdullah Al-Zamil	205,000	205,000
Mr. Nabeel Khalid Kanoo	106,100	106,100
Mr. Mohammed Bucheerei	105,600	105,600
Mr. Abdullellah Ebrahim Al-Qassimi	106,100	106,100
Mr. Imtiaz Ahmad Pervez	-	-
Mr. Omar Abdi Ali	-	-
Mr. Graham R. Walker	1,056,000	1,056,000

**Dividend**

No dividend has been proposed for 2015 (2014: Nil).

**Auditors**

The auditors, PricewaterhouseCoopers ME Limited, have expressed their willingness to be reappointed as auditors of the Bank for the year ending 31 December 2016.

By order of the Board of Directors

HRH Prince Amr Mohamed Al Faisal  
Chairman  
28 February 2016



**Independent Auditor's Report to the Shareholders of  
Ithmaar Bank B.S.C.**

**Report on the financial statements**

We have audited the accompanying consolidated financial statements of Ithmaar Bank B.S.C. (the "Bank") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2015 and the consolidated statements of income, changes in owners' equity, cash flows and changes in restricted investment accounts for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Directors' responsibility for the financial statements**

The Directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and to the operation of the Bank in accordance with Islamic Shari'a rules and principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's responsibility**

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015 and the results of its operations, its cash flows, changes in owners' equity and changes in restricted investment accounts for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.



**Independent Auditor's Report to the Shareholders of  
Ithmaar Bank B.S.C.**

**Report on regulatory requirements and other matters**

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

- (i) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- (ii) the financial information contained in the report of the directors is consistent with the consolidated financial statements;
- (iii) 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, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association, having occurred during the year that might have had a material adverse effect on the business of the Bank or on its financial position;
- (iv) satisfactory explanations and information have been provided to us by the management in response to all our requests; and
- (v) the Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group.

*PricewaterhouseCoopers*

Partner's Registration No: 157  
28 February 2016  
Manama, Kingdom of Bahrain




**Ithmaar Bank B.S.C.**

**Consolidated statement of financial position**


(Expressed in thousands of United States Dollars unless otherwise stated)

	Notes	At 31 December 2015 (Audited)	At 31 December 2014 (Audited)
<b>ASSETS</b>			
Cash and balances with banks and central banks	3	590,409	559,394
Commodity and other placements with banks, financial and other institutions	4	270,820	173,896
Murabaha and other financings	5	3,399,770	3,487,812
Musharaka financing		149,673	90,150
Investment in mudaraba	6	21,348	17,434
Investment in associates	7	655,388	684,821
Sukuk and investment securities	8	1,919,430	1,767,618
Restricted investment accounts	9	78,651	69,869
Assets acquired for leasing	10	169,482	74,243
Investment in real estate	11	256,493	332,599
Other assets	12	319,437	273,196
Fixed assets	13	112,389	113,278
Intangible assets	14	195,351	216,594
<b>Total assets</b>		<b>8,138,641</b>	<b>7,860,904</b>
<b>LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS, MINORITY INTEREST AND OWNERS' EQUITY</b>			
Customers' current accounts	15	1,436,335	1,372,653
Due to banks, financial and other institutions	16	1,639,871	1,473,298
Due to investors	17	1,951,441	1,995,345
Other liabilities	18	320,011	274,090
<b>Total liabilities</b>		<b>5,347,658</b>	<b>5,115,386</b>
Equity of unrestricted investment accountholders	19	2,199,142	2,001,949
Minority interest	20	177,618	220,183
<b>Total liabilities, equity of unrestricted investment accountholders and minority interest</b>		<b>7,724,418</b>	<b>7,337,518</b>
Share capital	21	757,690	757,690
Treasury shares	21	(30,149)	(30,149)
Reserves		210,894	259,260
Accumulated losses		(524,212)	(463,415)
<b>Total owners' equity</b>		<b>414,223</b>	<b>523,386</b>
<b>Total liabilities, equity of unrestricted investment accountholders, minority interest and owners' equity</b>		<b>8,138,641</b>	<b>7,860,904</b>

These consolidated financial statements were approved by the Board of Directors on 28 February 2016 and signed on their behalf by:

  
HRH Prince Amr Mohamed Al Faisal  
Chairman

  
Abdullah Ebrahim Al-Qassimi  
Director

  
Ahmed Abdul Rahim  
CEO

The notes 1 to 43 on pages 16 to 56 form an integral part of the consolidated financial statements.

**Ithmaar Bank B.S.C.**
**Consolidated income statement**

(Expressed in thousands of United States Dollars unless otherwise stated)

		Year ended	
		31 December 2015 (Audited)	31 December 2014 (Audited)
	Notes		
<b>INCOME</b>			
Income from unrestricted investment accounts		95,036	100,500
Less: return to unrestricted investment accounts and impairment provisions	29	(69,143)	(76,793)
Group's share of income from unrestricted investment accounts as a Mudarib		25,893	23,707
Group's share of income from restricted investment accounts as a Mudarib	23	164	208
Income from murabaha and other financings	24	187,092	225,980
Share of profit after tax from associates	7	33,058	22,317
Income from other investments	25	179,456	126,744
Other income	26	52,687	54,996
<b>Total income</b>		<b>478,350</b>	<b>453,952</b>
Less: profit paid to banks, financial and other institutions – net		(209,981)	(226,192)
<b>Operating income</b>		<b>268,369</b>	<b>227,760</b>
<b>EXPENSES</b>			
Administrative and general expenses	27	(160,620)	(167,868)
Depreciation and amortization	7,13,14	(29,791)	(30,930)
<b>Total expenses</b>		<b>(190,411)</b>	<b>(198,798)</b>
Net income before provision for impairment and overseas taxation		77,958	28,962
Provision for impairment – net	29	(95,025)	(26,125)
Net income/(loss) before overseas taxation		(17,067)	2,837
Overseas taxation	30	(29,328)	(11,684)
<b>NET LOSS FOR THE YEAR</b>		<b>(46,395)</b>	<b>(8,847)</b>
<b>Attributable to:</b>			
Equity holders of the Bank		(60,797)	(15,012)
Minority interests	20	14,402	6,165
		<b>(46,395)</b>	<b>(8,847)</b>
<b>Basic and diluted earnings per share</b>	22	<b>US Cts(2.09)</b>	<b>US Cts (0.52)</b>

These consolidated financial statements were approved by the Board of Directors on 28 February 2016 and signed on their behalf by:



HRH Prince Amr Mohamed Al Faisal  
Chairman



Abdulallah Ebrahim Al-Qassimi  
Director



Ahmed Abdul Rahim  
CEO

The notes 1 to 43 on pages 16 to 56 form an integral part of the consolidated financial statements.

**Itihmaar Bank B.S.C.**

**Consolidated statement of changes in owners' equity for the year ended 31 December 2015**  
(Expressed in thousands of United States Dollars unless otherwise stated)

	Reserves								Total owners' equity
	Share capital	Treasury shares	Share premium	Statutory reserve	General reserve	Investments fair value reserve	Investment in real estate value reserve	Foreign currency translation	
<b>At 1 January 2015 (Audited)</b>	<b>757,690</b>	<b>(30,149)</b>	<b>149,692</b>	<b>38,090</b>	<b>50,727</b>	<b>45,436</b>	<b>457</b>	<b>(25,142)</b>	<b>523,386</b>
Net loss for the year	-	-	-	-	-	-	-	-	<b>(60,797)</b>
Movement in fair value of sukuk and investment securities	-	-	-	-	-	(4,016)	-	-	-
Movement in fair value of associates	-	-	-	-	-	(31,134)	-	-	<b>(4,016)</b>
Movement in deferred tax relating to sukuk and investment securities	-	-	-	-	-	23	(440)	-	<b>(31,134)</b>
Transfer to income statement due to disposal of sukuk and investment securities	-	-	-	-	-	(1,038)	-	-	-
Movement in fair value of investment in real estate	-	-	-	-	-	-	1,473	-	<b>(1,038)</b>
Foreign currency translation adjustments	-	-	-	-	-	(59)	96	(13,271)	<b>1,473</b>
<b>At 31 December 2015 (Audited)</b>	<b>757,690</b>	<b>(30,149)</b>	<b>149,692</b>	<b>38,090</b>	<b>50,727</b>	<b>9,212</b>	<b>1,586</b>	<b>(38,413)</b>	<b>414,223</b>
									<b>(524,212)</b>
									<b>210,894</b>
									<b>(13,234)</b>

The notes 1 to 43 on pages 16 to 56 form an integral part of the consolidated financial statements.

**Itihmaar Bank B.S.C.**

**Consolidated statement of changes in owners' equity for the year ended 31 December 2014**  
(Expressed in thousands of United States Dollars unless otherwise stated)

	Reserves								Total owners' equity
	Share capital	Treasury shares	Share premium	Statutory reserve	General reserve	Investments fair value reserve	Investment in real estate value reserve	Foreign currency translation	
<b>At 1 January 2014 (Audited)</b>	<b>757,690</b>	<b>(30,149)</b>	<b>149,692</b>	<b>38,090</b>	<b>50,727</b>	<b>29,027</b>	<b>1,103</b>	<b>(16,209)</b>	<b>531,568</b>
Net loss for the year	-	-	-	-	-	-	-	-	(15,012)
Movement in fair value of sukuk and investment securities	-	-	-	-	-	1,371	-	-	1,371
Movement in fair value of associates	-	-	-	-	-	16,713	-	-	16,713
Movement in deferred tax relating to sukuk and investment securities	-	-	-	-	-	(234)	(11)	-	(245)
Transfer to income statement due to impairment of sukuk and investment securities	-	-	-	-	-	306	-	-	306
Transfer to income statement due to disposal of sukuk and investment securities	-	-	-	-	-	(1,794)	-	-	(1,794)
Movement in fair value of investment in real estate	-	-	-	-	-	-	(654)	-	(654)
Foreign currency translation adjustments	-	-	-	-	-	47	19	(8,933)	(8,867)
<b>At 31 December 2014 (Audited)</b>	<b>757,690</b>	<b>(30,149)</b>	<b>149,692</b>	<b>38,090</b>	<b>50,727</b>	<b>45,436</b>	<b>457</b>	<b>(25,142)</b>	<b>523,386</b>

The notes 1 to 43 on pages 16 to 56 form an integral part of the consolidated financial statements.

**Ithmaar Bank B.S.C.****Consolidated statement of cash flows**

(Expressed in thousands of United States Dollars unless otherwise stated)

	Notes	Year ended	
		31 December 2015	31 December 2014
		(Audited)	(Audited)
<b>OPERATING ACTIVITIES</b>			
Net income/(loss) before overseas taxation		(17,067)	2,837
<u>Adjustments for:</u>			
Depreciation and amortization	7,13,14	29,791	30,930
Share of profit after tax from associates	7	(33,058)	(22,317)
Provision for impairment – net	29	95,025	26,125
Gain on sale of fixed assets	26	(1,259)	(1,611)
Operating income before changes in operating assets and liabilities		73,432	35,964
(Increase)/decrease in balances with banks maturing after ninety days and including with central banks relating to minimum reserve requirement		(64,534)	(45,589)
(Increase)/decrease in operating assets:			
Murabaha and other financings		(20,628)	(117,373)
Musharaka financing		(64,465)	(25,088)
Other assets		(69,319)	1,306
Increase/(decrease) in operating liabilities:			
Customers' current accounts		99,724	67,142
Due to banks, financial and other institutions		196,955	151,173
Due to investors		37,691	56,024
Other liabilities		43,646	34,551
Increase in equity of unrestricted investment accountholders		197,178	16,480
<b>Net cash provided by operating activities</b>		<b>429,680</b>	<b>174,590</b>
<b>INVESTING ACTIVITIES</b>			
Net (increase)/decrease:			
Investment in mudaraba		(707)	2,513
Investment in associates		7,539	1,440
Investment in restricted investment accounts		(8,645)	750
Assets acquired for leasing		(95,909)	(9,957)
Sukuk and investment securities		(247,912)	(425,368)
Dividend received from associates	7	14,513	6,304
Purchase of fixed assets		(3,744)	(3,528)
Investment in real estate		-	3,460
<b>Net cash used in investing activities</b>		<b>(334,865)</b>	<b>(424,386)</b>
<b>FINANCING ACTIVITIES</b>			
Taxes paid		(15,440)	(12,724)
Minority interest		(7,957)	-
<b>Net cash used in financing activities</b>		<b>(23,397)</b>	<b>(12,724)</b>
Foreign currency translation adjustments		(5,693)	12,958
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>65,725</b>	<b>(249,562)</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>520,770</b>	<b>770,332</b>
<b>Cash and cash equivalents at the end of the year</b>	4	<b>586,495</b>	<b>520,770</b>

The notes 1 to 43 on pages 16 to 56 form an integral part of the consolidated financial statements.

**Ithmaar Bank B.S.C.**

**Consolidated statement of changes in restricted investment accounts for the year ended 31 December 2015**

(Expressed in thousands of United States Dollars unless otherwise stated)

	At 1 January 2015	Net Deposits / (Withdrawals)	Income / (Expenses)	Mudarib's Fee	Fair value movements	At 31 December 2015
Dilmunia Development Fund I L.P.*	160,813	(10,349)	(564)	-	-	149,900
Shamil Bosphorus Modaraba*	6,250	-	-	-	-	6,250
European Real Estate Portfolio*	18,514	-	-	-	(1,873)	16,641
US Development Opportunities Fund*	3,268	(3,268)	-	-	-	-
European Real Estate Placements*	20,415	(1,465)	39	(25)	(2,182)	16,782
US Real Estate Placements*	47,865	(25,224)	-	(50)	5,474	28,065
Listed and non-listed equities	57,339	-	7,362	(89)	12,593	77,205
<b>TOTAL</b>	<b>314,464</b>	<b>(40,306)</b>	<b>6,837</b>	<b>(164)</b>	<b>14,012</b>	<b>294,843</b>
<b>FUNDS MANAGED ON AGENCY BASIS</b>	<b>65,247</b>	<b>(17)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>65,230</b>
	<b>379,711</b>	<b>(40,323)</b>	<b>6,837</b>	<b>(164)</b>	<b>14,012</b>	<b>360,073</b>

\* Income/(loss) will be recognised and distributed at the time of disposal of the underlying investments

The notes 1 to 43 on pages 16 to 56 form an integral part of the consolidated financial statements.

**Ithmaar Bank B.S.C.**

**Consolidated statement of changes in restricted investment accounts for the year ended 31 December 2014**

(Expressed in thousands of United States Dollars unless otherwise stated)

	At 1 January 2014	Net Deposits / (Withdrawals)	Income/ (Expenses)	Mudarib's Fee	Fair value movements	At 31 December 2014
Dilmunia Development Fund I L.P.*	172,066	(10,799)	(454)	-	-	160,813
Shamil Bosphorus Modaraba*	62,499	-	-	-	(56,249)	6,250
European Real Estate Portfolio*	21,003	-	-	-	(2,489)	18,514
US Development Opportunities Fund*	12,952	(9,684)	-	-	-	3,268
European Real Estate Placements*	23,239	-	142	(34)	(2,932)	20,415
US Real Estate Placements*	79,979	(27,714)	-	(100)	(4,300)	47,865
Trade Finance Placements	390	(228)	-	-	(162)	-
Listed and non-listed equities	36,512	-	614	(74)	20,287	57,339
<b>TOTAL</b>	<b>408,640</b>	<b>(48,425)</b>	<b>302</b>	<b>(208)</b>	<b>(45,845)</b>	<b>314,464</b>
<b>FUNDS MANAGED ON AGENCY BASIS</b>	<b>70,671</b>	<b>(5,424)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>65,247</b>
	<b>479,311</b>	<b>(53,849)</b>	<b>302</b>	<b>(208)</b>	<b>(45,845)</b>	<b>379,711</b>

\* Income/(loss) will be recognised and distributed at the time of disposal of the underlying investments

The notes 1 to 43 on pages 16 to 56 form an integral part of the consolidated financial statements.

**Ithmaar Bank B.S.C.****Notes to the Consolidated Financial Statements for the year ended 31 December 2015****1 INCORPORATION AND ACTIVITIES**

Ithmaar Bank B.S.C. (the "Bank") was incorporated in the Kingdom of Bahrain on 13 August 1984 and was licensed as an investment bank regulated by the Central Bank of Bahrain (the "CBB"). Effective 14 April 2010 Ithmaar Bank operates under Islamic retail banking license granted by the CBB.

Dar Al-Maal Al-Islami Trust ("DMIT"), a Trust incorporated in the commonwealth of Bahamas is the ultimate parent company of the Bank.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are a wide range of financial services, including retail, commercial, investment banking, private banking, takaful and real estate development.

The Bank's activities are supervised by the CBB and are subject to the supervision of Shari'a Supervisory Board.

The Bank's shares are listed for trading on the Bahrain Bourse and Kuwait Stock Exchange.

The Group's activities also include acting as a Mudarib (manager, on a trustee basis), of funds deposited for investment in accordance with Islamic laws and principles particularly with regard to the prohibition of receiving or paying interest. These funds are included in the consolidated financial statements as equity of unrestricted investment accountholders and restricted investment accounts. In respect of equity of unrestricted investment accountholders, the investment account holder authorises the Group to invest the accountholders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. In respect of restricted investment accounts, the investment accountholders impose certain restrictions as to where, how and for what purpose the funds are to be invested. Further, the Group may be restricted from commingling its own funds with the funds of restricted investment accounts.

The Group carries out its business activities through the Bank's head office, 17 commercial branches in Bahrain and its following principal subsidiary companies:

	% owned		Country of Incorporation	Principal business activity
	Voting	Economic		
Faysal Bank Limited	67	67	Pakistan	Banking
Faisal Private Bureau (Switzerland) S.A.	100	100	Switzerland	Wealth and asset management
Ithmaar Development Company Limited	100	100	Cayman Islands	Real estate
City View Real Estate Development Co. B.S.C. (C)	51	51	Kingdom of Bahrain	Real estate
Health Island B.S.C. (C)	50	50	Kingdom of Bahrain	Real estate
Sakana Holistic Housing Solutions B.S.C. (C) (Sakana)	63	50	Kingdom of Bahrain	Mortgage finance
Cantara (Switzerland) S.A.	100	100	Switzerland	Investment holding
DMI Administrative Services S.A.	100	100	Switzerland	Management services
Faisal Finance (Luxembourg) S.A.	100	100	Luxembourg	Investment holding
Shamil Finance (Luxembourg) S.A.	100	100	Luxembourg	Investment holding
Faisal Finance (Netherlands Antilles) NV	100	100	Netherlands Antilles	Investment holding

Islamic Investment Company of the Gulf (Bahamas) Limited (IICG), a company incorporated in the Commonwealth of Bahamas and owned 100% by DMIT, is an affiliate of the Bank.



## **2 SIGNIFICANT GROUP ACCOUNTING POLICIES**

The consolidated financial statements of the Bank are prepared under Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

The Group has certain assets, liabilities and related income and expenses which are not Sharia compliant as these existed before Ithmaar Bank converted to an Islamic retail bank in April 2010. These are currently presented in accordance with AAOIFI standards in the consolidated financial statements for the year ended 31 December 2015 as appropriate.

The Sharia Supervisory Board has approved the Sharia Compliance Plan ("Plan") for assets and liabilities which are not Sharia Compliant. The Sharia Supervisory Board is monitoring the implementation of this Plan. The income and expenses attributable to non-Sharia compliant assets and liabilities is disclosed under note 41.

The consolidated financial statements comprise the financial information of the Group for the year ended 31 December 2015.

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

(i) New accounting standard: Issued and effective

There are no new AAOIFI accounting standards, amendments to standards and interpretations that are effective for the first time for the financial year beginning on or after 1 January 2015 that would be expected to have material impact on the Group.

The following new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2015 and are expected to be relevant to the Group.

**FAS 27 – Investment Accounts**

FAS 27 Investment accounts was issued in December 2014 replacing FAS5 – 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'. This standard is effective for financial periods beginning 1 January 2016. The adoption of this standard would not have any significant impact on the financial statements of the Group.

The Bank has not early adopted any new standards during 2015.

**Amendment to FAS 23 – Consolidation**

The amendment to FAS 23 – Consolidation was issued on 8 April 2015. The definition of control has been amended to expand the scenarios to assess control when an Islamic Financial Institution holds less than majority voting rights. In particular, the concept of De facto control has been introduced. The amendment is 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 of FAS 23 does not have any material impact on the consolidated financial information for the reporting period.

## 2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

### (ii) Basis of preparation

The consolidated financial statements are prepared on a historical cost convention except for investments carried at fair value through income statement and equity and investment in real estate.

### (iii) Statement of compliance

The consolidated financial statements have been prepared in accordance with the Financial Accounting Standards 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 CBB and the Financial Institutional Law. In accordance with the requirement of AAOIFI, for matters where no AAOIFI standards exist, the Group uses the relevant International Financial Reporting Standards (IFRS).

### (iv) Summary of significant accounting policies

#### (a) *Basis of consolidation*

##### **Subsidiaries**

Subsidiaries are companies in which the Group holds 50% or more of equity shares and as such exercises significant control over such companies. Subsidiaries, including Special Purpose entities that are controlled by the Bank, are consolidated from the date on which the Group obtains control and continue to be so consolidated until the date such control ceases.

##### **Associates**

Associates are companies in which the Group has significant influence, but not control over the management of affairs, and which are neither subsidiaries nor joint ventures. The Group's investments in associates are accounted for under the equity method of accounting. Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. The consolidated income statement reflects the Group's share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in owners equity.

In case of associates where audited financial statements are not available, the Group's share of profit or loss is arrived at by using the latest available management accounts.

##### **Intra-Group balances and minority interest**

The consolidated financial statements include the assets, liabilities and results of operations of the Bank, its subsidiary companies after adjustment for minority interest and equity of unrestricted investment accountholders managed by the Group. All significant intra-group balances and transactions have been eliminated. The financial statements of the subsidiaries are prepared on the same reporting periods as the Bank, using consistent accounting policies.

#### (b) *Foreign currency transactions and balances*

##### **Functional and presentation currency**

Items included in the consolidated financial statements of the Group's entities are measured using the currency of the primary economic environment in which the entity operates, which is Bahraini Dinars (the functional currency). The Annual General Meeting of the Bank held on 30 March 2014 approved the change of the presentation currency of the Bank from Bahraini Dinars to United States Dollars effective 1 January 2014. Considering that the Bahraini Dinar is pegged to United States Dollars, the changes in presentation currency will have no impact on the consolidated statement of financial position, consolidated income statement, consolidated statement of changes in owners' equity, consolidated statement of cash flow and consolidated statement of changes in restricted investment accounts.

## 2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

### (iv) Summary of significant accounting policies (continued)

#### (b) *Foreign currency transactions and balances (continued)*

##### **Transactions and balances**

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

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

1. Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of statement of financial position;
2. Income and expenses for each income statement are translated at average exchange rates; and
3. All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. Translation losses arising in the case of severe devaluation or depreciation (other than temporary) of the currency of the net investment in a foreign operation when the latter is translated at the spot exchange rate at the date of consolidated statement of financial position, are recognised in the first place as a charge against any credit balance on the separate component of the shareholders equity and any remaining amount is recognised as a loss in the consolidated income statement. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill, and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

#### (c) *Accounting estimates and judgements*

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

##### 1. Classification of investments

In the process of applying the Group's accounting policies, management decides upon acquisition of an investment, whether it should be classified as investments carried at fair value through income statement, held at amortised cost or investments carried at fair value through equity. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification.

**2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)**

**(iv) Summary of significant accounting policies (continued)**

**(c) *Accounting estimates and judgements (continued)***

**2. Special purpose entities**

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

**3. Impairment on financing assets and investments**

Each financing and investment exposure is evaluated individually for impairment. Management makes judgements about counterparty's financial situation and the net realisable value of any underlying assets. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable.

**4. Liquidity mismatch**

The Group constantly monitors the liquidity mismatch arising in the normal course of the business. Periodic stress tests are carried out on liquidity position to assess the ability of the Bank to meet its liquidity mismatch. The stress testing also incorporates judgement based behavioural approach for various sources of funding, estimated inflows from disposal of assets.

**(d) *Cash and cash equivalents***

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash on hand, non-restricted balance with central banks and other banks, and short term liquid investments on demand or with an original maturity of three months or less.

**(e) *Murabaha and other financings***

Murabaha financing is stated at cost less allowance for doubtful receivables.

The Group considers the promise made in Murabaha to the purchase orderer as obligatory.

Other financings represent conventional loans and advances, which are non-derivative financial assets with fixed or determinable payments. These are initially recorded at fair value and are subsequently carried at amortised cost using the effective yield method.

The Group receives collateral in the form of cash or other securities including bank guarantees, mortgage over property or shares and securities for Murabaha and other financings where deemed necessary. The Group's policy is to obtain collateral where appropriate, with a market value equal to or in excess of the principal amount financed under the respective financing agreement. To ensure that the market value of the underlying collateral remains sufficient, collateral is valued periodically.

Specific provision is made when the management consider that there is impairment in the carrying amount of Murabaha and other financings.

In addition to specific provision, the Group also assesses impairment collectively for losses on financing facilities that are not individually significant and where there is not yet objective evidence of individual impairment. General provision is evaluated at each reporting date.

**(f) *Musharaka financing***

Musharaka financing is stated at cost less provision for impairment.

Specific provision is made when the management consider that there is impairment in the carrying amount of Musharaka financing.

## 2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

### (iv) Summary of significant accounting policies (continued)

#### (g) *Investments*

##### 1. Investments carried at amortised cost

Debt-type instruments are carried at amortised cost where the investment is managed on a contractual yield basis and their performance evaluated on the basis of contractual cash flows. These investments are measured at initial recognition minus capital/redemption payments and minus any reduction for impairment.

##### 2. Investments carried at fair value through equity

Equity-type instruments are investments that do not exhibit the feature of debt type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities.

Equity-type investments carried at fair value through equity are those equity instruments which are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity; these are designated as such at inception. Regular-way purchases and sales of these investments are recognised on the trade date which is the date on which the Group commits to purchase or sell the asset.

These investments are initially recognised at cost plus transaction costs. These investments are subsequently re-measured at fair value and the resulting unrealised gains or losses are recognised in the consolidated statement of changes in equity or equity of unrestricted investment accountholders under "Investments fair value reserve", until the financial asset is derecognized or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in the consolidated income statement.

The fair value of quoted investments in active market is based on current bid price. If there is no active market for such financial assets, the Group establishes fair values using valuation techniques. These include the use of recent arm's length transactions and other valuation techniques used by other participants. The Group also refers to valuations carried out by investment managers in determining fair value of certain unquoted financial assets.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as financial assets carried at fair value through equity, a significant or prolonged decline in fair value of the security below the cost is considered in determining whether the assets are impaired. If any evidence exists of significant impairment for the investment carried at fair value through equity, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognised in the consolidated income statement is removed from the equity and recognised in the consolidated income statement. Impairment losses on equity instruments previously recognised in the consolidated income statement are not subsequently reversed through the consolidated income statement.

##### 3. Investments carried at fair value through income statement

An investment is classified as investment carried at fair value through income statement if acquired or originated principally for the purpose of generating a profit from short term fluctuations in price or dealers margin. These investments are recognised on the acquisition date at cost including the direct expenses related to the acquisition. At the end of each reporting period, investments are re-measured at their fair value and the gain/loss is recognised in the consolidated income statement.

## **2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)**

### **(iv) Summary of significant accounting policies (continued)**

#### **(g) *Investments (continued)***

##### **4. Restricted investment accounts**

Investment in restricted investment accounts is initially recorded at cost and subsequently re-measured at fair value. Unrealised losses are recognised in equity to the extent of the available balance, taking into consideration the portion related to owner's equity and equity of unrestricted investment accountholders. In case cumulative losses exceed the available balance under equity, the excess is recognised in the consolidated income statement.

##### **5. Investment in real estate**

All properties held for rental income or for capital appreciation purposes or both are classified as investment in real estate. Investment in real estate held for capital appreciation are initially recognised at cost and subsequently re-measured at fair value in accordance with the fair value model with the resulting unrealised gains being recognised in the consolidated statement of changes in owner's equity under investment in real estate fair value reserves. Any unrealised losses resulting from re-measurement at fair value of investment in real estate carried at fair value are adjusted in equity against the investment in real estate fair value reserve, taking into consideration the split between the portion related to owners' equity and equity of investment accountholders, to the extent of the available credit balance of this reserve. In case such losses exceed the available balance, the unrealised losses are recognised in the consolidated income statement. In case there are unrealised losses relating to investment in real estate that have been recognised in the consolidated income statement in a previous financial period, the unrealised gains relating to the current financial period are recognised to the extent of crediting back such previous losses in the consolidated income statement. The realised profits or losses resulting from the sale of any investment in real estate are measured as the difference between the book value (or carrying amount) and the net cash or cash equivalent proceeds from the sale for each investment separately. The resulting profit or loss together with the available balance on the investment in real estate fair value reserve account is recognised in the consolidated income statement for the current financial period.

Investment in real estate held for rental purposes are stated at cost less accumulated depreciation.

##### **6. Investment in mudaraba**

Mudaraba investments are recorded at cost. Decline in the value of investment which is not temporary is charged directly to the consolidated income statement.

##### **7. Fair value**

For investments traded in organised financial markets, fair value is determined by reference to quoted market bid prices.

For investments where there are no quoted market prices, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same or is based on the assessment of future cash flows or at net asset value. The cash equivalent values are determined by the Group at current profit rates for contracts with similar term and risk characteristics.

#### **(h) *Assets acquired for leasing (Ijarah)***

Assets acquired for leasing are stated at cost and are depreciated according to the Group's depreciation policy for fixed assets or lease term, whichever is lower.

A provision for doubtful receivable is made if, in the opinion of the management, the recovery of outstanding rentals are doubtful.

**2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)****(iv) Summary of significant accounting policies (continued)****(i) Fixed assets**

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method to write off the cost of each asset over its estimated useful life as follows:

Buildings	50 years
Leasehold improvements	over the period of the lease
Furniture, equipment and motor vehicles	3-10 years

Depreciation is calculated separately for each significant part of an asset category. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The asset's residual value and useful life are reviewed, and adjusted if appropriate, at each date of the statement of financial position.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably. All other repairs and renewals are charged to the consolidated income statement during the financial period in which they are incurred.

Gains and losses on disposal of fixed assets are determined by comparing proceeds with carrying amounts.

**(j) Intangible assets****1. Goodwill**

Goodwill acquired at the time of acquisitions of subsidiaries is reported in the consolidated statement of the financial position as an asset. Goodwill is initially measured at cost being the excess of the cost of acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary undertaking at the date of acquisition. Subsequently, the goodwill is tested for impairment on annual basis. At the end of the financial period, the goodwill is reported in the consolidated statement of financial position at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Negative goodwill resulting from the acquisition of business is reported in the consolidated income statement.

Acquisition of minority interest is accounted using the Economic Entity Method. Under the Economic Entity Method, the purchase of a minority interest is a transaction with a shareholder. As such, any excess consideration over the Group's share of net assets is recorded in owners' equity.

**2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)**

**(iv) Summary of significant accounting policies (continued)**

**(j) *Intangible assets***

**2. Computer software**

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (three to five years). Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised using the straight line method over their expected useful lives.

**3. Other acquired intangible assets**

Other acquired intangible assets determined to have finite lives, such as core deposits and customer relationships, are amortised on a straight line basis over their estimated useful lives of up to twenty years. The original carrying amount of core deposits and customer relationships has been determined by independent appraisers, based on the profit rate differential on the expected deposit duration method.

Other acquired intangible assets are tested annually or more often if indicators exist for impairment and carried at cost less accumulated amortization.

**(k) *Current taxation***

There is no tax on corporate income in the Kingdom of Bahrain. However, the subsidiaries incorporated in tax jurisdictions pay tax as per local regulations.

**(l) *Deferred taxation***

Deferred taxation is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

A deferred tax asset is recognised for all deductible temporary differences and carry forward of unused tax losses and tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and unused tax losses and tax credits can be utilised. Enacted tax rates are used to determine deferred income tax.



**2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)**

**(iv) Summary of significant accounting policies (continued)**

*(m) Provision for staff benefits*

Staff benefits and entitlements to annual leave, holiday air passage and other short-term benefits are recognised when they accrue to employees. The Group's contributions to defined contribution plans are charged to the consolidated income statement in the period to which they relate. In respect of these plans, the Group has a legal and constructive obligation to pay the contributions as they fall due and no obligation exists to pay future benefits.

In respect of end of service benefits, to which certain employees of the Group are eligible, costs are assessed in accordance with the labour law requirements of the applicable jurisdiction or by using the projected unit credit method as appropriate. Costs to be recognised under the projected unit credit method are estimated based on the advice of qualified actuaries. Actuarial gains and losses are spread over the average remaining service lives of the employees until the benefits become vested.

*(n) Due to investors*

Funds received from depositors who take the corporate risk of the Bank or its subsidiaries are classified as "Due to investors"

*(o) Equity of unrestricted investment accountholders*

Under the equity of unrestricted investment accountholders (URIA), the investment account holder authorizes the Group to invest the accountholders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

The assets included in the equity of unrestricted investment accountholders are measured on the same basis of various category of the assets as set out above. The amount appropriated to investment risk reserve are out of the total income from URIA assets before charging any expense relating to the management fee, mudarib share of profit, profit equalization reserve and profit to investment accountholders. Profit equalisation reserve is created to maintain a certain level of return on investments for investment accountholders.

*(p) Restricted investment accounts*

Under the restricted investment accounts (RIA), the investment accountholders impose certain restrictions as to where, how and for that purpose the funds are to be invested. The assets included in the restricted investment accounts are recorded at Net Asset Value (NAV).

*(q) Treasury shares*

These shares are treated as a deduction from the owners' equity. Gains and losses on sale of own shares are included in owners' equity.

*(r) Statutory reserve*

In accordance with the Bahrain Commercial Companies Law 10% of the Bank's net income for the year is transferred to a statutory reserve until such time as reserve reaches 50% of the paid up share capital. The reserve is not distributable, but can be utilized as stipulated in the Bahrain Commercial Companies Law and other applicable statutory regulations.

**2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)**

**(iv) Summary of significant accounting policies (continued)**

**(s) *Revenue recognition***

**1. Profit participation and management fees**

Income from profit participation and management fees charged to funds managed by the Group is recognised on the basis of the Group's entitlement to receive such revenue from restricted and unrestricted investment accounts as defined in the Mudaraba agreement (trust deed), except when the Group temporarily waives its entitlement.

**2. Profit on Murabaha and other financings**

Profit on Murabaha transactions is recognised by proportionately allocating the attributable profits over the period of the transaction where each financial period carries its portion of profits irrespective of whether or not cash is received. However, profit accrual is suspended on Murabaha transactions in respect of which repayment instalments are past due for more than ninety days, unless, in the opinion of the management of the Bank, the accrual is justified.

Income from other financings is accrued based on the effective yield method over the period of the transaction. Where income is not contractually determined or quantifiable, it is recognised when reasonably certain of realisation or when realised.

**3. Income from assets acquired for leasing**

Lease rental revenue is recognised on a time-apportioned basis over the lease term.

**4. Income from Mudaraba contracts**

Income from Mudaraba contracts are recognised when the Mudarib distributes profits. Any share of losses for the period are recognized to the extent such losses are being deducted from the Mudaraba capital.

**5. Profit on Musharaka contracts**

In respect of Musharaka contracts that continue for more than one financial period, the Group's share of profits are recognised when a partial or final settlement takes place and its share of the losses are recognised to the extent that such losses are deducted from the Group's share of Musharaka capital. However, in respect of diminishing Musharaka transactions, profits or losses are recognised after considering the decline in the Group's share of the Musharaka capital and, consequently, its proportionate share of the profits or losses.

**6. Dividend income**

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

**7. Fees and commissions**

Fees and commissions (including banking services) are recognised when earned.

Commissions on letters of credit and letters of guarantee are recognised as income over the period of the transaction.

Fees for structuring and arrangement of financing transactions for and on behalf of other parties are recognised when the Bank has fulfilled all its obligations in connection with the related transaction.

**2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)**

**(iv) Summary of significant accounting policies (continued)**

*(t) Profit allocation between group and investment accountholders*

The Group maintains separate books for assets financed by owners, unrestricted and restricted investment accounts. All income generated from the assets financed by the investment accounts are allocated to the customers after deducting impairment provisions, profit equalization reserves, mudarib's share of profit and management fees.

Administrative expenses incurred in connection with the management of the funds are borne directly by the Group.

Impairment provision is made when the management considers that there is impairment in the carrying amount of assets financed by the investment account.

*(u) Assets transfer between Owner's equity, Unrestricted Investment Accounts and Restricted Investment Accounts*

Assets are transferred between Owner's equity, Unrestricted Investment Accounts and Restricted Investment Accounts at fair value.

**Ithmaar Bank B.S.C.**
**Notes to the Consolidated Financial Statements for the year ended 31 December 2015**

(Expressed in thousands of United States Dollars unless otherwise stated)

**3 CASH AND BALANCES WITH BANKS AND CENTRAL BANKS**

	31 December 2015			31 December 2014		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Cash reserve with central banks	161,064	-	161,064	154,082	-	154,082
Cash and balances with banks and central banks	429,345	-	429,345	405,312	-	405,312
	<b>590,409</b>	<b>-</b>	<b>590,409</b>	<b>559,394</b>	<b>-</b>	<b>559,394</b>

**4 COMMODITY AND OTHER PLACEMENTS WITH BANKS, FINANCIAL AND OTHER INSTITUTIONS**

	31 December 2015			31 December 2014		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Commodity placements	278,359	-	278,359	180,675	-	180,675
Less: Provisions	(7,539)	-	(7,539)	(6,779)	-	(6,779)
	<b>270,820</b>	<b>-</b>	<b>270,820</b>	<b>173,896</b>	<b>-</b>	<b>173,896</b>

Cash and cash equivalents for the purpose of cash flow statement are as under:

	31 December 2015			31 December 2014		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Cash and balances with banks and central banks	590,409	-	590,409	559,394	-	559,394
Commodity and other placements with banks, financial and other institutions - net	270,820	-	270,820	173,896	-	173,896
Less: Placement maturing after ninety days	(113,670)	-	(113,670)	(58,438)	-	(58,438)
Less: Balances with central bank relating to minimum reserve requirement	(161,064)	-	(161,064)	(154,082)	-	(154,082)
	<b>586,495</b>	<b>-</b>	<b>586,495</b>	<b>520,770</b>	<b>-</b>	<b>520,770</b>

The movement in provisions is as follows:

	31 December 2015			31 December 2014		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	6,779	-	6,779	6,525	-	6,525
Charge for the year	760	-	760	-	-	-
Exchange differences and other movements	-	-	-	254	-	254
At 31 December	<b>7,539</b>	<b>-</b>	<b>7,539</b>	<b>6,779</b>	<b>-</b>	<b>6,779</b>

**Ithmaar Bank B.S.C.**
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(Expressed in thousands of United States Dollars unless otherwise stated)

**5 MURABAHA AND OTHER FINANCINGS**

	31 December 2015			31 December 2014		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Murabaha and other financings	2,268,833	1,479,853	3,748,686	2,465,063	1,345,658	3,810,721
Less: Provisions	(298,650)	(50,266)	(348,916)	(268,357)	(54,552)	(322,909)
	<b>1,970,183</b>	<b>1,429,587</b>	<b>3,399,770</b>	<b>2,196,706</b>	<b>1,291,106</b>	<b>3,487,812</b>

Other financings represents conventional loans and advances totalling \$1,537 million (31 December 2014: \$1,715.6 million) made by a subsidiary of the Bank.

The movement in provisions is as follows:

	31 December 2015			31 December 2014		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	268,357	54,552	322,909	242,561	49,373	291,934
Charge for the year	54,564	7,074	61,638	24,531	4,892	29,423
Write back during the year	(14,147)	-	(14,147)	(9,165)	-	(9,165)
Utilised during the year	(3,304)	(11,261)	(14,565)	-	(623)	(623)
Transfer from Investment Risk Reserve	-	-	-	-	835	835
Exchange differences and other movements	(6,820)	(99)	(6,919)	10,430	75	10,505
At 31 December	<b>298,650</b>	<b>50,266</b>	<b>348,916</b>	<b>268,357</b>	<b>54,552</b>	<b>322,909</b>

Total provision of \$348.9 million (31 December 2014: \$322.9 million) includes general provision of \$11.8 million (31 December 2014: \$3.6 million).

**6 INVESTMENT IN MUDARABA**

	31 December 2015			31 December 2014		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Mudaraba investments	5,854	27,929	33,783	973	32,103	33,076
Less : Provisions	(854)	(11,581)	(12,435)	(854)	(14,788)	(15,642)
	<b>5,000</b>	<b>16,348</b>	<b>21,348</b>	<b>119</b>	<b>17,315</b>	<b>17,434</b>

Certain assets totalling \$16.3 million (31 December 2014: \$17.4 million) included above are held by third parties as nominee on behalf of the Group.

The movement in provisions is as follows:

	31 December 2015			31 December 2014		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	854	14,788	15,642	-	14,788	14,788
Utilised during the year	-	(3,207)	(3,207)	-	-	-
Exchange differences and other movements	-	-	-	854	-	854
At 31 December	<b>854</b>	<b>11,581</b>	<b>12,435</b>	<b>854</b>	<b>14,788</b>	<b>15,642</b>

**Ithmaar Bank B.S.C.****Notes to the Consolidated Financial Statements for the year ended 31 December 2015**

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**7 INVESTMENT IN ASSOCIATES**

Investment in associated companies, as adjusted for the Group's share of their results comprise:

Name of company	% of Share-holding		% of Share-holding		Country	Activity
	2015		2014			
<b>Unlisted:</b>						
Solidarity Group Holding B.S.C. (C)	64,494	36	79,480	34	Bahrain	Takaful
Citic International Assets Management Limited	75,113	20	69,595	20	Hong Kong	Asset management
Sanpak Engineering	482	31	448	31	Pakistan	Manufacturing
Misr Company for Packing Materials "Egywrap"	4,688	23	4,351	23	Egypt	Trading
Faysal Asset Management Limited	649	30	573	30	Pakistan	Asset management
Ithraa Capital	4,640	23	4,263	23	Saudi Arabia	Investment company
Naseej B.S.C. (C)	100,963	30	97,133	30	Bahrain	Infrastructure
Chase Manara B.S.C. (C)	1,679	40	1,781	40	Bahrain	Real estate
Islamic Trading Company E.C	669	24	534	24	Bahrain	Trading
<b>Listed:</b>						
BBK B.S.C	402,011	25	426,663	25	Bahrain	Banking
	<u>655,388</u>		<u>684,821</u>			

Investment in associates include conventional investments totalling \$578.1 million (31 December 2014: \$593.4 million).

During July 2015, Solidarity Group Holding B.S.C. (C) repaid 10% of its share capital to shareholders and cancelled its treasury shares. As a result, the Group's holding increased to 36.3% from 33.8%.

The Group's share of net assets of its associated companies includes the following movements analysed as follows:

	31 December 2015	31 December 2014
At 1 January	684,821	665,066
Share of profit before tax	34,866	22,681
Share of tax	(1,808)	(364)
Dividends received	(14,513)	(6,304)
Share of fair value reserve	(31,134)	16,713
Disposals	(7,539)	(3,812)
Amortisation of intangibles	(6,748)	(6,748)
Exchange differences	(2,557)	(2,411)
At 31 December	<u>655,388</u>	<u>684,821</u>

Investment in associates includes \$255 million (31 December 2014: \$261.8 million) pledged as collateral against borrowings (note 16) with the terms and conditions in the ordinary course of business.

Certain assets totalling \$4.7 million (31 December 2014: \$4.4 million) included above are held by third parties as nominee on behalf of the Group.

Included in investment in associates at 31 December 2015 is \$76.9 million (31 December 2014: \$76.9 million) of goodwill. The movement is as follows:

	31 December 2015	31 December 2014
At 1 January	76,939	76,939
Provision	-	-
At 31 December	<u>76,939</u>	<u>76,939</u>

**Ithmaar Bank B.S.C.**

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**7 INVESTMENT IN ASSOCIATES** (continued)

Amortisation charge for the intangible assets for the year ended 31 December 2015 amounted to \$6.7 million (31 December 2014: \$6.7 million)

Summarised financial position of associates that have been equity accounted:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Total assets	10,799,588	10,404,796
Total liabilities	8,824,626	8,477,618
Total revenues	429,661	523,500
Total net profit	177,749	160,566

## 8 SUKUK AND INVESTMENT SECURITIES

	31 December 2015			31 December 2014		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
<b>Investment securities at fair value through income statement</b>						
<i>Held for trading</i>						
Debt-type instruments – unlisted	61,837	-	61,837	270,441	-	270,441
Equity-type securities – listed	4,417	-	4,417	2,615	-	2,615
	<b>66,254</b>	<b>-</b>	<b>66,254</b>	<b>273,056</b>	<b>-</b>	<b>273,056</b>
<b>Investment securities at fair value through equity</b>						
Equity-type securities – listed	49,632	-	49,632	41,084	-	41,084
Equity-type securities – unlisted	216,687	79,829	296,516	226,771	85,217	311,988
	266,319	79,829	346,148	267,855	85,217	353,072
Provision for impairment	(142,575)	(5,700)	(148,275)	(103,550)	(5,756)	(109,306)
	<b>123,744</b>	<b>74,129</b>	<b>197,873</b>	<b>164,305</b>	<b>79,461</b>	<b>243,766</b>
<b>Investment securities carried at amortised cost</b>						
Sukuk – unlisted	102,454	-	102,454	216,454	-	216,454
Other debt-type instruments – listed	6,906	-	6,906	2,259	-	2,259
Other debt-type instruments – unlisted	1,566,167	-	1,566,167	1,050,219	-	1,050,219
	1,675,527	-	1,675,527	1,268,932	-	1,268,932
Provision for impairment	(20,224)	-	(20,224)	(18,136)	-	(18,136)
	<b>1,655,303</b>	<b>-</b>	<b>1,655,303</b>	<b>1,250,796</b>	<b>-</b>	<b>1,250,796</b>
	<b>1,845,301</b>	<b>74,129</b>	<b>1,919,430</b>	<b>1,688,157</b>	<b>79,461</b>	<b>1,767,618</b>

Sukuk and investment securities include conventional investments totalling \$1,549.6 million (31 December 2014: \$1,346.9 million) made by a subsidiary of the Bank.

The fair value of investment securities carried at amortised cost was \$1,674.6 million (31 December 2014: \$1,269.5 million) and these are tradable

Certain assets totalling \$12.8 million (31 December 2014: \$16.6 million) included above are held by third parties as nominee on behalf of the Group.

The movement in provisions relating to sukuk and investment securities is as follows:

	31 December 2015			31 December 2014		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	121,686	5,756	127,442	124,159	5,756	129,915
Charge for the year	46,203	-	46,203	13,882	-	13,882
Write back during the year	(1,652)	-	(1,652)	(7,406)	-	(7,406)
Utilised during the year	(1,175)	(56)	(1,231)	(2,876)	-	(2,876)
Exchange differences and other movements	(2,263)	-	(2,263)	(6,073)	-	(6,073)
At 31 December	<b>162,799</b>	<b>5,700</b>	<b>168,499</b>	<b>121,686</b>	<b>5,756</b>	<b>127,442</b>



**8 SUKUK AND INVESTMENT SECURITIES (continued)**

FAS 25 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical investments.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the investments, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – inputs for the investments that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

**Investments measured at fair value**

	Level 1	Level 2	Level 3	Total
<b>At 31 December 2015</b>				
<b>Investment securities at fair value through income statement</b>				
Debt-type instruments	-	61,837	-	61,837
Equity securities	4,417	-	-	4,417
<b>Investment securities at fair value through equity</b>				
Equity securities	44,795	-	153,078	197,873
	<b>49,212</b>	<b>61,837</b>	<b>153,078</b>	<b>264,127</b>
<b>At 31 December 2014</b>				
<b>Investment securities at fair value through income statement</b>				
Debt-type instruments	-	270,441	-	270,441
Equity securities	2,615	-	-	2,615
<b>Investment securities at fair value through equity</b>				
Equity securities	35,835	1,990	205,941	243,766
	<b>38,450</b>	<b>272,431</b>	<b>205,941</b>	<b>516,822</b>

**8 SUKUK AND INVESTMENT SECURITIES (continued)****Reconciliation of Level 3 Items**

	<b>Investment securities at fair value through equity</b>	
	<b>2015</b>	<b>2014</b>
At 1 January	<b>205,941</b>	<b>204,624</b>
Total gains/(losses) recognised in		
- Income statement	(40,026)	(1,358)
- Equity	(7,738)	(1,584)
Purchases	275	5
Sales	(6,546)	(1,797)
Reallocation	1,172	6,051
At 31 December	<b>153,078</b>	<b>205,941</b>
Total gains for the year included in consolidated income statement for 31 December	<b>2,652</b>	<b>4,382</b>

**9 RESTRICTED INVESTMENT ACCOUNTS**

	<b>31 December 2015</b>			<b>31 December 2014</b>		
	<b>Relating to owners</b>	<b>Relating to unrestricted investment accounts</b>	<b>Total</b>	<b>Relating to owners</b>	<b>Relating to unrestricted investment accounts</b>	<b>Total</b>
Investment in restricted investment accounts	101,752	44,248	146,000	91,798	45,206	137,004
Less: provisions	(58,723)	(8,626)	(67,349)	(58,509)	(8,626)	(67,135)
	<b>43,029</b>	<b>35,622</b>	<b>78,651</b>	<b>33,289</b>	<b>36,580</b>	<b>69,869</b>

The movement in provisions is as follows:

	<b>31 December 2015</b>			<b>31 December 2014</b>		
	<b>Relating to owners</b>	<b>Relating to unrestricted investment accounts</b>	<b>Total</b>	<b>Relating to owners</b>	<b>Relating to unrestricted investment accounts</b>	<b>Total</b>
At 1 January	58,509	8,626	67,135	51,695	8,626	60,321
Charge for the year	-	-	-	6,250	-	6,250
Exchange differences and other movements	214	-	214	564	-	564
At 31 December	<b>58,723</b>	<b>8,626</b>	<b>67,349</b>	<b>58,509</b>	<b>8,626</b>	<b>67,135</b>

**Ithmaar Bank B.S.C.**

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(Expressed in thousands of United States Dollars unless otherwise stated)

**10 ASSETS ACQUIRED FOR LEASING**

	31 December 2015			31 December 2014		
	Cost	Accumulated depreciation	Net book amount	Cost	Accumulated depreciation	Net book amount
Property & Equipment	230,690	(61,208)	169,482	156,811	(82,568)	74,243

The net book amount of assets acquired for leasing is further analysed as follows:

	31 December 2015	31 December 2014
Relating to owners	14,773	22,036
Relating to unrestricted investment accounts	154,709	52,207
	169,482	74,243

**11 INVESTMENT IN REAL ESTATE**

	31 December 2015			31 December 2014		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Investment properties	273,775	-	273,775	355,857	-	355,857
Less: provisions	(17,282)	-	(17,282)	(23,258)	-	(23,258)
	256,493	-	256,493	332,599	-	332,599

Fair value of investment properties at the year end approximates their carrying value.

Certain assets totalling \$63.4 million (31 December 2014: \$65.5 million) included above are held by third parties as nominee on behalf of the Group.

The movement in provisions for investment in real estate is as follows:

	31 December 2015			31 December 2014		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	23,258	-	23,258	25,673	-	25,673
Write back during the year	(1,634)	-	(1,634)	(2,182)	-	(2,182)
Utilised during the year	(2,450)	-	(2,450)	-	-	-
Exchange differences and other movements	(1,892)	-	(1,892)	(233)	-	(233)
At 31 December	17,282	-	17,282	23,258	-	23,258

**Ithmaar Bank B.S.C.**
**Notes to the Consolidated Financial Statements for the year ended 31 December 2015**

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**12 OTHER ASSETS**

	31 December 2015			31 December 2014		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Account receivable	197,893	24,187	222,080	172,148	38,137	210,285
Due from related parties	96,236	-	96,236	76,606	-	76,606
Taxes – deferred	41,830	-	41,830	37,295	-	37,295
Taxes – current	16,369	-	16,369	35,814	-	35,814
Assets acquired against claims	17,251	-	17,251	18,081	-	18,081
	369,579	24,187	393,766	339,944	38,137	378,081
Provision for impairment	(62,141)	(12,188)	(74,329)	(77,763)	(27,122)	(104,885)
	<b>307,438</b>	<b>11,999</b>	<b>319,437</b>	<b>262,181</b>	<b>11,015</b>	<b>273,196</b>

The movement in provisions is as follows:

	31 December 2015			31 December 2014		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	77,763	27,122	104,885	73,454	27,199	100,653
Charge for the year	6,741	-	6,741	4,168	-	4,168
Write back during the year	(811)	-	(811)	(3,953)	-	(3,953)
Utilised during the year	(18,253)	(15,033)	(33,286)	-	-	-
Exchange differences and other movements	(3,299)	99	(3,200)	4,094	(77)	4,017
At 31 December	<b>62,141</b>	<b>12,188</b>	<b>74,329</b>	<b>77,763</b>	<b>27,122</b>	<b>104,885</b>

**13 FIXED ASSETS**

	Relating to owners							
	31 December 2015				31 December 2014			
	Cost	Accumulated depreciation	Provision for impairment	Net book amount	Cost	Accumulated depreciation	Provision for impairment	Net book amount
Land and building	110,391	(12,812)	(2,804)	94,775	113,433	(13,309)	(2,804)	97,320
Leasehold improvements	25,151	(20,336)	-	4,815	25,099	(19,794)	-	5,305
Furniture and equipment	75,184	(63,997)	-	11,187	71,845	(62,989)	-	8,856
Motor vehicles	3,688	(2,076)	-	1,612	3,637	(1,840)	-	1,797
	<b>214,414</b>	<b>(99,221)</b>	<b>(2,804)</b>	<b>112,389</b>	<b>214,014</b>	<b>(97,932)</b>	<b>(2,804)</b>	<b>113,278</b>

Depreciation charge for the year ended 31 December 2015 amounted to \$6.4 million (31 December 2014: \$7.4 million)

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**14 INTANGIBLE ASSETS**

Relating to owners				
				31 December 2015
	Cost	Accumulated amortisation	Provision for impairment	Exchange differences Net book amount
Goodwill	87,830	-	(5,000)	(9,231) 73,599
Customer relations	113,565	(49,512)	-	(11,110) 52,943
Core deposits	155,546	(72,918)	-	(20,324) 62,304
Others	27,848	(21,124)	-	(219) 6,505
	<b>384,789</b>	<b>(143,554)</b>	<b>(5,000)</b>	<b>(40,884) 195,351</b>

Relating to owners				
				31 December 2014
	Cost	Accumulated amortisation	Provision for impairment	Exchange differences Net book amount
Goodwill	87,830	-	-	(8,702) 79,128
Customer relations	113,565	(43,455)	-	(10,645) 59,465
Core deposits	155,546	(65,138)	-	(20,964) 69,444
Others	26,431	(17,874)	-	- 8,557
	<b>383,372</b>	<b>(126,467)</b>	<b>-</b>	<b>(40,311) 216,594</b>

Amortisation charge for the year ended 31 December 2015 amounted to \$16.7 million (31 December 2014: \$16.7 million)

The carrying amount of goodwill has been allocated to cash-generating units as follows:

	31 December 2015	31 December 2014
Business units of ex-Shamil Bank of Bahrain B.S.C. (C)	66,070	66,070
Faysal Bank Limited	7,529	13,058
	<b>73,599</b>	<b>79,128</b>

The recoverable amount of the cash-generating units were determined based on Value-in-Use (VIU) calculation using cash flow projections from financial budgets approved by the Group's senior management covering a three year period and Fair Value Less Cost to Sell (FVLCTS). The discount rate applied to cash flow projections represent the cost of capital adjusted for an appropriate risk premium for these cash-generating units. The key assumptions used in estimating the recoverable amounts of cash-generating units were assessed to ensure reasonableness of the VIU and FVLCTS and resulting adjustment, if any, is recorded in the consolidated income statement.

**15 CUSTOMERS' CURRENT ACCOUNTS**

Customers' current accounts include balances relating to a counterparty amounting to \$196.3 million (31 December 2014: \$218.4 million) that are subject to sanctions under US, EU, UN measures as at 31 December 2015.

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**16 DUE TO BANKS, FINANCIAL AND OTHER INSTITUTIONS**

	31 December 2015			31 December 2014		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Due to banks	1,480,579	-	1,480,579	1,232,663	-	1,232,663
Due to financial and other institutions	159,292	-	159,292	240,635	-	240,635
	<b>1,639,871</b>	<b>-</b>	<b>1,639,871</b>	<b>1,473,298</b>	<b>-</b>	<b>1,473,298</b>

Due to banks, financial and other institutions include balances totalling \$566.6 million (31 December 2014: \$657.6 million) from three counterparties having contractual maturity ranging from up to one month to 3 years. Out of these, balances totalling \$417 million (31 December 2014: \$427.8 million) is from two counterparty that are subject to sanctions under US, EU, UN measures as at 31 December 2015.

Due to banks include short and medium term borrowings by the Group under bilateral and multilateral arrangement with maturities ranging from one year to five years.

Due to banks, financial and other institutions include conventional deposits totalling \$766.7 million (31 December 2014: \$576.7 million), accepted by a subsidiary of the Bank.

At 31 December 2015, there were collateralized borrowings in aggregate \$151 million (31 December 2014: \$167.8 million).

Cash dividends amounting to \$11.1 million (31 December 2014: \$6.1 million) on certain shares pledged as collateral was directly received by the lender (as per agreed terms and conditions) during the year and adjusted against the outstanding facility amount as per the agreed terms.

Assets which are pledged as collateral are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

**17 DUE TO INVESTORS**

	Relating to owners	
	31 December 2015	31 December 2014
Due to corporate institutions	1,024,104	1,047,431
Due to individuals	856,180	875,178
Due to financial institutions	71,157	72,736
	<b>1,951,441</b>	<b>1,995,345</b>

Due to investors represent conventional deposits accepted by a subsidiary of the Bank.

Due to investors include floating rate unsecured term finance certificates issued by a subsidiary of the Bank.

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**18 OTHER LIABILITIES**

	31 December 2015			31 December 2014		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Accounts payable	240,132	63,787	303,919	206,522	52,550	259,072
Due to related parties	10,844	-	10,844	10,567	-	10,567
Provision for taxation – current	831	-	831	259	-	259
Provision for taxation – deferred	4,417	-	4,417	4,192	-	4,192
	<b>256,224</b>	<b>63,787</b>	<b>320,011</b>	<b>221,540</b>	<b>52,550</b>	<b>274,090</b>

**19 EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS**

The funds received from Unrestricted Investment Accountholders (URIA) are invested on their behalf without recourse to the Group as follows:

	Notes	31 December 2015	31 December 2014
Murabaha and other financings	5	1,429,587	1,291,106
Investment in mudaraba	6	16,348	17,315
Investment in associates	7	4,340	4,340
Sukuk and investment securities	8	74,129	79,461
Restricted investment accounts	9	35,622	36,580
Assets acquired for leasing	10	154,709	52,207
Other assets	12	11,999	11,015
Due from the Bank		536,195	562,475
		<b>2,262,929</b>	<b>2,054,499</b>
Other liabilities	18	(63,787)	(52,550)
Equity of unrestricted investment accountholders		<b>2,199,142</b>	<b>2,001,949</b>

The movement in investments fair value reserve (included in URIA) is as follows:

	31 December 2015	31 December 2014
At 1 January	9,292	9,647
Net movement during the year	-	(355)
At 31 December	<b>9,292</b>	<b>9,292</b>

**Ithmaar Bank B.S.C.****Notes to the Consolidated Financial Statements for the year ended 31 December 2015**

(Expressed in thousands of United States Dollars unless otherwise stated)

**19 EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS (continued)**

The assets attributable to unrestricted investment accountholders have been disclosed net of impairment provisions amounting to \$88.4 million (31 December 2014: \$110.8 million). The movement of impairment provisions relating to unrestricted investment accountholders has been disclosed in note 29.

Other liabilities include profit equalization reserve and the movement is as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
At 1 January	7,548	2,546
Net addition during the year	4,999	5,002
At 31 December	<b>12,547</b>	<b>7,548</b>

Other liabilities include investment risk reserve and the movement is as follows:

	<b>31 December 2015</b>	<b>31 December 2014</b>
At 1 January	2,915	-
Net addition during the year	5,889	3,750
Transfer to impairment provisions (note 29)	-	(835)
At 31 December	<b>8,804</b>	<b>2,915</b>

The average gross rate of return in respect of unrestricted investment accounts was 2.3% for 31 December 2015 (31 December 2014: 3.4%) of which 1.3% (31 December 2014: 2.2%) was distributed to the investors and the balance was either set aside as provisions and/or retained by the Bank as share of profits in its capacity as a Mudarib.

The Bank earned a management fee up to 0.7% of the total invested amount per annum to cover its administration and other expenses related to the management of such funds

**20 MINORITY INTEREST**

The consolidated financial statements include 100% of the assets, liabilities and earnings of subsidiaries. The ownership interests of the other shareholders in the subsidiaries are called minority interests.

The following table summarises the minority shareholders' interests in the equity of consolidated subsidiaries.

	<b>31 December 2015</b>		<b>31 December 2014</b>	
	<b>Minority %</b>		<b>Minority %</b>	
Faysal Bank Limited	33	99,996	33	92,727
Health Island B.S.C. (C)	50	68,823	50	110,766
Cityview Real Estate Development B.S.C. (C)	49	1,602	49	1,663
Sakana Holistic Housing Solutions B.S.C. (C)	50	7,197	50	15,027
		<b>177,618</b>		<b>220,183</b>

Minority interest in the consolidated income statement of \$14.4 million (31 December 2014: \$6.2 million) represents the minority shareholders' share of the earnings of these subsidiaries for the respective years.



**Ithmaar Bank B.S.C.****Notes to the Consolidated Financial Statements for the year ended 31 December 2015**

(Expressed in thousands of United States Dollars unless otherwise stated)

**21 SHARE CAPITAL**

	<b>Number of shares (thousands)</b>	<b>Share capital</b>
Authorised	8,000,000	2,000,000
<b>Issued and fully paid</b>		
Total outstanding	3,030,755	757,690
Treasury shares	(120,595)	(30,149)
<b>At 31 December 2014 (Audited)</b>	<b>2,910,160</b>	<b>727,541</b>
<b>Issued and fully paid</b>		
Total outstanding as at 1 January 2015	3,030,755	757,690
Treasury shares *	(120,595)	(30,149)
<b>At 31 December 2015 (Audited)</b>	<b>2,910,160</b>	<b>727,541</b>

The Bank's total issued and fully paid share capital at 31 December 2015 comprises 3,030,755,027 shares at \$0.25 per share amounting to \$757,688,757. The share capital of the Bank is denominated in United States Dollars and these shares are traded on Bahrain Bourse in United States dollars and on Kuwait Stock Exchange in Kuwaiti Dinars.

The Bank owned 120,594,984 of its own shares at 31 December 2015 (31 December 2014: 120,594,984). The shares are held as treasury shares and the Bank has the right to reissue these shares at a later date.

**\* Employee Share Incentive Scheme**

At the annual general meeting for the year 2014 which was held on 31 March 2015, and in pursuant to CBB's Sound Remuneration Practices, the Employee Share Incentive Scheme (the "Scheme") was approved. As a result, 3,643,031 ordinary shares were appropriated from treasury shares.

**22 EARNINGS PER SHARE (BASIC & DILUTED)**

Earnings per share (Basic & Diluted) are calculated by dividing the net income attributable to shareholders by the weighted average number of issued and fully paid up ordinary shares during the year.

	<b>31 December 2015</b>	<b>31 December 2014</b>
Net loss attributable to shareholders (\$ '000)	(60,797)	(15,012)
Weighted average number of issued and fully paid up ordinary shares ('000)	2,910,160	2,910,160
Earnings per share (Basic & Diluted) - US Cents	<b>(2.09)</b>	<b>(0.52)</b>

Earnings per share on non-sharia compliant income and expenses is included under note 41.

**23 INCOME FROM RESTRICTED INVESTMENT ACCOUNTS AS A MUDARIB**

Income from restricted investment accounts comprises profit participation as a Mudarib and investment management fees net of contribution made to certain restricted funds.

**24 INCOME FROM MURABAHA AND OTHER FINANCINGS**

	Relating to owners	
	31 December 2015	31 December 2014
Income from murabaha financing	16,880	17,071
Income from musharaka financing	12,930	9,205
Income from other financings	157,282	199,704
	<b>187,092</b>	<b>225,980</b>

**25 INCOME FROM OTHER INVESTMENTS**

	Relating to owners	
	31 December 2015	31 December 2014
Income from investment securities at amortised cost	138,342	101,508
Income from investment securities at fair value through equity	4,127	6,841
Income from investment securities at fair value through income statement	27,044	15,574
Income from investment in real estate	9,943	2,821
	<b>179,456</b>	<b>126,744</b>

**26 OTHER INCOME**

	Relating to owners	
	31 December 2015	31 December 2014
Income from banking services	40,762	38,051
Foreign exchange income	6,330	12,871
Income from fees and commissions	4,336	-
Gain on disposal of fixed assets	1,259	1,611
Others	-	2,463
	<b>52,687</b>	<b>54,996</b>

**27 ADMINISTRATIVE AND GENERAL EXPENSES**

	Relating to owners	
	31 December 2015	31 December 2014
Salaries and other benefits	77,097	84,904
Office expenses	48,169	47,221
Professional fees	13,047	11,733
Other administrative expenses	22,307	24,010
	<b>160,620</b>	<b>167,868</b>

**28 SOCIAL RESPONSIBILITY**

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

**Ithmaar Bank B.S.C.**
**Notes to the Consolidated Financial Statements for the year ended 31 December 2015**

(Expressed in thousands of United States Dollars unless otherwise stated)

**29 PROVISIONS**

	31 December 2015			31 December 2014		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	630,538	110,844	741,382	597,399	105,742	703,141
Charge for the year	113,267	7,074	120,341	48,831	4,892	53,723
Write back during the year	(18,242)	-	(18,242)	(22,706)	-	(22,706)
Transfer from Investment Risk Reserve (note 19)	-	-	-	-	835	835
Utilised during the year	(25,182)	(29,557)	(54,739)	(2,876)	(625)	(3,501)
Exchange differences	(14,061)	-	(14,061)	9,890	-	9,890
At 31 December	<b>686,320</b>	<b>88,361</b>	<b>774,681</b>	<b>630,538</b>	<b>110,844</b>	<b>741,382</b>

The allocation of the provision to the respective assets is as follows:

	31 December 2015			31 December 2014		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Commodity and other placements with banks, financial and other institutions	7,539	-	7,539	6,779	-	6,779
Murabaha and other financings	298,650	50,266	348,916	268,357	54,552	322,909
Investment in mudaraba	854	11,581	12,435	854	14,788	15,642
Investment in associates	70,528	-	70,528	70,528	-	70,528
Sukuk and investment securities	162,799	5,700	168,499	121,686	5,756	127,442
Restricted investment accounts	58,723	8,626	67,349	58,509	8,626	67,135
Fixed assets	2,804	-	2,804	2,804	-	2,804
Investment in real estate	17,282	-	17,282	23,258	-	23,258
Intangible assets	5,000	-	5,000	-	-	-
Other assets	62,141	12,188	74,329	77,763	27,122	104,885
	<b>686,320</b>	<b>88,361</b>	<b>774,681</b>	<b>630,538</b>	<b>110,844</b>	<b>741,382</b>

Total provisions of \$774.7 million (31 December 2014: \$741.4 million) includes \$16.5 million (31 December 2014: \$6.5 million) held as general provisions. The movement in general provision is as follows:

	Relating to owners	
	31 December 2015	31 December 2014
At 1 January	6,509	54,931
Charge for the year	9,983	-
Allocated to specific provision	-	(48,407)
Exchange differences	-	(15)
At 31 December	<b>16,492</b>	<b>6,509</b>

General provision of \$16.5 million (31 December 2014: \$6.5 million) includes \$11.8 million (31 December 2014: \$3.6 million) in respect of Murabaha and other financings.

**30 OVERSEAS TAXATION**

	<b>Relating to owners</b>	
	<b>31 December 2015</b>	<b>31 December 2014</b>
Current taxes	35,261	10,138
Deferred taxes	(5,933)	1,546
	<b>29,328</b>	<b>11,684</b>

The Group is subject to income taxes in some jurisdictions. Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences impact the income tax and deferred tax provisions in the period in which such determination is made.

**Current tax receivable/(payable)**

	<b>31 December 2015</b>	<b>31 December 2014</b>
At 1 January	35,555	31,419
Charge for the year	(35,261)	(10,138)
Payments made	15,440	12,724
Exchange differences and other movements	(196)	1,550
At 31 December	<b>15,538</b>	<b>35,555</b>

**Deferred tax asset/(liability)**

	<b>31 December 2015</b>	<b>31 December 2014</b>
At 1 January	33,103	32,832
Charge for the year	5,933	(1,546)
Charges due to fair value reserve	4	(370)
Exchange differences and other movements	(1,627)	2,187
At 31 December	<b>37,413</b>	<b>33,103</b>

### 31 SEGMENTAL INFORMATION

The Group constitutes of three main business segments, namely:

- (i) Retail and Corporate banking, in which the Group receives customer funds and deposits and extends financing to its retail and corporate clients.
- (ii) Trading Portfolio, where the Group trades in equity deals, foreign exchange and other transactions with the objective of realizing short-term gains.
- (iii) Asset Management/Investment Banking, in which the Group directly participates in investment opportunities.

	31 December 2015					31 December 2014				
	Retail & Corporate banking	Trading Portfolio	Asset Management / Investment Banking	Others	Total	Retail & Corporate banking	Trading Portfolio	Asset Management / Investment Banking	Others	Total
Operating income	205,743	62,048	227	351	268,369	207,503	46,165	(29,937)	4,029	227,760
Total expenses	(168,622)	(2,313)	(19,239)	(237)	(190,411)	(177,899)	(1,523)	(19,118)	(258)	(198,798)
Net income/(loss) before provision and overseas taxation	37,121	59,735	(19,012)	114	77,958	29,604	44,642	(49,055)	3,771	28,962
Provision and overseas taxation	(49,256)	(26,890)	(48,032)	(175)	(124,353)	(20,035)	(18,479)	772	(67)	(37,809)
Net income/(loss) for the year	(12,135)	32,845	(67,044)	(61)	(46,395)	9,569	26,163	(48,283)	3,704	(8,847)
Attributable to:										
Equity holders of the Bank	(13,434)	21,865	(69,086)	(142)	(60,797)	9,569	19,435	(47,720)	3,704	(15,012)
Minority interests	1,299	10,980	2,042	81	14,402	-	6,728	(563)	-	6,165
	(12,135)	32,845	(67,044)	(61)	(46,395)	9,569	26,163	(48,283)	3,704	(8,847)
Total assets	5,148,061	1,764,711	1,216,471	9,398	8,138,641	5,027,889	1,482,691	1,341,952	8,372	7,860,904
Total liabilities and equity of unrestricted investment account holders	6,601,729	864,730	80,270	71	7,546,800	6,612,550	422,633	82,086	66	7,117,335

The Group constitutes of four geographical segments which are Europe, North America, Middle East & Africa, Asia and others

	31 December 2015						31 December 2014					
	Europe	North America	Middle East & Africa	Asia	Others	Total	Europe	North America	Middle East & Africa	Asia	Others	Total
Operating income	2,962	3,245	58,020	200,908	3,234	268,369	1,160	5,413	42,279	176,742	2,166	227,760
Total expenses	(12,746)	-	(67,709)	(109,945)	(11)	(190,411)	(13,298)	-	(62,639)	(123,105)	244	(198,798)
Net income/(loss) before provision and overseas taxation	(9,784)	3,245	(9,689)	90,963	3,223	77,958	(12,138)	5,413	(20,360)	53,637	2,410	28,962
Provision and overseas taxation	(3,350)	(467)	(73,282)	(47,254)	-	(124,353)	(896)	(1,048)	(5,484)	(30,381)	-	(37,809)
Net income/(loss) for the year	(13,134)	2,778	(82,971)	43,709	3,223	(46,395)	(13,034)	4,365	(25,844)	23,256	2,410	(8,847)
Attributable to:												
Equity holders of the Bank	(13,134)	2,778	(84,676)	31,012	3,223	(60,797)	(13,034)	4,365	(25,281)	16,528	2,410	(15,012)
Minority interests	-	-	1,705	12,697	-	14,402	-	-	(563)	6,728	-	6,165
	(13,134)	2,778	(82,971)	43,709	3,223	(46,395)	(13,034)	4,365	(25,844)	23,256	2,410	(8,847)
Total assets	465,967	60,404	3,318,341	4,210,641	83,288	8,138,641	492,269	62,820	3,217,504	3,972,811	115,500	7,860,904
Total liabilities and equity of unrestricted investment account holders	220,496	18,541	3,477,074	3,811,977	18,712	7,546,800	230,500	26,597	3,257,222	3,592,220	10,796	7,117,335

**Ithmaar Bank B.S.C.****Notes to the Consolidated Financial Statements for the year ended 31 December 2015**

(Expressed in thousands of United States Dollars unless otherwise stated)

**32 ZAKAH**

Zakah is directly borne by the owners and investors in restricted and equity of unrestricted investment accountholders. The Bank does not collect or pay Zakah on behalf of its owners and its investment accountholders.

**33 CONTINGENT LIABILITIES AND COMMITMENTS****Contingent liabilities**

	31 December 2015	31 December 2014
Acceptances and endorsements	63,006	103,910
Guarantees and irrevocable letters of credit	768,934	749,748
Customer and other claims	322,802	434,488
	<b>1,154,742</b>	<b>1,288,146</b>

**Commitments**

	31 December 2015	31 December 2014
Undrawn facilities, financing lines and other commitments to finance	<b>2,048,276</b>	<b>2,520,901</b>

**34 CURRENCY RISK**

Assuming that all other variables held constant, the impact of currency risk on the consolidated income statement/equity based on reasonable shift is summarized below:

	PKR	EUR	USD	PLN
<b>As at 31 December 2015</b>				
Total currency exposure	92,346	73,227	57,854	41,298
Reasonable shift	4.03%	0.69%	0.88%	1.64%
<b>Total effect on income/equity</b>	<b>3,722</b>	<b>505</b>	<b>509</b>	<b>677</b>
	PKR	EUR	USD	PLN
<b>As at 31 December 2014</b>				
Total currency exposure	96,816	93,456	89,475	45,096
Reasonable shift	3.68%	0.19%	0.09%	0.66%
<b>Total effect on income/equity</b>	<b>3,563</b>	<b>178</b>	<b>81</b>	<b>298</b>

The basis for calculation of the reasonable shift is arrived at by comparing the foreign exchange spot rate as at 31 December as compared to the one year forward rate for the same period.

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**34 CURRENCY RISK (continued)**

The currency exposure of the assets and liabilities, of the Group, including equity of unrestricted investment accountholders, is as follows:

	United States Dollar	Pakistan Rupee	Swiss Franc	Bahraini Dinar	Euro	UAE Dirham	Hong Kong Dollar	Other	Total
<b>31 December 2015</b>									
Cash and balances with banks and central banks	78,056	201,311	1,863	193,025	86,035	9,690	28	20,401	590,409
Commodity and other placements with banks, financial and other institutions	-	116,053	-	-	153,312	1,455	-	-	270,820
Murabaha and other financings	482,769	1,550,845	-	1,216,370	27,706	51,258	-	70,822	3,399,770
Musharaka financing	-	149,673	-	-	-	-	-	-	149,673
Investment in mudaraba	21,348	-	-	-	-	-	-	-	21,348
Investment in associates	-	1,131	-	569,816	-	-	75,113	9,328	655,388
Sukuk and investment securities	129,406	1,763,213	805	2,375	6,009	-	-	17,622	1,919,430
Restricted investment accounts	70,134	-	-	-	8,517	-	-	-	78,651
Assets acquired for leasing	14,773	-	-	154,709	-	-	-	-	169,482
Investment in real estate	4,862	8,782	44,609	156,942	-	-	-	41,298	256,493
Other assets	105,997	140,181	1,830	31,295	28,674	8	-	11,452	319,437
Fixed assets	4,065	53,016	-	55,295	13	-	-	-	112,389
Intangible assets	176,464	18,887	-	-	-	-	-	-	195,351
<b>Total assets</b>	<b>1,087,874</b>	<b>4,003,092</b>	<b>49,107</b>	<b>2,379,827</b>	<b>310,266</b>	<b>62,411</b>	<b>75,141</b>	<b>170,923</b>	<b>8,138,641</b>
Customer current accounts	104,107	791,015	10	301,265	219,834	3,282	-	16,822	1,436,335
Due to banks, financial and other institutions	155,727	864,730	-	177,751	106,557	335,008	-	98	1,639,871
Due to investors	110,628	1,810,415	-	-	12,023	-	-	18,375	1,951,441
Other liabilities	-	120,275	10,431	183,911	1,863	2,319	-	1,212	320,011
<b>Total liabilities</b>	<b>370,462</b>	<b>3,586,435</b>	<b>10,441</b>	<b>662,927</b>	<b>340,277</b>	<b>340,609</b>	<b>-</b>	<b>36,507</b>	<b>5,347,658</b>
Equity of unrestricted investment accountholders	361,043	-	-	1,794,883	43,216	-	-	-	2,199,142
<b>Total liabilities and equity of unrestricted investment accountholders</b>	<b>731,505</b>	<b>3,586,435</b>	<b>10,441</b>	<b>2,457,810</b>	<b>383,493</b>	<b>340,609</b>	<b>-</b>	<b>36,507</b>	<b>7,546,800</b>
<b>Contingent liabilities and commitments</b>	<b>753,115</b>	<b>1,804,281</b>	<b>19,402</b>	<b>503,091</b>	<b>61,631</b>	<b>61,498</b>	<b>-</b>	<b>-</b>	<b>3,203,018</b>
<b>31 December 2014</b>									
<b>Total assets</b>	<b>1,254,053</b>	<b>3,739,835</b>	<b>49,253</b>	<b>2,227,062</b>	<b>294,849</b>	<b>55,329</b>	<b>69,623</b>	<b>170,900</b>	<b>7,860,904</b>
<b>Total liabilities and equity of unrestricted investment accountholders</b>	<b>820,142</b>	<b>3,279,247</b>	<b>8,672</b>	<b>2,168,010</b>	<b>472,143</b>	<b>331,519</b>	<b>-</b>	<b>37,602</b>	<b>7,117,335</b>
<b>Contingent liabilities and commitments</b>	<b>1,165,847</b>	<b>1,833,903</b>	<b>20,130</b>	<b>565,511</b>	<b>70,520</b>	<b>70,538</b>	<b>-</b>	<b>82,598</b>	<b>3,809,047</b>

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**35 MATURITY PROFILE**

The maturity profile of the assets and liabilities of the Group, including equity of unrestricted investment accountholders, is as follows:

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
<b>31 December 2015</b>						
Cash and balances with banks and central banks	590,409	-	-	-	-	590,409
Commodity and other placements with banks, financial and other institutions	113,425	43,725	113,670	-	-	270,820
Murabaha and other financings	422,952	604,622	482,380	1,024,689	865,127	3,399,770
Musharaka financing	9,174	9,547	9,012	91,791	30,149	149,673
Investment in mudaraba	-	-	5,000	-	16,348	21,348
Investment in associates	-	-	-	-	655,388	655,388
Sukuk and investment securities	499,525	328,670	532,105	445,145	113,985	1,919,430
Restricted investment accounts	-	-	-	-	78,651	78,651
Assets acquired for leasing	-	203	14,340	16,545	138,394	169,482
Investment in real estate	-	-	-	191,976	64,517	256,493
Other assets	114,177	39,166	132,124	18,493	15,477	319,437
Fixed assets	4,903	33	2,048	10,568	94,837	112,389
Intangible assets	-	-	-	6,504	188,847	195,351
<b>Total assets</b>	<b>1,754,565</b>	<b>1,025,966</b>	<b>1,290,679</b>	<b>1,805,711</b>	<b>2,261,720</b>	<b>8,138,641</b>
Customer current accounts	1,436,335	-	-	-	-	1,436,335
Due to banks, financial and other institutions	1,189,418	158,158	123,475	159,843	8,977	1,639,871
Due to investors	1,319,894	129,992	406,352	94,490	713	1,951,441
Other liabilities	213,545	244	51,051	36,435	18,736	320,011
<b>Total liabilities</b>	<b>4,159,192</b>	<b>288,394</b>	<b>580,878</b>	<b>290,768</b>	<b>28,426</b>	<b>5,347,658</b>
Equity of unrestricted investment accountholders	853,734	279,205	693,607	372,596	-	2,199,142
<b>Total liabilities and equity of unrestricted investment accountholders</b>	<b>5,012,926</b>	<b>567,599</b>	<b>1,274,485</b>	<b>663,364</b>	<b>28,426</b>	<b>7,546,800</b>
<b>Contingent liabilities and commitments</b>	<b>1,923,145</b>	<b>318,914</b>	<b>402,810</b>	<b>519,026</b>	<b>39,123</b>	<b>3,203,018</b>
<b>31 December 2014</b>						
<b>Total assets</b>	<b>1,728,942</b>	<b>986,021</b>	<b>1,188,261</b>	<b>1,771,919</b>	<b>2,185,761</b>	<b>7,860,904</b>
<b>Total liabilities and equity of unrestricted investment accountholders</b>	<b>4,554,221</b>	<b>584,760</b>	<b>1,437,854</b>	<b>484,650</b>	<b>55,850</b>	<b>7,117,335</b>
<b>Contingent liabilities and commitments</b>	<b>1,988,472</b>	<b>656,015</b>	<b>490,447</b>	<b>641,110</b>	<b>33,003</b>	<b>3,809,047</b>



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**36 CONCENTRATION OF ASSETS, LIABILITIES AND LETTERS OF CREDIT AND GUARANTEE**

Assets and liabilities of the Group, including equity of unrestricted investment accountholders, and letters of credit and guarantee are distributed over the following industry sectors and geographical regions:

	Banks and Financial Institutions	Trading and Manu- facturing	Property and Cons- truction	Services	Private Individuals	Textile	Other	Total
<b>31 December 2015</b>								
Cash and balances with banks and central banks	590,409	-	-	-	-	-	-	590,409
Commodity and other placements with banks, financial and other institutions	270,820	-	-	-	-	-	-	270,820
Murabaha and other financings	658,535	911,358	109,209	116,813	1,109,347	225,244	269,264	3,399,770
Musharaka financing	31,685	70,041	206	12,444	9,124	2,277	23,896	149,673
Investment in mudaraba	-	-	21,348	-	-	-	-	21,348
Investment in associates	482,414	5,838	102,642	64,494	-	-	-	655,388
Sukuk and investment securities	1,775,969	66,678	34,169	11,933	-	1,819	28,862	1,919,430
Restricted investment accounts	-	-	78,651	-	-	-	-	78,651
Assets acquired for leasing	-	10,650	12,556	504	145,772	-	-	169,482
Investment in real estate	8,782	-	247,711	-	-	-	-	256,493
Other assets	222,867	18,170	37,071	30	10,019	-	31,280	319,437
Fixed assets	53,016	-	59,373	-	-	-	-	112,389
Intangible assets	195,351	-	-	-	-	-	-	195,351
<b>Total assets</b>	<b>4,289,848</b>	<b>1,082,735</b>	<b>702,936</b>	<b>206,218</b>	<b>1,274,262</b>	<b>229,340</b>	<b>353,302</b>	<b>8,138,641</b>
Customer current accounts	17,308	400,604	88,141	128,059	395,997	15,275	390,951	1,436,335
Due to banks, financial and other institutions	1,480,574	-	159,297	-	-	-	-	1,639,871
Due to investors	240,004	529,550	55,274	186,567	677,664	10,818	251,564	1,951,441
Other liabilities	96,195	31,847	42,627	247	45,805	-	103,290	320,011
<b>Total liabilities</b>	<b>1,834,081</b>	<b>962,001</b>	<b>345,339</b>	<b>314,873</b>	<b>1,119,466</b>	<b>26,093</b>	<b>745,805</b>	<b>5,347,658</b>
Equity of unrestricted investment accountholders	256,166	308,116	77,237	155,480	1,317,762	-	84,381	2,199,142
<b>Total liabilities and equity of unrestricted investment accountholders</b>	<b>2,090,247</b>	<b>1,270,117</b>	<b>422,576</b>	<b>470,353</b>	<b>2,437,228</b>	<b>26,093</b>	<b>830,186</b>	<b>7,546,800</b>
<b>Contingent liabilities and commitments</b>	<b>1,715,955</b>	<b>701,676</b>	<b>78,177</b>	<b>24,631</b>	<b>27,462</b>	<b>25,663</b>	<b>629,454</b>	<b>3,203,018</b>
<b>31 December 2014</b>								
<b>Total assets</b>	<b>3,968,684</b>	<b>1,409,154</b>	<b>830,120</b>	<b>256,242</b>	<b>1,022,385</b>	<b>107,423</b>	<b>266,896</b>	<b>7,860,904</b>
<b>Total liabilities and equity of unrestricted investment accountholders</b>	<b>2,026,986</b>	<b>1,168,962</b>	<b>206,427</b>	<b>476,205</b>	<b>2,486,385</b>	<b>9,010</b>	<b>743,360</b>	<b>7,117,335</b>
<b>Contingent liabilities and commitments</b>	<b>1,458,619</b>	<b>1,338,219</b>	<b>533,533</b>	<b>44,243</b>	<b>31,770</b>	<b>31,015</b>	<b>371,648</b>	<b>3,809,047</b>

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**36 CONCENTRATION OF ASSETS, LIABILITIES AND LETTERS OF CREDIT AND GUARANTEE (continued)**

<b>31 December 2015</b>	<b>Asia / Pacific</b>	<b>Middle East</b>	<b>Europe</b>	<b>North America</b>	<b>Others</b>	<b>Total</b>
Cash and balances with banks and central banks	258,941	231,713	69,482	29,231	1,042	590,409
Commodity and other placements with banks, financial and other institutions	116,053	144,817	9,950			270,820
Murabaha and other financings	1,602,931	1,461,584	252,888	127	82,240	3,399,770
Musharaka financing	149,673	-	-	-	-	149,673
Investment in mudaraba	-	5,000	-	16,348	-	21,348
Investment in associates	76,243	579,145	-	-	-	655,388
Sukuk and investment securities	1,781,848	126,826	6,552	4,204	-	1,919,430
Restricted investment accounts	-	78,651	-	-	-	78,651
Assets acquired for leasing	-	169,482	-	-	-	169,482
Investment in real estate	12,408	158,179	85,906	-	-	256,493
Other assets	140,641	131,235	37,061	10,494	6	319,437
Fixed assets	53,016	59,304	69	-	-	112,389
Intangible assets	18,887	172,405	4,059			195,351
<b>Total assets</b>	<b>4,210,641</b>	<b>3,318,341</b>	<b>465,967</b>	<b>60,404</b>	<b>83,288</b>	<b>8,138,641</b>
Customer current accounts	875,576	342,977	209,258	8,376	148	1,436,335
Due to banks, financial and other institutions	864,730	756,577	-	-	18,564	1,639,871
Due to investors	1,951,441	-	-	-	-	1,951,441
Other liabilities	120,230	178,378	11,238	10,165	-	320,011
<b>Total liabilities</b>	<b>3,811,977</b>	<b>1,277,932</b>	<b>220,496</b>	<b>18,541</b>	<b>18,712</b>	<b>5,347,658</b>
Equity of unrestricted investment accountholders	-	2,199,142	-	-	-	2,199,142
<b>Total liabilities and equity of unrestricted investment accountholders</b>	<b>3,811,977</b>	<b>3,477,074</b>	<b>220,496</b>	<b>18,541</b>	<b>18,712</b>	<b>7,546,800</b>
<b>Contingent liabilities and commitments</b>	<b>2,641,074</b>	<b>538,736</b>	<b>20,883</b>	<b>-</b>	<b>2,325</b>	<b>3,203,018</b>
<b>31 December 2014</b>						
<b>Total assets</b>	<b>3,972,811</b>	<b>3,217,504</b>	<b>492,269</b>	<b>62,820</b>	<b>115,500</b>	<b>7,860,904</b>
<b>Total liabilities and equity of unrestricted investment accountholders</b>	<b>3,592,220</b>	<b>3,257,222</b>	<b>230,500</b>	<b>26,597</b>	<b>10,796</b>	<b>7,117,335</b>
<b>Contingent liabilities and commitments</b>	<b>3,122,776</b>	<b>650,708</b>	<b>22,775</b>	<b>-</b>	<b>12,788</b>	<b>3,809,047</b>

**37 RISK MANAGEMENT****Credit risk**

The significant concentration of credit risk at 31 December is set out in note 36.

Non performing financing exposures are conservatively considered as financing exposures which have been past due beyond 90 days and the profit on these assets is not recognized in the consolidated income statement. Following are the details of non performing financing exposures relating to the Bank and its unrestricted investment accountholders:

	31 December 2015			31 December 2014		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
<b>Gross exposure</b>						
Past due but performing financing exposures	50,192	74,480	124,672	24,522	45,714	70,236
Non performing financing exposures	405,065	208,815	613,880	457,090	294,590	751,680
	<b>455,257</b>	<b>283,295</b>	<b>738,552</b>	<b>481,612</b>	<b>340,304</b>	<b>821,916</b>
<b>Fair value of collateral</b>						
Past due but performing financing exposures	342,032	26,006	368,038	41,969	35,951	77,920
Non performing financing exposures	86,028	195,954	281,982	110,941	208,933	319,874
	<b>428,060</b>	<b>221,960</b>	<b>650,020</b>	<b>152,910</b>	<b>244,884</b>	<b>397,794</b>

Included in the performing financing exposures of the Group are facilities which have been restructured during the year which are as follows:

	31 December 2015			31 December 2014		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Restructured financings	25,656	14,012	39,668	209,139	3,517	212,656

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**37 RISK MANAGEMENT (continued)**
**Profit rate risk**

The table below summarises the Group's exposure to profit rate risk. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

<b>31 December 2015</b>	<b>Up to one month</b>	<b>One-three months</b>	<b>Three-twelve months</b>	<b>One-five years</b>	<b>Over five years</b>	<b>Non rate sensitive</b>	<b>Total</b>
Cash and balances with banks and central banks	327,121	-	-	-	-	263,288	590,409
Commodity and other placements with banks, financial and other institutions	113,425	43,725	113,670	-	-	-	270,820
Murabaha and other financings	732,300	638,850	648,979	611,511	709,419	58,711	3,399,770
Musharaka financing	40,401	39,302	52,330	14,058	3,582	-	149,673
Sukuk and investment securities	15,521	503,548	700,996	399,532	23,131	276,702	1,919,430
Assets acquired for leasing	7,690	203	14,340	5,006	142,243	-	169,482
Other assets	403	223	1,328	16,572	-	300,911	319,437
<b>Total financial assets</b>	<b>1,236,861</b>	<b>1,225,851</b>	<b>1,531,643</b>	<b>1,046,679</b>	<b>878,375</b>	<b>899,612</b>	<b>6,819,021</b>
Customer current accounts	-	-	-	-	-	1,436,335	1,436,335
Due to banks, financial and other institutions	1,195,338	74,644	333,128	16,720	12,256	7,785	1,639,871
Due to investors	237,879	239,399	1,438,397	35,162	598	6	1,951,441
Other liabilities	449	1,061	516	858	12,674	304,453	320,011
<b>Total financial liabilities</b>	<b>1,433,666</b>	<b>315,104</b>	<b>1,772,041</b>	<b>52,740</b>	<b>25,528</b>	<b>1,748,579</b>	<b>5,347,658</b>
Equity of unrestricted investment accountholders	1,033,128	132,722	659,962	373,330	-	-	2,199,142
<b>Total financial liabilities and equity of unrestricted investment accountholders</b>	<b>2,466,794</b>	<b>447,826</b>	<b>2,432,003</b>	<b>426,070</b>	<b>25,528</b>	<b>1,748,579</b>	<b>7,546,800</b>
<b>Total repricing gap</b>	<b>(1,229,933)</b>	<b>778,025</b>	<b>(900,360)</b>	<b>620,609</b>	<b>852,847</b>	<b>(848,967)</b>	<b>(727,779)</b>
<b>31 December 2014</b>							
<b>Total financial assets</b>	<b>1,166,084</b>	<b>1,077,788</b>	<b>1,324,483</b>	<b>1,191,699</b>	<b>885,815</b>	<b>780,440</b>	<b>6,426,309</b>
<b>Total financial liabilities and equity of unrestricted investment accountholders</b>	<b>2,069,148</b>	<b>363,967</b>	<b>2,344,994</b>	<b>532,577</b>	<b>175,016</b>	<b>1,631,633</b>	<b>7,117,335</b>
<b>Total repricing gap</b>	<b>(903,064)</b>	<b>713,821</b>	<b>(1,020,511)</b>	<b>659,122</b>	<b>710,799</b>	<b>(851,193)</b>	<b>(691,026)</b>

**Ithmaar Bank B.S.C.****Notes to the Consolidated Financial Statements for the year ended 31 December 2015**

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**37 RISK MANAGEMENT (continued)**

	USD	EUR	PKR	BHD	AED
<b>As at 31 December 2015</b>					
Total profit rate exposure	94,372	81,757	334,841	874,911	278,200
Reasonable shift	0.30%	0.23%	3.23%	1.42%	0.95%
<b>Total effect on income</b>	<b>283</b>	<b>188</b>	<b>10,815</b>	<b>12,424</b>	<b>2,643</b>
	USD	EUR	PKR	BHD	AED
<b>As at 31 December 2014</b>					
Total profit rate exposure	154,359	186,781	374,639	831,964	276,183
Reasonable shift	0.33%	0.09%	0.42%	0.57%	0.06%
<b>Total effect on income</b>	<b>509</b>	<b>168</b>	<b>1,573</b>	<b>4,742</b>	<b>166</b>

The basis for calculation of the reasonable shift is arrived at by comparing the interbank lending rate at the beginning and the end of the year.

**Price risk**

The table below summarises the impact of increase/decrease of equity indices on the Group's post tax profit for the year and on other components of equity. The analysis is based on the assumptions that equity indices increased/decreased by 10% (31 December 2014: 10%) with all other variables held constant and all the Group's equity instruments moved according to the historical correlation with the indices:

Index	Impact on other components of equity	
	2015	2014
Karachi stock exchange (+/-10%)	3,092	2,197

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**38 RELATED PARTY TRANSACTIONS AND BALANCES**

Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence or joint control over the other party in making financial and operating decisions.

Related parties include:

- (a) Directors and major shareholders of the Bank and companies in which they have an ownership interest.
- (b) Corporate, whose ownership and management is common with the Bank.
- (c) DMIT and companies in which DMIT has ownership interest and subsidiaries of such companies.
- (d) Associated companies of the Bank.

A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

Significant balances with related parties comprise:

	<b>31 December 2015</b>		<b>31 December 2014</b>	
	<b>Relating to</b>	<b>Relating to</b>	<b>Relating to</b>	<b>Relating to</b>
	<b>owners</b>	<b>unrestricted investment accounts</b>	<b>owners</b>	<b>unrestricted investment accounts</b>
<b>Assets</b>				
Murabaha and other financings - note (i)	330,597	37,813	335,673	37,812
Sukuk and investment securities	-	9,778	-	9,778
Other assets - note (i)	96,236	-	76,606	-
<b>Liabilities</b>				
Customers' current accounts	26,785	-	7,012	-
Due to banks, financial and other institutions	159,292	-	240,635	-
Equity of unrestricted investment accounts	-	27,289	-	64,413
Other liabilities	10,844	-	10,567	-
<b>Funds managed by related parties</b>	-	16,349	-	17,384

The Group entered into the following significant transactions with related parties during the year:

	<b>31 December 2015</b>	<b>31 December 2014</b>
Income from financings and short-term liquid funds	7,166	6,031
Dividends received	14,513	6,304
Expense recovery	7,232	8,570
Profit paid	61	120
Fee income	4,351	-
Fee expense	600	-

Note (i) – The Group has obtained pledge of specific assets totalling \$189.5 million (31 December 2014: \$234.5 million) against the outstanding exposure.

**Ithmaar Bank B.S.C.****Notes to the Consolidated Financial Statements for the year ended 31 December 2015**

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**39 CAPITAL MANAGEMENT**

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The table below summarises the composition of regulatory capital and the ratios of the Group for the years ended. The capital adequacy ratio as at 31 December 2015 has been calculated in accordance with Basel III (as at 31 December 2014 under Basel 2) and Central Bank of Bahrain guidelines incorporating credit risk, operational risk and market risk. The minimum regulatory requirement is 12% under Basel II and 12.5% under Basel III.

	<b>31 December 2015</b>	<b>31 December 2014</b>
Tier 1	599,862	605,955
Tier 2	-	41,859
<b>Total Capital Base</b>	<b>599,862</b>	<b>647,814</b>
 Total Risk-Weighted Exposures	 4,682,072	 5,350,292
 Capital Adequacy Ratio	 <b>12.81%</b>	 <b>12.11%</b>

**40 PROPOSED DIVIDEND**

The Board of Directors has not proposed any dividend for the year ended 31 December 2015 (31 December 2014: Nil).

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**41 NON-SHARIA COMPLIANT INCOME AND EXPENSES**

The Group has earned certain income and incurred certain expenses from conventional assets and liabilities. These conventional assets and liabilities are in accordance with the Sharia Compliance Plan. The details of the total income and total expenses are as follows:

	Year ended	
	31 December 2015	31 December 2014
<b>INCOME</b>		
Group's share of income from funds under management	164	208
Income from other financings	157,282	199,704
Share of profit after tax from associates - note (i)	46,534	37,691
Income from investments	156,283	107,959
Other income	26,699	26,339
<b>Gross income</b>	<b>386,962</b>	<b>371,901</b>
Less: profit paid to banks, financial and other institutions (net) - note (ii)	(162,162)	(166,946)
<b>Total income</b>	<b>224,800</b>	<b>204,955</b>
<b>EXPENSES</b>		
Administrative and general expenses - note (ii)	(97,283)	(108,766)
Depreciation and amortisation	(20,981)	(22,300)
<b>Total expenses</b>	<b>(118,264)</b>	<b>(131,066)</b>
<b>Net income before provision for impairment and overseas taxation</b>	<b>106,536</b>	<b>73,889</b>
Provision for impairment (net)	(23,724)	(27,137)
<b>Net income before overseas taxation</b>	<b>82,812</b>	<b>46,752</b>
Overseas taxation	(26,080)	(11,178)
<b>NET INCOME FOR THE YEAR</b>	<b>56,732</b>	<b>35,574</b>
<b>Attributable to:</b>		
Equity holders of the Bank	47,684	32,987
Minority interests	9,048	2,587
	<b>56,732</b>	<b>35,574</b>
<b>Basic and diluted earnings per share</b>	<b>US Cts 1.64</b>	<b>US Cts 1.13</b>

Note (i) – The share of profit attributable to non-sharia compliant associates is based on their accounting policies which are different from the Group accounting policies. Since the non-sharia income is already disclosed separately and hence no adjustment is made on impact of dissimilar accounting policies.

Note (ii) – Expenses relate to entities which are consolidated line by line and exclude associates.

Note (iii) – One of the subsidiaries presently operating as a conventional bank has increased the number of its Islamic branches during the year to 68 (2014:58 branches) out of total 279 branches (2014: 274 branches).

**42 SUBSEQUENT EVENT**

Subsequent to 31 December 2015, the Board of Directors approved on 28 February 2016 to restructure the Bank into a holding company and to segregate core and non-core assets subject to the approval of shareholders. This restructuring is subject to legal and regulatory approvals.

**43 COMPARATIVES**

Certain comparatives figures have been reclassified to conform to the current year presentation.