BBK

بنك البحرين والكويت

Expansion Diversification Growth

Annual Report 2015

Contents

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BBK is licensed by the Central Bank of Bahrain as a Conventional Retail Bank

Designed and produced by Origin Communications Group

H.M. King Hamad bin Isa Al Khalifa
King of the Kingdom of Bahrain

H.H. Sheikh Sabah Al Ahmed Al Sabah
Amir of the State of Kuwait

Our vision

BBK will be the premier regional financial services enterprise in providing superior products and services of high quality through innovation, technology and lifelong client relationships.

Our mission

The Bank will expand its overseas presence in more locations in which it chooses to operate in order to satisfy the diversified needs of clients. We believe clients are the driving force in everything we do. We will not compromise on our absolute commitment to providing the very best in client service.

We believe our people are our number one asset with the highest degree of competence, integrity and professionalism. We instil in our people the principles of entrepreneurship, decision-making and ownership through our commitment to training, development, delegation and performance based reward systems.

We are determined to utilise cutting-edge technology which we recognise as most critical in supporting our short, medium and long-term business objectives.

Our shareholders are the source of our financial strength and can expect continued growth and profitability. They are supportive and are confident of our vision of the future.

	2011	2012	2013	2014	2015
Income statement highlights (BD millions)					
Net interest income	58.9	65.8	68.9	72.3	**72.7**
Other income	46.9	42.9	43.5	45.2	**48.4**
Operating expenses	47.9	50.6	54.4	46.2	**49.8**
Net profit	31.8	42.4	45.1	50.1	**53.2**
Cash dividend	25%	10%	10%	20%	**25%**
Stock dividend	–	10%	10%	5%	**–**
Financial statement highlights (BD millions)					
Total assets	2,765	3,108	3,231	3,501	**3,646**
Loans and advances	1,407	1,499	1,619	1,846	**1,765**
Investments	830	937	1,117	1,116	**1,188**
Customer deposits	2,076	2,205	2,353	2,471	**2,643**
Term borrowings	237	238	239	241	**205**
Total equity	238	290	333	359	**361**
Profitability					
Earnings per share *(fils)*	38	46	44	47	**50**
Cost/income	45.30%	46.54%	48.41%	39.33%	**41.14%**
Return on average assets	1.20%	1.46%	1.43%	1.49%	**1.44%**
Return on average equity	13.42%	16.34%	14.56%	13.93%	**14.79%**
Profit per employee *(BD)*	28,952	38,789	45,232	48,826	**52,169**
Capital					
Capital adequacy	14.85%	14.29%	15.33%	15.63%	**14.87%**
Equity/total assets	8.61%	9.32%	10.31%	10.26%	**9.89%**
Debt/equity	99.41%	82.18%	71.94%	67.05%	**56.74%**
Liquidity and business indicators					
Loans and advances/total assets	50.87%	48.23%	50.10%	52.74%	**48.40%**
Loans and advances/customer deposits	67.75%	67.98%	68.79%	74.72%	**66.78%**
Investments excluding treasury bills/total assets	22.24%	24.85%	24.82%	23.53%	**21.77%**
Liquid assets/total assets	34.98%	36.50%	33.25%	29.19%	**32.04%**
Net yield ratio	2.38%	2.50%	2.39%	2.32%	**2.12%**
Number of employees	1,098	1,092	996	1,026	**1,020**

New markets, new opportunities

Dear Shareholders

It is once again my privilege to introduce BBK's annual report, detailing our performance over the year to 31 December 2015.

This was the closing year of our current three-year strategic cycle, marked yet again by significant achievements despite a difficult business environment, regionally and internationally. BBK can go forward with confidence that we have the capabilities to fulfil our objectives.

I take this opportunity to extend our thanks and appreciation to His Majesty King Hamad bin Isa Al Khalifa, the King of the Kingdom of Bahrain, and His Highness Sheikh Sabah Al Ahmad Al Sabah, the Amir of the State of Kuwait. I also extend thanks to their respective governments and regulatory authorities for their support and guidance.

I thank the Board of Directors and all stakeholders for their outstanding contributions during the year, which bodes well for the continued realisation of BBK's strategic vision and growth plans.

Murad Ali Murad
Chairman

The Board of Directors is honoured to present the 44th annual report and consolidated financial statements of BBK and its subsidiaries (the Group) for the year ending 31 December 2015.

Operating environment

Market conditions posed many challenges during 2015, not least the sustained decline in oil prices. At the end of last year, analysts were reasonably confident of an oil price rebound by mid-2015. This did not materialise. In fact benchmark prices dropped even further, significantly affecting government spending, the main driver of the overall regional economy.

It is clear now that the fall in oil prices is part of a longer economic cycle and the current situation may prevail for another one to two years. Previous downturns in the oil price followed a similar pattern and a short-term recovery is unlikely.

Internationally, volatility in interest and foreign exchange rates, especially in the second half of the year, continue to be problematic. Nevertheless, BBK responded very well to these challenges and the Bank's 2015 results are all the more commendable in such circumstances.

A year of strategic progress

The decision to opt for early re-financing of a $500 million bond maturing in October proved very prudent and timely. Going to the market in March to raise $400 million meant bearing duplicate funding costs, but eventually this was more than offset by the change in market sentiment and the increase in rates.

The March issue was closed at 3.5 percent. By the second half of the year the going rate had doubled and market appetite all but evaporated. The $100 million differential between the maturing bond and new funding was more than covered by the growth in customer deposits.

Plans for selective international expansion continued to advance, with approval granted in January 2016 for BBK's representative office in Turkey. The Central Bank of Bahrain (CBB) has also approved our proposed joint venture in the UK and an application to the British regulator will be submitted soon.

Financial highlights

BBK achieved a net profit of BD 53.2 million for 2015, surpassing the previous year by BD 3.1 million, a 6.2 percent improvement. Net interest income rose marginally to BD 72.7 million, and shareholders' equity rose by 0.4 per cent to BD 361 million.

The Bank delivered consistent underlying performance in its core business, demonstrating the strength of its strategy and management team. The total balance sheet strengthened to BD 3,646 million by the end of 2015, an increase of BD 146 million over 2014. This was driven by further growth in customer deposits, which rose by BD 172 million or 7.0 percent. BBK's reputation as one of the strongest and most community-oriented banks in the Kingdom of Bahrain continues to inspire the confidence of new and existing customers.

BBK's capital adequacy ratio remained above the minimum regulatory requirement at 14.87 percent, with the ratio of liquid assets to total assets strengthening to 32.0 percent, from 29.2 percent in 2014.

The Board has recommended a cash dividend of 25 fils per share.

Business review

The benefits of BBK's strong position in the domestic market, coupled with excellent performance by its subsidiaries and good performance by its overseas operations, were very evident in the Bank's 2015 results.

Despite the challenging environment, the Bank's strategy and direction provided agility, enabling BBK to maintain a positive outlook and benefit from its focus on customers and service excellence. Although national GDP growth over the period was in the region of 3.0 percent, BBK recorded growth of 6.2 percent on its bottom line.

Net interest income BD millions	Customer deposits BD millions	Net profit BD millions
+0.6%	+7.0%	+6.2%
72.7	2,643	53.2

The balance sheet was strengthened by substantial growth in the value of liquid assets, while an increase in fee income from various services helped to reinforce the bottom line, compensating for the slow-down in the growth of the loans portfolio. Deposit growth shows the high level of public confidence in BBK, with funds flowing from individuals and institutions, again strengthening the Bank’s overall financial position.

Cross-border operations continued to make a positive contribution to the year’s results, with most units performing well. BBK’s representative office in the UAE maintained its excellent performance of recent years, while Kuwait branch also met expectations. India has four branches now but is still a market under development, especially the Aluva and New Delhi branches, which were inaugurated in the past two years and will take at least two more years to begin achieving their potential.

CrediMax, BBK’s specialist credit card subsidiary, is already a market leader and continues to perform exceptionally well, amply justifying the Bank’s policy of reinvesting annual profits rather than drawing dividends. Credimax expansion in Iraqi Kurdistan is still being pursued.

In Kuwait, the joint venture between the Bank’s call-centre subsidiary Invita and a quasi-government firm provides efficient and highly effective call centre services to other banks, government departments, utilities, and embassies.

Two key developments occurred just after the year-end in January 2016. Approval was received from Turkey’s Banking Regulation and Supervision Agency (BDDK) to open a BBK representative office in Istanbul. And at home in Bahrain, the new Hidd branch was inaugurated.

Close attention to the loan quality and recovery efforts contributed to a significant improvement in the ratio of non-performing loans (NPLs), which stood at close to 6.2 percent two years ago. Writing off legacy loans and pursuing recovery from borrowers has resulted in the ratio being reduced to almost 4.4 percent, very much in line with CBB guidelines. NPLs are covered about two times by provisions and the underlying securities.

Regulatory compliance and governance

BBK’s status as a Domestic Systemically Important Bank (D-SIB), conferred by the CBB and reflecting BBK’s importance to the national economy, brings added responsibilities and procedures. Meetings with the CBB that previously took place annually are now conducted quarterly, and more detailed information is being supplied.

The CBB is also encouraging greater involvement by the Board of Directors and the Bank’s various Board and management committees. Improved governance practices include special attention to Board training, covering issues such as risk management and succession planning.

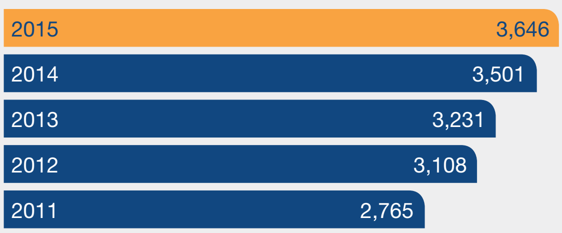
The requirements of Basel III, the global framework on bank capital adequacy, also form a much more stringent compliance regimen, entailing close coordination between the Bank’s divisions and its various areas of operation. The new rules stipulate more frequent inspections of compliance processes and procedures meetings but BBK has responded proactively, taking the initiative in meeting the requirements of domestic and international regulators well ahead of schedule. The Bank has also established a comprehensive Recovery and Resolution plan in accordance with CBB requirements.

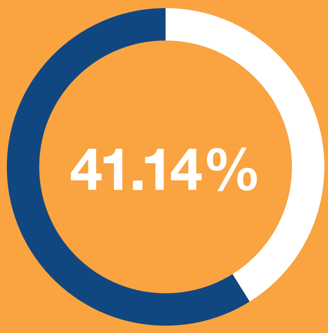
The Bank has long been a leader in matters of corporate governance and compliance, not only implementing all official requirements but making full disclosure of its policies and practices on its website and in statutory reports. It meets all the specifications of the Foreign Account Tax Compliance Act, a United States federal law requiring US citizens including those living outside the US to report their non-US financial accounts, and the anti-money laundering guidelines specified by the global Financial Action Task Force.

The Bank’s leadership in this area has been recognised four times by Hawkamah, the corporate governance institute, which gave BBK the award for excellent corporate governance practices.

BBK’s new three-year strategy builds on the 2013-15 business plan that proved so successful in generating expansion and diversification.

Total assets BD millions





Cost/income ratio

While BBK's cost/income ratio rose marginally over the last year, the four-year trend is a significant improvement: from 46.54% in 2012 to 41.14% in 2015.

Appropriations

The Board of Directors recommends the below-listed appropriations of the Bank's net profit for approval by shareholders:

	BD'000
Retained earnings as at 1 January 2015	82,017
Profit for the year 2015	53,212
Transfer to general reserve	(2,575)
Transfer to statutory reserve	(2,575)
Proposed appropriation for donations	(1,400)
Retained earnings as at 31 December 2015 available for distribution (before proposed dividend)	**128,679**
Proposed cash dividends (25% of paid-up capital, net of treasury stock)	(26,611)
Other positive changes in retained earnings	512
Retained earnings as at 31 December 2015 (after proposed dividend)	**102,580**

Looking ahead

The Bank's new three-year strategy – approved by the Board of Directors in December – builds on the 2013-15 business plan that proved so successful in generating expansion and diversification. The same principles continue as the foundations for sustained success and achieving BBK's vision to be the premier regional financial services enterprise, providing superior products and services through innovation, technology, and lifelong customer relationships.

The three core elements of the new strategy are: consolidating the Bank's position in Bahrain; growing fee-driven business (as opposed to lending activities); and optimising BBK's international network by diversifying and expanding into new markets.

The Bank has made full commitment to further international expansion. Developing new business in Bahrain is also very important, although constrained by the already high market share and limited growth opportunities.

Trade finance is seen as an important opportunity. A significant investment in technology is being considered that would create potential for an appealing customer proposition, meeting all requirements for convenience and speed of service.

In all new initiatives, the primary consideration will be commercial viability: seeking synergies and ensuring that any new ventures achieve returns on investment that are as good as, if not better than, BBK's outstanding historical performance.

Maintaining and improving the Bank's capital position and capital adequacy will be a priority, especially in the context of more stringent domestic regulatory requirements and compliance with the rigorous specifications of Basel III for stress testing and market liquidity risk. This was evident from the Board Directors' direct involvement in 2015, working with the management team to identify ways to strengthen BBK's capital adequacy, and the timing for its implementation.

Appointment of auditors

At the Annual General Meeting held on 10 March 2015, Ernst & Young were re-appointed as external auditors to the Bank for the financial year ending 31 December 2015.

Ratings

Both major rating agencies – Fitch and Moody's – adjusted BBK's ratings in 2015, following changes in the Kingdom of Bahrain's sovereign ratings.

Moody's commented in its 27 November credit opinion: "BBK's ba1 BCA captures its strong domestic franchise, leading to a comfortable liquidity and funding profile, which in addition to recent efficiency improvements supports profitability.

"The negative outlook is in line with the negative outlook on Bahrain's Baa3 ratings, and partly signals authorities' potentially reduced capacity to support the banking system."

On 9 December, Fitch Ratings also revised its outlook on BBK from 'stable' to 'negative', while affirming the Bank's long-term issuer default rating at 'BBB-'. This automatically followed Fitch's 4 December revision of Bahraini sovereign rating from 'stable' to 'negative'.

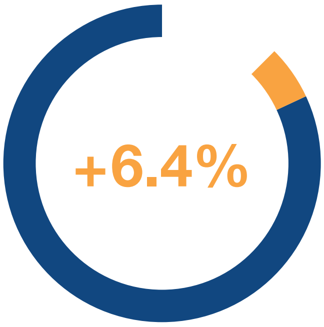
Fitch commented: "BBK's viability rating is supported by the bank's satisfactory and fairly resilient financial performance, despite the uncertain operating environment in Bahrain. Its well-established franchise and satisfactory funding and liquidity indicators are important rating drivers."

Appreciation

The Board extends its gratitude to BBK's shareholders for their continued confidence, to our clients for their loyalty and patronage, and to BBK's management and employees for the hard work and commitment that underpins another year of excellent results for the Bank.

On behalf of the Board of Directors

Murad Ali Murad
Chairman



Earnings per share

50 fils

BBK's earnings per share (EPS) rose once again in 2015, by 6.4%. Over the last five years, EPS has increased by no less than 31.6%, from 38 fils in 2011 to 50 fils in 2015.

Fitch

	Rating
Long Term Issuer Default Rating	BBB-
Short Term Issuer Default Rating	F3
Viability Rating	bbb-
Support Rating	2
Support Rating Floor	BBB-
Outlook	Negative

Report issue date: 9 December 2015

Moody's

	Rating
Bank Deposits	Baa3/P-3
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	Baa3(cr)/P-3(cr)
Senior Unsecured	Baa3
Subordinate	Ba2
Outlook	Negative

Report issue date: 27 November 2015

Fitch
Long Term Issuer Default Rating

BBB-

Moody's
Long Term Bank Deposits

Baa3

Board of Directors

Murad Ali Murad
Chairman

Chairman of the Nomination, Remuneration and Corporate Governance Committee

Chairman of the Risk Committee

Director since 21 March 1999
(Independent and non-executive)

Qualification and Experience
Fellow member of the Chartered Institute of Management Accountants, London, United Kingdom. Over 43 years experience in the banking sector and has own business for the past 13 years.

Aref Saleh Khamis
Deputy Chairman

Director since 1 April 2003
(Non-executive)

Qualification and Experience
Master in Business Administration, King Fahad University of Petroleum and Minerals, Dhahran, Kingdom of Saudi Arabia. 31 years experience in the government sector.

Nominated by:
Social Insurance Organization (SIO)

Mohamed Abdulrahman Hussain
Board Member

Chairman of the Executive Committee

Director since 2 March 2008
(Independent and non-executive)

Qualification and Experience
Bachelor of Arts, Economics and Finance, University of Aleppo, Syria. Over 35 years experience in the Banking sector.

Sh. Khalifa bin Duaij Al Khalifa
Board Member

Director since 27 February 2005
(Independent and non-executive)

Qualification and Experience
Master in Business Administration, Johns Hopkins University, United States of America.

Master in Social and Public Policy, Georgetown University, United States of America. 8 years experience in the government sector (investment field) and 9 years in the diplomatic sector.

Marwan Mohammed Al Saleh
Board Member

Director since 30 December 2014
(Non-executive)

Qualification and Experience
Bachelor of Arts, Eckerd College, United States of America. 31 years in the investment sector.

Nominated by:
Kuwait Investment Authority

Mutlaq Mubarak Al Sanei
Board Member

Director since 6 March 2011
(Non-executive)

Qualification and Experience
Bachelor of Economics, Kuwait University, State of Kuwait. Over 23 years' experience in the management of diversified investments across the Middle East and North Africa and around 7 years in the management of real estate and tourism projects in North Africa.

Jassem Hasan Ali Zainal
Board Member

Chairman of the Audit Committee

Director since 22 November 1994
(Independent and non-executive)

Qualification and Experience
Master in Civil Engineering, Kuwait University, State of Kuwait. 25 years experience in the banking sector, 4 years in the government sector, 7 years with finance companies, 7 years with investment companies and has own business for 7 years.

Dr. Zakareya Sultan AlAbbasi
Board Member

Director since 22 February, 2012
(Non-executive)

Qualification and Experience
PhD., University of East Anglia, United Kingdom. 30 years experience in the government sector (Social Insurance).

Nominated by:
Social Insurance Organization (SIO)

Sh. Abdulla bin Khalifa bin Salman Al Khalifa
Board Member

Director since 2 March 2008
(Non-executive)

Qualification and Experience
Bachelor of Business Administration, George Washington University, United States of America. 15 years experience in the banking and investment sector.

Elham Ebrahim Hasan
Board Member

Director since 6 March 2011
(Non-executive)

Qualification and Experience
Bachelor of Science in Accountancy, University of Cairo, Egypt. Certified Public Accountant from Boston, MA, United States of America. 30 years experience in the auditing field (Primarily auditing banks and financial institutions).

Nominated by:
Ithmaar Bank

Yusuf Saleh Khalaf
Board Member

Director since 6 March 2011
(Independent and non-executive)

Qualification and Experience
Associate, Association of Chartered Certified Accountants, United Kingdom. 9 years experience the auditing field and over 27 years in the banking sector.

Hassan Mohammed Mahmood
Board Member

Director since 1 September 2010
(Non-executive)

Qualification and Experience
Bachelor of Commerce, University of Bangalore, India. Over 18 years experience in audit and consultancy and over 18 years in Islamic finance.

Nominated by:
Ithmaar Bank

Sustaining growth trend is a top strategic priority

We faced and overcame challenges during 2015, recording very satisfactory results despite the unfavourable conditions that prevailed for most of the year. Oil prices continued to be depressed, reducing the funding capabilities of regional governments, and the volatility of finance markets and exchange rates created difficulties at a global level.

Nevertheless, our strategic approach and direction proved equal to the circumstances. We maintained our record of year-on-year profit increases, achieved healthy balance sheet growth, and further strengthened our liquidity and funding position.

The domestic economy

Bahrain is relatively well prepared to cope with a continued downward trend in regional and international economies. Diversification into non-oil sectors, which now account for 80 percent of GDP, has helped offset the impact of depressed oil prices. However, the Kingdom lacks the cushion of current account surpluses held by other Gulf states. The Government is responding by reducing the subsidies that have applied to items such as fuel, electricity, and foodstuffs.

Fitch Ratings has revised its outlook on Bahraini sovereign rating from 'stable' to 'negative'. Following the weakening of Bahrain's ability to support its domestic banks, BBK – as a Domestic Systemically Important Bank (D-SIB) – has had a corresponding revision in rating.

Strengthening foundations

The Central Bank of Bahrain's selection of BBK as a D-SIB, coupled with the new Basel III regulatory framework, makes capitalisation more challenging – a D-SIB bank has more onerous requirements – and this issue is being addressed as we finalise BBK's strategic plan for 2016-18.

Strong capital adequacy ratios are essential to maintain the normal growth in our balance sheet and bottom line, and we are evaluating various options to increase capital by about BD 100 million.

During 2015, our liquidity – especially in dollar terms and also in domestic currency – was strengthened in several ways. In March, we raised $400 million in capital markets, largely replacing the bond that was maturing in October. With hindsight, the decision to go to market early proved very favourable, despite the duplicate holding costs.

We secured the funding at an attractive rate, whereas the market may well have been closed to us had we waited till later in the year. By then, market sentiment had turned negative and rates had roughly doubled.

We have also engaged in several other transactions to bolster liquidity, such as repo deals with international banks that have extended our maturity profile. Our special relationship with institutional shareholders in Kuwait has also been very valuable in the long-term placement of dollars.

Consequently, we have a very satisfactory liquidity position and a good balance between dollars and Bahraini dinars. This is particularly relevant against a background of rising deposit rates and increased cost of funding. For example, the CBB's BIBOR rate has moved from 0.7 percent to 1.5-1.7 percent in the past year.

The recent re-rating of Bahrain by the international agencies is a matter of some concern. The country being downgraded from 'investment' status will affect banks like BBK – the cost of borrowing will rise and our ability to raise funds in the international markets will weaken. This in turn will impact end-users as the increased cost of funding is factored into lending rates.

Further strengthening of capital adequacy is therefore a high priority. The Board has held extensive discussions on this issue, bringing in expert advisers and consulting with institutional shareholders. We now have a detailed plan in place that will address our needs, both in the short term and further into the future.

Growth areas

Expansion and diversification continue. Our Hidd branch in Bahrain officially opened on 13 January 2016. Based at the Hidd Medical Centre – itself a BBK funded project, part of our corporate social responsibility activities – the new branch serves customers in the medical centre and throughout the entire Hidd area.

The Bahraini and Turkish regulators have both approved the opening of BBK's representative office in Turkey. And the CBB approved our proposal to establish a joint-venture wholesale investment firm in London. The licence application to the UK regulator is now being prepared and we are optimistic that this will be granted.

In March, we raised $400 million in capital markets, largely replacing the bond that was maturing in October. With hindsight, the decision to go to market early proved very favourable, despite the duplicate holding costs.

Growth in BBK online transactions

Branch automation has migrated to a new platform that gives customers improved efficiency in online transactions.

2015	+91.9%
2014	+67.3%
2013	+33.2%

Best Mobile Web Services Award

BBK's leadership in banking technology was recognised at the Banker Middle East Product Awards 2015, designed to encourage, inspire, and reward distinction, setting the standard for others within the banking sector.

Trade finance has been identified as an area of significant potential growth. Technology upgrades are necessary to take advantage of this opportunity and the necessary investment has been allocated as part of the Bank's new three-year strategy.

Plans to expand CrediMax into Erbil in Iraqi Kurdistan have been affected by the continuing conflict in that region, but we believe the proposition is still sound and we will be working with the Central Bank of Iraq to gain formal approval once the geopolitical situation becomes clearer. We are also exploring the potential for Credimax to enter a new GCC market. Discussions with the relevant authorities have established initial acceptability and we are now proceeding with formal submissions.

The new BBK branch in Delhi – our fourth in India – is bedding-in well and is on track to meet expectations. As with all new branches, it takes two to three years before full potential begins to be realised.

More international expansion initiatives feature in the Bank's new three-year strategy. Our growth in Bahrain is limited by an already strong market position, and expansion in Middle East countries and other parts of the world is our clear path to sustaining growth.

Fees for the various services provided by BBK compensated for the slowdown in the growth in our loan portfolio during 2015. Although there is a definite market for loans, we must take into account capital adequacy considerations. Our ratios are in line with Basel III requirements, but a greater margin is needed to enable spare capacity to grow the loan portfolio.

Deposit growth in 2015 shows the high level of confidence in the Bank, having attracted increased volumes of funds from both institutions and individuals.

Technology

The Bank's business continuity plan has achieved ISO 22301 certification, which confirms that the plan reduces the possibility of a disruptive incident, and if such an incident does occur, the organisation is ready to respond effectively and minimise potential damage. Certification is a requirement by the CBB and is subject to re-testing every three years.

Branch automation has migrated to a new platform that gives customers improved efficiency in online transactions and also supports business continuity by creating a very stable IT working environment.

The new electronic funds transfer system introduced by the CBB enables retail banks to conduct various transfers and payments from different channels of communication through branches or online and mobile banking. The system applies to domestic transactions and is more cost-effective than using the international system, while maintaining the highest levels of confidentiality.

A programme to upgrade ATMs is introducing machines with multi-function capabilities to replace the traditional deposit and withdrawal models. During 2015, 10 new machines became operational, with a further 20 planned over the next year and continuing until the entire network of about 50 ATMs is multi-functional.

The high standards of information security within the Bank were underlined by qualifying for ISO 27001-2013 certification.

Compliance

For years, BBK has been recognised for excellent corporate governance practices. Further developments in BBK's compliance management include consolidating overseas branches' compliance under the Head Office code and Central Bank of Bahrain requirements, as well as regulatory requirements in their country of operation.

The CBB is also introducing a separate compliance structure for conventional and Shariah practices, such as maintaining separate accounting streams. BBK is well advanced in meeting the new requirements and is awaiting CBB approval for its new structure, having had a special task force working on the project and meeting weekly during the past year.

Compliance testing became a central bank requirement in 2015, with BBK successfully demonstrating fulfilment of its obligations to meet the CBB's rulebook.

Operations

Cash management is migrating customers from manual to electronic processing of transactions. As a result, corporate and SME payroll business has increased by about 150 percent.

Market share in trade finance has also grown, largely because of increased volumes of letters of credit for local and international businesses.

BBK's 'straight-through processing' (STP) capabilities in Bahrain received awards from Barclays and JP Morgan, while BBK Kuwait received the same from Standard Chartered Bank. STP enables the entire process for capital market and payment transactions to be conducted electronically without the need for manual intervention, and is now a standard BBK practice.

Our people

A new remuneration system that links rewards to performance has been signed-off by the CBB. The system also takes into account the levels of risk for which employees are responsible. And a new Women's Empowerment Policy was announced to coincide with International Women's Day. The aim is to promote gender equality at all levels, and underlines BBK's commitment to women's empowerment and its corporate social responsibility.

Internally, the Bank is accelerating the development of female managers through fast-track programmes and ensuring equal access to education and training, with the aim of achieving a gender balance in senior management. Currently, women comprise about 35 percent of BBK employees, many holding managerial positions. The Bank's relationships with women-owned businesses are also being expanded and reinforced.

Formation of the BBK Alumni Club strengthens the bonds between the Bank and its former employees, bridging the gap through various activities arranged by the club and showing appreciation of the role of former employees in the development of Bahrain's financial sector. Over the Bank's 45 years of existence, it has had about 3,500 employees – with several hundred attending the first reunion of the Alumni Club in December.

BBK's Management Trainee Development Programme is now in its seventh cycle since inception in 2004. A total of 18 new graduates, selected in 2014 from more than 400 applicants, continued in 2015 the final phases of the programme which nurtures banking expertise in young Bahrainis and covers all areas of banking.

Since inception, the programme has trained about 120 graduates, including the current intake. All are products of highly reputed local and international universities and have exhibited leadership skills and capabilities, a key requirement for selection. The first four-month phase of the programme involves comprehensive training at the Bahrain Institution of Banking and Finance, followed by practical on-the-job experience at BBK, rotating through various functions and departments.

Conclusion

As we embark on a new three-year strategy cycle we can be confident that we have built the foundations well and that further diversification and cross-border expansion will continue to fuel long-term growth.

On behalf of BBK's management team, I thank our Board of Directors for their valued guidance in the course of the year. Our thanks go also to the Central Bank of Bahrain, the Bahrain Bourse, and the regulators of the State of Kuwait, the Republic of India, and the United Arab Emirates.

We gratefully acknowledge the support of our loyal customers everywhere, and of course the effort and commitment of our employees who contribute so much to our continued success.

Abdulkarim Ahmed Bucheery

Chief Executive

Management Trainee Development Programme

BBK's programme has trained about 120 graduates since 2004, all products of highly reputed local and international universities. A number of graduates now hold senior positions within the Bank.


كريدي مكس
CrediMax

Executive management

Abdulkarim Ahmed Bucheery
Chief Executive

Qualifications and experience:
BSc, University of Aleppo, Syria (1976).

38 years' banking experience.

Joined BBK in 2002.

Reyadh Yousif Sater
Deputy Chief Executive
Business Group

Qualifications and experience:
MBA, University of Glamorgan, United Kingdom (2001).

38 years' banking experience.

Joined BBK in 1978.

Jamal Mohamed Hijris
General Manager
Support Group

Qualifications and experience:
PhD in Business Administration, University of Liverpool, United Kingdom (2015).

37 years' banking experience.

Joined BBK in 1978.

Jamal Mohamed Al Sabbagh
Assistant General Manager
Information Technology

Qualifications and experience:
MBA, University of Glamorgan, United Kingdom (2001).

35 years' banking experience.

Joined BBK in 1980.

Hassaan Mohammed Burshaid
Assistant General Manager
Human Resources and Administration

Qualifications and experience:
MSc, Human Resources Management, DePaul University, United States of America (2006).

21 years' experience in the field of human resources.

Joined BBK in 1998.

Mohammed Abdulla Isa
Assistant General Manager
Financial Planning and Control

Qualifications and experience:
Certified Public Accountant (CPA), American Institute of Certified Public Accountants, Delaware State Board of Accountancy, United States of America (2001).

24 years' finance experience.

Joined BBK in 2001.

Mohammed Ali Malik
General Manager
Retail Banking

Qualifications and experience:
BSc in Computer Science, University of Petroleum and Minerals, Kingdom of Saudi Arabia (1984).

30 years' work experience.

Joined BBK in 2000.

Abdulrahman Ali Saif
General Manager
Treasury, Investment and Institutional Banking

Qualifications and experience:
PhD in Economics, University of Leicester, United Kingdom (1992).

33 years' banking experience.

Joined BBK in 2008.

Rashad Ahmed Akbari
Assistant General Manager
Operations

Qualifications and experience:
MSc in Marketing, University of Stirling, United Kingdom (1997).

29 years' work experience, of which 15 years in banking.

Joined BBK in 2000.

C.K. Jaidev
Assistant General Manager
Overseas Banking

Qualifications and experience:
MBA, Indian Institute of Management, Republic of India (1989).

26 years' banking experience.

Joined BBK in 1996.

Nadeem A. Aziz Kooheji
Assistant General Manager
Corporate Banking

Qualifications and experience:
BA in Finance and International Business, University of Texas – United States of America (1988).

9 years' audit and 18 years' banking experience.

Joined BBK in 1999.

Amit Kumar
Assistant General Manager
Risk and Credit Management

Qualifications and experience:
MBA, Indian Institute of Management, Republic of India (1983).

32 years' banking experience.

Joined BBK in 1994.

Investing in people and communities

Recognition of BBK's CSR efforts

BBK received the Golden Award and the Certificate of Merit for Corporate Social Responsibility from the Arab Organization for Corporate Responsibility and the Excellence Awards Academy.

Investing in people and communities is a long-held BBK commitment, recognition that business success is inextricably linked with social responsibility.

'Golden Award' honours BBK's CSR leadership

BBK's leadership in this area received prominent recognition during 2015 in the form of the Golden Award and Certificate of Merit from the Arab Organization for Corporate Responsibility and the Excellence Awards Academy.

The award gives even greater impetus to BBK's corporate social responsibility efforts as it continues to act in the most ethical and transparent manner while striving to further expand its support to economic, social, and educational development. This ranges from financing infrastructure projects to offering innovative banking solutions, as well as giving back to society.

By supporting employees, empowering customers and investors, and responding to the needs of communities, BBK nurtures sustained growth while stimulating long-term prosperity and economic development within the Kingdom of Bahrain.

Stemming from its belief in fulfilling corporate obligation towards society and taking an active role in the community where it operates, BBK has a high-level donation policy that governs the Bank's support of various non-profit organisations in education, health, environment, and philanthropy.

Every year the Bank allocates substantial donations and sponsorships that benefit community-related projects and worthy causes. An annual appropriation is approved by shareholders, amounting to BD 1.39 million in 2015.

Investing in people

Among many far-reaching CSR initiatives, BBK is committed to enhance the career development of its employees and to empower them with greater responsibilities. The Bank is proud to have 96 percent Bahrainisation.

Investing in Bahrainis through training initiatives and professional development empowers them with professional skills and opportunities for career advancement and leadership positions. BBK also rewards employees through competitive benefits, stock options, health and life insurance savings, retirement programmes, and a well-formulated recognition system.

Proud to be an 'employer of choice', BBK rewards long-standing employees who have contributed to the success of the Bank over many years and recognises them at the annual awards ceremony, marking progressive length of service in five-year periods over 10 to 40 years. The Bank also has an alumni club for former employees to preserve the ties between past and present members of the BBK family.

Contributing to women's empowerment

2015 marked the launch of a high-level policy, approved by the Board of Directors, to empower women within BBK and support Bahrain's Women Empowerment Strategy. It sets out a clear vision and consistent messages to encourage empowerment and gender equality at all levels. It guides employees to adopt gender equality principles in their professional lives and fosters an organisational culture that exemplifies the Bank's commitment to women's empowerment and corporate social responsibility, especially as women represent 35 percent of BBK employees.

To achieve the objectives of this policy, the Bank established a Women's Empowerment committee, chaired by the Chief Executive, to develop various related initiatives and programmes and to report progress to the Board of Directors.

The Bank continues to expand and reinforce business relationships with women-owned ventures, including small businesses and entrepreneurs. BBK also continues to support various women's societies and associations, where the objectives are to promote and protect women's rights.

Backing Bahrain

The Bank consistently strives to exceed regulatory requirements in respect of corporate governance, adopting sound policies and practices and applying the highest standards of business ethics and transparency.

BBK has been designated as a Domestic Systemically Important Bank (D-SIB), reflecting its importance to the national economy. It is also ISO 27001 and ISO 22301 certified for its Information Security Management System (ISMS) and Business Continuity Management System (BCMS). This undoubtedly plays an important role in building trust among customers and investors and contributes to strengthening Bahrain's economy.

In this context, BBK was a lead sponsor of Euromoney's fourth annual GCC Financial Forum, co-hosted by the Bahrain Economic Development Board. The 2015 conference attracted financiers, investors, policymakers, and business leaders from 22 countries across the GCC region, the Middle East, Europe, Asia and North America. Two days of debate and discussion focused on the growth and development of industry and financial services in the GCC – and Bahrain in particular – as a hub for financial integration in the region.

Helping young Bahrainis to become more knowledgeable in banking and investment, BBK continues to sponsor the region's first educational dealing room, established by the Bahrain Institute of Banking and Finance to boost high-quality professional education and training in finance.

The Bank also sponsors the Bahrain Bourse's TradeQuest competition – a stock trading simulation programme for high school students – by providing monetary assistance and delegating one of the Bank's portfolio managers as an advisor to the participating teams.

Funding for the future

In 2012, the Bank established a 'sinking fund' which is being built over the years to support future CSR mega projects serving the community. In 2015, an amount of BD 400,000 was dedicated for this purpose out of the total donation appropriation. It will serve projects similar to the BBK Health Centre in Hidd, a state-of-the-art health centre for which the Bank underwrote all costs including construction and medical equipment; the Pedestrian Bridge on Al Fateh Highway; and the BBK Rehabilitation centre.

Healthcare

Health and wellbeing have been at the forefront of BBK contributions over the years. BBK regularly donates to medical entities and research institutes active in fighting diseases such as diabetes, sickle cell anaemia, cancers, and many others, thus contributing to the health and longevity of Bahrain's population.

Education

By investing in education, BBK helps pave the way for future generations supporting the development of young Bahraini talent. As a Platinum Sponsor of the Crown Prince's International Scholarship Programme, BBK has contributed BD 1 million to the initiative, which gives Bahrain's most talented young people the opportunity to study at top international universities and colleges.

As part of a five-year commitment, BD 50,000 has been invested in the Isa Bin Salman Fund, a scholarship fund established in 2013 to help students pursue their studies.

BBK cooperates with InJaz Bahrain, the local equivalent of America's Junior Achievement programme, to provide internship to selected students. The programme aims to model future leaders and give students insight to how the banking industry works. BBK's Chief Executive, Abdulkarim Bucheeri, is also a board member of InJaz Bahrain.

The Bank also provides on-the-job training to employees' children and to university students, enabling them to obtain real work experience that supplements classroom learning.

Serving society

BBK places the utmost importance on the wellbeing of its communities and is very active in supporting the needs of the society in which it operates.

During 2015, the Bank allocated 25% of its donation budget towards philanthropic and social activities. It has also renewed its support to the Ministry of Social Development NGO Fund with a donation of BD 30,000. The fund gives grants to societies and charitable organisations for development initiatives.

Caring for the elderly is a key focus, with approximately BD 45,000 donated to a wide range of care homes during 2015. BBK also places importance on ensuring orphans benefit from the Bank's donations.

Special needs is area where BBK has always invested, reflecting the importance the Bank places on integration and support for this segment of the society. As well as donating BD 115,000 to special needs societies and associations, the Bank was the first in Bahrain to install a state-of-the-art ATM with special functions to assist the visually impaired in making secure cash withdrawals and deposits. Employees continue to be trained in sign language and all the branches have wheelchair access.

Culture

In supporting and preserving Bahrain's heritage and culture, BBK is a Gold Sponsor of the Sheikh Ebrahim Bin Mohammed Al-Khalifa Centre for Culture and Research and has made a BD 100,000 contribution as part of a five-year commitment, in addition to other amounts committed towards the sustainability of cultural preservation and the restoration of cultural heritage and historical facilities.

Sport

The Bank supports many sports activities that enhance national pride, inspire the young, and promote physical wellbeing. Through donation or sponsorship, BBK is proud to have maintained 30 to 40 years of support for football, junior tennis, and equestrianism to name but a few.

Encouraging social responsibility culture.

BBK employees are always encouraged to volunteer in various programmes that benefit people and society. During 2015, many employees participated in the InJaz Bahrain programme by giving classroom lectures in public schools.

A group of female employees participated in a mentoring programme as part of the 2015 'Women in the Financial and Banking Sector', with the objective to provide participating students from various universities with an opportunity to learn from the experience of industry leaders and explore potential careers in a vibrant, growing industry. Mentors had the chance to give back to the Bahraini community and share their expertise and success stories.

Environment friendly

BBK continuously enhances its digital services with the goal of reducing its environmental impact. The Bank follows energy-saving practices and recycles waste paper in efforts to reduce its carbon footprint and contribute to environmental sustainability.

Part II
Reports and disclosures

Good corporate governance is considered central to achieving the Bank's objectives, and fundamental in maintaining a leading position within the local and regional banking sectors.

BBK takes pride in ensuring exceptional standards of corporate governance are met. Our corporate governance policy is underpinned by international standards of best practice.

Initiatives in 2015

BBK implemented initiatives in 2015 to enhance corporate governance practices at the Bank. These include continuing reviewing all Bank policies – especially risk management policies –and the full cycle of reviewing the Bank's policies was successfully completed by the Board in 2015. The evaluation process for the Board, its committees and Board members was successfully completed during the year and was concluded with recommendations for improvement. An action plan was prepared to follow up, addressing 2015 and previous years' recommendations (long-term recommendations). Furthermore, enhanced disclosures were published in the annual report. The corporate governance section of the Arabic website was created and a new Board resolution register was adopted, with the objective of keeping records of all Board and Board committee decisions for ease of retrieval.

The Board has also implemented new remuneration policies and the new training and competency policy. A full training schedule was approved by the Board for the year 2015, and the attendance of Board members was closely monitored.

The CBB's module to implement Basel III came into force on 1st January 2015. Basel III aims at increasing the quantity and quality of capital held by banks. BBK invested a lot of resources and efforts to implement Basel III and achieved full compliance from the aforementioned date.

Corporate governance philosophy

BBK shall continue its endeavour to enhance shareholders' value, protect their interests, and defend their rights by practising the pursuit of excellence in corporate life. The Bank shall not only comply with all statutory requirements – including the Corporate Governance Code of the Kingdom of Bahrain and the High Level Controls Module of the Central Bank of Bahrain – but also formulate and adhere to strong corporate governance practices.

BBK shall continuously strive to best serve the interests of its stakeholders, including shareholders, clients, employees, and the public at large.

The adoption and implementation of corporate governance is the direct responsibility of the Board of Directors, and this endeavour is in line with the policies of regulatory authorities and statutory requirements in the Kingdom of Bahrain and other countries where BBK operates.

Risk appetite statement

Risk appetite is the level and type of risk that the Bank is willing to assume in order to achieve its strategic and business objectives, keeping in perspective the obligations to its stakeholders.

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

The Bank has a well-defined Risk Appetite Framework, that consists of the Risk Appetite Statement along with: (a) well-defined performance metrics in the form of Key Performance Indicators or KPIs; (b) risk limits, exposure criteria, restrictions and controls, lending and investment standards as laid out in the internal risk policies and procedures manual; (c) capital and liquidity benchmarks, which are monitored in the Asset Liability Management Committee meetings; (d) key business and risk management objectives, goals and strategy, which are defined in business, investment and risk management strategies; and (e) management and oversight structures in the Bank through Management and Board committees. Our risk appetite defines the desired performance levels, which, in turn, are embedded into management of the various risks within the Bank as well as the capital of the Bank. Our risk appetite is integrated into the strategic, capital, and risk management planning process across business verticals.

The Bank measures the contribution of each business vertical towards key KPIs.

The Bank aims to optimise the risk-reward for the benefit of all stakeholders, and this is reviewed and implemented through strategies (business, investment, risk management, ICAAP), which are closely reviewed annually. The Bank's primary exposure is to credit risk along with other Pillar 1 and Pillar 2 risks assumed in the normal course of its business. The risk appetite statement is also reviewed though a Risk Management Strategy document by Management, and recommended for approval to the Risk Committee and the Board annually. The Bank's risk appetite requires, amongst other things:

- A high level of integrity, ethical standards, respect and professionalism in our dealings.
- Taking only those risks which are transparent and understood and those which can be measured, monitored, and managed.
- Ensuring that the Bank has adequate levels of capital adequacy on an ongoing basis as mandated by the regulator (currently 12.5 percent), and as assessed by the Bank in its ICAAP document; that the capital requirements and capital planning are incorporated in its capital management strategy.
- Ensuring that the Bank has access to adequate levels of stable, efficient, and cost-effective funding to support liquidity and lending or investing requirements on an ongoing basis; that the Bank has in place a robust liquidity management framework and contingency plans to monitor and manage liquidity both in normal and stress liquidity conditions, in addition to monitoring key liquidity ratios (internal and regulatory) in Asset Liability Management Committee meetings on a monthly basis.
- Adhering to the core principles of lending, which are enshrined in the general lending policy of the Bank.
- Maintaining a robust credit management framework with focus on geographies where the Bank has physical presence (Kuwait, India, Dubai), GCC, and select MENA and other countries; undertaking exposures to countries within the directives of the Country Risk Committee, which reviews country risk and the Bank's strategy in those countries on a dynamic basis.
- Having in place a defined monitoring, collection and restructuring framework for effective recovery mechanism.
- Limiting exposures to high-risk activities which may culminate in tail-end risks, jeopardising the Bank's capital and creditworthiness.
- Striving for optimum profitability through income generation, cost efficiency, and low impairment.
- Widening the product basket and delivery channels for increasing customer satisfaction; assessing new credit products in a structured form for approval by appropriate authorities, so that the underlying risks, benefits, operational processes, system/technology requirements, and legal requirements are understood and managed.

• Protecting the Bank's and the customers' interests through robust operational procedures, internal controls, system support, training and operational risk management processes to mitigate operational risk.

• Ensuring full compliance with legal, statutory, and regulatory requirements; ensuring adherence to anti-money laundering (AML) and other obligations under international law; providing adequate training and guidance to mitigate compliance and AML risks.

Shareholder information

BBK's shares are listed on the Bahrain Bourse. The Bank has issued 1,081,647,952 equity shares, each with a face value of 100 fils. All shares are fully paid.

Annual Ordinary General Meeting and Extraordinary General Meeting

The Annual Ordinary General Meeting (AGM) and the Extraordinary General Meeting (EGM) were held on 10 March 2015.

The EGM resolved to approve increasing the Bank's issued and paid-up capital by granting 5 percent bonus shares to the shareholders. Further, the EGM resolved to approve amendments to the Memorandum of Association and Articles of Association due to the increase in issued and paid-up capital, and due to amendments to the Commercial Companies No. 21 for the year 2001 in accordance with Legislative Decree No. 50 of the year 2014. The meeting minutes of the AGM and the EGM are published in this annual report.

The Bank submits a corporate governance report to the AGM annually, covering the status on compliance with the related regulatory requirements. The Bank discloses and/or reports to the shareholders at the AGM the details under the Public Disclosure module of the Central Bank of Bahrain's Rule Book. Such disclosures include the total remuneration paid to the Board of Directors, the executive management and the external auditors. The total amount paid to directors and executive management is also contained in the annual report.

Board of Directors' information

Board composition

The Board's composition is based on the Bank's Memorandum of Association and Articles of Association, and comprises 12 members. The Board represents a mix of high-level professional skills and expertise. Furthermore, in compliance with corporate governance requirements, the Board Committees consist of members with adequate professional background and experience. Consequently, the Board has five independent Directors. The Board periodically reviews its composition and the contribution of Directors and Committees.

The appointment of Directors is subject to CBB approval. The classification of 'Executive' Directors, 'Non-Executive' Directors and 'Independent Non-Executive' Directors is as per definitions stipulated by the CBB. The current term of the Board started in March 2014 and ends in March 2017.

Directors are elected/appointed by shareholders at the AGM. Experts who are non-shareholders or promoters of the Bank may also be elected as Directors. Election or re-election of a Director at the AGM shall be accompanied by a recommendation from the Board, based on a recommendation from the Nomination, Remuneration, and Corporate Governance Committee, with specific information such as biographical and professional qualifications and other directorships held.

Corporate Secretary

The Board is supported by the Corporate Secretary, who provides professional and administrative support to the General Assembly, the Board, its Committees and members. The Corporate Secretary also assumes the responsibilities of the Corporate Governance Officer, and in this context supports the processes of performance evaluation for the Board, the Board Committees, and individual Directors as well as the process of access to independent advice and other relevant issues. The appointment of the Corporate Secretary is subject to the approval of the Board.

BBK's Corporate Secretary is Ahmed A. Qudoos Ahmed, who joined the Bank in 2009. His qualifications include a BSc in Engineering from the University of Bahrain in 1996, and he has since attended many Advance training programmes in corporate governance both in Bahrain and abroad, accumulating over 19 years of experience in the financial sector.

Shareholders

Name	Country of origin	Number of shares	% holding
Citizens of the Kingdom of Bahrain and Others	–	246,605,845	22.79
Ithmaar Bank	Kingdom of Bahrain	274,493,028	25.38
Social Insurance Organisation (SIO)			
– Pension Fund Commission	Kingdom of Bahrain	203,020,288	18.77
– General Organisation for Social insurance (GOSI)	Kingdom of Bahrain	144,294,820	13.34
Kuwait Investment Authority	State of Kuwait	202,229,987	18.70
Global Investment House	State of Kuwait	11,003,984	1.02

Distribution schedule of each class of equity

Category	Number of shares	Number of shareholders	% of outstanding shares
Less than 1%	246,605,845	2,405	22.79
1% to less than 5%	11,003,984	1	1.02
5% to less than 10%	–	–	–
10% to less than 20%	549,545,095	3	50.81
20% to less than 50%	274,493,028	1	25.38
50% and above	–	–	–

Directors' roles and responsibilities

The Board of Directors oversees the implementation of the Bank's strategic initiatives and its functioning within the agreed framework, in accordance with relevant statutory and regulatory structures. The Board ensures the adequacy of financial and operational systems and internal control, as well as the implementation of Corporate Ethics and the Code of Conduct.

The Board reserves a formal schedule of matters for its decision to ensure that the direction and control of the Bank rest with the Board. This includes strategic issues and planning, performance reviews, material acquisition and disposal of assets, capital expenditure, authority levels, appointment of auditors, and review of the financial statements, financing and borrowing activities including annual operating plan and budget, ensuring regulatory compliance, and reviewing the adequacy and integrity of internal controls.

The Board shall exercise judgement in establishing and revising the delegation of authority for Board Committees and Management. This delegation could be for authorisation of expenditure, approval of credit facilities, and for other corporate actions. Such delegation may be approved and expressed under various policies of the Bank. The thresholds for the identified authorities will depend upon the operating requirements of the Bank.

The issues of major capital expenditure, divestitures, mergers and acquisitions, and certain strategic investments would be within Board's authority.

Each Director holds the position for three years, after which he must present himself to the Annual General Meeting of shareholders for reappointment. The majority of BBK Directors (including the Chairman and/or Deputy Chairman) are required to attend Board meetings in order to ensure a quorum. The Board Charter is published on the Bank's website.

Material transactions that need Board approval

Lending transactions to Directors, at a certain level of exposure, require Board approval. Also credit and investment applications exceeding certain pre-defined exposure levels require approval of the Board.

Similarly, related party transactions relating to members of the Board require approval of the Board.

Independent professional assistance

The Bank has procedures approved by the Board for allowing Board members to obtain independent professional advice relating to the affairs of the Bank or to their individual responsibilities as members, subject to approval by the Board.

Directors' induction and professional development

The Board is required to be up to date with current business, industry, regulatory, and legislative developments and trends that will affect the Bank's business operations. Immediately after appointment, the Bank will provide a formal induction. Meetings will also be arranged with executive management. This will foster a better understanding of the business environment and markets in which the Bank operates. A continuing awareness programme is essential and it may take many different forms, through distribution of publications, workshops, presentations at Board meetings and attendance at conferences encompassing topics on directorship, business, industry, and regulatory developments. As per the Training and Competency Model of the CBB, each approved person (including members of the Board of Directors) is required to complete 15 hours of continued professional development.

Board and Committee evaluation

The Board performs a self-evaluation on an annual basis. The Board annually reviews its Charter and its own effectiveness, and initiates suitable steps for any amendments. The Board will also review self-evaluations of individual Board members and the Board Committees and consider appropriately any recommendations arising out of such evaluation. The relevant policy is published on the Bank's website.

Remuneration of Directors

The Board has adopted a remuneration policy for Directors with well-defined procedures to apply to the Directors' various remuneration and compensation components, reflective of their involvement and contributions in the activities of the Board of Directors and its ad hoc, temporary and permanent committees. The basic guideline of the policy is that participation would be considered in terms of attendance in meetings. Participation in a meeting via telephone/video conference shall be considered an attendance of the meeting. Members of the Board are treated equally when they are compensated for additional work or effort in their participation. Directors' remuneration is governed by Commercial Companies Law No 21 for the year 2001, and therefore all payments comply with the provision of the law.

Whistle-blowing policy

The Bank has a whistle-blowing policy with designated officials whom the employee can approach.

The policy provides adequate protection the employees for any reports made in good faith. The Board's Audit Committee oversees this policy. The whistle-blowing policy is published on the Bank's website.

Key persons (KP) policy

The Bank has established a 'Key Persons' policy to ensure that key persons are aware of the legal and administrative requirements regarding holding and trading of BBK shares, with the primary objective of preventing abuse of inside information. Key persons are defined to include the Directors, executive management, designated employees, and persons under guardianship or control of Key Persons. The ownership of the Key Persons policy is entrusted to the Board's Audit Committee. The Key Persons policy is posted on the Bank's website.

Development programmes arranged for the Board members during 2015

Programmes	Date	Duration
The Euromoney GCC Financial Forum	24-25 February 2015	9 hours
Computer-based training (BoardWorks)	28 February 2015	3 hours
Visa induction	14 April 2015	2 hours
Basel consultation on new principles of corporate governance	21 April 2015	4 hours
Regulatory trends and compliance	20 October 2015	3 hours
Board succession planning	20 October 2015	2 hours
Enterprise risk management	22 December 2015	6 hours

Code of Conduct

The Board has an approved Code of Conduct for BBK Directors. The Board has also approved a Code of Ethics for the Executive Management and employees. These codes outline areas of conflict of interest, confidentiality, and the responsibilities of signatories to adhere to best practices. The high-level responsibility for monitoring the codes lies with the Board of Directors. The Director's Code of Conduct is published on the Bank's website.

Conflict of interest

The Bank has a documented procedure for dealing with situations involving conflict of interest of Directors. In the event of the Board or its Committees considering any issues involving conflict of interest of Directors, decisions are taken by the full Board/Committees.

The concerned Director shall leave the meeting room during the discussion of these issues. These events are recorded in the Board/Committee proceedings. The Directors are required to inform the entire Board of conflicts of interest (potential or otherwise) in their activities with, and commitments to, other organisations as they arise, and to abstain from voting on the matter. This disclosure includes all material facts in the case of a contract or transaction involving the Director.

Corporate social responsibility

BBK's contribution towards the well-being of the community is an integral part of its corporate role. This corporate social responsibility is translated by the Bank through annual appropriation of a budget allocated for donations to finance community-related projects and initiatives. The projects may vary in nature but ought to fall into any one of the following fields: charity, culture, research, education, philanthropy, environmental protection, and sports.

BBK has an approved high-level donation policy for the distribution of the donation budget. The policy outlines guiding principles and sets criteria for the evaluation and selection of donation requests, with the ultimate objective of maximising the return on both the Bank's social image and the benefit of the community.

Disclosures relating to the Board of Directors

Directors' external appointments

Murad Ali Murad		
Chairman of the Board	Bahrain Kuwait Insurance Company (BSC)	Kingdom of Bahrain
Chairman of the Board	Takaful International Company	Kingdom of Bahrain
Chairman of the Board of Trustees	Human Resources Development Fund in Banking Sector	Kingdom of Bahrain
Member	Council of Vocational Training in Banking Sector	Kingdom of Bahrain
Chairman of the Board	AlJanabya Company WLL (Family company)	Kingdom of Bahrain

Aref Saleh Khamis		
Undersecretary	Ministry of Finance	Kingdom of Bahrain
Chairman	Social Insurance Organization (SIO)	Kingdom of Bahrain
Deputy Chairman	Future Generation Fund – Ministry of Finance	Kingdom of Bahrain
Deputy Chairman	Qatar-Bahrain Causeway Foundation	Kingdom of Bahrain
Member	Rashid Equestrian & Horse Racing Club	Kingdom of Bahrain
Member	Supreme Council for Health	Kingdom of Bahrain
Member	Sh Mohammed bin Khalifa bin Salman Al Khalifa Cardiac Centre	Kingdom of Bahrain
Member	King Hamad Hospital Consultative Board	Kingdom of Bahrain

Mohamed Abdulrahman Hussain		
Vice-Chairman and Chairman of Executive Committee	Eskan Bank BSC	Kingdom of Bahrain
Board Member	Investcorp Saudi Arabia Financial Investment Company	Kingdom of Saudi Arabia
Board Member	The K Hotel WLL	Kingdom of Bahrain

Jassem Hasan Ali Zainal		
Chairman and CEO	Arzan Financial Group for Financing and Investment	State of Kuwait
Deputy Chairman and Acting CEO	Addax Investment Bank	Kingdom of Bahrain
Board Member	Kuwait International Bank	State of Kuwait
Board Member	Automated System Company	State of Kuwait
Board Member	Al-Masah Capital Limited	Dubai, UAE
Board Member	Al-Oula Geojit Capital Company	Kingdom of Saudi Arabia
Board Member	Miami International Securities Exchange LLC (MIAX)	United States of America

Directors' external appointments (continued)

Dr Zakareya Sultan AlAbbasi		
CEO	Social Insurance Organization (SIO)	Kingdom of Bahrain
Board Member	Osool Asset Management BSC	Kingdom of Bahrain
Board Member	Eskan Bank BSC	Kingdom of Bahrain

Sh Abdulla bin Khalifa bin Salman Al Khalifa		
Chief Executive Officer	Osool Asset Management BSC	Kingdom of Bahrain
Chairman	SICO Investment Bank BSC	Kingdom of Bahrain
Chairman	Muharraq Mall Company WLL	Kingdom of Bahrain
Board Member	BFC Group	Kingdom of Bahrain
Board Member and Chairman of Executive Committee	Amlak Social Insurance Organization Development Company SPC	Kingdom of Bahrain
Board Member	Amanat Holding PJSC	United Arab Emirates

Sh Khalifa bin Duaij Al Khalifa		
President	Court of HRH the Crown Prince	Kingdom of Bahrain
Board Member	Crown Prince's International Scholarship Programme	Kingdom of Bahrain
Board Member	Isa Bin Salman Educational Charitable Trusts	Kingdom of Bahrain
Board Member	Palm Capital Company WLL	Kingdom of Bahrain
Board Member	Arab Thought Foundation	Lebanon

Marwan Mohammed Al Saleh		
Director of Fixed Income	Kuwait Investment Authority	State of Kuwait

Mutlaq Mubarak Al Sanei		
Director Follow-up Department	Kuwait Investment Authority	State of Kuwait
Chairman	Kuwait Health Assurance Company (KHAC)	State of Kuwait
Board Member	Tri International Consulting Group (TICG)	State of Kuwait

Elham Ebrahim Hasan		
Managing Partner	Elham Hasan SPC	Kingdom of Bahrain
Chairman	Health Corp Middle East Limited	Kingdom of Bahrain
Chairman	Taaheal Healthcare	Kingdom of Bahrain
Board Member	BNP Paribas Investment Company	Kingdom of Saudi Arabia
Board Member	Solidarity Group Holding BSC	Kingdom of Bahrain

Yusuf Saleh Khalaf		
Managing Director	Vision Line Consulting WLL	Kingdom of Bahrain
Board Member	Eskan Bank BSC	Kingdom of Bahrain
Board Member	SICO Investment Bank BSC	Kingdom of Bahrain

Hassan Mohammed Mahmood		
Board Member	Faisal Finance (Maroc) SA	Morocco
Board Member	Overland Capital Group Inc	United States of America
Board Member	Egyptian Investment Company	Egypt
Board Member	Islamic Investment Company of Gulf (Bahamas) Limited	Bahamas
Board Member	Gulf Financing Investment Company	Egypt
Board Member	Egyptian Company for Business Trade	Egypt
Board Member	Ithraa Capital	Kingdom of Saudi Arabia

Directors' and related parties' interests

The number of shares held by Directors as of 31 December 2015 was as follows:

Name of Director	Type of shares	31 Dec 2015	31 Dec 2014
Murad Ali Murad	Ordinary	853,977	813,312
Pension Fund Commission/Aref Saleh Khamis (1)	Ordinary	133,402	127,050
Mohamed Abdulrahman Hussain	Ordinary	133,402	127,050
Jassem Hasan Ali Zainal	Ordinary	190,286	181,225
GOSI/Dr Zakareya Sultan AlAbbasi (2)	Ordinary	127,050	121,000
Sh Abdulla bin Khalifa bin Salman Al Khalifa	Ordinary	127,050	121,000
Sh Khalifa bin Duaij Al Khalifa	Ordinary	138,326	605,000
Marwan Mohammed Al Saleh	–	–	–
Kuwait Investment Authority/Mutlaq Mubarak Al Sanei (3)	Ordinary	127,050	121,000
Ithmaar Bank/Elham Ebrahim Hasan (4)	Ordinary	127,050	121,000
Yusuf Saleh Khalaf	Ordinary	127,050	121,000
Ithmaar Bank/Hassan Mohammed Mahmood (4)	Ordinary	190,575	181,500

(1) Shares related to Aref Saleh Khamis are part of the whole shares of the Pension Fund Commission ownership.
(2) Shares related to Dr Zakareya Sultan AlAbbasi are part of the whole shares of the General Organisation for Social Insurance (GOSI) ownership.
(3) Shares related to Mutlaq Mubarak Al Sanei are part of the whole shares of the Kuwait Investment Authority ownership.
(4) Shares related to Elham Ebrahim Hasan and Hassan Mohammed Mahmood are part of the whole shares of Ithmaar Bank ownership.

Related parties

Al Janabeya Company WLL owns 987,825 shares and is related to the Chairman of the Board.

Nature and extent of transactions with related parties during 2015

On 23 February 2015 Al Janabeya Company WLL (a family company owned by Murad Ali Murad and his family) purchased a total of 500,000 shares.

Approval process for related parties' transactions

The Bank has a due process for dealing with transactions involving Directors and related parties. Any such transaction will require the approval of the Board of Directors.

Material contracts and loans involving Directors

Name of the Director	Relationship with Director	Purpose of loan	Amount of loan	Interest Rate	Terms of payment of interest	Repayment of the principal	Security
Murad Ali Murad	Chairman	Personal banking needs	BD 300,000	Fixed deposit rate over 1% p.a.	On demand	On demand	100% cash collateral
Jassem Hasan Ali Zainal	Board Member	Personal banking needs	USD 66,000	LIBOR + 3%	On demand	On demand	Shares 43% plus fixed deposit of 3%
			BD 115,000	BIBOR + 3%			

Note: The materiality amount for such disclosures is considered above BD 100,000.

Directors' trading of BBK shares during 2015

Sh Khalifa bin Duaij Al Khalifa sold 286,000 shares in April 2015 and in May 2015 sold 210,924 shares through Bahrain Bourse.

Board meetings

The Board of Directors meet at the summons of the Chairman (or Deputy Chairman in event of his absence or disability) or, if requested to do so, by at least two Directors. The Board meets at least four times a year. A meeting of the Board of Directors is deemed valid if attended by more than half of the members.

Meetings of Independent Directors

Since 2012 the Board of Directors has held separate meetings for Independent Directors. As per the Board Charter, minority shareholders look to Independent Directors for representation. For this purpose, regular Board meetings are preceded by a meeting of Independent Directors, unless it is decided by the Independent Directors that there are no issues to discuss.

The agendas for this forum's meetings are the same as the agendas for the regular Board meetings. During these meetings the Independent Directors express their views about certain issues, especially those relating to minority shareholders. The summary of the proceedings of such meetings are recorded by the Corporate Secretary and shared with the Independent Directors.

Board meeting attendance

During 2015, ten Board meetings were held, nine in the Kingdom of Bahrain and one in Istanbul, Republic of Turkey (on 23 November 2015), in the following manner:

Key: ⊙ Attended ○ Absent ⊘ was not a member during this period

Board meetings 2015

	Quarterly meetings				Other meetings					
Members	9 Feb	20 Apr	15 Jul	19 Oct	10 Feb *	2 Mar	10 Mar	29 Sept **	23 Nov ***	21 Dec
Murad Ali Murad	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Aref Saleh Khamis	⊙	⊙	⊙	⊙	○	⊙	⊙	⊙	○	⊙
Mohamed Abdulrahman Hussain	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Jassem Hasan Ali Zainal	⊙	⊙	⊙	⊙	○	⊙	⊙	⊙	⊙	⊙
Dr Zakreya Sultan AlAbbasi	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Sh Abdulla bin Khalifa bin Salman Al Khalifa	⊙	⊙	○	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Sh Khalifa bin Duaij Al Khalifa	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	○	○
Marwan Mohammed Al Saleh	⊙	⊙	○	⊙	⊙	○	○	⊙	⊙	○
Mutlaq Mubarak Al Sanei	⊙	⊙	○	⊙	⊙	○	⊙	⊙	⊙	⊙
Elham Ebrahim Hasan	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Yusuf Saleh Khalaf	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Hassan Mohammed Mahmood	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙

* The 3-year strategy review meeting was held on 10 February 2015
** Unscheduled meeting
*** New strategy for the next 3 years 2016-2018

Major issues discussed by the Board during 2015

Date of the meeting	Subject
9 February 2015	1. Amendments to the Commercial Companies Law No 21 for the year 2001 2. AGM and EGM Invitation and Recommendation to distribute 2014 dividends 3. Donation Budget for 2015 4. Report on the issues listed on the Board meeting agendas that were discussed during the year 2015 5. Quarterly Liquidity Report 6. Investment Portfolio Performance 7. Financial Results for Fourth Quarter of 2014 8. Re-appointment of External Auditors and their fees 9. Review of CBBs 2014 Examination Report along with Bank's responses 10. Update on expansion opportunities in UK 11. Women Empowerment Policy 12. Succession Plan 13. Vacancy in the NRCG Committee 14. Amendments on the Employee Remuneration and Compensation policy 15. The proposal to establish a special purpose company (SPV) to manage the Employee shares 16. Organisation Chart of BBK Kuwait Branch 17. Risk Policies for review
10 February 2015	1. BBK Strategic Plan 2013-2015 (Review of 2014 achievements)
2 March 2015	1. Electronic advancement 2. Financial Malls performance presentation 3. Sales incentives plan
20 April 2015	1. High-Level Direction on the next corporate strategic cycle 2016-2018 2. Deposit Concentration Strategy 3. 2015 EMTN Summary 4. Investment Strategy 5. Financial Results for First Quarter of 2015 6. Risk Management Strategy – 2015 7. Annual Liquidity Strategy report 2015 8. Risk Policies for review 9. Organisation Chart of BBK India

Date of the meeting	Subject
15 July 2015	1. Investment Strategy Review 2. Updates on the need to increase Capital 3. Presenting the result of Board members – Board and Board Committees evaluation 4. Quarterly Liquidity Report 5. Investment Portfolio performance 6. Financial Results for Second Quarter of 2015 7. AML Policy and Procedures Revised 8. CBK Inspection Report of Kuwait Branch 9. Establishment of the representative office in the Republic of Turkey 10. Remedial Management and Partial Outsourcing of Retail Collection 11. Risk Policies for review
29 September 2015	1. Discussing the Bank's plans to increase its capital to satisfy future and regulatory requirements, and the proposal relating to the same after obtaining the CBB approval
19 October 2015	1. Quarterly Liquidity Report 2. Financial Results for Third Quarter of 2015 3. Update to AML policy – Kuwait Branch 4. Human Resources Policies 5. Risk Policies for review
23 November 2015	1. New Strategy for the next 3 years 2016-2018
21 December 2015	1. Main items to be presented to the Board for the year 2016 2. Liquidity Position in US$ 3. Treasury Management Report 4. Budget 2016 5. Bank's lines and Country limits

Board committees

The Board Committees are formed and their members are appointed by the Board of Directors each year after the Annual General Meeting. They are considered the high-level link between the Board and the Executive Management. The objective of these Committees is to assist the Board in supervising the actual operations of the Bank, by reviewing any issues that are submitted by the Executive Management and making recommendations to the Board for their final review.

The Board reserves the right to form temporary Committees and discontinue them from time to time, as necessary. Furthermore, members of the Board are provided with copies of the meeting minutes of the said Committees, as required by the regulators. There are no major issues of concern to report relating to the work of the Board Committees during the year 2015.

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

Board Committees' composition, roles and responsibilities

Executive Committee

Members	Summary terms of reference, roles and responsibilities	Summary of responsibilities
Mohammed Abdulrahman Hussain Chairman **Aref Saleh Khamis** Deputy Chairman **Sh Abdulla bin Khalifa bin Salman Al Khalifa** Member **Mutlaq Mubarak Al Sanei** Member **Abdulkarim Ahmed Bucheery** Member **Elham Ebrahim Hasan** Member	• Not less than 5 members are appointed for a 1-year term. • Minimum number of meetings required each year: 8 (actual meetings in 2015: 11). • The Chairman and Deputy Chairman must be a Director and elected by the members of the Committee in the first meeting following the appointment of its members. • The quorum shall be of more than half of the members and must include the Chairman or the Deputy Chairman. Attendance by proxies is not permitted. • The Chairman or Deputy Chairman shall be available at the Annual General Meeting to answer questions relating to the Committee's functions. • The Committee conducts an annual self-assessment of the performance of the Committee/members, and reports conclusions and recommendations to the Board.	Reviews, approves and directs the executive management on matters raised to the Board of Directors such as business plans, donations, credit/investment applications, and such other proposals within its authority, and the periodic review of the Bank's achievements.

Audit Committee

Members	Summary terms of reference, roles and responsibilities	Summary of responsibilities
Jassem Hasan Ali Zainal Chairman (Independent) **Yusuf Saleh Khalaf** Deputy Chairman (Independent) **Sh Khalifa bin Duaij Al Khalifa** Member (Independent) **Hassan Mohammed Mahmood** Member	• The Board appoints not less than 3 members for a 1-year term. • The Chairman must be elected by the members of the Committee, from amongst the Independent Non-Executive Directors, in its first meeting after the appointment of the members; the majority of members should also be independent. • Minimum number of meetings required each year: 4 (actual meetings in 2015: 4). • Quorum shall be more than half of the members and must include the Chairman. Attendance by proxies is not permitted. • The Chairman or Deputy Chairman shall be available at the Annual General Meeting to answer questions relating to the Committee's functions. • The Committee conducts an annual self-assessment of the performance of the Committee/members, and reports conclusions and recommendations to the Board.	Reviews the internal audit programme and internal control system, considers major findings of internal audit reviews, investigations and management's response, ensures coordination among internal and external auditors, monitors trading activities of key persons, and ensures prohibition of the abuse of inside information and disclosure requirements. Approves and periodically reviews the Internal Audit Charter Document which defines the purpose, authority, responsibilities and other aspects of the internal audit activity.

Nomination, Remuneration and Corporate Governance Committee

Members	Summary terms of reference, roles and responsibilities	Summary of responsibilities
Murad Ali Murad Chairman (Independent) **Sh Khalifa bin Duaij Al Khalifa** Member (Independent) **Marwan Mohammed Al Saleh** Member	• The Board appoints not less than 3 members for a 1-year term. The Chairman is an Independent Director and the majority of members should also be independent. • The Chairman and the Deputy Chairman must be elected by members of the Committee in its first meeting after the appointment of the members. • Minimum number of meetings required each year: 2 (actual meetings in 2015: 4). • Quorum shall be more than half of the members and must include the Chairman or the Deputy Chairman. Attendance by proxies is not permitted. • The Chairman or Deputy Chairman shall be available at the Annual General Meeting to answer questions relating to the Committee's functions. • The Committee conducts an annual self-assessment of the performance of the Committee/members, and reports conclusions and recommendations to the Board.	Assess, evaluate and advise to the Board of Directors on all matters associated with nominations and remunerations of the Directors and the Executive Management. Also, to ensure that the Bank adopts and enhances sound corporate governance practices, which are consistent with the Corporate Governance Code of the Kingdom of Bahrain and the regulatory requirements, and which also reflect best market practices in corporate governance, and makes recommendations to the Board as appropriate.

Risk Committee

Members	Summary terms of reference, roles and responsibilities	Summary of responsibilities
Murad Ali Murad Chairman (Independent) **Jassem Hasan Ali Zainal** Deputy Chairman (Independent) **Dr Zakareya Sultan Al Abbasi** Member **Yusuf Saleh Khalaf** Member (Independent)	• At least 4 members are appointed for a 1-year term. • The Chairman and Deputy Chairman must be a Director and elected by the members of the Committee in its first meeting following the appointment of its members. • Minimum number of meetings required each year: 4 (actual meetings in 2015: 4). • The quorum shall be of more than half of the members and must include the Chairman or the Deputy Chairman. Attendance by proxies is not permitted. • The Chairman or Deputy Chairman shall be available at the Annual General Meeting to answer questions relating to the Committee's functions. • The Committee conducts an annual self-assessment of the performance of the Committee/members and reports conclusions and recommendation to the Board.	Reviews risk policies and recommends to the Board of Directors for approval. Also, examines and monitors the risk issues to the Bank's business and operations and directs the management appropriately.

Board Committee meetings and record of attendance

Key: ⊙ Attended ○ Absent ⊘ was not a member during this period

Executive Committee meetings in 2015

Members	8 Feb	1 Mar	19 Apr	24 May	14 Jun	14 Jul	6 Sep	29 Sep	18 Oct	24 Nov	20 Dec
Mohamed Abdulrahman Hussain	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Aref Saleh Khamis	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	○	⊙
Sh Abdulla bin Khalifa bin Salman Al Khalifa	⊙	⊙	⊙	⊙	⊙	○	⊙	⊙	⊙	⊙	⊙
Mutlaq Mubarak Al Sanei	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Abdulkarim Ahmed Bucheery	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Elham Ebrahim Hasan	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙

Audit Committee meetings in 2015

Members	8 Feb	19 Apr	14 Jul	18 Oct
Jassem Hasan Ali Zainal	⊙	⊙	⊙	⊙
Sh Khalifa bin Duaij Al Khalifa	⊙	⊙	○	⊙
Yusuf Saleh Khalaf	⊙	⊙	⊙	⊙
Hassan Mohammed Mahmood	⊙	⊙	⊙	⊙

Nomination, Remuneration and Corporate Governance Committee meetings in 2015

Members	9 Feb	1 Mar	19 Oct	*23 Nov
Murad Ali Murad	⊙	⊙	⊙	⊙
Sh Khalifa bin Duaij Al Khalifa	⊙	⊙	⊙	○
Marwan Mohammed Al Saleh	⊘	○	⊙	⊙

* Unscheduled meeting held in Istanbul, Republic of Turkey

Risk Committee meetings in 2015

Members	18 Jan	12 Apr	5 Jul	5 Oct
Murad Ali Murad	⊙	⊙	⊙	⊙
Yusuf Saleh Khalaf	⊙	⊙	⊙	⊙
Dr Zakareya Sultan AlAbbasi	⊙	⊙	⊙	⊙
Jassem Hasan Ali Zainal	⊙	⊙	⊙	⊙

Compliance and anti-money laundering

Compliance with regulatory and statutory requirements is an ongoing process. The Bank is conscious of its responsibilities in observing all regulatory provisions and best international practices in its functioning. The Bank has established an independent compliance function in keeping with Basel and CBB guidelines. The unit acts as a focal point for all regulatory compliance and for adapting other best practice compliance principles. The Bank continuously strives to improve the level of compliance in all its activities. The Bank's adopted corporate philosophy is: 'BBK shall continue its endeavour to enhance shareholders' value, protect their interests and defend their rights by practising pursuit of excellence in corporate life.' Anti-money laundering measures form an important area of the compliance function, in addition to areas of corporate governance, disclosure standards, insiders'/key persons' trading, conflict of interest, and adherence to best practices.

Starting from 2014, the Bank commenced implementation of an automated compliance system for the monitoring and management of regulatory requirements across the Bank. This system facilitates the prompt reporting of any compliance concerns or non-compliance incidents as and when they arise. The system will be rolled over to all concerned divisions within the Bank in stages.

The Bank has documented an anti-money laundering programme, including periodic awareness training to employees, record-keeping, and a designated Money Laundering Reporting Officer (MLRO). The AML policy/procedure is updated annually and was last approved by the Board of Directors and Chief Executive in July 2015.

The Bank has deployed a risk-based automated transaction monitoring system in keeping with the anti-money laundering regulations of the CBB.

The Bank's anti-money laundering measures are regularly audited by the internal auditors, who report to the Audit Committee of the Board. The Central Bank performs periodic inspections of the Bank's compliance with anti-money laundering regulations. Additionally, the Bank's anti-money laundering measures are audited by independent external auditors every year and their report is submitted to the CBB. The overseas branches in India and Kuwait and the subsidiary, CrediMax, have designated compliance and MLRO functions to ensure implementation of local regulations and also to meet CBB requirements as applicable. The Bank is committed to combating money-laundering and, towards this end, implements all 'Prevention of Money Laundering Regulations' and other guidelines issued by the CBB. These regulations and guidelines are consistent with the revised FATF recommendations, 'Customer Due Diligence for Banks' paper by Basel Committee, and best international practices.

Communication strategy

The Bank has an open policy on communication with its stakeholders, and has adopted a communication disclosure policy consistent with Basel II requirements. Shareholders are invited by the Chairman to attend the annual general meeting (AGM). The Chairman and other Directors attend the AGM and are available to answer any questions. The Bank is at all times mindful and conscious of its regulatory and statutory obligations regarding dissemination of information to its stakeholders.

The Bank provides information on all events that merit announcement, either on its website – www.bbkonline.com – or through other forms of publication. The Bank's annual report and three years' financial statements are also published on the website, as well as the Bank's Corporate Governance Report, Corporate Governance Framework, Whistle-blowing Policy, Board Charter, Code of Conduct, Key Persons' Dealing Policy, and Terms of Reference of all Board Committees. Shareholders can complete an online form, which can be found on the website, to forward any queries they may have.

The Bank uses a bulletin board for communicating with its employees on general matters, and sharing information of common interest and concern.

Remuneration report

The Bank follows a total compensation approach to remuneration. This includes the Bank's variable remuneration policy for rewarding performance as well as providing competitive fixed remuneration for attracting and retaining talents.

In 2014, the Bank adopted regulations concerning sound remuneration practices issued by the Central Bank of Bahrain and consequently revised its variable remuneration framework. The revised policy framework and incentive components were approved by the shareholders in their Annual General Meeting on March 10th, 2015 .

The key features of the remuneration framework are summarised below.

Remuneration strategy

The Bank's basic compensation philosophy is to provide a competitive level of total compensation to attract and retain qualified and competent employees. The Bank's variable remuneration policy is driven primarily by a performance based culture that aligns employee interests with those of the shareholders of the Bank. These elements support the achievement of the objectives through balancing rewards for both short-term results and long-term sustainable performance. The strategy is designed to share the success, of the Bank and to align employees' incentives with the risk framework and risk outcomes.

The quality and long-term commitment of all of the employees is fundamental to the success of the Bank. We therefore aim to attract, retain and motivate the very best people who are committed to maintaining a career with the Bank, and who will perform their role in the long-term interests of our shareholders. The Bank's reward package is comprised of the following key elements:

1 Fixed pay

2 Benefits

3 Annual (short term) performance bonus

4 Annual (long term) performance bonus

5 Subsidiaries Board Remuneration

A robust and effective governance framework ensures that the Bank operates within clear parameters of its compensation strategy and policy. All compensation matters, and overall compliance with regulatory requirements, are overseen by the Board Nomination, Remuneration and Corporate Governance Committee (NRCG).

The Bank's remuneration policy in particular considers the role of each employee and sets the criteria to determine on whether an employee is a material risk taker and/or an approved person in a business line, control or support function.

An approved person is an employee whose appointment requires prior regulatory approval because of the significance of his role within the Bank and an employee is considered a material risk taker if they are the head of a significant business line or any individuals within their control who have a material impact on the Bank's risk profile.

In order to ensure alignment between what we pay our people and our business strategy, we assess individual performance against annual and long-term financial and non-financial objectives summarised in our performance management system. This assessment also takes into account adherence to the Bank's values, risks and compliance measures and above all integrity. Altogether, performance is therefore judged not only on what is achieved over the short and long-term but also importantly on how it is achieved in order to ensure long-term sustainability of the business.

NRCG role and focus

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

The responsibilities of the NRCG with regards to the Bank's variable remuneration policy, as stated in its mandate, include but are not limited to, the following:

• Approve, monitor and review the remuneration system to ensure the system operates as intended.

• Review and recommend remuneration for the approval of the Board.

• Approve the remuneration amounts for each approved person and material risk-taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, contributions, expenses, bonuses and other employee benefits.

• Recommend the Chief Executive's remuneration for the Board of Directors approval.

• Ensure remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees that generate same short-run profit but take different amount of risk on behalf of the bank.

• Ensure that for material risk takers, variable remuneration forms a substantial part of their total remuneration.

• Review the stress testing and back testing results before approving the total variable remuneration to be distributed including salaries, fees, expenses, bonuses, and other employee benefits.

• Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The NRCG will question payouts for income that cannot be realised or whose likelihood of realisation remains uncertain at the time of payment.

• Ensure that for approved persons in risk management, internal audit, operations, financial control, and compliance functions the mix of fixed and variable remuneration is weighted in favour of fixed remuneration.

• Recommend Board member remuneration based on their attendance and performance and in compliance with Article 188 of the Bahrain Commercial Companies Law.

• Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use personal hedging strategies or remuneration and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

Nomination, Remuneration and Corporate Governance Committee members

As outlined in the Corporate Governance section of the annual report, the Board is satisfied that all Directors are non-executive and that the majority of the NRCG members are independent including the Chairman of the Committee. The NRCG comprises the following members:

NRCG member name	Appointment date	Number of meetings attended
Murad Ali Murad	21 March 1999	4
Sh Khalifa bin Duaij Al Khalifa	27 February 2005	3
Marwan Mohammed Al Saleh	30 December 2014	2

The aggregate remuneration paid to NRCG members during the year in the form of sitting fees amounted to BD 5,500 (2014: BD 5,000).

External consultancy

A consultant was appointed during the year to undertake a remuneration benchmarking study of BBK's Board of Directors & Executive Management and provide recommendations regarding compensation and pay practices to ensure alignment with local and regional markets.

Scope of application of the remuneration policy

The variable remuneration policy is adopted on a group basis covering BBK Bahrain and BBK Kuwait. BBK India is excluded from the policy because they follow the Reserve Bank of India in this regard. Invita and CrediMax are excluded because the new guidelines are not applicable to them.

Board remuneration

The Bank's Board remuneration is determined in line with the provisions of Article 188 of the Bahrain Commercial Companies Law, 2001. The Board of Directors' remuneration will be capped so that total remuneration (excluding sitting fees) does not exceed 10 percent of the Bank's net profit after all required deductions in any financial year. Board remuneration is subject to approval of the shareholders in the annual general meeting. Remuneration of non-executive Directors does not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses, or pension benefits.

Employees' variable remuneration

Variable remuneration is performance related and consists primarily of the annual performance bonus award and long-term incentives for future performance. As a part of our staff's variable remuneration, the annual bonus rewards delivery of operational and financial targets set each year, the individual performance of the employees in achieving those targets, and their contribution to delivering the Bank's strategic objectives.

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

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

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

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

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

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

Remuneration of control and support functions

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

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

Variable compensation for business units

The variable remuneration of the business units is primarily determined by key performance objectives set through the performance management system of the Bank. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations, and market and regulatory requirements. The consideration of risk assessments in the performance evaluation of individuals ensures that any two employees who generate the same short-run profits but take different amounts of risk on behalf of the bank are treated differently by the remuneration system.

Risk assessment framework

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

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

Risk adjustments take into account all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Bank undertakes risk assessments to review financial and operational performance against business strategy and risk performance prior to distribution of the annual bonus.

The Bank ensures that total variable remuneration does not limit its ability to strengthen its capital base. The extent to which capital needs to be built up is a function of the bank's current capital position and its ICAAP.

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

(a) The cost and quantity of capital required to support the risks taken

(b) The cost and quantity of the liquidity risk assumed in the conduct of business

(c) Consistency with the timing and likelihood of potential future revenues incorporated into current earnings

Risk adjustments

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

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

• There will be considerable contraction of the Bank's total variable remuneration

• At an individual level, poor performance by the Bank will mean individual KPIs are not met and hence employee performance ratings will be lower

• Reduction in the value of deferred shares or awards

• Possible changes in vesting periods and additional deferral applied to unvested rewards

• Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or claw back of previous variable awards may be considered

The NRCG, with the Board's approval, can rationalise and make the following discretionary decisions:

• Increase/reduce the ex-post adjustment

• Consider additional deferrals or increase in the quantum of non-cash awards

• Recovery through malus and claw back arrangements

Malus and claw back framework

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

Any decision to take back an individual's award can only be made by the Bank's Board of Directors.

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

• Reasonable evidence of wilful misbehaviour, material error, negligence or incompetence of the employee causing the Bank/the employee's business unit to suffer material loss in its financial performance, material misstatement of the Bank's financial statements, material risk management failure or reputational loss or risk due to such employee's actions, negligence, misbehaviour or incompetence during the concerned performance year.

• The employee deliberately misleads the market and/or shareholders in relation to the financial performance of the Bank during the concerned performance year.

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

Components of variable remuneration

Variable remuneration has the following main components:

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over of three years
Upfront short-term share awards	The portion of variable compensation that is awarded and issued in the form of shares on conclusion of the performance evaluation process for each year.
Deferred short-term share awards	The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over of three years
Long-term performance share awards	Share-based reward schemes, under which the Bank allocates certain numbers of shares every year to executive management and senior employees based on performance, potential, and job criticality level. There are two forms of the employee long-term incentive plans: 1 Employee Stock Options Plan This plan was introduced in 1999 and options were granted yearly until 2009. The plan will end once all options granted till 2009 expire or vest. 2 Employee Performance Shares Plan The plan was introduced effective 2010. It operates on a yearly basis of shares being allocated and held in a Single Person Company (SPC) in the name of the individual employee over the vesting period. Following the assessment of the performance of the Bank against the target performance conditions stipulated for the period, the ownership of the vested shares is transferred to the individual employee.
Subsidiaries Board remuneration	The portion of variable compensation that is awarded and paid out at the end of the financial year to an employee representing the bank as director on the board of any of its wholly-owned subsidiaries and/or associated companies of BBK, excluding the sitting fees.

All deferred and long-term awards are subject to malus provisions. All share awards and related dividends are released to the benefit of the employee after a six-month retention period from the date of vesting. The number of equity share awards is linked to the Bank's share price as per the rules of the Bank's Share Incentive Scheme.

Deferred compensation

All employees at Grade 24 and above are subject to the following rules of deferral:

1 The CEO, his deputies and business line General Managers:

Element of variable remuneration	Payout percentages	Vesting period	Retention	Malus*	Claw back*
Upfront cash	40%	immediate	-	-	Yes
Deferred cash	10%	3 years	-	Yes	Yes
Deferred share awards	50%	3 years	6 months	Yes	Yes

2 All other covered staff:

Element of variable remuneration	Payout percentages	Vesting period	Retention	Malus*	Claw back*
Upfront cash	50%	immediate	-	-	Yes
Upfront share awards	10%	immediate	6 months	Yes	Yes
Deferred share awards	40%	3 years	6 months	Yes	Yes

The NRCG, based on its assessment of role profile and risk taken by an employee could increase the coverage of employees that will be subject to deferral arrangements.

Details of remuneration paid

(a) Board of Directors

	2015	2014
Sitting fees and travel allowance	77,550	74,009
Remuneration	577,500	577,500
Others	32,992	117,961*
Total	688,042	769,470

* Note that the other expenses includes BD 52,000 which was agreed by the board in 2013, however was not accrued in the same year.

(b) Board of Directors of wholly owned subsidiaries

	2015	2014
Sitting fees and travel allowance	13,300	12,400
Remuneration	138,648	148,200
Others	9,155	8,084
Total	161,103	168,684

(c) Employees

1 Employee remuneration

	2015									
		Fixed remun-eration	Sign on bonuses	Guaran-teed bonuses	Variable remuneration					
					Upfront		Deferred			
BD 000's	Number of staff	Cash	(Cash/ shares)	(Cash/ shares)	Cash	Shares	Cash	Shares	Others	Total
Approved Persons Business lines	16	2,820	–	–	1,039	27	193	1,069	–	5,148
Approved Persons Control & support	11	1,442	–	–	460	72	10	357	–	2,342
Other material risk takers	29	2,562	–	–	519	96	10	433	–	3,620
Other Staff Bahrain Operations	567	12,023	–	–	1,769	–	–	–	–	13,791
Other Staff Branches & Subsdiaries	398	5,868	–	–	699	–	–	–	–	6,567
Total	1,021	24,715	–	–	4,486	195	213	1,860	–	31,469

The net impact of other indirect staff costs amounting BD 122,208 have not been considered in the table above.

Board Remuneration and Sitting Fees received by Members of Executive Management for representing the Bank in the boards of wholly owned subsdiaries and / or associate companies of BBK amounting BD 248,796 have been included in the table above.

The total amount of remuneration includes severance payments during the year amounted to BD 387,120 of which the highest paid to a single person amounted to BD 324,000

	2014									
		Fixed remun-eration	Sign on bonuses	Guaran-teed bonuses	Variable remuneration					
					Upfront		Deferred			
BD 000's	Number of staff	Cash	(Cash/ shares)	(Cash/ shares)	Cash	Shares	Cash	Shares	Others	Total
Approved Persons Business lines	16	2,847	–	–	1,035	24	206	1,103	–	5,215
Approved Persons Control & support	11	1,396	–	–	469	69	19	389	–	2,341
Other material risk takers	24	2,115	–	–	435	75	9	344	–	2,978
Other Staff Bahrain Operations	551	11,563	–	–	1,877	–	–	–	–	13,440
Other Staff Branches & Subsdiaries	423	5,772	–	–	552	–	–	–	–	6,324
Total	1,025	23,693	–	–	4,367	167	235	1,836	–	30,298

Other staff costs amounting BD 208,297 relate to indirect staff expenses such as training, recruitment, levy and other costs, have not been considered in the table above.

The above table has been updated on March 11th, 2015, after the printing of the 2014 annual report, to include the Board Remuneration and Sitting Fees received by members of the Executive Management for representing the Bank in the boards of wholly owned subsidiaries and/or associate companies of BBK amounting BD 230,247.

2 Deferred awards

	2015			
	Cash	Shares		Total
	BD '000	Number	BD '000	BD '000
Opening balance	230	10,178,027	4,293	4,523
Awarded during the period*	213	4,713,616	2,055	2,268
Paid out / released during the period	–	(1,739,821)	(731)	(731)
Service, performance and risk adjustments	–	(37,949)	(15)	(15)
Bonus share adjustment	–	215,997	88	88
Closing balance	443	13,329,870	5,690	6,133

* The number of shares for the 2015 deferred awards has been calculated using estimated year end share price as the award price will be determined 14 days after the date of the AGM.

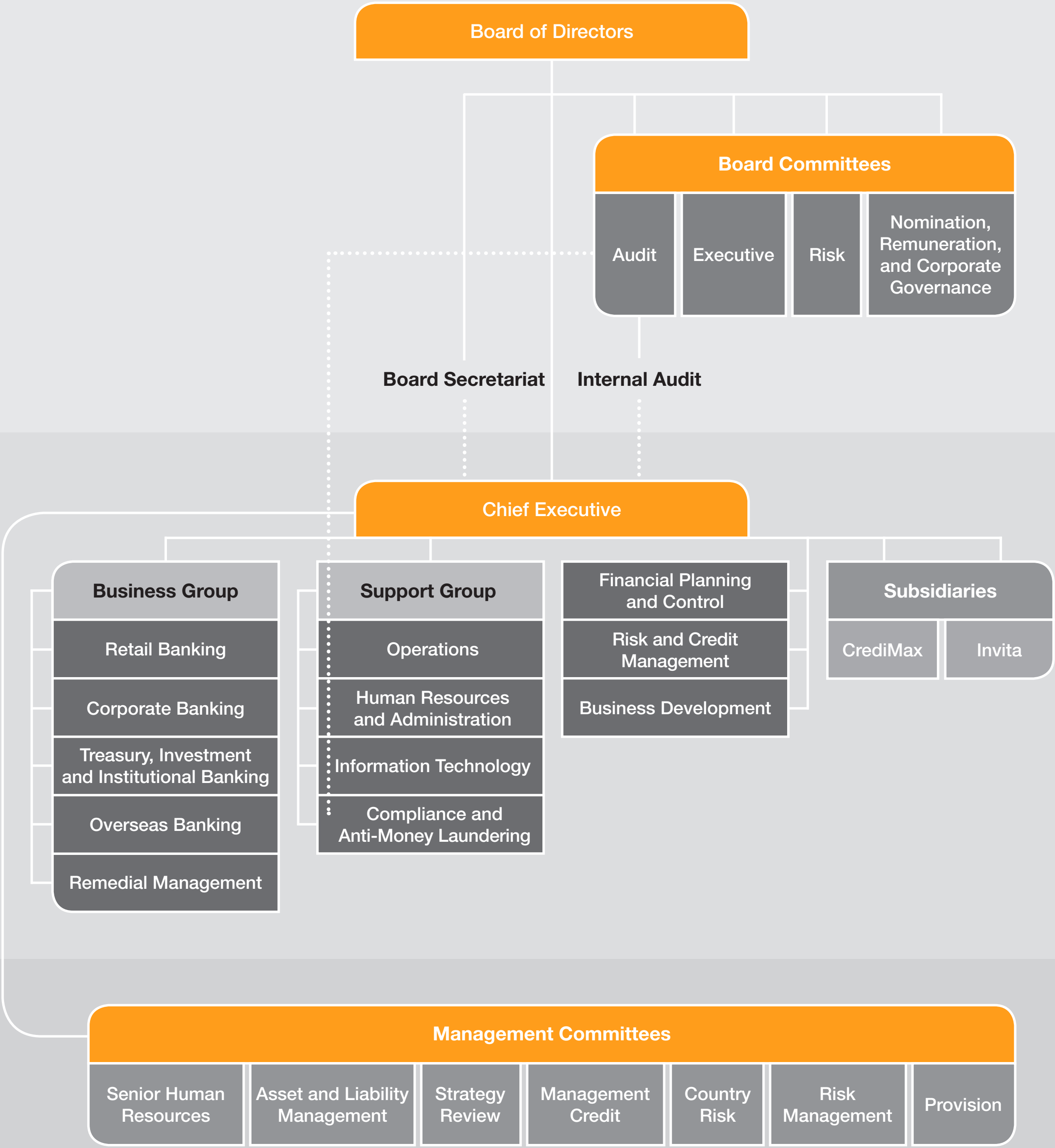
	2014			
	Cash	Shares		Total
	BD '000	Number	BD '000	BD '000
Opening balance	–	6,537,685	2,667	2,667
Awarded during the period**	230	4,451,458	2,003	2,233
Paid out/released during the period	–	(1,075,038)	(484)	(484)
Service, performance and risk adjustments	–	(123,307)	(52)	(52)
Bonus share adjustment	–	387,229	158	158
Closing balance	230	10,178,027	4,293	4,523

** The 2014 deferred awards have been recomputed based on the share price 14 days after the AGM of the Bank and updated for the actual awards distributed to staff during 2014.

In case of long term incentive plan awards, the shares awarded have been included for the purposes of the table above assuming probability of vesting.

Information on share awards included above also include components of long-term performance based incentive awards (LTIP shares). The amounts included in the tables are based on total awards granted for the performance year and may not necessarily match the accounting charge which factors probability of vesting.

Organisation structure



1 International branches in Kuwait and India – including the Non Resident Indian (NRI) Department in Bahrain – and the Representative Office in Dubai report to Overseas Banking.

2 The Assistant General Manager of Risk and Credit Management is a permanent attendee in Board Risk Committee meetings, and also participates in Board meetings whenever risk issues are discussed.

3 Compliance and Anti-Money Laundering reports to the General Manager of Support Group and has full access to the Board's Audit committee. The Head of Compliance and Anti-Money Laundering presents quarterly reports that are discussed in the Audit Committee.

4 Internal Audit – To ensure independence, Internal Audit reports functionally to the Board Audit Committee, and administratively to the Chief Executive. It is responsible to advise all levels of Management and the Board (through its Audit Committee) on the quality of the Bank's operations, with particular emphasis on systems of control.

Organisation information continued

Executive management interests

The number of shares held by members of the Executive Management team as of 31 December 2015 was as follows:

Name	Type of shares	31 Dec 2015	31 Dec 2014
Abdulkarim Ahmed Bucheery	Ordinary	696,449	389,072
Reyadh Yousif Sater	Ordinary	421,608	259,380
Jamal Mohamed Hijris	Ordinary	338	322
Mohammed Ali Malik	Ordinary	79,179	–
Abdulrahman Ali Saif	Ordinary	68,103	63,547
Rashad Ahmed Akbari	Ordinary	106,796	58,204
Jamal Mohamed Al Sabbagh	Ordinary	156,476	81,731
Hassaan Mohammed Burshaid	Ordinary	133,943	125,367
Mohammed Abdulla Isa	Ordinary	180,435	69,751
C.K. Jaidev	Ordinary	–	–
Amit Kumar	Ordinary	164,112	90,010
Nadeem A. Aziz Kooheji	Ordinary	–	–

Executive Senior Management trading of the Bank's shares during 2015

Name	Trading through Bahrain Bourse	Date of trading
Hassaan Mohammed Burshaid	Sold 22,607 shares	12 February 2015
	Sold 30,000 shares	27 December 2015
	Sold 8,000 shares	28 December 2015
	Sold 20,000 shares	30 December 2015
	Sold 20,000 shares	31 December 2015
Nadeem A. Aziz Kooheji	Sold 12,206 shares	15 February 2015
	Sold 18,200 shares	17 November 2015
Abdulrahman Ali Saif	Sold 70,000 shares	16 February 2015
C.K. Jaidev	Sold 22,906 shares	13 April 2015
Amit Kumar	Sold 10,000 shares	28 April 2015

Management Committees

Management Committees are chaired by the Chief Executive. Committee members are heads of the relevant divisions appointed by the Committee Chairman.

Committee	Summary terms of reference, roles and responsibilities:	Frequency of meetings:
Senior Human Resources	Establishes appropriate policies, procedures and guidelines for the management of human resources.	Once every other month.
Asset and Liability Management	Establishes policies and guidelines for the overall management of the statement of financial position and its associated risks.	At least once a month.
Strategy Review	Reviews and monitors progress on strategic initiatives.	Twice a year.
Management Credit	Approves credit and investment proposals above a certain limit. Also reviews and recommends any proposal requiring Executive Committee or Board approval.	Once a week.
Country Risk	Reviews country reports/ratings/strategies of the identified countries and presents recommendations for undertaking exposures to the Board for their approval.	Once every other month.
Risk Management	Identifies, measures, monitors and controls risk by establishing risk policies and procedures.	Once every quarter.
Provision	Reviews and establishes provisioning requirements for loans, advances and investments.	Once every quarter.

Major BBK shareholdings as of 31 December 2015

The company's ownership in other companies listed on the Bahrain Bourse (5 percent and above)

Name/Entity	Nationality/ Headquarters	Legal status	Ownership date	%	Number of shares 31 Dec 2014 Previous	Number of shares 31 Dec 2015 Current
Bahrain Kuwait Insurance (BKIC)	Bahrain	BSC (c)	2006	6.82%	4,879,818	**4,879,818**
Securities Investment Company	Bahrain	BSC (c)	2006	9.63%	41,250,000	**41,250,000**
Bahrain Commercial Facilities Company	Bahrain	BSC (c)	1994	23.03%	37,618,691	**37,618,691**

Major shareholders of the company's outstanding shares (5 percent and above)

Name/Entity	Nationality/ Headquarters	Legal status	Ownership date	%	Number of shares 31 Dec 2014 Previous	Number of shares 31 Dec 2015 Current
Ithmaar Bank	Bahrain	BSC	2008	25.38%	261,421,933	**274,493,028**
Pension Fund Commission (PFC)	Bahrain	Governmental Institution	1986	18.77%	193,352,656	**203,020,288**
Kuwait Investment Authority (KIA)	Kuwait	Investment Company	1990	18.70%	192,599,989	**202,229,987**
Social Insurance Organisation (SIO)	Bahrain	Governmental Institution	1986	13.34%	137,423,639	**144,294,820**

The Bank's holdings in other companies (quoted/unquoted in/out Kingdom of Bahrain) (10 percent and above)

Name/Entity	Nationality/ Headquarters	Legal status	Ownership date	%	Number of shares 31 Dec 2014 Previous	Number of shares 31 Dec 2015 Current
CrediMax	Bahrain	BSC (c)	1999	100.00%	10,000,000	**10,000,000**
Invita	Bahrain	BSC (c)	2006	100.00%	1,000,000	**1,000,000**
Global Payment Services (1)	Bahrain	WLL	2005	55.00%	10,000	**10,000**
Sakana Holistic Housing Solutions	Bahrain	BSC (c)	2006	50.00%	5,000,000	**2,000,000**
The Benefit Company	Bahrain	BSC (c)	1997	22.00%	5,703	**6,843**
Naseej Company	Bahrain	BSC	2009	15.15%	163,636,370	**163,636,370**
Alosra Bank	Bahrain	BSC (c)	2009	10.00%	5,000,000	**5,000,000**
Diyaar Al Harameen Al Ola Limited	Cayman Islands	WLL	2011	35.00%	16,450,000	**16,450,000**
BBK Geojit Securities KSC	Kuwait	KSC	2012	40.00%	2,000,000	**2,000,000**
Invita – Kuwait (2)	Kuwait	KSC	2013	60.00%	600,000	**600,000**

(1) Shareholding through CrediMax.
(2) Shareholding through Invita.

BBK offices and overseas branches

For contact details of our local and international offices and branches please visit our website www.bbkonline.com.
The Bank is headquartered in Bahrain and also operates in Dubai, Kuwait, and India.

Part III

Financial information

Overview

The Bank's financial position remains solid, reflecting a well-crafted and successfully implemented strategic plan, prudent risk management practices, truly diversified product offerings and widely spread networks, all geared to ensure the best quality of service for all our customers.

Steady improvement in performance, enhanced shareholder value, and operational excellence in line with the Bank's corporate strategy has resulted in reporting solid performance of BD 53.2 million net profit for the year ended 31 December 2015 representing BD 3.1 million or 6.2 percent growth over 2014 results.

This section reviews our financial performance for 2015. It focuses on BBK's consolidated operating results and consolidated statement of financial position, including its overseas branches, principal subsidiaries, joint ventures, associated companies, and indirect investments in associates through subsidiaries.

The consolidated financial statements have been prepared and are presented in accordance with International Financial Reporting Standards, Bahrain Commercial Companies Law, Central Bank of Bahrain (CBB) and Financial Institutions law.

The Bank's commitment to achieving its strategic objectives, focused business activities and sound corporate governance practices have resulted in BBK maintaining its position as a pioneer in retail and commercial banking.

Operating results

2015 was the final year of BBK's three-year strategic cycle, in which the Bank continued its steady and consistent performance. BBK achieved balanced growth despite the challenging macroeconomic environment impacted by the collapse in oil prices and turbulence in financial markets.

The Bank's liquidity and funding position is stable, our financial standing remains on course, and we have a comfortable level of capitalisation.

BBK continues to go from strength to strength. For the twelve months of 2015, net profit attributable to the owners of the Bank was BD 53.2 million, up by 6.2 percent from last year. The increase in net profit was mainly attributable to an increase in fees and commission, as well as FX and investment income, demonstrating the Group's success in achieving growth across a wide range of revenue sources.

Continuing BBK's prudent approach to risk management and provisioning, the Bank has conservatively provided for adequate provisioning levels in 2015, as a way of protecting its overall asset exposures and to cater for unexpected losses that may occur due to market turbulence, including changes in the fair market value of investments.

Operating income

Total operating income for the year increased by BD 3.6 million (3.1 percent) and stood at BD 121.1 million, reflecting success in diversifying sources of income. Net interest income was broadly in line with 2014, at BD 72.7 million for the year 2015.

Other income stood at BD 44.2 million, registering a notable growth of BD 3.3 million (8.2 percent) from BD 40.9 million recorded in the previous year. (This excludes share of profit generated from associated companies and joint ventures of BD 4.2 million in 2015 and BD 4.4 million in 2014).

Net interest income

Net interest income for the year was broadly in line with 2014, reporting a marginal increase of 0.6 percent to BD 72.7 million at year-end. While local lending activities (both retail and corporate) have shown remarkable growth, the total loan and advances portfolio witnessed a decrease of BD 81.7 million or 4.4 percent from BD 1,846.5 million in 2014, largely due to the reduction in international lending activities in line with the Bank's corporate strategy and direction.

Moreover, the Bank's funding cost was affected by the overlap cost relating to the senior medium-term borrowing raised early in the year to replace the notes that matured during the fourth quarter of 2015. The increase of 14.8 percent in interest on the non-trading investment securities (available for sale) from BD 16.7 million reported in 2014 contributed to the overall growth in net interest income.

Growth in earning assets supported by a significant increase in customer deposits was prudently utilised, and invested largely in treasury bills, which positively contributed to an increase of 5.6 percent in interest and similar income sources.

Summary statement of profit or loss

BD millions	2015	2014	Variance BD millions	Change percent
Net interest income	**72.7**	72.3	0.4	0.58%
Other income	**48.4**	45.2	3.2	7.02%
Total income	**121.1**	117.5	3.6	3.06%
Operating expenses	**49.8**	46.2	3.6	7.80%
Provisions	**19.5**	20.8	(1.3)	-6.13%
Profit before taxation	**51.8**	50.5	1.3	2.50%
Taxation/non-controlling interest	**1.4**	(0.4)	1.8	-426.67%
Net profit	**53.2**	50.1	3.1	6.22%

Interest expense for the year includes amortisation of previously realised non-recurring income, which arose from exchanging subordinated debt notes into senior debt notes, and suppressed net interest income for the year. Whilst asset margins have continued to see some pressure, net interest income has benefited from strong financial position momentum and wider liability margins.

As a reflection of lower interest rates and depressed margins, the net interest yield ratio for 2015 showed a modest decrease to 2.1 percent, compared to 2.3 percent reported last year.

Other income

Other operating income consists of non-interest income, which is earned from business activities such as dealing in foreign currencies, investment in funds other than fixed-income funds, the sale of corporate banking and retail banking services, investment trading, and share of profit/loss in associated companies and joint ventures.

Total other income recorded for the year of BD 48.4 million showed healthy growth of 7.0 percent compared to the previous year's BD 45.3 million. This was mainly because of increased business volumes, resulting in growth in gross fees and commission for the year of 11.6 percent compared to BD 36.7 million in 2014. Other income includes foreign exchange and investment income of BD 15.8 million, which represents an increase of 9.1 percent over last year (2014: BD 14.50 million), as well as higher dividend income on the Bank's equity.

Operating expenses

Operating expenses increased to BD 49.8 million, 7.8 percent higher than last year (2014: BD 46.2 million). Staff costs showed a modest increase of 3.6 percent. Other operating expenses showed a significant increase of 20.8 percent, and stood at BD 15.3 million compared to BD 12.6 million last year.

The Bank's prudent cost control policy and strong revenue-generating capability allowed it to maintain its cost-to-income ratio at an acceptable level of 41.1 percent, a slight increase from last year (2014: 39.3 percent).

Net provisions

The Bank follows the International Accounting Standard IAS 39 with regard to accounting for impairment of financial assets. Provisions for impairment of the Bank's loans and advances and assets carried at cost or amortised cost are arrived at after calculating the net present value of the anticipated future cash flows from these financial assets, discounted at original effective interest rates. For assets carried at fair value, impairment is the difference between the carrying cost and the fair value. This approach of provisioning for impairment of the Bank's financial assets should provide more realistic estimates of impairment in the value of the assets.

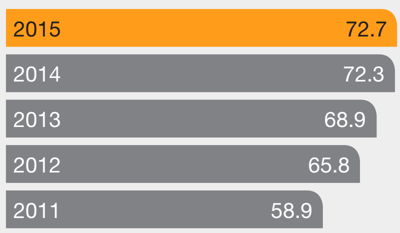
Improved asset quality and strong risk management processes resulted in lower provisions requirements booked during 2015. Provisions charge during 2015 amounted to BD 19.5 million, 6.1 percent lower than the same period last year. General provision for the year increased by BD 3.0 million, following the Bank's general provision policy to increase its general reserves relative to the total risk-weighted assets of the Bank, which stood at BD 37.2 million at the end of 2015. Conversely, the Bank intensified its remedial and collection efforts during the year, which significantly reduced the level of non-performing loans from BD 89.9 million in 2014 to BD 82.7 million in 2015.

Comprehensive income

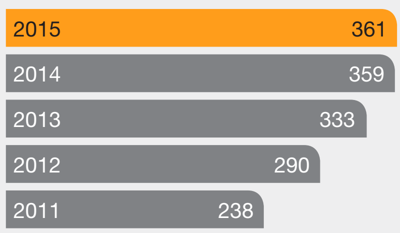
Comprehensive income stood at BD 20.1 million at end of December 2015, compared to BD 39.9 million reported in the corresponding period of 2014. The drop was driven mainly by volatility in the market prices of bond and equity investments, resulting from financial market fluctuations during the year.

While local lending activities have shown remarkable growth, the total loan and advances portfolio witnessed a decrease largely due to the reduction in international lending activities in line with the Bank's strategy.

Net interest income
BD millions



Total equity
BD millions



Financial position

The Group maintained a strong and liquid balance sheet, achieving growth in the financial position of BD 145.5 million (4.2 percent) and reaching BD 3,646.4 million at the end of 2015. The growth was primarily driven by an increase in surplus liquidity, which was prudently utilised and invested in highly liquid assets, including treasury bills, and placements with the Central Bank of Bahrain, and with banks and other financial institutions.

Growth across retail and corporate segments has been robust, with the Bank achieving a good balance between both loans and advances and deposits. We remain a strong net lender in the inter-bank market, particularly in the GCC and MENA region. As at 31 December 2015, our net loans and advances-to-deposits ratio stood at 66.8 percent (2014: 74.7 percent). This is partially due to the decrease in total loans and advances, but nevertheless demonstrates the confidence customers have in us as a financial institution in the Kingdom of Bahrain, whilst growing and optimising the use of surplus liquidity in the market.

Our overall financial position remains stable as the majority of our financial assets are loans and advances that are held on an amortised cost basis, which reduces the risk of short-term distress shocks.

The Group is strongly capitalised and generated good levels of organic equity during the year, with Core Equity Tier 1 ratio standing at 13.7 percent.

Assets

Total assets stood at BD 3,646.4 million as at 31 December 2015, an increase of 4.2 percent over BD 3,500.9 million recorded in the previous year. Loans and advances decreased during the year by 4.4 percent due to management's strategic decision to reduce international lending exposure and focus on less risky local credit financing activities during international financial market turbulence. However, the decrease in lending was deployed in liquid assets consisting of cash and balances with central banks, treasury bills, and placements with banks and other financial institutions, to total assets standing at 32.0 percent (December 2014: 29.2 percent).

The Bank's investment portfolio is classified into three categories: "Financial assets at fair value through profit or loss" (FVTPL), "Available-for-sale", and "Investments stated at amortised costs". The FVTPL category consists of investments held for trading and structured notes having embedded derivatives. The other two categories consist of quoted bonds and equities and unquoted securities that are mainly acquired with the intention of being retained for the long term.

At the end of 2015, quoted bonds and equities constituted 80.6 percent of gross investments (2014: 81.0 percent). The fixed income portfolio is substantially hedged against exposure to interest rate risk, or highly dominated by regional government bonds and sukuk.

The Bank's total non-trading investment securities decreased by BD 29.0 million (3.7 percent), and reached BD 758.1 million at the end of 2015, mainly due to decreased investment activities in regional and selected international markets.

Investment in associated companies and joint ventures represents the Bank's interest in a number of associates and joint ventures, as outlined in later sections of this report. The carrying value of these investments represents the Bank's share of the net assets of these companies.

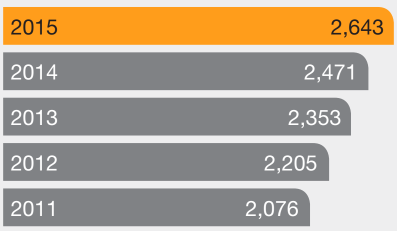
Liabilities

Current, saving and other deposits include the balances of interest-bearing and non-interest-bearing accounts due to customers on demand, and term deposits taken with different maturity dates, in various currencies and at varying rates of interest. The Bank continues to be successful in generating customer deposits and achieved 7.0 percent growth to reach BD 2,642.9 million at year-end. This growth illustrates the Bank's success in portraying itself as a dependable and solid financial institution, and in leveraging its presence as a dominant player in the domestic market.

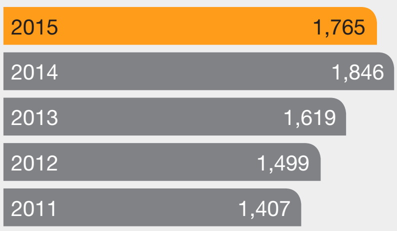
Borrowings under repurchase agreements and due to banks and financial institutions stood at BD 353.9 million compared to BD 350.7 million recorded at year-end 2014. Customer deposits continue to be the major source of funding, with customer deposits to total liabilities at 80.4 percent (December 2014: 78.7 percent).

Interest payable and other liabilities consist of accrued interest payable on interest-bearing deposits, accrued expenses and provisions.

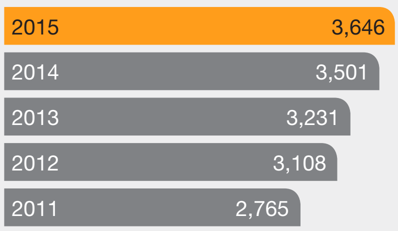
Customer deposits
BD millions



Loans and advances
BD millions



Total assets
BD millions



Capital adequacy

The Bank has implemented the Basel III framework for the calculation of capital adequacy since January 2015, in accordance with Central Bank of Bahrain guidelines.

Equity attributable to the owners of the bank before appropriations stood at BD 359.2 million at the end of 2015 (2014: BD 357.9 million). While there was growth in risk-weighted assets, the Bank continued to maintain a comfortable capital adequacy ratio of 14.87 percent per Basel III rules (2014: 15.63 percent calculated per Basel II rules), well above the CBB's minimum regulatory requirement of 12.5 percent. The Group is keen to maintain strong capitalisation in order to support future strategic plans.

To further strengthen the Bank's capital base, the Board of Directors approved the appropriation of BD 2.6 million (2014: BD 4.7 million) from the current year's profit to the general reserve. This would bring the general reserve total to BD 54.1 million (to be reflected in 2016 financial results), representing an increase of 5.0 percent over the previous general reserve balance and 50.0 percent of the share capital of the Bank.

Our continued growth over the years is a result of our sustained culture of superior performance, our widespread participation in both local and international markets, and excellent customer service. These strengths will enable us to sustain the momentum we have built over the years and enhance our shareholder value.

Consolidated statement of financial position

BD millions	2015	2014	Variance BD millions	Change percent
Assets				
Cash and balances with central banks	**286.7**	278.2	8.5	3.08%
Treasury bills	**394.1**	292.7	101.4	34.65%
Deposits and amounts due from banks and other financial institutions	**325.1**	175.9	149.2	84.82%
Loans and advances to customers	**1,764.8**	1,846.4	(81.6)	-4.42%
Non-trading investment securities	**758.1**	787.2	(29.1)	-3.69%
Investments in associated companies and joint ventures	**35.8**	36.5	(0.7)	-1.95%
Interest receivable and other assets	**57.0**	59.0	(2.0)	-3.44%
Premises and equipment	**24.8**	25.0	(0.2)	-0.83%
Total assets	**3,646.4**	3,500.9	145.5	4.16%
Liabilities and equity				
Liabilities				
Deposits and amounts due to banks and other financial institutions	**179.4**	313.0	(133.6)	-42.69%
Borrowings under repurchase agreement	**174.5**	37.7	136.8	362.84%
Term borrowings	**204.7**	240.9	(36.2)	-15.05%
Customers' current, savings and other deposits	**2,642.9**	2,471.1	171.8	6.95%
Interest payable and other liabilities	**84.2**	78.8	5.4	6.83%
Total liabilities	**3,285.7**	3,141.5	144.2	4.59%
Equity attributable to the owners of the Bank	**359.2**	357.9	1.3	0.36%
Non-controlling interest	**1.5**	1.5	0.0	7.13%
Total equity	**360.7**	359.4	1.3	0.38%
Total liabilities and equity	**3,646.4**	3,500.9	145.5	4.16%

Independent auditors' report to the shareholders

Building a better working world

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of BBK B.S.C. ("the Bank") and its subsidiaries (together "the Group") which comprise the consolidated statement of financial position as at 31 December 2015 and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as the Board of Directors determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a 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 its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

REPORT ON OTHER REGULATORY REQUIREMENTS

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 1), we report that:

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

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

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2015 that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests.

Ernst + Young

Partner's registration no. 117
8 February 2016
Manama, Kingdom of Bahrain

Consolidated statement of financial position

As at 31 December 2015

	Note	2015 BD '000	2014 BD '000
ASSETS			
Cash and balances with central banks	4	**286,750**	278,193
Treasury bills	5	**394,090**	292,683
Deposits and amounts due from banks and other financial institutions	6	**325,096**	175,896
Loans and advances to customers	7	**1,764,799**	1,846,462
Non-trading investment securities	8	**758,107**	787,153
Investments in associated companies and joint ventures	9	**35,823**	36,537
Interest receivable and other assets	10	**56,970**	58,999
Premises and equipment	11	**24,806**	25,014
TOTAL ASSETS		**3,646,441**	3,500,937
LIABILITIES AND EQUITY			
Liabilities			
Deposits and amounts due to banks and other financial institutions		**179,404**	313,024
Borrowings under repurchase agreement		**174,508**	37,704
Term borrowings	12	**204,677**	240,938
Customers' current, savings and other deposits	13	**2,642,892**	2,471,077
Interest payable and other liabilities	14	**84,226**	78,842
Total liabilities		**3,285,707**	3,141,585
Equity			
Share capital	15	**108,165**	103,014
Treasury stock	15	**(4,728)**	(6,951)
Share premium	15	**39,919**	39,919
Statutory reserve	16	**54,082**	51,507
General reserve	16	**51,507**	46,825
Cumulative changes in fair values	17	**(12,304)**	17,420
Foreign currency translation adjustments		**(10,635)**	(7,259)
Retained earnings		**102,580**	82,017
Proposed Appropriations	18	**30,586**	31,402
ATTRIBUTABLE TO THE OWNERS OF THE BANK		**359,172**	357,894
Non-controlling interest		**1,562**	1,458
Total equity		**360,734**	359,352
TOTAL LIABILITIES AND EQUITY		**3,646,441**	3,500,937

Murad Ali Murad
Chairman

Yusuf Saleh Khalaf
Board Member

Abdul Karim Ahmed Bucheery
Chief Executive

The attached notes 1 to 46 form part of these consolidated financial statements

Consolidated statement of profit or loss
Year ended 31 December 2015

	Note	2015 BD '000	2014 BD '000
Interest and similar income	19	**114,613**	108,549
Interest and similar expense		**(41,907)**	(36,259)
Net interest income		**72,706**	72,290
Share of profit of associated companies and joint ventures	9	**4,215**	4,377
Other income	20	**44,219**	40,879
Total operating income		**121,140**	117,546
Staff costs		**31,343**	30,255
Other expenses		**15,267**	12,640
Depreciation	11	**3,226**	3,333
Net provision for impairment on loans and advances to customers	7	**18,975**	21,572
Net provision/(write back) for impairment on investments	8	**538**	(784)
Total operating expenses		**69,349**	67,016
PROFIT BEFORE TAXATION		**51,791**	50,530
Net tax benefit/(provision)		**1,598**	(224)
PROFIT FOR THE YEAR		**53,389**	50,306
Attributable to:			
Owners of the Bank		**53,212**	50,095
Non-controlling interest		**177**	211
		53,389	50,306
Basic and diluted earnings per share (BD)	21	**0.050**	0.047

Murad Ali Murad
Chairman

Yusuf Saleh Khalaf
Board Member

Abdul Karim Ahmed Bucheery
Chief Executive

The attached notes 1 to 46 form part of these consolidated financial statements

Consolidated statement of other comprehensive income

Year ended 31 December 2015

	Note	2015 BD '000	2014 BD '000
Profit for the year		**53,389**	50,306
Other comprehensive (loss)/income			
Other comprehensive loss to be reclassified to profit or loss in subsequent periods;			
Foreign currency translation adjustments		**(3,376)**	(2,751)
Net movement in cumulative changes in fair values	17	**(29,420)**	(7,388)
Fair value changes in cash flow hedges	17	**(304)**	(94)
Other comprehensive loss for the year		**(33,100)**	(10,233)
Total comprehensive income for the year		**20,289**	40,073
Attributable to:			
Owners of the Bank		**20,112**	39,862
Non-controlling interest		**177**	211
		20,289	40,073

The attached notes 1 to 46 form part of these consolidated financial statements

Consolidated statement of changes in equity

Year ended 31 December 2015

		Attributable to the owners of the Bank											
	Note	Share capital BD '000	Treasury stock BD '000	Share premium BD '000	Statutory reserve BD '000	General reserve BD '000	Cumulative changes in fair values BD '000	Foreign currency translation adjustments BD '000	Retained earnings BD '000	Proposed appropriations BD '000	Total BD '000	Non-controlling interest BD '000	Total equity BD '000
Balance at 1 January 2014		93,649	(3,014)	39,919	46,825	43,700	24,902	(4,508)	67,747	22,989	332,209	718	332,927
Profit for the year		–	–	–	–	–	–	–	50,095	–	50,095	211	50,306
Other comprehensive loss		–	–	–	–	–	(7,482)	(2,751)	–	–	(10,233)	–	(10,233)
Total comprehensive income		–	–	–	–	–	(7,482)	(2,751)	50,095	–	39,862	211	40,073
Share – based payments	40	–	–	–	–	–	–	–	259	–	259	–	259
Dividends paid	18	–	–	–	–	–	–	–	–	(9,249)	(9,249)	–	(9,249)
Stock dividends	18	9,365	–	–	–	–	–	–	–	(9,365)	–	–	–
Donations		–	–	–	–	–	–	–	–	(1,250)	(1,250)	–	(1,250)
Movement in treasury stock	15	–	(3,937)	–	–	–	–	–	–	–	(3,937)	–	(3,937)
Movement in non-controlling interest		–	–	–	–	–	–	–	–	–	–	529	529
Transfer to statutory reserve	16	–	–	–	4,682	–	–	–	(4,682)	–	–	–	–
Proposed appropriations	18	–	–	–	–	–	–	–	(31,402)	31,402	–	–	–
Transfer to general reserve 2013		–	–	–	–	3,125	–	–	–	(3,125)	–	–	–
Balance at 31 December 2014		**103,014**	**(6,951)**	**39,919**	**51,507**	**46,825**	**17,420**	**(7,259)**	**82,017**	**31,402**	**357,894**	**1,458**	**359,352**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**53,212**	**–**	**53,212**	**177**	**53,389**
Other comprehensive loss		**–**	**–**	**–**	**–**	**–**	**(29,724)**	**(3,376)**	**–**	**–**	**(33,100)**	**–**	**(33,100)**
Total comprehensive income		**–**	**–**	**–**	**–**	**–**	**(29,724)**	**(3,376)**	**53,212**	**–**	**20,112**	**177**	**20,289**
Share – based payments	40	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**269**	**–**	**269**	**–**	**269**
Dividends paid	18	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(20,179)**	**(20,179)**	**–**	**(20,179)**
Stock dividends	18	**5,151**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(5,151)**	**–**	**–**	**–**
Donations		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,390)**	**(1,390)**	**–**	**(1,390)**
Movement in treasury stock	15	**–**	**2,223**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,223**	**–**	**2,223**
Unclaimed dividends	15	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**243**	**–**	**243**	**–**	**243**
Movement in non-controlling interest		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(73)**	**(73)**
Transfer to statutory reserve	16	**–**	**–**	**–**	**2,575**	**–**	**–**	**–**	**(2,575)**	**–**	**–**	**–**	**–**
Proposed appropriations	18	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(30,586)**	**30,586**	**–**	**–**	**–**
Transfer to general reserve 2014		**–**	**–**	**–**	**–**	**4,682**	**–**	**–**	**–**	**(4,682)**	**–**	**–**	**–**
Balance at 31 December 2015		**108,165**	**(4,728)**	**39,919**	**54,082**	**51,507**	**(12,304)**	**(10,635)**	**102,580**	**30,586**	**359,172**	**1,562**	**360,734**

The attached notes 1 to 46 form part of these consolidated financial statements

Consolidated statement of cash flows
Year ended 31 December 2015

	Note	2015 BD '000	2014 BD '000
OPERATING ACTIVITIES			
Profit for the year before taxation		**51,791**	50,530
Adjustments for non-cash items:			
Net provisions (write back) relating to:			
Loans and advances to customers	7	**18,975**	21,572
Non-trading investment securities	8	**538**	(784)
Share of profit of associated companies and joint ventures	9	**(4,215)**	(4,377)
Depreciation	11	**3,226**	3,333
Realised gains on sale of non-trading investment securities	20	**(4,408)**	(3,826)
Accrual on term borrowings		**1,439**	1,440
		67,346	67,888
(Increase) decrease in operating assets			
Mandatory reserve deposits with central banks		**(6,277)**	(10,170)
Treasury bills maturing after 90 days		**(100,790)**	20,524
Deposits and amounts due from banks and other financial institutions		**28,378**	(12,160)
Loans and advances to customers		**62,688**	(249,499)
Interest receivable and other assets		**1,725**	(16,810)
Increase (decrease) in operating liabilities			
Deposits and amounts due to banks and other financial institutions		**(133,620)**	131,495
Borrowings under repurchase agreements		**136,804**	(18,603)
Customers' current, savings and other deposits		**171,815**	118,170
Interest payable and other liabilities		**5,384**	11,346
Income tax paid		**(444)**	(659)
Net cash from operating activities		**233,009**	41,522
INVESTING ACTIVITIES			
Purchase of non-trading investment securities		**(246,015)**	(265,615)
Sale of non-trading investment securities		**252,152**	220,140
Sale/partial repayment of capital of investment in associated companies	9	**3,000**	22,890
Dividends received from associated companies	9	**1,835**	1,636
Other movements in investment in associated companies		**9**	1,399
Movement in non-controlling interest		**(73)**	529
Purchase of premises and equipment		**(3,018)**	(2,211)
Net cash from/(used in) investing activities		**7,890**	(21,232)
FINANCING ACTIVITIES			
Payment of dividend and donations	18	**(21,569)**	(10,499)
Term borrowings		**(37,700)**	–
Movement in treasury stock		**2,223**	(3,937)
Net cash used in financing activities		**(57,046)**	(14,436)
Foreign currency translation adjustments		**(3,376)**	(2,751)
NET CHANGE IN CASH AND CASH EQUIVALENTS		**180,477**	3,103
Cash and cash equivalents at beginning of the year		**352,639**	349,536
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	23	**533,116**	352,639

The attached notes 1 to 46 form part of these consolidated financial statements

1 ACTIVITIES

BBK B.S.C. (the "Bank"), a public shareholding company, was incorporated in the Kingdom of Bahrain by an Amiri Decree in March 1971 and registered with the Ministry of Industry and Commerce under Commercial Registration number 1234 dated 16 March 1971. The Bank operates in Bahrain under a commercial banking license issued by the Central Bank of Bahrain ("CBB") and its shares are listed on the Bahrain Bourse.

The Bank is engaged in commercial banking activities through its branches in the Kingdom of Bahrain, State of Kuwait and Republic of India and credit card operations and business process outsourcing services through its subsidiaries. The Bank's registered office is at 43 Government Avenue, P O Box 597, Manama, Kingdom of Bahrain.

The consolidated financial statements were authorised for issue in accordance with a resolution of the Bank's Board of Directors on 8 February 2016.

2 BASIS OF PREPARATION

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and in conformity with the Bahrain Commercial Companies Law and the CBB and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association.

Accounting convention

The consolidated financial statements are prepared on a historical cost basis, except for derivative financial instruments, available-for-sale investment securities, trading investments and financial assets held at fair value through statement of profit or loss, that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in fair values attributable to risks that are being hedged.

The consolidated financial statements are prepared in Bahraini Dinars which is the functional and presentation currency of the Bank.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries (the "Group"), all of which have 31 December as their year end. The Bank has the following principal subsidiaries:

Name	Ownership	Country of incorporation	Activity
CrediMax B.S.C. (c)	100%	Kingdom of Bahrain	Credit card operations
Invita B.S.C. (c)	100%	Kingdom of Bahrain	Business process outsourcing services

CrediMax B.S.C. (c) owns 55% (2014: 55%) of the share capital of Global Payment Services W.L.L., which is established in the Kingdom of Bahrain and engaged in processing and backup services relating to credit, debit and charge cards.

Invita B.S.C. (c) owns 60% (2014: 60%) of the share capital of Invita Kuwait K.S.C.C. , which is established in the State of Kuwait and engaged in business processing and outsourcing services.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

3 ACCOUNTING POLICIES

3.1 New and amended standards and interpretations issued and effective

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2015. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The nature and the impact of each new standard or amendment is described below:

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. This amendment is not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual Improvements 2010-2012 Cycle

With the exception of the improvement relating to IFRS 2 Share-based Payment applied to share-based payment transactions with a grant date on or after 1 July 2014, all other improvements are effective for accounting periods beginning on or after 1 July 2014. The Group has applied these improvements for the first time in these consolidated financial statements. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions. The clarifications are consistent with how the Group has identified any performance and service conditions which are vesting conditions in previous periods. In addition, the Group had not granted any awards during the second half of 2014. Thus, these amendments did not impact the Group's consolidated financial statements or its accounting policies.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. This is consistent with the Group's current accounting policy and, thus, this amendment did not impact the Group's accounting policy.

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are 'similar'; and
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The Group has not applied the aggregation criteria in IFRS 8.12. The Group has presented the reconciliation of segment assets to total assets in previous periods and continues to disclose the same in Note 22 in these consolidated financial statements as the reconciliation is reported to the chief operating decision maker for the purpose of her decision making.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. The Group did not record any revaluation adjustments during the year.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Group as it does not receive any management services from other entities.

Annual Improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these consolidated financial statements. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3; and
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

The above amendment is not relevant for the Group as of 31 December 2015.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable). The Group does not apply the portfolio exception in IFRS 13.

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e. property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination. In previous periods, the Group has relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment does not impact the accounting policy of the Group.

3.2 New standards and amendments issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing is of relevant standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards (where applicable) when they become effective:

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement, and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The Group is currently assessing the impact of IFRS 9 and plans to adopt the new standard on the effective date.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by one year. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method. During 2015, the Group performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the effective date.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are currently being assessed if they have any impact on the Group.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statements of profit or loss and OCI and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to consolidated financial statements; and
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statements of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are currently being assessed if they have any impact on the Group.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are currently being assessed if they have any impact on the Group.

IFRS 16 – Leases

The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 'Leases' and related interpretations and is effective for periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied. The standard currently being assessed if it has any impact on the Group.

Annual Improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016 and are not expected to have a material impact on the Group. They include:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IFRS 7 Financial Instruments: Disclosures
- IAS 19 Employee Benefits
- IAS 34 Interim Financial Reporting

3.3 Summary of significant accounting policies

Financial instruments

All financial instruments are initially recognised at the fair value of consideration given, including acquisition costs associated with the investment, except in case of trading investments, where the acquisition costs are expensed in the consolidated statement of profit or loss.

Trading investments

Trading investments are subsequently measured at fair value with any gain or loss arising from a change in fair value being included in the consolidated statement of profit or loss in the period in which it arises. Interest earned or dividends received are included in net trading income.

Financial assets designated at fair value through statement of profit or loss

Financial assets classified in this category are designated by management on initial recognition when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows, that would not be separately recorded.

Financial assets at fair value through statement of profit or loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in 'net gain or loss on financial assets designated at fair value through statement of profit or loss. Interest earned is accrued in interest income, while dividend income is recorded in other income. The Group has not designated any financial assets at fair value through profit or loss.

3 ACCOUNTING POLICIES (continued)

3.3 Summary of significant accounting policies (continued)

Deposits and due from banks and other financial institutions
These are stated at cost, adjusted for effective fair value hedges, less any amounts written off and provision for impairment.

Loans and advances to customers
Loans and advances to customers are stated at amortised cost, adjusted for effective fair value hedges, net of interest suspended, provision for impairment and any amounts written off.

Non-trading investment securities
These include bonds, equities, managed funds and other investments. Investments in managed funds comprise investments in mutual funds, private equity, real estate and credit structured products.

These are classified as follows:

- Investments carried at amortised cost
- Available-for-sale

Investments carried at amortised cost
Debt instruments which could be classified as loans and advances and which have fixed or determinable payments but are not quoted in an active market are treated as investments and carried at amortised cost, adjusted for effective fair value hedges, less provision for impairment. Premiums and discounts on non-trading investments with fixed or determinable repayments are amortised, using the effective interest rate method, and taken to interest income.

Available-for-sale
All other investments are classified as “available-for-sale”. After initial recognition, available-for-sale investments are subsequently measured at fair value, unless fair value cannot be reliably measured in which case they are measured at cost less impairment. Fair value changes which are not part of an effective hedging relationship, are reported as a separate component of equity as cumulative changes in fair value until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported as “cumulative changes in fair value” within equity, is included in the consolidated statement of profit or loss for the year.

That portion of any fair value changes relating from an effective hedging relationship is recognised directly in the consolidated statement of profit or loss.

Fair value measurement
The Group measures financial instruments, such as, derivatives at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 39.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability, the principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair value of financial instruments that are quoted in an active market is determined by reference to market bid priced respectively at the close of business on the statement of position date.

In case of unquoted investments, the Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

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

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group’s Risk Management determines the policies and procedures for fair value measurement. For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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

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

(i) Financial assets carried at amortised cost
For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers), the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of ‘interest income’. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to provision for impairment.

The present value of estimated future cash flows is discounted at the financial asset's original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics such as asset type, industry, geographical location, collateral type, past due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Available-for-sale financial assets

For available-for-sale investments, the Group assesses at each statement of financial position date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Group assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss on the investment previously recognised in the consolidated statement of profit or loss. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of interest. If in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the consolidated statement of profit or loss, the impairment loss is reversed through the consolidated statement of profit or loss.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income is removed from equity and recognised in the consolidated statement of profit or loss. Impairment losses on equity investments are not reversed through the consolidated statement of profit or loss. Increases in fair value after impairment are recognised directly in equity.

(iii) Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Term borrowings

Financial instruments or their components issued by the Group, which are not designated at fair value through consolidated statement of profit or loss, are classified as liabilities under 'term borrowings', where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, term borrowings are subsequently measured at amortised cost using the effective interest rate. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (in whole or in part) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of ownership or (b) when it has neither transferred or retained substantially all the risks and rewards and when it no longer has control over the financial asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Investment in associated companies and joint ventures

The Group's investments in its associate and joint venture are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost.

The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement 'have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

3 ACCOUNTING POLICIES (continued)

3.3 Summary of significant accounting policies (continued)

Investment in associated companies and joint ventures (continued)
The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint ventures.

The financial statements of the associate or joint venture are prepared for the same reporting period as the 'Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as 'Share of profit of an associate and a joint venture' in the consolidated statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Premises and equipment
All items of premises and equipment are initially recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of all premises and equipment, other than freehold land which is deemed to have an indefinite life.

Collateral pending sale
The Group occasionally acquires real estate in settlement of certain loans and advances to customers. Such real estate is stated at the lower of the carrying value of the related facility and the current fair value of the collateral acquired, assessed on an individual basis. If the current fair value for any individual asset is lower, a provision is created. Gains or losses on disposal, and unrealised losses on revaluation, are recognised in the consolidated statement of profit or loss.

Deposits
All money market and customer deposits are carried at the fair value of consideration received, adjusted for effective hedges, less amounts repaid.

Repurchase and resale agreements
Securities sold under agreements to repurchase at a specified future date are not derecognised from the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability, reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate. When the counterparty has the right to sell or repledge the securities, the Group reclassifies those securities in its consolidated statement of financial position, as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the consolidated statement of financial position. The consideration paid, including accrued interest, is recorded in the consolidated statement of financial position, reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in interest income and is accrued over the life of the agreement using the effective interest rate. If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale and measured at fair value with any gains or losses included in 'net interest income'.

Taxation
There is no tax on corporate income in the Kingdom of Bahrain. Taxation on foreign operations is provided in accordance with the fiscal regulations of the respective countries in which the Group operates.

Employees' end of service benefits
Costs relating to employees' end of service benefits are accrued in accordance with actuarial and other valuations as required by regulations applicable in each location.

Share-based payment transactions
For equity-settled shared-based payment transactions the Group measures the services received, and the corresponding increase in equity at the fair value of the services received by reference to the fair value of the equity instruments granted. The fair value of those equity instruments is measured at grant date. The fair value so calculated at the grant date is recognised as an expense in the consolidated statement of profit or loss over the vesting period, with a corresponding credit to retained earnings. When an employee leaves the Group during the vesting period the shares granted stand forfeited and any amount recognised in respect of these forfeited shares is reversed through the consolidated statement of profit or loss.

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

Treasury stock
Treasury stock is deducted from equity and is stated at cost. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of own equity instruments.

Proposed dividends
Proposed dividends are included as part of equity and only recognised as liabilities when approved by the shareholders. The payment of a dividend also requires the prior approval of the CBB.

Financial guarantees
In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. All such guarantees are treated as memorandum liabilities and are disclosed as part of contingent liabilities. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is taken to the consolidated statement of profit or loss in 'net provision for impairment'. The premium received is recognised in the consolidated statement of profit or loss in 'fee and commission income' on a straight line basis over the life of the guarantee.

Derivatives
The Group enters into derivative instruments including futures, forwards, swaps, and options in the foreign exchange and capital markets. Derivatives are stated at fair value. Derivatives with positive market values are included in ‘other assets’ and derivatives with negative market values are included in ‘other liabilities’ in the consolidated statement of financial position.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through the consolidated statement of profit or loss. These embedded derivatives are measured at fair value with the changes in fair value recognised in the consolidated statement of profit or loss.

Hedge accounting
The Group makes use of derivative instruments to manage exposures to interest rate and foreign currency risks. In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

A formal assessment is also undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%. Hedges are formally assessed each quarter to reconfirm their effectiveness.

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

Fair value hedges
In relation to fair value hedges, which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value is recognised immediately in the consolidated statement of profit or loss. The hedged item is adjusted for fair value changes and the difference relating to the risk being hedged is recognised in the consolidated statement of profit or loss.

Cash flow value hedges
In relation to cash flow hedges which meet the conditions for hedge accounting the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised initially in equity and the ineffective portion is recognised in the consolidated statement of profit or loss. The gains or losses on effective cash flow hedges recognised initially in equity are either transferred to the consolidated statement of profit or loss in the period in which the hedged transaction impacts the consolidated statement of profit or loss or included in the initial measurement of the cost of the related asset or liability.

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the consolidated statement of profit or loss for the year.

Discontinuation of hedges
Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. For effective fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For effective cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the consolidated statement of profit or loss.

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

Offsetting
Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to settle on a net basis.

Recognition of income and expenses
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest income and loan commitment fees, which are considered an integral part of the effective yield of a financial asset, are recognised using the effective yield method unless collectability is in doubt. The recognition of interest income is suspended when loans become impaired, such as when overdue by more than ninety days. Notional interest is recognised on impaired loans and other financial assets based on the rate used to discount future cash flows to their net present value based on the original effective interest rate.

Interest expense is recognised using the effective yield method.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Other fees receivable are recognised when earned. Dividend income is recognised when the right to receive payment is established.

Where the Group enters into an interest rate swap to change interest from fixed to floating (or vice versa) the amount of interest income or expense is adjusted by the net interest on the swap until the hedges are effective.

Foreign currencies
(i) Transactions and balances
Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. All differences arising on non-trading activities are taken to ‘other income’ in the consolidated statement of profit and loss, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity. These differences are taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

3 ACCOUNTING POLICIES (continued)

3.3 Summary of significant accounting policies (continued)

Foreign currencies (continued)

(ii) Group companies

As at the reporting date, the assets and liabilities of subsidiaries and overseas branches are translated into the Group's presentation currency at the rate of exchange as at the statement of financial position date, and their statements of income are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity through the consolidated statement of comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated statement of profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with central banks (excluding mandatory reserve deposits), treasury bills, deposits and due from banks and other financial institutions with original maturities of ninety days or less.

Trade date accounting and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

3.4 Significant accounting judgments and estimates

In the process of applying the Group's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the consolidated financial statements. The most significant uses of judgment and estimates are as follows:

Going concern

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

Classification of investments

Management decides on acquisition of an investment whether it should be classified as held for trading, held to maturity, available-for-sale, fair value through statement of profit or loss or investments carried at amortised cost.

The Group classifies investments as trading if they are acquired primarily for the purpose of making a short term profit.

The Group classifies debt instruments as carried at amortised cost if the debt instruments are not quoted in an active market.

The Group classifies investments which it intends and has the ability to hold to maturity as held-to-maturity.

The Group classifies financial instruments which contain embedded derivatives which cannot be separated from the host instrument as carried at fair value through statement of profit or loss.

All other investments are classified as available-for-sale.

Impairment losses on loans and advances and investments

The Group reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the consolidated statement of profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgments about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio, concentrations of risks and economic data.

Collective impairment provisions on loans and advances

In addition to specific provisions against individually significant loans and advances, the Group also makes a collective impairment provision against groups of loans and advances which have not been identified for allocating specific provision but carry higher risk of default than originally perceived when the assets were booked.

Impairment of non-trading investment securities

The Group reviews its debt securities classified as available-for-sale investments at each statement of financial position date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances. The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and duration and the extent to which the fair value of an investment is less than its cost.

4 CASH AND BALANCES WITH CENTRAL BANKS

	2015 BD '000	2014 BD '000
Cash	**17,636**	17,685
Current accounts and placements with central banks	**186,716**	184,387
Mandatory reserve deposits with central banks	**82,398**	76,121
	286,750	278,193

Mandatory reserve deposits are not available for use in the Group's day to day operations.

5 TREASURY BILLS

These are short term treasury bills issued by the Government of the Kingdom of Bahrain and Republic of India, carried at amortised cost.

At 31 December 2015, treasury bills includes short term Islamic Sukuk issued by Government of the Kingdom of Bahrain amounting BD 28,138 thousand (2014: BD 50,958 thousand)

6 DEPOSITS AND AMOUNTS DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2015 BD '000	2014 BD '000
Deposits with banks and other financial institutions	**264,359**	150,921
Other amounts due from banks	**60,737**	24,975
	325,096	175,896

7 LOANS AND ADVANCES TO CUSTOMERS

	2015 BD '000	2014 BD '000
Commercial loans and overdrafts	**1,491,342**	1,620,629
Consumer loans	**372,297**	312,586
	1,863,639	1,933,215
Less: Allowance for impairment	**(98,840)**	(86,753)
	1,764,799	1,846,462

Movements in allowance for impairment are as follows:

	2015		
	Commercial loans and overdrafts BD '000	Consumer loans BD '000	Total BD '000
Balance at 1 January	**73,770**	**12,983**	**86,753**
Charge for the year	**20,144**	**2,605**	**22,749**
Recoveries/write-backs	**(3,034)**	**(740)**	**(3,774)**
Amounts written off during the year	**(2,835)**	**(902)**	**(3,737)**
Foreign exchange and other movements	**(3,100)**	**(51)**	**(3,151)**
Balance at 31 December	**84,945**	**13,895**	**98,840**
Individual impairment	**51,368**	**10,275**	**61,643**
Collective impairment	**33,577**	**3,620**	**37,197**
Gross amount of loans, individually determined to be impaired	**66,926**	**15,761**	**82,687**

	2014		
	Commercial loans and overdrafts BD '000	Consumer loans BD '000	Total BD '000
Balance at 1 January	63,088	13,786	76,874
Charge for the year	23,121	962	24,083
Recoveries/write-backs	(1,718)	(793)	(2,511)
Amounts written off during the year	(9,786)	(972)	(10,758)
Interest recovered on impaired loans	(661)	–	(661)
Exchange and other movements	(274)	–	(274)
Balance at 31 December	73,770	12,983	86,753
Individual impairment	42,591	9,957	52,548
Collective impairment	31,179	3,026	34,205
Gross amount of loans, individually determined to be impaired	76,708	13,214	89,922

At 31 December 2015, interest in suspense on past due loans that are fully impaired amounts to BD 17,680 thousand (31 December 2014: BD 15,394 thousand), effective 31 January 2014 the Bank has treated this as a memorandum account.

The fair value of the collateral consisting of cash, securities and real estate that the Group holds relating to loans individually determined to be impaired at 31 December 2015 amounts to BD 62,447 thousand (2014: BD 77,820 thousand).

At 31 December 2015, loans and advances includes Islamic financing facilities provided by the Group to corporates amounting BD 122,879 thousand (2014: BD 155,321 thousand). These mainly consists of Murabaha and Ijarah financing facilities of which non are past due or impaired as at 31 December 2015.

8 NON-TRADING INVESTMENT SECURITIES

	Available-for-sale BD '000	Carried at amortised cost BD '000	Total 2015 BD '000	Total 2014 BD '000
Quoted investments				
Government bonds	**355,829**	**1,976**	**357,805**	334,828
Other bonds	**216,447**	**–**	**216,447**	257,625
Equities	**71,249**	**–**	**71,249**	80,532
	643,525	**1,976**	**645,501**	672,985
Unquoted investments				
Government bonds	**71,633**	**9,500**	**81,133**	87,407
Other bonds	**30,659**	**71**	**30,730**	28,824
Equities	**41,210**	**–**	**41,210**	37,373
Managed funds	**2,598**	**–**	**2,598**	4,347
	146,100	**9,571**	**155,671**	157,951
	789,625	**11,547**	**801,172**	830,936
Allowance for impairment	**(43,065)**	**–**	**(43,065)**	(43,783)
Balance at 31 December 2015	**746,560**	**11,547**	**758,107**	
Balance at 31 December 2014	765,353	21,800		787,153

Included under available-for-sale investments are unquoted equities and managed funds investments amounting to BD 25,284 thousand (2014: BD 26,995 thousand), which are recorded at cost less impairment since their fair value cannot be reliably estimated. There is no market for these investments and the Group intends to hold them for the long term.

At 31 December 2015, non-trading investment securities includes long term Islamic Sukuk amounting BD 171,190 thousand (2014: BD 133,263 thousand).

The movements in allowance for impairment of non-trading investment securities are as follows:

	2015 BD '000	2014 BD '000
Balance at 1 January	**43,783**	49,282
Charge for the year	**2,822**	132
Recoveries	**(2,284)**	(2,156)
Amounts written off	**(1,211)**	(2,966)
Exchange and other movements	**(45)**	(509)
Balance at 31 December	**43,065**	43,783

9 INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES

The Group has a 23.03% (2014: 23.03%) shareholding in Bahrain Commercial Facilities Company B.S.C. ("BCFC"), incorporated in the Kingdom of Bahrain, which is engaged in consumer financing, insurance, dealing in real estate and automobiles.

The Group has a 50% (2014: 50%) stake in Sakana Holistic Housing Solutions B.S.C. (c) ("Sakana"), a jointly controlled company incorporated in the Kingdom of Bahrain which is engaged in Islamic real estate financing.

The Group has a 22% (2014: 22%) shareholding in The Benefit Company B.S.C. (c) incorporated in the Kingdom of Bahrain which is engaged in ancillary services to provide payment systems and other related financial services for the benefit of commercial banks and their customers in the Kingdom of Bahrain.

The Group has a 35% (2014: 35%) equity stake in Diyar Al Harameen Al Ola Limited ("Diyar"), a company incorporated in the Cayman Islands. Diyar holds 100% beneficial interest in a hotel in Makkah, Kingdom of Saudi Arabia.

The Group has a 40% (2014: 40%) stake in BBK Geojit securities K.S.C., a jointly controlled company incorporated in the State of Kuwait.

The following tables illustrate the summarised financial information of the Group's interest in its associated companies and joint ventures:

	2015 BD '000	2014 BD '000
Carrying amount of investment in associated companies and joint ventures		
At 1 January	**36,537**	57,869
Share of profit	**4,215**	4,377
Dividends received from associated companies	**(1,835)**	(1,636)
Change in unrealised fair values – associated companies (note 17)	**(85)**	216
Change in Foreign exchange translation adjustments	**(9)**	(159)
Sold during the year	**(3,000)**	(22,890)
Provision charges during the year	**–**	(1,240)
At 31 December	**35,823**	36,537

	2015 BD '000	2014 BD '000
Share of associated companies and joint ventures statements of financial position		
Current and non-current assets	**76,577**	72,703
Current and non-current liabilities	**(40,754)**	(36,166)
Net assets	**35,823**	36,537
Share of associated companies and joint ventures revenues		
Revenue	**10,124**	7,881

Investment in associated companies and joint ventures includes the Group investment in BCFC which is considered to be a material associate. The following table illustrates the financial information of the Group's investment in BCFC:

	2015 BD '000	2014 BD '000
Net interest income	**17,421**	14,401
Gross profit on automotive sales	**10,715**	10,815
Other operating income	**7,238**	8,208
Total operating income	**35,374**	33,424
Operating expense	**(18,317)**	(16,577)
Other expense	**(1,551)**	(1,445)
Profit for the year	**15,506**	15,402
Group's share of profit for the year	**3,571**	3,547

	2015 BD '000	2014 BD '000
Assets		
Cash and balances with banks	**2,206**	1,185
Loans and advances to customers	**222,762**	195,524
Inventories	**24,274**	24,621
Other assets	**38,278**	34,889
Total assets	**287,520**	256,219
Liabilities		
Bank overdrafts	**1,328**	1,512
Trade and other payables	**19,469**	12,816
Bank term loans	**117,503**	120,261
Bonds issued	**39,753**	19,790
Total liabilities	**178,053**	154,379
Donation reserve	**(838)**	(998)
Equity	**108,629**	100,842
Proportion of the Group's ownership	**23.03%**	23.03%
	25,017	23,224

The figures reported above for BCFC are based on 30 September 2015 reviewed financial statements adjusted for expected performance in the last quarter.

The market value of the Group's investment in BCFC is BD 28,778 thousand (2014: BD 26,333 thousand) compared to the carrying value of BD 25,017 thousand (2014: BD 23,224 thousand) as at 31 December 2015.

10 INTEREST RECEIVABLE AND OTHER ASSETS

	2015 BD '000	2014 BD '000
Interest receivable	**17,350**	14,236
Accounts receivable	**18,664**	19,674
Positive fair value of derivatives (note 26)	**2,336**	2,987
Prepaid expenses	**2,185**	1,228
Deferred tax	**2,991**	806
Collateral pending sale	**4,784**	1,534
Other	**8,660**	18,534
	56,970	58,999

11 PREMISES AND EQUIPMENT

	Freehold land BD '000	Properties and buildings BD '000	Furniture and equipment BD '000	Capital work in progress BD '000	Total BD '000
Net book value at 31 December 2015	**8,260**	**11,370**	**5,051**	**125**	**24,806**
Net book value at 31 December 2014	8,343	11,967	4,462	242	25,014

The depreciation charge for the year amounted to BD 3,226 thousand (2014: BD 3,333 thousand).

12 TERM BORROWINGS

The term borrowings were obtained for general financing purposes and comprise:

Amount of facility US$ '000	Rate of interest	Maturity Year	2015 BD '000	2014 BD '000
145,140	Libor + 0.75%	2017	**8,509**	8,509
129,860	Libor + 1.75%	2018	**45,368**	43,929
500,000	4.50%	2015	**–**	188,500
400,000	3.50%	2020	**150,800**	–
			204,677	240,938

13 CUSTOMERS' CURRENT, SAVINGS AND OTHER DEPOSITS

	2015 BD '000	2014 BD '000
Term deposits	**1,497,279**	1,525,346
Current accounts	**608,957**	491,796
Savings accounts	**440,189**	376,705
Other accounts	**96,467**	77,230
	2,642,892	2,471,077

At 31 December 2015, term deposits includes Islamic deposits provided by the Group to corporates amounting BD 48,507 thousand (2014: BD 15,708 thousand). These mainly consist of Reverse Murabaha through money market placement.

14 INTEREST PAYABLE AND OTHER LIABILITIES

	2015 BD '000	2014 BD '000
Accrued expenses	**33,996**	35,409
Interest payable	**16,728**	10,949
Accounts payable	**14,634**	14,346
Negative fair value of derivatives (note 26)	**12,490**	12,368
Other	**6,378**	5,770
	84,226	78,842

15 EQUITY

Share capital	2015 BD '000	2014 BD '000
Authorised		
1,500,000,000 shares of BD 0.100 each	**150,000**	150,000
Issued and fully paid		
1,081,647,952 shares (2014: 1,030,140,907 shares) of BD 0.100 each	**108,165**	103,014
Treasury stock*	**(4,728)**	(6,951)

* Treasury stock represents the purchase by the Bank of its own shares. At the end of the year, the Bank held 17,195,500 (2014: 21,206,125) of its own shares, inclusive of bonus shares issued during 2015.

Share premium

The share premium arising on issue of ordinary shares is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the CBB.

Employee Performance Share Plan

The Group has an Employee Performance Share Plan under which shares are granted to certain eligible employees (note 40).

Unclaimed dividends

During the year, the Group transferred BD 243 thousand to equity as unclaimed dividends by the shareholders. As per the Group policy and procedures, any unclaimed dividends in excess of 10 years are transferred to equity, however will be available to the respective shareholder for any future claims.

16 RESERVES

Statutory reserve

The statutory reserve has been created in accordance with the Bahrain Commercial Companies Law. The Bank transfers 10% of its annual profits to its statutory reserve till such time as the reserve equals 50% of the issued share capital of the Bank. During the year the Bank transferred only BD 2,575 thousand (2014: BD 4,682 thousand) as the statutory reserve reached 50% of the issued share capital. The reserve is not available for distribution, except in circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

General reserve

The general reserve has been built up in accordance with the provisions of the Bank's articles of association and underlines the shareholders' commitment to enhance the strong equity base of the Bank. The general reserve is distributable subject to the approval of the Central Bank of Bahrain.

17 CUMULATIVE CHANGES IN FAIR VALUES

	2015 BD '000	2014 BD '000
Available-for-sale investments		
At 1 January	**17,350**	24,738
Realised gains on sale of non-trading investment securities	**(3,813)**	(3,519)
Transferred to consolidated statement of profit and loss on impairment	**1,094**	11
Change in unrealised fair values during the year	**(26,701)**	(3,880)
At 31 December	**(12,070)**	17,350
Cash flow hedges		
At 1 January	**70**	164
Change in unrealised fair values	**(219)**	(310)
Change in unrealised fair values – associated companies (note 9)	**(85)**	216
At 31 December	**(234)**	70
	(12,304)	17,420

18 PROPOSED APPROPRIATIONS

	2015 BD '000	2014 BD '000
Cash dividend	**26,611**	20,179
Stock dividend	**–**	5,151
Transfer to general reserve	**2,575**	4,682
Donations	**1,400**	1,390
	30,586	31,402

The Board of Directors has proposed cash dividend of BD 0.025 per share (2014: BD 0.020 per share and stock dividend of BD 0.005 per share) net of treasury stock as of 31 December 2015. The Bank paid dividend of BD 0.025 per share (2014: BD 0.025 per share).

The above appropriations will be submitted for approval at the Annual General Assembly of the Shareholders to be held on 28 March 2016. The payment of dividend is also subject to the approval of the Central Bank of Bahrain.

19 INTEREST AND SIMILAR INCOME

	2015 BD '000	2014 BD '000
Loans and advances to customers	**87,094**	84,738
Non-trading investment securities – available-for-sale	**19,154**	16,685
Deposits and amounts due from banks and other financial institutions	**2,562**	2,154
Non-trading investment securities – amortised cost	**921**	960
Interest recovered on impaired financial assets – loans and advances to customers (note 7)	**–**	661
Treasury bills	**4,882**	3,351
	114,613	108,549

20 OTHER INCOME

	2015 BD '000	2014 BD '000
Fee and commission income	**40,919**	36,663
Dividend income	**3,806**	3,214
Realised gains on sale of non-trading investment securities	**4,408**	3,826
Gain on foreign exchange	**5,260**	4,746
Others	**2,350**	2,716
	56,743	51,165
Fee and commission expense	**(12,524)**	(10,286)
	44,219	40,879

Included in fee and commission income is BD 132 thousand (2014: BD 563 thousand) relating to trust and other fiduciary activities.

21 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share for the year are calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

	2015	2014
Profit for the year attributable to the owners of the Bank (BD '000)	**53,212**	50,095
Weighted average number of shares, net of treasury stock, outstanding during the year	**1,064,452,452**	1,060,441,827
Basic and diluted earnings per share (BD)	**0.050**	0.047

22 OPERATING SEGMENTS

Segment information

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

Retail banking

Principally handling individual customers' deposits and providing consumer finance type loans, overdrafts, credit facilities and funds transfer facilities, credit cards and foreign exchange.

Corporate banking

Principally handling loans and other credit facilities, deposit and current accounts for corporate and institutional customers in Bahrain.

International banking

Principally handling loans and other credit facilities, deposit and current accounts for international corporate and institutional customers. This also covers the operations of the overseas units.

Investment, treasury and other activities

Principally providing money market, trading and treasury services as well as the management of the Group's funding operations. Investment activities involve handling investments in local and international markets, investment advisory services and funds management. Other activities also include business process outsourcing services.

These segments are the basis on which the Group reports its information to the chief operating decision maker. Transactions between segments are generally recorded at estimated market rates on an arm's length basis. Interest is charged/credited to business segments based on a transfer pricing rate which approximates the marginal cost of funds on a matched funded basis.

Segment information for the year ended 31 December 2015 was as follows:

	Retail banking BD '000	Corporate banking BD '000	International banking BD '000	Investment, treasury and other activities BD '000	Total BD '000
Interest income	**24,681**	**34,681**	**32,004**	**23,247**	**114,613**
Interest expense	**(2,672)**	**(8,600)**	**(8,598)**	**(22,037)**	**(41,907)**
Internal fund transfer price	**(6,157)**	**(1,971)**	**(3,545)**	**11,673**	**–**
Net Interest Income	**15,852**	**24,110**	**19,861**	**12,883**	**72,706**
Other Operating Income	**20,486**	**4,061**	**5,944**	**13,728**	**44,219**
Operating income before share of profit of associated companies and joint ventures	**36,338**	**28,171**	**25,805**	**26,611**	**116,925**
Net provision for impairment on loans and advances to customers	**(1,293)**	**(6,298)**	**(11,384)**	**–**	**(18,975)**
Net provision of impairment of non-trading investment securities	**–**	**–**	**–**	**(538)**	**(538)**
Segment result	**12,875**	**9,370**	**3,734**	**23,195**	**49,174**
Share of profit of associated companies and joint ventures	**4,215**	**–**	**–**	**–**	**4,215**
Profit for the year					**53,389**
Loss attributable to non-controlling interest					**(177)**
Profit for the year attributable to the owners of the Bank					**53,212**
Segment assets	**486,914**	**696,969**	**1,334,785**	**1,063,820**	**3,582,488**
Investment in associated companies and joint ventures	**27,950**	**–**	**–**	**7,873**	**35,823**
Common assets					**28,130**
Total assets					**3,646,441**
Segment liabilities	**679,825**	**975,041**	**853,257**	**729,570**	**3,237,693**
Common liabilities					**48,014**
Total liabilities					**3,285,707**

Segment information for the year ended 31 December 2014 was as follows:

	Retail banking BD '000	Corporate banking BD '000	International banking BD '000	Investment, treasury and other activities BD '000	Total BD '000
Interest income	22,275	36,364	30,485	28,772	117,896
Interest expense	(2,614)	(7,474)	(6,687)	(28,831)	(45,606)
Internal fund transfer price	(6,156)	(4,230)	(5,483)	15,869	–
Net Interest Income	13,505	24,660	18,315	15,810	72,290
Other Operating Income	18,001	3,716	5,459	13,703	40,879
Operating income before share of profit of associated companies and joint ventures	31,506	28,376	23,774	29,513	113,169
Net provision for impairment on loans and advances to customers	(3,312)	(6,761)	(11,499)	–	(21,572)
Net write back of impairment of non-trading investment securities	–	–	–	784	784
Segment result	9,156	9,487	557	26,729	45,929
Share of profit of associated companies and joint ventures	4,235	–	–	142	4,377
Profit for the year					50,306
Loss attributable to non-controlling interest					(211)
Profit for the year attributable to the owners of the Bank					50,095
Segment assets	421,557	663,166	1,469,241	877,583	3,431,547
Investment in associated companies and joint ventures	26,223	–	–	10,314	36,537
Common assets					32,853
Total assets					3,500,937
Segment liabilities	593,366	911,177	895,740	692,277	3,092,560
Common liabilities					49,025
Total liabilities					3,141,585

22 OPERATING SEGMENTS (continued)

Geographic information

The Group operates in two geographic markets: Domestic (Bahrain), Others (Middle East/Africa, Europe, North America and Asia). The following tables show the distribution of the Group's revenue and non-current assets by geographical segment, allocated based on the location in which the assets and liabilities are located, for the years ended 31 December 2015 and 31 December 2014:

	Domestic BD '000	Others BD '000	Total BD '000
31 December 2015			
Net interest income	**61,777**	**10,929**	**72,706**
Share of profit in associated companies and joint ventures	**4,215**	**–**	**4,215**
Other income	**40,553**	**3,666**	**44,219**
	106,545	**14,595**	**121,140**
Non-current assets	**20,659**	**4,147**	**24,806**

	Domestic BD '000	Others BD '000	Total BD '000
31 December 2014			
Net interest income	61,087	11,203	72,290
Share of profit in associated companies and joint ventures	4,235	142	4,377
Other income	37,890	2,989	40,879
	103,212	14,334	117,546
Non-current assets	20,581	4,433	25,014

Non-current assets represents premises and equipment.

23 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows includes the following as at 31 December:

	2015 BD '000	2014 BD '000
Cash (note 4)	**17,636**	17,685
Current accounts and placements with central banks (note 4)	**186,716**	184,387
Treasury bills	**5,667**	5,049
Deposits and amounts due from banks and other financial institutions with original maturities of ninety days or less	**323,097**	145,518
	533,116	352,639

24 RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, associates and joint ventures, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

Amounts outstanding as of the statement of financial position date in respect of transactions entered into with related parties were as follows:

	Major shareholders BD '000	Associated companies and joint ventures BD '000	Directors and key management personnel BD '000	Total BD '000
2015				
Loans and advances to customers	**–**	**4,207**	**1,224**	**5,431**
Customers' current, savings and other deposits	**290,287**	**6,180**	**8,895**	**305,362**
2014				
Loans and advances to customers	–	7,248	1,201	8,449
Customers' current, savings and other deposits	392,071	7,084	7,120	406,275

For the years ended 31 December 2015 and 31 December 2014 the Group has not recorded any impairment provision on the amounts due from related parties.

The income and expense in respect of related parties included in the consolidated statement of profit or loss are as follows:

	Major shareholders BD '000	Associated companies and joint ventures BD '000	Directors and key management personnel BD '000	Total BD '000
2015				
Interest income	**–**	**320**	**18**	**338**
Interest expense	**3,328**	**100**	**126**	**3,554**
2014				
Interest income	–	354	16	370
Interest expense	3,694	93	99	3,886

Compensation of the key management personnel is as follows:

	2015 BD '000	2014 BD '000
Short term employee benefits	**7,507**	6,968
Others	**269**	259
	7,776	7,227

Key management interest in an employee share incentive scheme

The Bank has introduced effective 2010, a new share-based payment scheme (refer to note 40 for details).

25 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The maturity profile of the assets and liabilities at 31 December 2015 and as at 31 December 2014 given below reflects management's best estimates of the maturities of assets and liabilities. These have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date, except in the case of customer deposits. The liquidity profile of customer deposits has been determined on the basis of the effective maturities indicated by the Group's deposit retention history.

31 December 2015	Within 1 month BD '000	1 to 3 months BD '000	3 to 6 months BD '000	6 to 12 months BD '000	Subtotal BD '000	1 to 5 years BD '000	5 to 10 years BD '000	10 to 20 years BD '000	More than 20 years BD '000	Total BD '000
Assets										
Cash and balances with central banks	204,352	–	–	–	204,352	–	–	–	82,398	286,750
Treasury bills	77,647	146,069	72,057	98,317	394,090	–	–	–	–	394,090
Deposits and amounts due from banks and other financial institutions	288,375	36,721	–	–	325,096	–	–	–	–	325,096
Loans and advances to customers	101,348	145,071	121,488	139,823	507,730	769,419	243,185	54,137	190,328	1,764,799
Non-trading investment securities	183,124	29,558	22,068	53,600	288,350	191,886	216,181	–	61,690	758,107
Investments in associated companies and joint venture	–	–	–	–	–	–	–	–	35,823	35,823
Interest receivable and other assets	47,884	63	90	54	48,091	8,879	–	–	–	56,970
Premises and equipment	–	–	–	–	–	20,022	1,216	1,728	1,840	24,806
Total assets	902,730	357,482	215,703	291,794	1,767,709	990,206	460,582	55,865	372,079	3,646,441
Liabilities										
Deposits and amounts due to banks and other financial institutions	137,683	28,893	9,440	3,388	179,404	–	–	–	–	179,404
Borrowings under repurchase agreement	–	–	–	–	–	174,508	–	–	–	174,508
Term borrowings	–	–	–	–	–	204,677	–	–	–	204,677
Customers' current, savings and other deposits	334,779	228,438	95,990	112,213	771,420	28,391	9	–	1,843,072	2,642,892
Interest payable and other liabilities	66,400	3,000	1,438	3,647	74,485	9,432	–	–	309	84,226
Total liabilities	538,862	260,331	106,868	119,248	1,025,309	417,008	9	–	1,843,381	3,285,707
Net	363,868	97,151	108,835	172,546	742,400	573,198	460,573	55,865	(1,471,302)	360,734
Cumulative	363,868	461,019	569,854	742,400		1,315,598	1,776,171	1,832,036	360,734	

31 December 2014	Within 1 month BD '000	1 to 3 months BD '000	3 to 6 months BD '000	6 to 12 months BD '000	Subtotal BD '000	1 to 5 years BD '000	5 to 10 years BD '000	10 to 20 years BD '000	More than 20 years BD '000	Total BD '000
Assets										
Cash and balances with central banks	202,072	–	–	–	202,072	–	–	–	76,121	278,193
Treasury bills	48,273	119,057	55,919	69,434	292,683	–	–	–	–	292,683
Deposits and amounts due from banks and other financial institutions	89,858	60,287	25,751	–	175,896	–	–	–	–	175,896
Loans and advances to customers	89,618	189,894	126,079	127,752	533,343	849,441	222,553	52,837	188,288	1,846,462
Non-trading investment securities	373,241	11,928	22,187	53,801	461,157	131,921	140,416	1,891	51,768	787,153
Investments in associated companies and joint venture	–	–	–	–	–	–	–	–	36,537	36,537
Interest receivable and other assets	55,500	45	43	54	55,642	3,357	–	–	–	58,999
Premises and equipment	–	–	–	–	–	19,881	1,400	417	3,316	25,014
Total assets	858,562	381,211	229,979	251,041	1,720,793	1,004,600	364,369	55,145	356,030	3,500,937
Liabilities										
Deposits and amounts due to banks and other financial institutions	248,813	53,516	10,595	100	313,024	–	–	–	–	313,024
Borrowings under repurchase agreement	–	–	–	18,857	18,857	18,847	–	–	–	37,704
Term borrowings	–	–	–	188,500	188,500	52,438	–	–	–	240,938
Customers' current, savings and other deposits	281,416	269,390	92,530	65,048	708,384	61,625	–	–	1,701,068	2,471,077
Interest payable and other liabilities	41,691	2,184	1,535	29,012	74,422	4,420	–	–	–	78,842
Total liabilities	571,920	325,090	104,660	301,517	1,303,187	137,330	–	–	1,701,068	3,141,585
Net	286,642	56,121	125,319	(50,476)	417,606	867,270	364,369	55,145	(1,345,038)	359,352
Cumulative	286,642	342,763	468,082	417,606		1,284,876	1,649,245	1,704,390	359,352	

26 DERIVATIVES

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price of one or more underlying financial instrument, reference rate or index. In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. The use of derivatives is governed by the Group's policies approved by the Board of Directors. The Group enters into derivative contracts for the purpose of reducing risks from potential movements in foreign exchange rates and interest rates inherent in the Group's non-trading assets and liabilities. The Group also enters into derivative contracts for the purpose of trading.

The table below shows the positive and negative fair values of derivative financial instruments together with their notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end but are neither indicative of the market risk nor credit risk.

31 December 2015	Positive fair value BD '000	Negative fair value BD '000	Notional amount BD '000
Derivatives held for trading			
Forward foreign exchange contracts	**179**	**26**	**41,667**
Interest rate swaps	**–**	**–**	**–**
Derivatives held as fair value hedges			
Interest rate swaps	**1,991**	**12,078**	**505,932**
Forward foreign exchange contracts	**123**	**334**	**120,842**
Derivatives held as cash flow hedges			
Interest rate swaps	**43**	**52**	**57,519**
	2,336	**12,490**	**725,960**

31 December 2014	Positive fair value BD '000	Negative fair value BD '000	Notional amount BD '000
Derivatives held for trading			
Forward foreign exchange contracts	118	20	21,476
Interest rate swaps	–	–	339
Derivatives held as fair value hedges			
Interest rate swaps	2,131	12,330	533,489
Forward foreign exchange contracts	529	18	195,562
Derivatives held as cash flow hedges			
Interest rate swaps	209	–	57,519
	2,987	12,368	808,385

Derivative product types

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. Forward rate agreements are effectively tailor-made interest rate futures which fix a forward rate of interest on a notional amount, for an agreed period of time starting on a specified future date.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For currency swaps, fixed or floating interest payments and notional amounts are exchanged in different currencies.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Group does not engage in the writing of options.

Derivatives held or issued for trading purposes

Most of the Group's derivative trading activities relate to back to back customer deals. In addition, the Group takes certain foreign exchange positions with the expectation of profiting from favorable movements in prices, rates or indices. Also included under this heading are derivatives which do not meet IAS 39 hedging requirements.

Derivatives held or issued for hedging purposes

The Group has put in place systems for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange rates (currency risk) and interest rates through asset and liability management activities. It is the Group's policy to reduce its exposure to currency and interest rate risks to acceptable levels as determined by the Board of Directors. For strategies adopted to manage interest rate and currency risk, please refer notes 35 and 36 respectively.

As part of its asset and liability management the Group uses derivatives for hedging currency and interest rate movements. This is achieved by hedging specific financial instruments, forecasted transactions as well as strategic hedging against consolidated statement of financial position exposures. In all such cases the objective of the hedging relationship, details of the hedged item and hedging instrument are documented and the transactions are accounted for as fair value or cash flow hedges, as the case may be.

Fair value hedges

Fair value hedges are used by the Group to protect it against changes in the fair value of financial assets and financial liabilities due to movements in exchange rates and interest rates. The financial instruments hedged for interest rate risk include loans, available-for-sale debt securities, debt issued and other borrowed funds. The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks, and interest rate swaps to hedge interest rate risk.

For the year ended 31 December 2015, the Group recognised a net gain of BD 31 thousand (2014: net loss of BD 20 thousand), representing the gain on the hedging instruments. The total loss on hedged items attributable to the hedged risk amounted to BD 286 thousand (2014: gain of BD 172 thousand).

27 COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments

Credit-related commitments include commitments to extend credit, standby letters of credit, guarantees and acceptances which are designed to meet the requirements of the Group's customers.

Commitments to extend credit represent the unused portions of contractual commitments to make loans and revolving credits, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most of the commitments to extend credit are contingent upon the customer maintaining specific credit standards. Commitments generally have fixed expiration dates of less than one year or other termination clauses. Since commitments may expire without being drawn upon, the total contracted amounts do not necessarily represent future cash requirements.

Letters of credit, guarantees (including standby letters of credit) and acceptances commit the Group to make payments on behalf of customers contingent upon certain conditions. Standby letters of credit, which are included under guarantees, would have market risk if issued or extended at a fixed rate of interest. However, these contracts are primarily made at a floating rate.

The Group has the following credit related commitments:

31 December 2015	On demand BD '000	Less than 3 months BD '000	3 to 12 months BD '000	1 to 5 years BD '000	Total BD '000
Contingencies					
Letters of credit	**3,946**	**13,925**	**16,382**	**–**	**34,253**
Guarantees	**204,616**	**–**	**–**	**–**	**204,616**
					238,869
Commitments					
Undrawn loan commitments	**143,943**	**–**	**–**	**–**	**143,943**
					143,943
					382,812

31 December 2014	On demand BD '000	Less than 3 months BD '000	3 to 12 months BD '000	1 to 5 years BD '000	Total BD '000
Contingencies					
Letters of credit	8,933	12,166	17,989	94	39,182
Guarantees	249,497	–	–	–	249,497
					288,679
Commitments					
Undrawn loan commitments	194,542	–	–	–	194,542
					194,542
					483,221

The Group does not expect all its commitments to be drawn before the expiry of the commitment.

Lease commitments

Operating lease commitments – Group as lessee

The Group has entered into commercial leases on premises. Future minimum lease payments under non-cancelable operating leases as at 31 December are as follows:

	2015 BD '000	2014 BD '000
Within one year	**858**	505
After one year but not more than five years	**1,212**	1,236
More than five years	**2,418**	2,024
	4,488	3,765

28 RISK MANAGEMENT

Efficient and timely management of risks involved in the Group's activities is critical for the financial soundness and profitability of the Group. Risk management involves the identifying, measuring, monitoring and managing of risks on a regular basis. The objective of risk management is to increase shareholders' value and achieve a return on equity that is commensurate with the risks assumed. To achieve this objective, the Group employs leading risk management practices and recruits skilled and experienced people.

As with other financial institutions, the Group faces a range of risks in its business and operations including (i) credit risk; (ii) market risk (comprising of interest rate risk, currency risk and equity price risk); (iii) liquidity risk, (iv) legal risk and (v) operational risk, as detailed below.

The Board of Directors of the Bank has overall responsibility for managing risks. Whilst the Board approves and periodically reviews risk management policies and strategies, upon recommendations of the Board Risk Committee, the management establishes procedures to implement the policies and strategies. The Risk Management Committee (RMC) and Asset and Liability Management Committee (ALMC), comprising Executive and Senior Management, are high level management committees responsible for the overall management of the risk profile of the Group. RMC discusses important risk related issues, policies, procedures and reviews implementation of its decisions. ALMC reviews issues relating to the statement of financial position at a micro level and also reviews issues relating to Asset Liability mismatches and liquidity. The Country Risk Committee (CRC) reviews country risk and business strategies and macro economic conditions with reference to the countries idenfied for doing business. The Operational Risk Management Committee manages the overall operational risk for the Bank by instituting CBB guidelines and Basel standards and carrying out required oversight.

The Risk and Credit Management Division (RCMD) is responsible for oversight of risk characteristics inherent in new and existing products, activities, countries, regions, industries and making necessary recommendations to the appropriate authorities. It is also responsible for introducing or amending risk policies, procedures and exposure limits to mitigate these risks with approval from Board Risk Committee and Board or the Risk Management Committee, as applicable. The RCMD also establishes systems and processes for monitoring market and operational risks. The RCMD processes credit applications and ensures that the provisions of credit risk policies are complied with. The RCMD generates regular reports on credit risk exposures, performs credit rating reviews and monitors credit limits. The Designated Credit Officer/Designated Investment Officer in RCMD is one of the signatories in the credit/investment approval chain and provides independent view on credit and investment proposals. The Chief Risk Officer is the head of RCMD and reports directly to the Chief Executive of the Bank, thereby ensuring the independence of the risk management process. In addition to the above, RCMD, in collaboration with Financial Control and Planning Division, prepares the Risk Appetite and the ICAAP document for the Bank. The ICAAP document assesses the Pillar 2 risks at length and prescribes the required level of capital buffer for the Bank.

The internal audit department assess whether the policies and procedures are complied with and, if necessary, suggest ways of further improving internal guidelines and procedures.

The various risks to which the Group is exposed to and how the Group manages them is discussed in the following paragraphs.

29 CREDIT RISK AND CONCENTRATION OF CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and thereby cause the other party to incur a financial loss. Concentration of credit risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features, fail to meet contractual obligations, due to them being affected by changes in economic, political or other conditions.

Credit risk in derivative financial instruments arises from potential counterparty default on contractual obligations and it is limited to the positive fair value in favor of the Group.

The Group attempts to control credit risk by monitoring credit exposures continuously, limiting transactions with specific counterparties, assessing the creditworthiness of counterparties, diversifying lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses, and by obtaining security wherever necessary and appropriate. In addition to monitoring credit limits, the Group manages credit exposures by entering into netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposures.

The Group has well defined policies and procedures for identifying, measuring, monitoring and controlling credit risk in all of the Group's activities, at the level of individual credit and at portfolio level. Credit limits are approved after a thorough assessment of the creditworthiness of the borrower or counterparty, including the purpose and structure of the credit, and its source of repayment. Credit proposals are reviewed by the RCMD, which is independent of business units, before approval by the appropriate approving authority is obtained. All policies relating to credit are reviewed by the Board Risk Committee and approved by the Board of Directors. An Executive Committee, consisting of Board of Directors, reviews and approves larger credits. In addition, all larger credits in excess of the approval authority of the Executive Committee are approved by the Board of Directors.

The Group devises specific business and risk strategies relating to corporate, retail, investments and treasury areas, within the ambit of the Group's risk policies and procedures. Any additional risks associated with such strategies are discussed in the RMC meetings and necessary risk control measures are applied through amendments to policies, procedures and circulars. The Group also draws up a comprehensive Risk Management Strategy every year and monitors the progress of that strategy.

Day-to-day monitoring of individual borrower or counterparty exposure is the responsibility of the respective business unit. The Group's Credit Administration Unit, a part of the RCMD, ensures that credit facilities are released after appropriate approval and against proper documentation. It also monitors excesses over limits, past dues, expired credits and escalates exceptions if any, for corrective action.

Counterparty credit limits are established for all customers after careful assessment of their creditworthiness and approval (as per the levels of authority prescribed in the policy). These are also subject to large credit exposure limit criteria of the Central Bank of Bahrain and the local regulators in overseas locations. Standard procedures, outlined in the Group's Credit Procedures Manual, require that all credit proposals be subjected to a detailed screening by a Designated Credit Officer/ Designated Investment Officer who is part of a three signature approval process and functions independent of the business units.

The credit growth, quality and portfolio composition are monitored continuously to maximize the risk adjusted return and reduce the level of incidence of impairment and accretion of marginal credits. The Group monitors concentration risk by establishing limits for maximum exposure to individual borrower or counterparty, country, bank and industry. Such limits are also stipulated for certain products. These limits are approved after detailed analysis and are reviewed and monitored regularly.

The Group has a risk asset rating policy which defines criteria for rating risk assets. All credits are assigned a rating in accordance with the defined criteria. All lending relationships are reviewed at least once in a year and more frequently in case of high risk and non-performing assets (NPAs). The Internal Audit Department conducts an independent review of risk assets periodically and submits its report to Senior Management/Audit Committee. The Group endeavors continuously to improve upon the internal credit risk rating methodologies and credit risk management policies and practices, to reflect the true credit risk of the portfolio and the credit culture in the Group.

It is the Group's policy to ensure that provisions for credit loss are maintained at an adequate level. For loans and advances considered by the management as individually significant, specific provision is made for the impairment loss calculated on the basis of estimated discounted value of future cash flows in line with IFRS guidelines. For the remaining accounts, which are individually not significant, specific provision is made based on historic trends and the current economic environment. All provisions are approved by the Provision Committee, which comprises members of senior management.

Details of the composition of the loans, advances and overdraft portfolio are set out in Note 7 to the consolidated financial statements.

The portfolio of non-performing assets is managed by skilled and experienced staff in the Remedial Department which is responsible for recovery of dues and restructuring of stressed assets.

Details of the industry sector analysis and the geographical distribution of assets, liabilities and off statement of financial position items are set out in Note 31.

30 MAXIMUM EXPOSURE TO CREDIT RISK WITHOUT TAKING INTO ACCOUNT ANY COLLATERAL AND OTHER CREDIT ENHANCEMENTS

The table below shows the maximum exposure to credit risk for the components of the statement of financial position and for derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	2015 BD '000	2014 BD '000
Balances with central banks	**269,114**	260,508
Treasury bills	**394,090**	292,683
Deposits and amounts due from banks and other financial institutions	**325,096**	175,896
Loans and advances to customers	**1,764,799**	1,846,462
Non-trading investment securities	**663,051**	681,131
Interest receivable and other assets	**47,010**	55,431
	3,463,160	3,312,111
Contingent liabilities	**238,869**	288,679
Commitments	**143,943**	194,542
	382,812	483,221
	3,845,972	3,795,332

31 CONCENTRATION OF ASSETS, LIABILITIES AND OFF STATEMENT OF FINANCIAL POSITION ITEMS

The distribution of assets, liabilities and credit commitments and contingencies by geographic region and industry sector is as follows:

	2015			2014		
	Assets BD '000	Liabilities BD '000	Credit commitments and contingencies BD '000	Assets BD '000	Liabilities BD '000	Credit commitments and contingencies BD '000
Gulf Co-operation Council countries	**2,959,680**	**2,809,005**	**329,950**	2,832,366	2,747,034	393,286
North America	**90,196**	**5,217**	**436**	46,471	8,680	1,038
European Union countries	**219,528**	**314,990**	**11,379**	222,504	286,679	35,273
Asia	**315,379**	**142,972**	**29,640**	339,399	85,319	42,519
Others	**61,658**	**13,523**	**11,407**	60,197	13,873	11,105
	3,646,441	**3,285,707**	**382,812**	3,500,937	3,141,585	483,221
Trading and manufacturing	**613,889**	**151,087**	**164,186**	634,057	124,414	182,480
Banks and other financial institutions	**827,713**	**1,237,166**	**38,185**	787,143	1,191,640	107,362
Construction and real estate	**430,783**	**75,601**	**123,703**	451,712	63,302	86,246
Government and public sector	**1,141,750**	**756,818**	**3,016**	1,031,975	823,798	3,016
Individuals	**352,781**	**768,835**	**1,050**	288,483	671,361	1,104
Others	**279,525**	**296,200**	**52,672**	307,567	267,070	103,013
	3,646,441	**3,285,707**	**382,812**	3,500,937	3,141,585	483,221

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, inventory and trade receivables, and bank guarantees
- For retail lending, mortgages over residential properties
- Cash collaterals such as bank deposits
- Marketable securities

The Group also obtains guarantees from parent companies for loans to their subsidiaries.

The Group monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

32 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS

The credit quality of financial assets is managed by the Group using internal and external credit risk ratings.

The table below shows the credit quality by class of asset for gross loan-related statement of financial position lines, based on the Group's credit rating system.

	Neither past due nor impaired				
31 December 2015	**High grade BD '000**	**Standard grade BD '000**	**Sub-standard grade BD '000**	**Past due or individually impaired BD '000**	**Total BD '000**
Loans and advances to customers					
Commercial loans	**297,888**	**901,241**	**193,382**	**98,831**	**1,491,342**
Consumer loans	**331,761**	**1,256**	**4,398**	**34,882**	**372,297**
Total	**629,649**	**902,497**	**197,780**	**133,713**	**1,863,639**

	Neither past due nor impaired				
31 December 2014	High grade BD '000	Standard grade BD '000	Sub-standardgrade BD '000	Past due or individuallyimpaired BD '000	Total BD '000
Loans and advances to customers					
Commercial loans	293,157	1,074,520	132,465	120,487	1,620,629
Consumer loans	278,482	1,103	3,322	29,679	312,586
Total	571,639	1,075,623	135,787	150,166	1,933,215

Internal credit risk ratings

The Group follows an internal rating mechanism for grading relationships under loans and advances.

The Group utilises a scale ranging from 1 to 10 for credit relationships, with 1 to 8 denoting performing grades, 9 and 10 non-performing, in line with Basel III guidelines. Grades 1 to 3 represents high grade, 4 to 6 represents standard grade and 7 to 8 represents sub-standard grade.

All credits are assigned a rating in accordance with the defined criteria.

The Group endeavors continuously to improve upon the internal credit risk rating methodologies and credit risk management policies and practices to reflect the true underlying credit risk of the portfolio and the credit culture in the Group.

All lending relationships are reviewed at least once in a year and more frequently in the case of non-performing assets.

Past due loans and advances include those that are only past due by a few days. An analysis of past due loans, by age, is provided below.

32 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS (continued)

Ageing analysis of past due but not impaired loans

31 December 2015	Less than 30 days BD '000	31 to 60 days BD '000	61 to 89 days BD '000	Total BD '000
Loans and advances to customers				
Commercial loans	**18,473**	**12,779**	**653**	**31,905**
Consumer loans	**11,418**	**4,882**	**2,821**	**19,121**
Total	**29,891**	**17,661**	**3,474**	**51,026**

31 December 2014	Less than 30 days BD '000	31 to 60 days BD '000	61 to 89 days BD '000	Total BD '000
Loans and advances to customers				
Commercial loans	31,880	8,199	3,700	43,779
Consumer loans	10,509	2,689	3,267	16,465
Total	42,389	10,888	6,967	60,244

The credit quality of other financial assets is managed by the Group using external credit ratings. The table below shows the credit quality by class of the financial assets.

31 December 2015	Neither past due nor impaired			Past due or individually impaired BD '000	Total BD '000
	High grade BD '000	Standard grade BD '000	Sub-standard grade BD '000		
Balances with central banks	**394**	**268,720**	**–**	**–**	**269,114**
Deposits and amounts due from banks and other financial institutions	**243,519**	**81,577**	**–**	**–**	**325,096**
Treasury bills	**–**	**394,090**	**–**	**–**	**394,090**
Bonds	**275,915**	**387,136**	**–**	**23,064**	**686,115**
Total	**519,828**	**1,131,523**	**–**	**23,064**	**1,674,415**

31 December 2014	Neither past due nor impaired			Past due or individually impaired BD '000	Total BD '000
	High grade BD '000	Standard grade BD '000	Sub-standard grade BD '000		
Balances with central banks	327	260,181	–	–	260,508
Deposits and amounts due from banks and other financial institutions	127,777	48,119	–	–	175,896
Treasury bills	–	292,683	–	–	292,683
Bonds	291,797	389,349	–	27,538	708,684
Total	419,901	990,332	–	27,538	1,437,771

The Bank has considered a provision of BD 23,064 thousand (2014: BD 27,538 thousand) towards the impaired bonds amounting to BD 23,064 thousand (2014: BD 27,538 thousand).

The following table shows the parameters used for classification of investments:

	Fitch			Moody's		
High grade	Range from	AAA to	A-	Range from	Aaa to	A3
Standard grade	Range from	BBB+ to	B-	Range from	Baa1 to	B3
Sub-standard grade	Range from	CCC+ to	CCC-	Range from	Caa1 to	Caa3

High grade includes unrated investments amounting to BD 7,058 thousand (2014: BD 6,147 thousand). These mainly comprise of sukuks issued by GCC governments and corporates.

33 CARRYING AMOUNT OF FINANCIAL ASSETS WHOSE TERMS HAVE BEEN RENEGOTIATED

The table below shows the carrying amount for financial assets by class, renegotiated during the year.

	2015 BD '000	2014 BD '000
Loans and advances to customers		
Commercial loans	**105,062**	41,177
Consumer loans	**7,915**	7,068
	112,977	48,245

34 MARKET RISK

Market risk is defined as the risk of potential loss that may arise from adverse changes in the value of a financial instrument or portfolio of financial instruments due to movements in interest rates, foreign exchange rates, equity, commodity prices and derivatives. This risk arises from asset – liability mismatches, changes that occur in the yield curve, foreign exchange rates and changes in volatilities/implied volatilities in the market value of derivatives.

The Group has clearly defined policies for conducting investment (including trading investments) and foreign exchange business which stipulates limits for these activities. Investments are made strictly in accordance with investment acceptance criteria. The Group does not undertake any commodity trading activities. For management of market risk arising from movement in interest rates, refer to note 35.

The Group uses an internal Value-at-Risk (VaR) model for measuring general market risk in the trading book of the Group and all foreign exchange positions. The internal model was approved by the Central Bank of Bahrain. VaR is calculated using a 99% confidence level for a 10 day holding period. This implies a 1% possibility of the loss exceeding the VaR amount calculated by the model. As at 31 December, VaR calculated based on the above parameters was as follows:

	2015 BD '000	2014 BD '000
Foreign exchange	**94**	41
Interest Rate	**1**	1
	95	42

The Bank's Risk Management Department conducts backtesting in accordance with the Market Risk Capital Adequacy Regulations issued by the Central Bank of Bahrain to ensure that the VaR model and assumptions used for computing VaR numbers are reliable. Backtesting of 1 day VaR as per actual profit and loss (comparing 1 day VaR with the average actual daily profit and loss) and also hypothetical back testing (comparing 1 day VaR with derived profit and loss of static positions) is carried out on a daily basis as stipulated in the Central Bank of Bahrain Rule book. The objective is to ensure that the assumptions used for computing VaR are reasonable and provide a VaR number that is a good indicator of possible losses in trading positions. During the year, the backtesting produced satisfactory results.

The Group also conducts stress testing to identify events or influences that could greatly impact material trading positions taken by the Group. As per the Central Bank of Bahrain requirements, validation of the internal model is conducted by the Internal Audit Department of the Bank as well as by an external consultant.

35 INTEREST RATE RISK MANAGEMENT

Interest rate risk is the exposure of the Group's financial condition to adverse movements of interest rates. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off statement of financial position instruments that mature or re-price in a given period. Excessive interest rate risk can pose a significant threat to the Group's earnings and capital base. Accordingly, an effective risk management process that maintains interest rate risk within prudent levels is essential to the safety and soundness of the Group.

It is the Group's policy to keep its assets and liabilities mismatches at stable and acceptable levels to maintain a steady net interest income. The Group monitors interest rate risk based on gap/duration limits. The Group also uses 'what if' scenarios for projecting net interest income and economic value of equity of the Group. The Group uses derivative instruments such as interest rate swaps, floating rate agreements and bond futures to manage interest rate risk. Whilst day to day management of interest rate risk is responsibility of the Global Treasurer, ALMC also reviews the interest rate risk reports periodically.

Based on the consolidated statement of financial position as at 31 December 2015 an increase of 100 basis point in interest rates, with all variables held constant, will result in an increase in the net interest income, for the following next 12 months, by approximately BD 9,030 thousand (2014: increase by BD 6,957 thousand). However, further downward movement of interest rates by 100 basis points might not be practical assumption in the current environment, given the current low levels of interest rates, and hence capping the downward movement of interest rates at 0%, the negative impact on the net interest income as at 31 December 2015 estimated at BD 6,593 thousands (2014: BD 2,813 thousands). On the other hand, the scope for interest rates increase from its current levels is most probable which the Bank shall benefit.

	Rate Shock Forecasting (+100 bps)		Rate Shock Forecasting (–100 bps)	
	2015 BD '000	2014 BD '000	**2015 BD '000**	2014 BD '000
Bahraini Dinar	**3,511**	2,472	**3,306**	1,160
US Dollar	**3,748**	3,299	**1,290**	346
Kuwaiti Dinar	**381**	528	**414**	532
Others	**1,390**	659	**1,583**	775
Total	**9,030**	6,958	**6,593**	2,813

An increase of 100 basis point in interest rates, with all other variables held constant, will result in a negative impact on equity of approximately 1.9% amounting to BD 7,296 thousand (2014:3.1%, BD 11,532 thousand). Similarly, a decrease of 100 basis point in interest rates, with all other variables held constant, will result in a positive impact on equity of approximately 1.9% amounting to BD 7,296 thousand (2014: 3.1%, BD 11,532 thousand).

36 CURRENCY RISK

The functional currency of the Group is the Bahraini Dinar.

The Group had the following significant non-strategic net exposures denominated in foreign currencies as of the consolidated statement of financial position date:

	2015 BD '000 equivalent long (short)	2014 BD '000 equivalent long (short)
US dollar	**60,496**	57,320
Euro	**51**	52
GCC currencies (excluding Kuwaiti dinar)	**8,789**	16,396
Kuwaiti dinar	**274**	495
Others	**463**	537

As the Bahraini dinar and other GCC currencies (except the Kuwaiti dinar) are pegged to the US dollar (US$), positions in US$ and other GCC currencies are not considered to represent a significant currency risk. For currency sensitivity impact refer to VaR (note 34).

The Board of Directors has established levels of currency risk by setting limits on currency position exposures. Positions are monitored on a daily basis to ensure that they are maintained within established limits. The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks.

37 EQUITY PRICE RISK

Equity price risk is the risk that the fair values of equities or managed funds decrease as a result of changes in the corresponding value of equity indices or the value of individual equity stocks. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

The effect on equity (as a result of a change in the fair value of equity instruments held as available-for-sale) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

		Effect on equity	
	% change in Index	**Total 2015 BD '000**	Total 2014 BD '000
Bahrain Bourse	± 15%	**2,263**	2,399
Other GCC and other stock exchanges	± 15%	**6,815**	8,207
		9,078	10,606

38 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. To guard against this risk, the Group has diversified funding sources, assets are managed with liquidity in mind and liquidity positions are monitored, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities. In addition, the Group maintains various statutory deposits with central banks and has taken lines of credit from various banks and financial institutions.

The Bank has in place a liquidity risk policy, which describes the roles and responsibilities of ALMC and Treasury, and stipulates the broad guidelines with regard to minimum liquid assets to be maintained by the Bank, gap limits under each time bucket of the maturity ladder, cumulative outflow of cash limits for each time bucket and various liquidity ratios to be maintained which are approved by the ALMC based on the Annual Liquidity Strategy.

It is the Bank's policy to keep its assets in high-quality liquid assets such as inter-bank placements, treasury bills and government bonds, to ensure that funds are available to meet maturing liabilities, undrawn facilities and deposit withdrawals as they fall due for payment. A substantial proportion of the Bank's deposits is made up of retail current, savings and fixed deposit accounts which, though payable on demand or at short notice, have traditionally formed part of a stable deposit base and a source of core funding.

The day to day management of liquidity risk is the responsibility of the Global Treasurer, who monitors the sources and maturities of assets and liabilities closely and ensures that limits stipulated by the ALMC are complied with, and that funding is not concentrated from any one source.

The Bank also draws up contingency plans to deal with extraordinary conditions of liquidity risk after comprehensive scenario analysis.

The table below summarizes the maturity profile of the Group's financial liabilities (including interest) based on contractual undiscounted repayment obligations.

38 LIQUIDITY RISK (continued)

31 December 2015	On Demand BD '000	Within 1 month BD '000	1 to 3 months BD '000	3 to 6 months BD '000	6 to 12 months BD '000	1 to 5 years BD '000	5 to 10 years BD '000	10 to 20 years BD '000	More than 20 years BD '000	Total BD '000
Deposits and due to banks and other financial institutions	–	**133,544**	**30,521**	**9,450**	**5,894**	–	–	–	–	**179,409**
Borrowings under repurchase agreement	–	–	–	–	**5,185**	**189,127**	–	–	–	**194,312**
Term borrowings	–	–	**619**	**308**	**3,255**	**224,838**	–	–	–	**229,020**
Customers' current, savings and other deposits	**1,146,028**	**375,422**	**454,149**	**302,021**	**369,262**	**24,920**	**5,874**	**11,730**	–	**2,689,406**
Total undiscounted financial liabilities	**1,146,028**	**508,966**	**485,289**	**311,779**	**383,596**	**438,885**	**5,874**	**11,730**	–	**3,292,147**
Letter of Guarantees	**204,617**	–	–	–	–	–	–	–	–	**204,617**
Undrawn loan commitments	**143,942**	–	–	–	–	–	–	–	–	**143,942**
Derivative financial instruments										
Contractual amounts payable	–	**(2,188)**	**(5,614)**	**(6,203)**	**(33,733)**	**(343,944)**	**(266,099)**	**(40,428)**	**(70,685)**	**(768,894)**
Contractual amounts receivable	–	**2,931**	**6,109**	**4,625**	**28,897**	**311,508**	**248,987**	**28,921**	**61,504**	**693,482**
	–	**743**	**495**	**(1,578)**	**(4,836)**	**(32,436)**	**(17,112)**	**(11,507)**	**(9,181)**	**(75,412)**

31 December 2014	On Demand BD '000	Within 1 month BD '000	1 to 3 months BD '000	3 to 6 months BD '000	6 to 12 months BD '000	1 to 5 years BD '000	5 to 10 years BD '000	10 to 20 years BD '000	More than 20 years BD '000	Total BD '000
Deposits and due to banks and other financial institutions	–	248,846	53,543	10,627	84	–	–	–	–	313,100
Borrowings under repurchase agreement	–	–	–	–	19,739	20,764	–	–	–	40,503
Term borrowings	–	–	15	672	193,305	55,087	–	–	–	249,079
Customers' current, savings and other deposits	946,212	331,443	560,465	306,500	283,457	57,195	14,847	–	–	2,500,119
Total undiscounted financial liabilities	946,212	580,289	614,023	317,799	496,585	133,046	14,847	–	–	3,102,801
Letter of Guarantees	249,497	–	–	–	–	–	–	–	–	249,497
Undrawn loan commitments	194,542	–	–	–	–	–	–	–	–	194,542
Derivative financial instruments										
Contractual amounts payable	–	(46,715)	(10,465)	(20,119)	(39,774)	(306,866)	(282,282)	(55,683)	–	(761,904)
Contractual amounts receivable	–	47,687	10,860	18,044	34,956	275,064	264,600	41,579	–	692,790
	–	972	395	(2,075)	(4,818)	(31,802)	(17,682)	(14,104)	–	(69,114)

39 FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy at 31 December 2015 and 31 December 2014.

31 December 2015	Level 1 BD'000	Level 2 BD'000	Total BD'000
Financial assets			
Bonds	**569,612**	**2,664**	**572,276**
Equities	**60,518**	**7,387**	**67,905**
Managed funds	–	**1,870**	**1,870**
Derivatives held for trading	–	**179**	**179**
Derivatives held as fair value hedges	–	**2,114**	**2,114**
Derivatives held as cash flow hedges	–	**43**	**43**
	630,130	**14,257**	**644,387**
Financial liabilities			
Derivatives held for trading	–	**26**	**26**
Derivatives held as fair value hedges	–	**12,412**	**12,412**
Derivatives held as cash flow hedges	–	**52**	**52**
	–	**12,490**	**12,490**

31 December 2014	Level 1 BD'000	Level 2 BD'000	Total BD'000
Financial assets			
Bonds	587,740	2,637	590,377
Equities	70,701	6,118	76,819
Managed funds	–	2,210	2,210
Derivatives held for trading	–	118	118
Derivatives held as fair value hedges	–	2,660	2,660
Derivatives held as cash flow hedges	–	209	209
	658,441	13,952	672,393
Financial liabilities			
Derivatives held for trading	–	20	20
Derivatives held as fair value hedges	–	12,348	12,348
Derivatives held as cash flow hedges	–	–	–
	–	12,368	12,368

Included under available-for-sale investments are unquoted equity and managed funds investments amounting to BD 25,284 thousand (2014: BD 26,995 thousand) which are recorded at cost.

Transfers between level 1, level 2 and level 3
During the reporting year ended 31 December 2015 and 31 December 2014, there were no transfers into and out of Level 3 fair value measurements.

The table below sets out the estimated carrying values and fair values of those on and off statement of financial position financial instruments carried at amortised cost where fair values are different from the carrying amounts shown in the consolidated financial statements:

2015	Carrying value BD '000	Fair value BD '000	Difference BD '000
Financial liabilities			
Term borrowings	**204,677**	**194,859**	**(9,818)**
Financial assets			
Non-trading investment securities	**90,774**	**89,205**	**(1,569)**

2014	Carrying value BD '000	Fair value BD '000	Difference BD '000
Financial liabilities			
Term borrowings	240,938	243,332	2,394
Financial assets			
Non-trading investment securities	90,752	87,090	(3,662)

The above financial liabilities and assets are level 1 fair value.

The fair value of financial assets and financial liabilities approximate their carrying values, other than those disclosed in the table above.

40 SHARE – BASED PAYMENTS

The expense recognised for employee services received during the year is shown in the following table:

	2015 BD '000	2014 BD '000
Expense arising from equity-settled share-based payment transactions	**716**	695
Shares vested during the year	**(447)**	(436)

During 2010, the Nomination and Remuneration Committee of the Bank modified the employees stock option plans for the previously granted stock options. The existing plan was discontinued with effect from 31 March 2010. The Bank moved to a new long-term incentive plan, which is referred to as the Employee Performance Share Plan (EPSP), which will award shares (rather than options) to executives. The details of the modifications to stock option plan and EPSP are described below:

Employee Performance Share Plan (EPSP)
Shares are granted to Senior Managers and above, with more than 12 months service at the date of grant and meeting certain performance criteria. The shares granted are subject to the satisfaction of conditions relating to the Bank's net profit over a three year period and the employee being in employment at the end of the 3 year period (vesting period).

The Bank utilises its existing treasury shares for the EPSP and may also choose to issue new shares to settle the EPSP in the future. The price of the shares granted was equal to the market price of the Bank's shares on the grant date. As at 31 December 2015, there has been a transfer of 9,498,441 shares (2014: 7,621,427 shares) from treasury stock to BBK Shares Incentives S.P.C which is in line with the Employee Performance Share Plan.

The following table illustrates the number and cost per share of the shares granted during the year under the new scheme.

	2015		2014	
	Number of shares	Cost per share BD	Number of shares	Cost per share BD
Opening balance of shares granted but not vested	**5,155,397**	**0.415**	4,744,135	0.406
Equity shares granted during the year	**2,681,473**	**0.432**	2,123,285	0.432
Equity shares transferred to trust	**1,877,014**	**0.432**	1,486,300	0.436
Shares transferred to active employees	**(1,117,430)**	**0.400**	(1,075,038)	0.406

The market price of BBK B.S.C. shares at 31 December 2015 was BD 0.436 (2014: BD 0.470).

41 CAPITAL ADEQUACY

The risk asset ratio calculated in accordance with the capital adequacy guidelines approved by the Central Bank of Bahrain, for the Group is as follows:

	2015 BD '000	2014 BD '000
Capital base:		
CET1 capital	**355,631**	–
Tier 1 capital	**–**	303,648
Tier 2 capital	**29,056**	73,718
Total capital base (a)	**384,687**	377,366
Credit risk weighted exposure	**2,367,734**	2,213,713
Operational risk weighted exposure	**204,947**	192,722
Market risk weighted exposure:	**14,762**	7,625
Total risk weighted exposure (b)	**2,587,443**	2,414,060
Capital adequacy (a/b* 100)*	**14.87%**	15.63%
Minimum requirement	**12.50%**	12.00%

* The capital adequacy ratio for the year 2014 was calculated based on Basel II guidance, whereas the current year calculation is based on the guidance of Basel III as required by the CBB.

41 CAPITAL ADEQUACY (continued)

Capital management

The primary objectives of the Group's capital management policies are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

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

Basel III and Capital management

The Bank has adopted the new Basel III Capital Adequacy Framework (Basel III) with effect from 1 January 2015 as per the guidelines issued by the Central Bank of Bahrain which is enhancing the Bank's risk management process, supervisory review, disclosure standards and capital management.

The Bank has adopted the Standardized Approach in case of Credit Risk, the Internal Model Approach for Market Risk and the Basic Indicator Approach for Operational Risk.

The Bank has established its Internal Capital Adequacy Assessment Process (ICAAP) to provide policy guidance in Capital Planning and Capital Management. The Bank also uses Risk Adjusted Return on Capital (RAROC) model in its decision making process.

42 LEGAL AND OPERATIONAL RISK

Legal risk

Legal risk is the risk relating to losses due to legal or regulatory action that invalidates or otherwise precludes performance by the end user or its counterparty under the terms of the contract or related netting agreements.

The Group has developed preventive controls and formalised procedures to identify legal risks so that potential losses arising from non-adherence to laws and regulations, negative publicity, etc. are significantly reduced. The Group also has well established legal procedures to scrutinise product offerings and manage risks arising out of its transactions.

As at 31 December 2015, there were legal cases pending against the Group aggregating BD 814 thousand (2014: BD 824 thousand). Based on the opinion of the Group's legal advisors, the management believes that no liability is likely to arise from these cases.

Operational risk

Operational risk is the exposure to loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Group has clearly defined operations procedures for each of its products and services. It also has advanced computer systems that enable it to run operations with speed and accuracy.

The operational risk department operates independently from other units of the Bank and reports directly to the Audit Committee, which consists of members of the Board. It conducts regular reviews of all business areas of the Bank and reports control deficiencies and exceptions to the Bank's policies and procedures. It also recommends measures to mitigate operational risk, which are implemented by management immediately.

The Bank also has a contingency plan to take care of any failure of its computer systems. Regular back-ups are made for all important datasets, and stored outside the Bank's premises. This ensures that in case of any system failure, the Bank will be able to continue its operations without losing critical data or business transactions. As part of its disaster recovery plan, the Bank has established a back-up site which would and operate during an emergency.

The Bank has a specific Business Continuity Plan ("BCP") unit. The main objective of the BCP is to ensure that in the event of full or partial disaster, the Bank should be able to continue providing essential services to customers, minimizing any adverse effects on the Bank's business, through business impact analysis, business restoration plans and procedures, for the identified critical functions.

The Bank is using an operational risk management solution for monitoring operational risk, conducting risk and control self assessments and capturing operational loss data in accordance with Basel III/Central Bank of Bahrain guidelines.

The Bank's subsidiaries have similar contingency plans for their operations.

43 DEPOSIT PROTECTION SCHEME

Deposits held with the Bahrain operations of the Bank are covered by the Deposit Protection Scheme (the Scheme) established by the Central Bank of Bahrain regulation concerning the establishment of the Deposit Protection Scheme and Deposit Protection Board.

44 STAFF SAVING SCHEME

The scheme is a contribution saving fund between the Bank and the employee of the Bank. It was introduced in January 1996 with the objective of providing the employees with a cash benefit upon resignation, retirement or death. Participation in the scheme is discretionary and the employee may contribute any amount. The Bank guarantees a corresponding contribution of an amount that is 3% higher provided that total Bank contribution is not in excess of 10% of the employees' salary. The employee becomes eligible for the full amount of the Bank contribution once the employee has completed 5 years of service, otherwise the entitlement is proportionately calculated. The scheme is managed by a committee, consisting of members from management and representatives nominated and selected by staff.

As at 31 December 2015 the total contribution fund including the earned income stands at BD 14,577 thousand (2014: BD 12,902 thousand). Out of the total fund amount, payment of the principal amount equal to BD 14,336 thousand (2014: BD 12,388 thousand) consisting of the respective staff and Bank's contribution is guaranteed by the Bank to employees participating in the scheme within the applicable law. Out of the principal amount, BD 3,912 thousand (2014: BD 2,343 thousand) is invested in Bonds issued by CBB on behalf of Bahrain's government.

45 SUBSEQUENT EVENTS

The Bank held an Extraordinary General Meeting ("EGM") on 28 January 2016 and resolved to issue convertible perpetual additional tier 1 securities amounting BD 100 million.

46 COMPARATIVE FIGURES

In the Group's consolidated financial statements for the year ended 31 December 2015 certain comparative amounts have been reclassified to conform with the presentation in the current year. The following reclassification did not result in any changes to the previously reported profit or equity:

	Previously reported BD'000	**Reclassification BD'000**	**As reported herein BD'000**
Interest and similar income	117,896	**(9,347)**	**108,549**
Interest and similar expense	(45,606)	**9,347**	**(36,259)**
	72,290	**–**	**72,290**

1 EXECUTIVE SUMMARY

This report has been prepared in accordance with Pillar III disclosure requirements prescribed by the Central Bank of Bahrain, herein referred to as “CBB”. The report has been designed to provide BBK Group’s stakeholders with detailed information on the Bank’s approach in managing capital and risk, having due regard to the operating environment.

The Bank applies the Basel framework in the measurement of its capital adequacy, and in its capital management strategy and risk management framework. CBB’s Basel III capital rules and guidelines became effective on 1st January 2015 as the common framework for the implementation of the Basel Committee on Banking Supervision’s (Basel Committee) Basel III capital adequacy framework for banks incorporated in the Kingdom of Bahrain.

The disclosures in this report are in addition to the disclosures set out in the consolidated financial statements for the year ended 31st December 2015 presented in accordance with the International Financial Reporting Standards (IFRS). Disclosures with respect to Corporate Governance and Remuneration are provided in relevant sections of the Annual Report.

2 INTRODUCTION TO THE BASEL III FRAMEWORK

The CBB’s Basel III capital framework is based on three pillars consistent with the Basel III framework developed by the Basel Committee, as follows:-

- Pillar I: calculation of the Risk Weighted Assets (RWAs) and capital requirement.
- Pillar II: the supervisory review process, including the Internal Capital Adequacy Assessment Process (ICAAP).
- Pillar III: rules for the disclosure of risk management and capital adequacy information.

Amongst the three pillars, it is Pillar I that has been affected most and largely amended with the introduction of Basel III. Additional disclosure requirements have also been introduced under Pillar III.

Pillar I

Pillar I prescribes the basis for the calculation of the regulatory capital adequacy ratio. Pillar I sets out the definition and calculations of the RWAs, and the derivation of the regulatory total capital. Capital adequacy ratios are calculated by dividing regulatory capital by the total RWAs.

As part of Basel III implementation, while the calculation of RWAs remained almost the same as under Basel II, the definition of regulatory capital witnessed significant changes as Basel III focuses on increasing both the quantity and quality of banks’ capital. To this end, Tier 1 capital “T1” must be the main component of capital, and the predominant form of T1 capital must be common shares and retained earnings. Deductions from capital and prudential filters have been harmonized and generally applied at the level of common equity. The remainder of T1 capital base must be comprised of instruments that are subordinated, have fully discretionary noncumulative dividends or coupons and have neither a maturity date nor an incentive to redeem. Certain instruments that previously qualified as regulatory capital such as innovative hybrid capital instruments are no longer accepted and the existing ones will be phased out. In addition, Tier 2 capital “T2” instruments have been harmonized with more restrictions and a limit on their contribution to total regulatory capital, and the so-called Tier 3 capital instruments, which were only available to cover market risks, were eliminated.

In addition, Basel III introduced a number of capital buffers to promote the conservation of capital (capital conservation buffer or “CCB”) and the build-up of adequate buffers above the minimum required capital during times of good economic conditions that can be drawn down in periods of stress (countercyclical capital buffer).

CBB minimum required total capital adequacy ratio (including CCB) increased from 12 percent to 12.5 percent, compared to 10.5 percent recommended by the Basel Committee. Moreover, there are newly introduced limits and minima by the CBB under Basel III, such as minimum Common Equity Tier 1 Capital Ratio “CET1” of 9 percent (including CCB) and minimum T1 Capital Ratio of 10.5 percent (including CCB). In the event that the total capital adequacy ratio falls below 12.5 percent, additional prudential reporting requirements apply, and a formal action plan setting out the measures to be taken to restore the ratio above the minimum required level is to be formulated and submitted to the CBB. Consequently, the CBB requires BBK to maintain an effective minimum total capital adequacy ratio above 12.5 percent.

The table below summarizes the approaches available for calculating RWAs for each risk type in accordance with the CBB’s Basel III capital adequacy framework:

Credit Risk	Market Risk	Operational Risk
Standardised Approach	Standardised Approach	Basic Indicator Approach
	Internal Models Approach	Standardised Approach

The approach applied by BBK for each risk type is as follows:-

i) Credit Risk

For regulatory reporting purposes, BBK is using the Standardised Approach for credit risk. Credit risk constitutes nearly 90% of the overall risk for the Bank. The bank has a robust credit risk management architecture which is explained in greater detail in Note 28 and 29 of the Annual Report. The credit RWAs are determined by multiplying the credit exposure by a risk weight factor dependent on the type of counterparty and the counterparty’s external rating, where available.

ii) Market Risk

For the regulatory market risk capital requirement, BBK is using the Internal Model Approach based on Value-at-Risk (VaR) model. The use of the Internal Model Approach for the calculation of regulatory market risk capital has been approved by the CBB and the model is subject to periodic independent internal and external validation.

iii) Operational Risk

All banks incorporated in Bahrain are required to apply the Basic Indicator Approach for operational risk unless approval is granted by the CBB to use the Standardised Approach. The CBB’s capital framework does not currently permit the use of the Advanced Measurement Approach (AMA) for operational risk. For regulatory reporting purposes, BBK is currently using the Basic Indicator Approach whereby the operational risk weighted exposures and regulatory capital requirement are calculated by applying an alpha co-efficient of 15 percent to the average gross income for the preceding three financial years.

2 INTRODUCTION TO THE BASEL III FRAMEWORK (continued)

Pillar II

Pillar II defines the process of supervisory review of an institution's risk management framework and, ultimately, its capital adequacy.

Under the CBB's Pillar II guidelines, all banks incorporated in Bahrain are required to maintain total capital adequacy ratio above 12.5%.

Pillar II comprises two processes:

- an Internal Capital Adequacy Assessment Process (ICAAP), and
- a supervisory review and evaluation process.

The ICAAP incorporates a review and evaluation of risk management and capital relative to the risks to which the bank is exposed. BBK has developed an ICAAP document and it addresses all components of BBK's risk management, from the daily management of more material risks to the strategic capital management of the Group. The projected growth in risk assets, operating profit, shareholders' funds and the corresponding capital requirement are estimated by the bank as part of 3 years strategy approved by the Board. In addition, the bank also forecasts the Capital Base whenever there is likely reduction in the capital components, and necessary actions are taken in order to ensure regulatory compliance. The bank has also a Dividend Policy in place as part of capital management strategy.

The Bank uses the RAROC model in its credit decisions in order to assess risk-reward matrix for each credit exposure. The Bank has adopted a Risk Appetite Framework which is reviewed periodically. The Bank also adopts a Risk Management Strategy annually covering all types of relevant risks.

The supervisory review and evaluation process represents the CBB's review of the Group's capital management and an assessment of internal controls and corporate governance. The supervisory review and evaluation process is designed to ensure that institutions identify their material risks, allocate adequate capital, and employ sufficient management processes to support such risks. The supervisory review and evaluation process also encourages institutions to develop and apply enhanced risk management techniques for the measurement and monitoring of risks in addition to the credit, market and operational risks addressed in the core Pillar I framework. Other risk types which are not covered by the minimum capital requirements in Pillar I include liquidity risk, interest rate risk in the banking book, strategic risk, concentration risk, reputational risk, and residual risk. These are covered either by capital, or risk management and mitigation processes under Pillar II.

BBK conducts stress testing of its portfolio as part of the ICAAP process.

Pillar III

Pillar III deals with the Market Discipline guidelines of the regulator to ensure adequate disclosure of risk management practices, corporate governance standards and capital adequacy information. The bank publishes disclosures periodically and in the Annual Report.

The disclosures comprise detailed qualitative and quantitative information. The purpose of the Pillar III disclosure requirements is to complement the first two pillars and the associated supervisory review process. The disclosures are designed to enable stakeholders and market participants to assess an institution's risk appetite and risk exposures and to encourage all banks, via market pressures, to move toward more advanced forms of risk management.

Under the current regulations, partial disclosure consisting mainly of quantitative analysis is required during half year reporting, whereas full disclosure is required to coincide with the financial year end reporting.

Regulatory Reforms

The Bank is categorized as Domestic Systemically Important Bank "DSIB". Currently, the CBB has not prescribed any Countercyclical Buffer or additional capital requirements for DSIBs.

The framework on Leverage Ratio will be part of the Pillar 1 after its introduction by the CBB. The framework is currently under initial monitoring period. As per the concluded consultation, the framework is proposed to be introduced with effect from January 1, 2018.

The CBB has concluded consultation on draft guidelines for Credit Grading and Classification in 2015. The CBB has also solicited views from banks on the Basel Committee's consultation document on Standardized Approach. Similarly, the bank is in the process of reviewing IFRS 9 for implementation within the prescribed timeframe. These initiatives, if and when introduced, may impact capital adequacy requirements.

3 GROUP STRUCTURE

The Group's financial statements are prepared and published on a full consolidation basis, with all subsidiaries being consolidated in accordance with IFRS. For capital adequacy purposes, all financial subsidiaries are included within the Group structure. However, the CBB's capital adequacy methodology accommodates both normal and aggregation forms of consolidation.

The principal subsidiaries, Associates and Joint Ventures and basis of consolidation for capital adequacy purposes are as follows:-

	Domicile	Ownership	Consolidation basis
Subsidiaries			
CrediMax B.S.C. (c)	Kingdom of Bahrain	100%	Full Consolidation
Invita B.S.C. (c)	Kingdom of Bahrain	100%	Risk Weighted
Invita - Kuwait*	State of Kuwait	60%	Risk Weighted
Global Payment Services W.L.L. (GPS)**	Kingdom of Bahrain	55%	Full Consolidation
Associates			
Diyar Al Harameen Al Ola Limited	Cayman Island	35%	Risk Weighted
Bahrain Commercial Facilities Company B.S.C. (c)	Kingdom of Bahrain	23%	Risk Weighted
The Benefit Company B.S.C (c)	Kingdom of Bahrain	22%	Risk Weighted
Joint Venture			
Sakana Holistic Housing Solutions B.S.C. (c)	Kingdom of Bahrain	50%	Risk Weighted
BBK Geojit Securities KSC	State of Kuwait	40%	Risk Weighted

* Shareholding through Invita Subsidiary
** Shareholding through CrediMax Subsidiary

There are no restrictions on the transfer of funds or regulatory capital within the Group.

4 STATEMENT OF FINANCIAL POSITION UNDER THE REGULATORY SCOPE OF CONSOLIDATION

The table below shows the link between the statement of financial position in the published financial statements (accounting statement of financial position) and the regulatory statement of financial position.

	Statement of financial position as in published financial statements BD '000	Statement of financial position as per Regulatory Reporting BD '000	Reference
Assets			
Cash and balances with central banks	**286,750**	**286,750**	
Treasury bills	**394,090**	**394,090**	
Deposits and amounts due from banks and other financial institutions	**325,096**	**325,096**	
Loans and advances to customers	**1,764,799**	**1,764,799**	
Of which collective impairment provisions	(37,197)	(37,197)	a
Of Which net loans and advances (gross of collective impairment provisions)	1,801,996	1,801,996	
Non-trading investment securities	**758,107**	**758,107**	
Of which related to equity investments in financial entities	45,584	45,584	
Of which related to CET1	31,166	31,166	b
Of which related to additional Tier 1	1,943	1,943	c
Of which related to Tier 2	12,475	12,475	d
Of which related to other investments	712,523	712,523	
Investments in associated companies and joint ventures	**35,823**	**38,292**	
Of which equity investments in financial entities	27,361	27,361	e
Of which other investments	8,462	10,931	
Interest receivable and other assets	**56,970**	**55,792**	
Of which deferred tax assets due to temporary differences	2,991	2,991	f
Of which Interest receivable and other assets	53,979	52,801	
Premises and equipment	**24,806**	**24,572**	
Total assets	**3,646,441**	**3,647,498**	
Liabilities and Equities			
Liabilities			
Deposits and amounts due to banks and other financial institutions	**179,404**	**179,404**	
Borrowings under repurchase agreement	**174,508**	**174,508**	
Term borrowings	**204,677**	**204,677**	
Customers' current, savings and other deposits	**2,642,892**	**2,644,721**	
Interest payable and other liabilities	**84,226**	**83,861**	
Total liabilities	**3,285,707**	**3,287,171**	
Equity			
Share capital	**108,165**	**108,165**	g
Treasury stock	**(4,728)**	**(4,728)**	h
Share premium	**39,919**	**39,919**	i
Statutory reserve	**54,082**	**54,082**	j
General reserve	**51,507**	**51,507**	k
Cumulative changes in fair values	**(12,304)**	**(12,304)**	
of which cumulative changes in fair values on bonds and equities	(12,070)	(12,070)	l
of which Fair value changes in cash flow hedges	(234)	(234)	
Foreign currency translation adjustments	**(10,635)**	**(10,555)**	m
Retained earnings	**102,580**	**102,500**	
Of which employee stock options	2,342	2,342	
Of which Retained earnings	100,238	100,158	n
Appropriations	**30,586**	**30,586**	o
ATTRIBUTABLE TO THE OWNERS OF THE BANK	**359,172**	**359,172**	
Non-controlling interest	**1,562**	**1,155**	
Total equity	**360,734**	**360,327**	
Total Liabilities and equities	**3,646,441**	**3,647,498**	

4 STATEMENT OF FINANCIAL POSITION UNDER THE REGULATORY SCOPE OF CONSOLIDATION (continued)

Legal entities included within the accounting scope of consolidation but excluded from the regulatory scope of consolidation:

Name	Principle activities	Total Assets	Total Equitites
Invita B.S.C. (c)	Business process outsourcing services	3,241	2,876

5 CAPITAL COMPONENTS - CONSOLIDATED

Under the CBB's Basel III capital framework, total regulatory capital consists of Tier 1 capital "T1" and Tier 2 capital "T2". T1 capital is further divided into Common Equity Tier 1 capital "CET1" and Additional Tier 1 capital "AT1". CET1 capital consists of : (a) Issued and fully paid common shares that meet the criteria for classification as common shares for regulatory purposes, (b) Disclosed reserves including: i) General reserves; ii) Legal/statutory reserves; iii) Share premium; iv) Fair value reserves arising from fair valuing financial instruments; and v) Retained earnings or losses (including net profit/loss for the reporting period, whether reviewed or audited), (c) Common shares issued by consolidated subsidiaries and held by third parties (i.e. minority interest) that meet the criteria for inclusion in CET1, and (d) Regulatory adjustments applied in the calculation of CET1. AT1 capital consists of: (a) Instruments issued by the bank that meet the criteria for inclusion in AT1, (b) Share premium resulting from the issue of instruments included in AT1, (c) Instruments issued by consolidated subsidiaries and held by third parties that meet the criteria for inclusion in AT1 and are not included in CET1, and (d) Regulatory adjustments applied in the calculation of AT1. BBK currently does not have any AT1 capital. T2 capital consists of: (a) Instruments issued by the bank that meet the criteria for inclusion in T2, (b) Share premium resulting from the issue of instruments included in T2, (c) Instruments issued by consolidated subsidiaries of the bank and held by third parties that meet the criteria for inclusion in T2 capital and are not included in T1, (d) General loan loss provisions, (e) Asset revaluation reserves which arise from the revaluation of fixed assets and investment properties from time to time in line with the change in market values, and (f) Regulatory adjustments applied in the calculation of T2. At present, the T2 capital of BBK consists solely of general loan loss provision.

The CBB applies various limits and minima to the components of the regulatory capital, as shown in the below table. There is also a restriction on the amount of general loan loss provision (also called collective impairment provision) that may be included as part of T2 capital, which should be a maximum of 1.25 percent of the credit risk weighted assets.

	Optional	Minimum Ratio
Components of Consolidated CAR		
Common Equity Tier 1 (CET 1)		6.50%
Additional Tier 1 (AT1)	1.50%	
Tier 1 (T1)		8%
Tier 2 (T2)	2%	
Total Capital		10%
Capital Conservation Buffer (CCB)		2.50%
CAR including CCB		
CET 1 plus CCB		9%
Tier 1 plus CCB		10.50%
Total Capital plus CCB		12.50%
Components of Solo CAR		
Common Equity Tier 1 (CET 1)		4.50%
Additional Tier 1 (AT1)	1.50%	
Tier 1 (T1)		6%
Tier 2 (T2)	2%	
Total Capital		8%
Capital Conservation Buffer (CCB)		0%

In accordance with the CBB's Basel III capital adequacy framework, certain exposures are required to be deducted from regulatory capital rather than included in RWAs. Unlike Basel II capital adequacy framework were deductions were applied 50 percent from T1 and 50 percent from T2, the CBB's Basel III capital adequacy framework requires that most of the deductions be made from the CET1.

There are no impediments on the transfer of funds or regulatory capital within the Group other than restrictions over transfers to ensure minimum regulatory capital requirements are met for subsidiary companies.

REGULATORY CAPITAL COMPONENTS

The table below provides a detailed breakdown of the bank's regulatory capital components, including all regulatory adjustments. The table also provides reference to the comparison displayed in the previous table between accounting and regulatory statements of financial position.

	Component of regulatory capital	Amounts subject to pre-2015 treatment	Source based on reference letters of the statement of financial position under the regulatory scope of consolidation
Common Equity Tier 1: Instruments and reserves			
Directly issued qualifying common share capital plus related stock surplus	143,356	–	g+h+i
Retained earnings	130,744	–	n+o
Accumulated other comprehensive income and losses (and other reserves)	82,732	–	j+k+l+m
Common Equity Tier 1 capital before regulatory adjustments	**356,832**	**–**	
Common Equity Tier 1 capital :regulatory adjustments			
Cash flow hedge reserve	(234)	–	
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	1,351	29,815	b
Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	84	1,859	c
Total regulatory adjustments to Common equity Tier 1	**1,201**	**31,674**	
Common Equity Tier 1 capital (CET1)	**355,631**		

	Component of regulatory capital	Amounts subject to pre-2015 treatment	Source based on reference letters of the statement of financial position under the regulatory scope of consolidation
Additional Tier 1 capital: instruments			
Additional Tier 1 capital before regulatory adjustments	**–**	**–**	
Additional Tier 1 capital: regulatory adjustments			
Total regulatory adjustments to Additional Tier 1 capital	**–**	**–**	
Additional Tier 1 capital (AT1)	**–**	**–**	
Tier 1 capital (T1 = CET1 + AT1)	**355,631**		
Tier 2 capital: instruments and provisions			
Provisions	29,597	–	
Tier 2 capital before regulatory adjustments	**29,597**	**–**	
Tier 2 capital: regulatory adjustments			
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold)	541	11,934	d
Total regulatory adjustments to Tier 2 capital	541	11,934	
Tier 2 capital (T2)	**29,056**		
Total capital (TC = T1 + T2)	**384,687**		
Total risk weighted assets	**2,587,443**		
Capital ratios and buffers			
Common Equity Tier 1 (as a percentage of risk weighted assets)	13.74%		
Tier 1 (as a percentage of risk weighted assets)	13.74%		
Total capital (as a percentage of risk weighted assets)	14.87%		
Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk weighted assets)	9.00%		
of which: capital conservation buffer requirement	2.50%		
of which: bank specific countercyclical buffer requirement	N/A		
of which: G-SIB buffer requirement	N/A		
Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	13.75%		
National minima (where different from Basel III)			
CBB Common Equity Tier 1 minimum ratio (Excluding Capital Conservation Buffer)	6.50%		
CBB Tier 1 minimum ratio (Excluding Capital Conservation Buffer)	8.00%		
CBB total capital minimum ratio (Excluding Capital Conservation Buffer)	10.00%		
Amounts below the thresholds for deduction (before risk weighting)			
Non-significant investments in the capital of other financial entities	43,609		
Significant investments in the common stock of financial entities	27,361		e
Deferred tax assets arising from temporary differences (net of related tax liability)	2,991		f
Applicable caps on the inclusion of provisions in Tier 2			
Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	37,197		a
Cap on inclusion of provisions in Tier 2 under standardised approach	29,597		

6 CAPITAL ADEQUACY

The Group's policy is to maintain a strong capital base so as to preserve investor, creditor and market confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' return is also recognized, as well as the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Group manages its capital structure and makes adjustments to the structure taking account of changes in economic conditions and strategic business plans. The capital structure may be adjusted through the dividend payout and other discretionary payments and the issue of new shares and other capital instruments.

As per its ICAAP, BBK aims to maintain a minimum total capital adequacy ratio in excess of the capital assessed as per its ICAAP document of 13.90 percent. The CBB's current minimum total capital adequacy ratio (including CCB) for banks incorporated in Bahrain is set at 12.5 percent. The total capital adequacy ratio of the Group as at 31 December 2015 was 14.87 percent.

Strategies and methods for maintaining a strong capital adequacy ratio

BBK prepares multi-year strategic projections on a rolling annual basis which include an evaluation of short term capital requirements and a forecast of longer-term capital resources.

Capital ratios - consolidated and subsidiaries above 5% of group capital

	Total capital ratio	Tier 1 capital ratio
BBK - GROUP	14.87%	13.74%
CrediMax	67.52%	67.52%

7 CREDIT RISK – PILLAR III DISCLOSURES

This section describes the BBK's exposure to credit risk, and provides detailed disclosures on credit risk in accordance with the CBB's Basel III framework, in relation to Pillar III disclosure requirements.

Definition of exposure classes

BBK has a diversified on and off statement of financial position credit portfolio, the exposures of which are divided into the counterparty exposure classes defined by the CBB's Basel III capital adequacy framework for the standardised approach for credit risk. A high-level description of the counterparty exposure classes, referred to as standard portfolios in the CBB's Basel III capital adequacy framework, and the generic treatments, i.e. the risk weights to be used to derive the RWAs, are as follows:-

Sovereigns portfolio

The sovereigns portfolio comprises exposures to governments and their respective central banks. The risk weights are zero percent for exposures in the relevant domestic currency, or in any currency for exposures to GCC sovereigns. Foreign currency claims on other sovereigns are risk weighted based on their external credit ratings.

Certain multilateral development banks as determined by the CBB may be included in the sovereigns portfolio and treated as exposures with a zero percent risk weighting.

Public Sector Entities (PSE) portfolio

Claims on Bahraini PSEs, and claims on PSEs on domestic currency - which are assigned a zero percent risk weight by their respective country regulator, can be assigned a zero percent risk weight. All other PSEs are risk weighted according to their external ratings.

Banks portfolio

Claims on banks are risk weighted based on their external credit ratings. A preferential risk weight treatment is available for qualifying short term exposures. Short term exposures are defined as exposures with an original tenor of three months or less. The Bank's portfolio also includes claims on certain investment firms, which are risk weighted based on their external credit ratings, though without any option for preferential treatment for short term exposures.

Corporates portfolio

Claims on corporates are risk weighted based on their external credit ratings. A 100 percent risk weight is assigned to exposures to unrated corporates. A preferential risk weight treatment is available for certain corporates owned by the Government of Bahrain, as determined by the CBB, which are assigned a zero percent risk weight.

Regulatory retail portfolio

Claims on retail portfolio are risk weighted at 75%, except for past due portfolio.

Mortgage portfolio

Claims which are fully secured by first mortgages on residential property that is or will be occupied by the borrower, or that is leased, must carry a risk weighting of 75 percent. Claims secured by mortgages on commercial real estate are subject to a minimum of 100 percent risk weight. If the borrower is rated below BB-, the risk-weight corresponding to the rating of the borrower must be applied.

Equities portfolio

The equities portfolio comprises equity investments in the banking book, i.e. the available-for-sale securities portfolio. A 100 percent risk weight is assigned to listed equities while unlisted equities are weighted at 150 percent, unless subject to the following treatments. The amount of any significant investments in commercial entities (A "significant investment" in a commercial entity is defined as any investment in the capital instruments of a commercial entity by the bank which is equivalent to or more than 10 percent of the issued common share capital of the issuing commercial entity) above 15 percent (individually) and 60 percent (collectively) of the bank's capital (the "Total Capital materiality thresholds") must be risk weighted at 800 percent. Moreover, significant investments in the common shares of unconsolidated financial entities must be risk weighted at 250 percent.

In addition to the standard portfolios, other exposures are assigned to the following exposure classes:

Investments in funds portfolio

The risk weight for claims on corporate will be used to determine the risk weight for investments in rated funds. Unrated funds will be assigned a risk weight of 100% if listed, and 150% if not listed.

Past due exposures

This includes claims, for which the repayment is overdue for more than ninety days. The risk weighting applied for such loans is either 100 percent or 150 percent, depending on the level of provisions maintained against the loan.

Holding of real estate

All holding of real estate by banks (owned directly or by the way of investments in real estate companies, subsidiaries or associated companies or other arrangements such as trusts, funds or REITS) must be risk weighted at 200 percent. Premises occupied by the bank are weighted at 100 percent.

Other assets and holdings of securitisation tranches

Other assets are risk weighted at 100 percent, whereas securitization exposures are risk weighted at 20 percent to 1,250 percent, depending on the external rating.

All BBK's holding of securitizations is part of the bank's investment portfolio.

Large Exposures

The excess amount of any exposure above 15% of the bank's regulatory capital to any counterparty or a group of closely related counterparties must be risk weighted at 800%, unless it is an exmpted expousre in accordance with the requirements of the CBB Rulebook.

External rating agencies
BBK uses ratings issued by Moody's and Fitch to derive the risk weightings under the CBB's Basel III capital adequacy framework. Where ratings vary between rating agencies, the highest rating from the lowest two ratings is used to represent the rating for regulatory capital adequacy purposes.

Credit risk presentation under Basel III
The credit risk exposures presented in most of this report differ from the credit risk exposures reported in the consolidated financial statements. Differences arise due to the application of different methodologies, as illustrated below:-

- Under the CBB's Basel III framework, off statement of financial position exposures are converted into credit exposure equivalents by applying a credit conversion factor (CCF). The off statement of financial position exposure is multiplied by the relevant CCF applicable to the off statement of financial exposure position category. Subsequently, the exposure is treated in accordance with the standard portfolios as referred to above in this report, in the same manner as on statement of financial position exposures.
- In case of Over-the-Counter (OTC) derivative contracts, in addition to the default risk capital requirements for counterparty credit risk, the bank must add a capital charge to cover the risk of mark-to-market losses on the expected counterparty risk (such losses being known as credit value adjustments or CVA).
- Credit risk exposure reporting under Pillar III is frequently reported by standard portfolios based on the type of counterparty. The financial statement presentation is based on asset class rather than the relevant counterparty. For example, a loan to a bank would be classified in the Bank's standard portfolio under the capital adequacy framework although is classified in loans and advances in the consolidated financial statements.
- Certain eligible collateral is applied to reduce exposure under the Basel III capital adequacy framework, whereas no such collateral netting is applicable in the consolidated financial statements.
- Based on the CBB's Basel III guidelines, certain exposures are either included in, or deducted from, regulatory capital rather than treated as an asset as in the consolidated financial statements.

8 CAPITAL REQUIREMENT FOR RISK WEIGHTED EXPOSURE

	Gross credit exposures (before risk mitigation) BD '000	Eligible financial collateral BD '000	Credit risk after risk mitigation BD '000	Risk weighted asset BD '000	Regulatory capital required 12.5% BD '000
Sovereign	1,004,720	–	1,004,720	17,789	2,224
Public Sector Entities	25,084	–	25,084	–	–
Banks	614,202	–	614,202	265,391	33,174
Corporates	1,535,164	21,541	1,513,623	1,448,688	181,086
Regulatory retail	303,499	310	303,189	227,392	28,424
Mortgage	94,960	–	94,960	71,220	8,903
Equity	106,256	–	106,256	153,207	19,151
Investment in Funds	1,534	–	1,534	2,301	288
Past Due	37,795	2,020	35,775	47,407	5,926
Real Estate	42,429	–	42,429	69,692	8,712
Other assets	60,446	–	60,446	64,933	8,117
Cash Items	16,216	–	16,216	(284)	(36)
Total Credit Risk	**3,842,305**	**23,871**	**3,818,434**	**2,367,736**	**295,969**
Market Risk	–	–	–	14,763	1,845
Operational Risk	–	–	–	204,947	25,618
Total Risk Weighted Exposure	**3,842,305**	**23,871**	**3,818,434**	**2,587,446**	**323,432**

Included in the equity category investment is an insurance entity that is risk weighted rather than deducted from eligible capital, this if deducted will reduce the eligible capital to BD 381,759 thousands:

Entity	Country of Domicile	Ownership %	Risk weighted asset BD '000	Impact on regulatory capital BD '000
Bahrain and Kuwait Insurance Company B.S.C. © "BKIC"	Bahrain	6.82%	2,928	366

Credit Risk Mitigation and Collateral valuation policy
BBK employs a range of techniques to mitigate risk in its credit portfolio. Credit risk mitigation includes an objective assessment of the counterparty's capacity and willingness to meet its commitments in the normal course. The bank strives to optimize facility structure, collateral, lending covenants, terms and conditions.

The Bank has detailed policies and procedures for valuing collateral/ securities offered for various credit facilities. The collateral is valued, at minimum, quarterly or annually, based on the type of security. More frequent valuations are also considered if waranted by market volatility and declining trends in valuations are observed. The collaterals and support include mortgages, cash collaterals, marketable securities, personal and corporate guarantees and guarantees from sovereigns and financial institutions. The basis of valuation for different types of securities such as equity, debt, and real estate is also clearly defined in the policies.

9 FUNDED AND UNFUNDED TOTAL CREDIT EXPOSURE

Total gross credit exposures	Total funded credit exposure BD '000	Total un-funded credit exposure BD '000
Sovereign	1,004,435	285
Public sector entities	25,084	–
Banks	584,290	29,912
Corporates	1,389,519	145,645
Regulatory retail	303,499	–
Mortgage	94,960	–
Equity	106,256	–
Investment in funds	1,534	–
Past due	37,795	–
Real estate	42,429	–
Other assets	60,446	–
Cash items	16,216	–
Total credit risk	**3,666,463**	**175,842**

10 AVERAGE CREDIT EXPOSURE

The following are the average quarterly balances for the year ending 31st December 2015:

	BD'000
Sovereign	970,572
Public sector entities	167,048
Banks	683,231
Corporates	1,435,810
Regulatory retail	282,251
Mortgage	92,274
Equity	111,859
Investment in funds	1,659
Past Due	39,181
Real estate	40,787
Other assets	62,408
Cash items	17,219
Total credit risk	**3,904,299**

11 CONCENTRATION OF CREDIT RISK BY REGION (EXPOSURES SUBJECT TO RISK WEIGHTING)

	GCC BD'000	North America BD'000	Europe BD'000	Asia BD'000	Others BD'000	Total BD'000
Cash and balances with central banks	283,728	–	–	3,022	–	**286,750**
Treasury bills	384,867	–	–	9,223	–	**394,090**
Deposits in banks and other financial institutions	200,024	55,326	28,153	41,532	61	**325,096**
Loans and advances to customers	1,542,384	12,330	56,643	159,658	16,523	**1,787,538**
Investments in associated companies	30,861	–	–	–	4,962	**35,823**
Investment securities	459,024	22,517	135,161	99,226	40,203	**756,131**
Investment in unconsolidated Subsidiaries	640	–	–	–	–	**640**
Other assets	75,667	–	–	4,728	–	**80,395**
Total funded exposure	**2,977,195**	**90,173**	**219,957**	**317,389**	**61,749**	**3,666,463**
Unfunded commitments and contingencies	152,683	420	8,499	12,802	1,437	175,842
Total credit risk	**3,129,878**	**90,593**	**228,456**	**330,191**	**63,186**	**3,842,305**

12 CONCENTRATION OF CREDIT RISK BY INDUSTRY (EXPOSURES SUBJECT TO RISK WEIGHTING)

	Trading and manufacturing BD'000	Banks and other financial institutions BD'000	Construction and real estate BD'000	Government and public sector BD'000	Individuals BD'000	Others BD'000	Total BD'000
Cash and balances with central banks	–	17,636	–	269,114	–	–	**286,750**
Treasury bills	–	–	–	394,090	–	–	**394,090**
Deposits in banks and other financial institutions	–	325,096	–	–	–	–	**325,096**
Loans and advances to customers	588,336	218,330	413,564	23,395	357,328	186,585	**1,787,538**
Investments in associated companies	–	25,266	7,057	–	–	3,500	**35,823**
Investment securities	33,036	236,592	17,518	455,448	–	13,537	**756,131**
Investment in unconsolidated Subsidiaries	–	–	–	–	–	640	**640**
Other assets	–	–	–	–	–	80,395	**80,395**
Total funded exposure	**621,372**	**822,920**	**438,139**	**1,142,047**	**357,328**	**284,657**	**3,666,463**
Unfunded commitments and contingencies	69,094	34,756	40,167	512	115	31,198	**175,842**
Total credit risk	**690,466**	**857,676**	**478,306**	**1,142,559**	**357,443**	**315,855**	**3,842,305**

13 CONCENTRATION OF CREDIT RISK BY MATURITY (EXPOSURES SUBJECT TO RISK WEIGHTING)

	Within 1 month BD'000	1 to 3 months BD'000	3 to 6 months BD'000	6 to 12 months BD'000	1 to 5 years BD'000	5 to 10 years BD'000	10 to 20 years BD'000	Above 20 years BD'000	Total BD'000
Cash and balances with central banks	204,352	–	–	–	–	–	–	82,398	**286,750**
Treasury bills	77,646	146,070	72,057	98,317	–	–	–	–	**394,090**
Deposits in banks and other financial institutions	288,375	36,721	–	–	–	–	–	–	**325,096**
Loans and advances to customers	102,656	146,939	123,053	141,625	779,332	246,318	54,835	192,780	**1,787,538**
Investments in associated companies	–	–	–	–	–	–	–	35,823	**35,823**
Investment securities	24,602	9,641	19,872	50,883	261,666	239,560	14,016	135,891	**756,131**
Investment in unconsolidated Subsidiaries	–	–	–	–	–	–	–	640	**640**
Other assets	46,503	63	90	54	28,901	1,216	1,728	1,840	**80,395**
Total funded exposure	**744,134**	**339,434**	**215,072**	**290,879**	**1,069,899**	**487,094**	**70,579**	**449,372**	**3,666,463**
Unfunded commitments and contingencies	45,094	32,732	46,150	37,568	10,004	3,354	170	771	**175,842**
Total credit risk	**789,228**	**372,166**	**261,222**	**328,447**	**1,079,903**	**490,448**	**70,749**	**450,143**	**3,842,305**

Investments have been classified as per their actual maturities

14 IMPAIRED LOANS AND PROVISIONS

	Principle outstanding BD'000	Impaired loans BD'000	Specific provisions BD'000
Manufacturing	332,587	15,600	9,657
Mining and quarrying	20,357	–	–
Agriculture, fishing and forestry	1,542	12	10
Construction	154,786	14,636	7,958
Financial	231,343	–	10,454
Trade	250,449	3,863	950
Personal/Consumer finance	319,755	6,899	7,062
Credit cards	46,683	1,693	1,983
Commercial real estate financing	180,639	24,343	12,994
Residential mortgage	103,892	5,943	866
Government	23,435	–	–
Technology, media and telecommunications	113,849	9,698	9,705
Transport	13,001	–	–
Other sectors	71,321	–	4
Total	**1,863,639**	**82,687**	**61,643**

15 RECONCILIATION OF CHANGES IN IMPAIRED LOANS AND PROVISIONS

	Specific impairment provisions BD'000	Collective impairment provisions BD'000
At beginning of the year	52,548	34,205
Amounts written off	(3,737)	–
Write backs/cancellation due to improvement	(3,774)	–
Additional provisions made	16,140	6,609
Exchange adjustment and other movements	466	(3,617)
Notional interest on impaired loans	–	–
Balance at reporting date	**61,643**	**37,197**

16 IMPAIRED AND PAST DUE LOANS BY REGION

	GCC BD '000	North America BD '000	Europe BD '000	Asia BD '000	Others BD '000	Total BD '000
Past Due loans	46,410	–	–	4,616	–	51,026
Impaired loans	71,952	–	–	10,735	–	82,687
Specific impairment provisions	51,255	–	–	10,388	–	61,643
Collective impairment provisions	37,197	–	–	–	–	37,197

17 AGING OF IMPAIRED PAST DUE LOANS

	3 months up to 1 year BD '000	1 to 3 years BD '000	Over 3 years BD '000	Total BD '000
Impaired past due loans	17,871	26,187	38,629	82,687
Less: specific provisions	7,267	17,683	36,693	61,643
Net outstanding	**10,604**	**8,504**	**1,936**	**21,044**
Market value of collateral	6,532	4,168	51,747	62,447

18 RESTRUCTURED LOANS

	BD '000
Loans restructured during the period	112,977
Impact of restructured facilities and loans on provisions	1,117

The above restructuring did not have any significant impact on present and future earnings and were primarily extensions of the loan tenor, revisions in interest rate, and additional collateral received.

19 MARKET RISK DISCLOSURES FOR BANKS USING THE INTERNAL MODELS APPROACH (IMA) FOR TRADING PORTFOLIOS

The "Market Risk Internal Model" is being used to measure Value-at-Risk (VaR) for calculating Capital Charge arising from Market Risk exposures (mainly Foreign Exchange and Interest Rate Risk positions) of the Trading Book. The VaR Model quantifies the maximum potential loss that could occur in the Trading book risk positions under normal market conditions, at 99% confidence level, on a 10-day horizon.

BBK maintains a prudent approach to handle Market Risk exposures guided by Market Risk Policy and Procedure. The Position, Stoploss and VaR limits are monitored by Treasury Middle Office (reporting to Risk and Credit Management Department and Independent of Business unit) and a daily risk report is circulated to the Senior Management.

In addition to the above, the Treasury Middle Office also carries out valuation of the Investment Portfolio independently as per the internal policies and procedures. Furthermore BBK also conducts Stress Testing and Back Testing of Market Risk positions.

The summary of VaR of the trading book for the period January 2015 to December 2015 is as follows:

VaR Results for 2015 (10 day 99%)
Global (Bahrain and Kuwait)

1 January 2015 to 31 December 2015

Asset class	Limit BD '000	VaR 31 December 2015 BD '000	High VaR BD '000	Low VaR BD '000	Average VaR BD '000
Foreign exchange	641	94	149	13	45
Interest rate	151	1	8	0	1
	792	**95**	**150**	**14**	**46**

The Bank conducts Backtesting of VaR on a daily basis in compliance with CBB regulations to validate the internal VaR model and to check whether or not the model can predict potential losses with a fair degree of accuracy. Under Backtesting, the daily VaR numbers are compared with the mark-to-market profit or loss figures (on actual average Profit and Loss basis and also hypothetical Profit and Loss basis). If this comparison is close enough, the Backtest raises no issues regarding quality of the risk measurement model.

The Backtesting results for the period January-December 2015 confirmed that there was no occasion on which a daily trading loss exceeded VaR figure.

Month end VaR (10 day 99%)

Month	VaR in BD'000
January 2015	39
February 2015	34
March 2015	34
April 2015	42
May 2015	24
June 2015	27
July 2015	20
August 2015	24
September 2015	33
October 2015	51
November 2015	150
December 2015	95

20 CONCENTRATION RISK TO INDIVIDUALS WHERE THE TOTAL EXPOSURE IS IN EXCESS OF SINGLE OBLIGOR LIMIT OF 15%

	BD '000
Sovereign	780,871
Total	**780,871**

21 CREDIT DERIVATIVES EXPOSURE

BBK is not exposed to any credit derivatives as at 31st December 2015.

22 EQUITY POSITIONS IN THE BANKING BOOK

	BD '000
Publicly traded equity shares	69,167
Privately held equity shares	24,020
Total	93,187
Capital required	**11,648**

23 GAINS ON EQUITY INSTRUMENTS

	BD '000
Realised Gains/Losses in statement of profit or loss	**2,712**
Unrealised Gains/Losses in CET1 Capital	**6,348**

The following graph shows that the daily average Profit and Loss (Actual Average P&L basis) vis-à-vis one day VaR, for the review period.

Value- at-Risk Backtesting January – December 2015