

United Gulf Bank B.S.C.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2015

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF UNITED GULF BANK B.S.C.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of United Gulf Bank 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 statements of income, comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated 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 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' judgement, 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 of 31 December 2015, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF UNITED GULF BANK B.S.C. (continued)

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.



Partner's registration no: 115
28 February 2016
Manama, Kingdom of Bahrain

United Gulf Bank B.S.C.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2015

	Note	2015 US\$ 000	2014 US\$ 000
ASSETS			
Demand and call deposits with banks		176,793	284,048
Placements with banks		57,026	142,481
Investments carried at fair value through statement of income	6	50,661	57,063
Non-trading investments	7	285,003	218,407
Loans and receivables	8	1,032,098	990,164
Other assets	9	119,686	113,574
Investments in associates	10	853,984	864,991
Investment properties	11	46,222	4,774
Property and equipment		41,694	39,926
Goodwill	12	52,321	54,509
Assets of disposal group classified as held for sale	14	1,028	7,893
TOTAL ASSETS		2,716,516	2,777,830
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions		838,160	712,615
Deposits from customers		462,086	548,417
Loans payable	15	714,568	781,347
Subordinated debt	16	143,270	93,270
Other liabilities	17	54,999	61,545
Liabilities of disposal group classified as held for sale	14	166	249
TOTAL LIABILITIES		2,213,249	2,197,443
EQUITY			
Share capital	18	208,651	208,651
Treasury shares	18	(18,131)	(18,131)
Share premium	18	11,459	11,459
Statutory reserve	18	99,888	98,766
General reserve	18	80,373	79,251
Treasury shares reserve	18	14,248	14,248
Fair value reserve	19	(48,159)	7,539
Foreign currency translation reserve	18	(34,890)	(10,403)
Retained earnings		80,497	71,522
CAPITAL AND RESERVES ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		393,936	462,902
Non-controlling interests in equity		109,331	117,485
TOTAL EQUITY		503,267	580,387
TOTAL LIABILITIES AND EQUITY		2,716,516	2,777,830

Masaud Hayat
Chairman

Faisal Al Ayyar
Vice Chairman

Hussain Lalani
Acting Chief Executive Officer

The attached notes 1 to 34 form part of these consolidated financial statements.

United Gulf Bank B.S.C.
CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2015

	Note	2015 US\$ 000	2014 US\$ 000
Continuing operations			
Interest income	20	56,348	56,489
Investment income - net	21	7,662	44,210
		<u>64,010</u>	<u>100,699</u>
Fees and commissions - net	22	31,713	38,234
Foreign currency translation gains (losses) - net		3,257	(7,141)
Share of results of associates - net	23	45,850	37,258
		<u>144,830</u>	<u>169,050</u>
Total income			
Interest expense	24	(51,574)	(51,627)
		<u>93,256</u>	<u>117,423</u>
Operating income before expenses and provisions			
Salaries and benefits		(49,540)	(42,571)
General and administrative expenses		(31,829)	(26,210)
		<u>11,887</u>	<u>48,642</u>
Operating income before provisions and tax			
Impairment loss on investments	7,10	(3,153)	(3,127)
Provision for doubtful loans and other assets - net	8,9	(9,617)	(20,547)
Impairment of goodwill	12	-	(31,417)
Taxation - net	13	6,637	14,502
		<u>5,754</u>	<u>8,053</u>
Net profit for the year from continuing operations			
Discontinued operations			
Net loss from discontinued operations	14	(2,554)	(6,298)
		<u>3,200</u>	<u>1,755</u>
Net profit for the year			
Net loss attributable to non-controlling interests		(8,019)	(17,084)
		<u>11,219</u>	<u>18,839</u>
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT			
Net (loss) profit attributable to:			
Non-controlling interests			
- from continuing operations		(7,028)	(14,641)
- from discontinued operations		(991)	(2,443)
		<u>(8,019)</u>	<u>(17,084)</u>
Shareholders of the parent			
- from continuing operations		12,782	22,694
- from discontinued operations		(1,563)	(3,855)
		<u>11,219</u>	<u>18,839</u>
Earnings per share			
Basic and diluted earnings per share attributable to shareholders of the parent (US cents)	25	<u>1.38</u>	<u>2.31</u>
Basic and diluted earnings per share from continuing operations attributable to shareholders of the parent (US cents)	25	<u>1.57</u>	<u>2.78</u>

Masaud Hayat
Chairman

Faisal Al Ayyar
Vice Chairman

Hussain Lalani
Acting Chief Executive Officer

The attached notes 1 to 34 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

	2015 US\$ 000	2014 US\$ 000
Net profit for the year	3,200	1,755
Other comprehensive (loss) income to be reclassified to profit or loss in subsequent years:		
Foreign currency translation reserve	(25,374)	(17,940)
Fair value reserve	(4,046)	22,553
Transfer to consolidated statement of income upon disposal	(19,628)	1,344
Share of other comprehensive (loss) income of associates - net	(32,497)	421
Cash flow hedges	279	136
Other comprehensive (loss) income to be reclassified to profit or loss in subsequent years	(81,266)	6,514
TOTAL COMPREHENSIVE (LOSS) INCOME	(78,066)	8,269
Total comprehensive (loss) income attributable to:		
- shareholders of the parent	(68,966)	26,602
- non-controlling interests	(9,100)	(18,333)
	(78,066)	8,269

The attached notes 1 to 34 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

		2015 US\$ 000	2014 US\$ 000
	Note		
OPERATING ACTIVITIES			
Net profit for the year		3,200	1,755
Adjustments for non-cash items:			
Depreciation		3,996	3,254
Share of results of associates - net	23	(45,850)	(37,258)
(Gain) loss on sale of an associate and subsidiaries	21	(2,631)	8
Impairment loss on investments	7,10	3,153	3,127
Impairment of goodwill		-	31,417
Provisions for doubtful loans and other assets - net	8,9	9,617	20,547
Interest income	20	(56,348)	(56,489)
Interest expense	24	51,574	51,627
Dividend income	21	(5,104)	(4,170)
Other non-cash items	12	2,188	1,499
Gain on bargain purchase	4	(2,040)	-
Loss (gain) on investments carried at fair value through statement of income	21	4,963	(2,745)
Operating (loss) profit before changes in operating assets and liabilities		(33,282)	12,572
Changes in operating assets and liabilities:			
Placements with banks with original maturities of more than ninety days		(4,607)	(7,794)
Investments carried at fair value through statement of income		1,439	(7,689)
Non-trading investments		(90,075)	18,646
Loans and receivables		(51,551)	(33,432)
Other assets		2,656	(39,804)
Due to banks and other financial institutions		125,545	(105,130)
Deposits from customers		(86,331)	92,422
Other liabilities		(17,231)	9,014
Net assets of disposal group classified as held for sale		6,782	(7,644)
Interest received		55,370	54,896
Interest paid		(50,362)	(47,544)
Dividends received	21	5,104	4,170
Donations		(200)	(200)
Directors' remuneration		(220)	(200)
Net cash used in operating activities		(136,963)	(57,717)
INVESTING ACTIVITIES			
Investment in subsidiaries - net of cash acquired		(10,661)	83,484
Investments in associates - net		23,838	21,476
Investment properties - net		(14,948)	(4,760)
Property and equipment - net		(5,764)	(3,472)
Net cash (used in) from investing activities		(7,535)	96,728
FINANCING ACTIVITIES			
(Repayment of) proceeds from loans		(78,339)	220,556
Subordinated debt		50,000	(6,730)
Net cash (used in) from financing activities		(28,339)	213,826
Foreign currency translation adjustments		(24,487)	(17,089)
Movement in non-controlling interests		(135)	52,177
NET CHANGE IN CASH AND CASH EQUIVALENTS		(197,459)	287,925
Cash and cash equivalents at 1 January		418,416	130,491
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	26	220,957	418,416

The attached notes 1 to 34 form part of these consolidated financial statements.

United Gulf Bank B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Attributable to shareholders of the parent											
	Share capital US\$ 000	Treasury shares US\$ 000	Share premium US\$ 000	Statutory reserve US\$ 000	General reserve US\$ 000	Treasury		Fair value reserve US\$ 000	Foreign currency translation reserve US\$ 000		Total before non-controlling interests US\$ 000	
						share reserve US\$ 000	share reserve US\$ 000		Retained earnings US\$ 000	controlling interests US\$ 000	Non-controlling interests US\$ 000	Total equity US\$ 000
Balance at 1 January 2015	208,651	(18,131)	11,459	98,766	79,251	14,248	7,539	(10,403)	71,522	462,902	117,485	580,387
Profit (loss) for the year	-	-	-	-	-	-	-	-	11,219	11,219	(8,019)	3,200
Other comprehensive loss	-	-	-	-	-	-	(55,698)	(24,487)	-	(80,185)	(1,081)	(81,266)
Total comprehensive (loss) income for the year	-	-	-	-	-	-	(55,698)	(24,487)	11,219	(68,966)	(9,100)	(78,066)
Transfers during the year	-	-	-	1,122	1,122	-	-	-	(2,244)	-	-	-
Other movements in non-controlling interests	-	-	-	-	-	-	-	-	-	-	946	946
Balance at 31 December 2015	208,651	(18,131)	11,459	99,888	80,373	14,248	(48,159)	(34,890)	80,497	393,936	109,331	503,267
Balance at 1 January 2014	208,651	(18,131)	11,459	96,882	77,367	14,248	(17,313)	6,686	56,451	436,300	23,262	459,562
Profit (loss) for the year	-	-	-	-	-	-	-	-	18,839	18,839	(17,084)	1,755
Other comprehensive income (loss)	-	-	-	-	-	-	24,852	(17,089)	-	7,763	(1,249)	6,514
Total comprehensive income (loss) for the year	-	-	-	-	-	-	24,852	(17,089)	18,839	26,602	(18,333)	8,269
Transfers during the year	-	-	-	1,884	1,884	-	-	-	(3,768)	-	-	-
Other movements in non-controlling interests	-	-	-	-	-	-	-	-	-	-	112,556	112,556
Balance at 31 December 2014	208,651	(18,131)	11,459	98,766	79,251	14,248	7,539	(10,403)	71,522	462,902	117,485	580,387

1 INCORPORATION AND PRINCIPAL ACTIVITIES

Incorporation

United Gulf Bank B.S.C. (the "Bank") is a joint stock company incorporated in the Kingdom of Bahrain in 1980, under Commercial Registration number 10550 and listed on the Bahrain Bourse. The address of the Bank's registered office is UGB Tower, Diplomatic Area, P.O. Box 5964, Manama, Kingdom of Bahrain.

The Bank operates in the Kingdom of Bahrain under a Wholesale Banking License issued by the Central Bank of Bahrain [the CBB].

Activities

The principal activities of the Bank and its subsidiaries (together the "Group") comprise investment banking and commercial banking. Investment banking includes asset portfolio management, corporate finance, advisory, investment in quoted and private equity funds, real estate, capital markets, international banking and treasury functions. Commercial banking includes extending loans and other credit facilities, accepting deposits and current accounts from corporate and institutional customers.

The Bank's parent and ultimate holding company is Kuwait Projects Company (Holding) K.S.C. (closed) ["KIPCO"], a company incorporated in the State of Kuwait and listed on the Kuwait Stock Exchange. As at 31 December 2015 KIPCO owned 97.77% of the Bank's outstanding shares (2014: 97.41%).

These consolidated financial statements were authorised for issue by the Board of Directors on 28 February 2016.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the relevant provisions of the Central Bank of Bahrain and Financial Institutions Law and the Bahrain Commercial Companies Law, and the CBB Rulebook (Volume 1 and applicable provisions of Volume 6), relevant CBB directives and regulations and associated resolutions, rules and procedures of the Bahrain Bourse.

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention as modified by the remeasurement at fair value of investments carried at fair value through statement of income, non-trading investments, investment properties and derivative financial instruments.

Presentation and functional currency

The consolidated financial statements have been presented in US Dollars (US\$) being the functional currency of the Group and are rounded to the nearest US\$ thousands except when otherwise indicated.

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRSs effective as of 1 January 2015:

Annual Improvements 2010-2012 Cycle

All improvements applicable to the Group 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 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

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 (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- 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. As the Group's total assets and segment assets are equal, a reconciliation of segment assets to total assets is not required. Hence, this amendment will not have any effect on the Group's consolidated financial statements.

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. This amendment did not have any impact on the Group as it does not revalue property and

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.
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

The Bank is not a joint arrangement, and thus this amendment is not relevant for the Group and its subsidiaries.

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 IAS 39. 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 did not impact the accounting policy of the Group.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting policies are set out below:

Principles of consolidation

The consolidated financial statements include the financial statements of the Bank and its subsidiaries as at 31 December 2015. The reporting dates of the subsidiaries and the Bank are identical and the subsidiaries' accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

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. 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. 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:

- a) Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- b) Derecognises the carrying amount of any non-controlling interest;
- c) Derecognises the cumulative transaction differences, recorded in equity;
- d) Recognises the fair value of consideration received;
- e) Recognises the fair value of any investment retained;
- f) Recognises any surplus or deficit in the consolidated statement of income; and
- g) Reclassifies the parent's share of a component previously recognised in OCI to consolidated statement of income or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Principles of consolidation (continued)

The principal subsidiaries of the Bank are as follows:

Name of the subsidiary	Country of incorporation	Effective ownership at		Year of incorporation
		31 December		
		2015	2014	
Held directly				
FIMBank Group [FIMBank]	Malta	61%	61%	1994
KAMCO Investment Company K.S.C.P. [KAMCO]	Kuwait	86%	86%	1998
Hatoon Real Estate Company	Kuwait	98%	98%	2008
Syria Gulf Investment Company	Syria	99%	99%	2007
Takaful Saving & Pensions Company	Bahrain	50%	50%	2011
United Gulf Financial Services Company-North Africa	Tunisia	85%	85%	2008
United Gulf Realty International, Ltd	British Virgin Islands	100%	-	2012
Held through KAMCO				
Al Dhiyafa United Real Estate Company W.L.L.	Kuwait	100%	100%	2007
Al Janah Holding Company K.S.C. (Closed)	Kuwait	0%	99%	2005
Al Rawabi International Real Estate Co. W.L.L.	Kuwait	0%	96%	2009
Al Raya Real Estate Projects Company W.L.L.	Kuwait	0%	100%	2007
Al Zad Real Estate W.L.L.	Kuwait	99%	100%	2007
Kamco GCC Opportunistic Fund	Kuwait	100%	100%	2013
KAMCO Real Estate Company S.P.C.	Bahrain	0%	100%	2005
Kuwait Private Equity Opportunity Fund	Kuwait	71%	71%	2004
North Africa Real Estate Co.	Kuwait	100%	100%	2014
Orange Real Estate Co. W.L.L.	Kuwait	100%	100%	2005
Held through FIMBank				
India Factoring and Finance Solutions Private Limited	India	79%	79%	2010
CIS Factors Holdings B.V.	Russia	100%	80%	2009
FIM Holdings (Chile) S.p.a.	Chile	100%	100%	2014
First Factors S.A.	Chile	51%	51%	2014
London Forfaiting Company Limited	United Kingdom	100%	100%	2009
London Forfaiting International Limited	United Kingdom	100%	100%	2009
London Forfaiting Americas Inc.	United States of America	100%	100%	2009
London Forfaiting do Brasil Ltd.	Brazil	100%	100%	2009
FIM Factors B.V.	Netherlands	100%	100%	2009
Menafactors Limited	United Arab Emirates	100%	100%	2009
FIM Business Solutions Limited	Malta	100%	100%	2009
FIM Property Investment Limited	Malta	100%	100%	2010
Emerging Market Trade Finance Fund	Malta	100%	100%	2013

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated statement of income. It is then considered in the determination of goodwill.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognised in the statement of profit or loss.

Investments in associates

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.

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

The Group's investments in its associates are accounted for using the equity method.

Under the equity method, the investment in an associate 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 since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of income reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's consolidated OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of associates 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 investments in its associates. At each reporting date, the Group determines whether there is objective evidence that an investment in an associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss as 'Share of results of associates' in the consolidated statement of income.

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

Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's share of the fair value of the net identifiable assets of the acquired subsidiary or associate at the date of the acquisition. Goodwill arising on the acquisition of an associate is included in the carrying amount of the respective associate and, therefore, is not separately tested for impairment. Goodwill arising on the acquisition of a subsidiary is recognised as a separate asset in the consolidated statement of financial position.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the consolidated statement of income.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill of subsidiaries is allocated to cash-generating units and is tested annually for impairment. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. The recoverable amount of a cash-generating unit is the higher of the cash-generating unit's fair value less costs to sell, and its value in use. Any impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a part of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Fair value measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

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.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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 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: valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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.

The Group measures financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each reporting date.

For financial instruments traded in an active market, fair value is determined by reference to quoted market bid prices for assets and quoted market offer prices for liabilities, without deduction for transaction costs. The fair value of investments in managed funds or similar investment vehicles, where available, are based on last published bid price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For financial instruments where there is no active market, fair value is determined using appropriate valuation techniques. Such techniques may include the following:

- brokers' quotes
- recent arm's length market transactions
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics
- option pricing models
- other valuation methods (Note 32)

Financial instruments with no active market and where fair value can not be reliably determined are stated at cost less provision for any impairment.

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount payable on demand.

The fair value of forward foreign exchange contracts is determined using forward exchange rates at the statement of financial position date with the resulting value discounted back to present value.

The fair value of interest rate swaps is determined by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Investments carried at fair value through statement of income

Investments classified as carried at fair value through the statement of income comprise of two categories 'investments held for trading' and 'investments designated at fair value through statement of income'.

An investment is classified as 'held for trading' if it is acquired or incurred principally for the purpose of selling in the near term or if on initial recognition is part of a portfolio of identifiable financial investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivatives which are not used as hedge are also categorised as held for trading.

Investments designated at fair value through statement of income are investments that are not classified as held for trading but are managed, and their performance is evaluated on a fair value basis in accordance with the Group's investment strategy.

These investments are initially recognised at fair value. Transaction costs are immediately expensed in the consolidated statement of income. Subsequent to initial recognition, investments designated at fair value through statement of income are remeasured at fair value and gains and losses arising from such remeasurement are included in the consolidated statement of income.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-trading investments

These are classified as follows:

- Held to maturity
- Available-for-sale

Held to maturity

Investments with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold these investments to maturity. These investments are initially recognised at fair value, including directly attributable transaction costs.

After initial recognition investments held to maturity are carried at amortised cost using the effective interest rate method. Any gain or loss on such investments is recognised in the consolidated statement of income when the investment is derecognised or impaired. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'interest income' in the consolidated statement of income. The losses, if any, arising from impairment of such investments are recognised in the consolidated statement of income.

Investments available-for-sale

Investments available-for-sale include equity investments and debt securities. Investments available-for-sale are those non-derivative financial assets that are designated as available-for-sale or are not classified as investment at fair value through statement of income, investments held to maturity or loans and receivables.

These investments are initially recognised at fair value, including directly attributable transaction costs.

After initial recognition, available-for-sale investments are measured at fair value with gains and losses being recognised in the consolidated statement of comprehensive income until the investment is derecognised or determined to be impaired at which time the cumulative gains or losses previously reported in the consolidated statement of comprehensive income are recognised in the consolidated statement of income. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

Dividends are included in 'dividend income'. Interest income on available-for-sale investments is recorded in 'interest income' in the consolidated statement of income, using the effective interest yield method.

Loans and receivables

Loans and receivables are non-derivative financial assets originated or acquired by the Group with fixed or determinable payments.

Loans and receivables are recognised when cash is advanced to borrowers. They are derecognised when either borrower repays their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred.

Loans and receivables are initially measured at cost, being the fair value of the consideration given.

Following initial recognition, loans and receivables are stated at cost less any amount written off and specific and collective provisions for impairment.

Derivatives and hedge accounting

The Group makes use of derivative instruments to manage exposure to foreign currency risk and interest rate risk. In order to manage a particular risk, the Group applies hedge accounting to transactions which meet the specified criteria. The Group enters into derivative instruments, mainly forward foreign exchange contracts, interest rate and forward currency swaps in the foreign exchange markets.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivatives and hedge accounting (continued)

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss.

Derivatives are initially recognised and subsequently measured at fair value with transaction costs taken directly to the consolidated statement of income. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative. Derivatives with positive fair values (unrealised gains) are included in other assets and derivatives with negative fair values (unrealised losses) are included in other liabilities in the consolidated statement of financial position.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the consolidated statement of income, except for the effective portion of cash flow hedges, which is recognised in OCI and later reclassified to the consolidated statement of income when the hedge item affects the consolidated statement of income.

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

Also, at the inception of the hedging relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed at the end of each quarter. A hedge is regarded as highly effective if the changes in the 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%.

For the purpose of hedge accounting, hedges are classified into three categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; (b) cash flow hedges which hedge exposure to variability in cash flows of a recognised asset or liability or a forecasted transaction; and (c) hedge of net investment in a foreign operation.

Fair value hedges

In relation to fair value hedges, that qualify for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value, as well as related changes in fair value of the item being hedged, are recognised immediately in the consolidated statement of income. At 31 December 2015 or 2014, there were no hedges classified as fair value hedges.

Cash flow hedges

In relation to cash flow hedges the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised directly in the fair value reserve in the consolidated statement of comprehensive income. The gain or loss relating to the ineffective portion is recognised in the consolidated statement of income.

When the hedged cash flow affects the consolidated statement of income, the gain or loss on the hedging instrument is recycled in the corresponding income or expense line of the consolidated statement of income. When the hedging instrument expires or is sold, terminated or exercised or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at the time remains in equity and is recognised when the hedged forecast transaction is ultimately recognised in the consolidated statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statement of income.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivatives and hedge accounting (continued)

Hedge of net investments in foreign operations

Hedges of a net investment in a foreign operation are accounted for in a way similar to cash flow hedges. On the disposal of the foreign operation, the cumulative value of any such gains or losses recognised in equity through other comprehensive income is transferred to the consolidated statement of income.

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

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. For discontinued fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For discontinued cash flow hedges or hedges of net investments in foreign operations, 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 income.

Investment properties

All properties held for rental or for capital appreciation purposes, or both, are classified as investment properties. Where a property is partially occupied by the Group and the portions could be sold separately, the Group accounts for the portions separately either as an investment property or property and equipment, as appropriate. If the portions cannot be sold separately, the property is classified as an investment property only if an insignificant portion is held for own use.

The Group applies the fair value model of accounting for investment properties. All investment properties are initially recorded at cost, including acquisition expenses associated with the property.

Subsequent to initial recognition, all investment properties are remeasured at fair value and changes in fair value are recognised in the consolidated statement of income. The Group engages independent valuation specialists to determine the fair value of investment properties. Fair values are determined based on an annual evaluation performed by an accredited external independent valuer applying a valuation model recommended by the International Valuation Standards Committee.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in profit or loss in the period of derecognition.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the statement of financial position and any gain or loss resulting from disposal is included in the consolidated statement of income.

Lease assets

Leases in terms of which the Group does not assume substantially all the risks and rewards of ownership are classified as operating leases.

Leased assets held under operating lease are not recognised in the Group's statement of financial position.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Financial liabilities comprise of due to banks and other financial institutions, deposits from customers, loans, bonds and subordinated debt and other liabilities. These are stated at amortised cost. Transaction costs are amortised over the period of the debt using the effective yield method. Deposits from customers include deposits from both external customers and other group companies.

Treasury shares and treasury share reserve

Treasury shares are own equity instruments of the Bank which are reacquired by the Bank or any of its subsidiaries. These are stated at cost and deducted from equity. Any gain or loss arising on reissuance of treasury shares is taken directly to treasury share reserve in the consolidated statement of changes in equity.

Cash and cash equivalents

Cash and cash equivalents include cash, demand and call deposits, highly liquid investments that are readily convertible into cash and placements (excluding escrow balances) with original maturities up to ninety days from the date of acquisition.

Fiduciary assets

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

Dividends on ordinary shares

The Bank recognises a liability to make cash or non-cash distributions to its equity holders when the distribution is authorised and the distribution is no longer at the discretion of the Bank. A distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognised directly in equity.

Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the consolidated statement of income.

Dividends for the year that are approved after the statement of financial position date are disclosed as an event after the statement of financial position date.

Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

Taxes

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on overseas subsidiaries is calculated on the basis of the tax rates applicable and prescribed according to the prevailing laws, regulations and instructions of the countries where these subsidiaries operate. Income tax payable on taxable profit ("current tax") is recognised as an expense in the period in which the profits arise in accordance with the fiscal regulations of the respective countries in which the Group operates.

Deferred Tax

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

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxes (continued)

Deferred Tax (continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- (a) When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (b) In respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are measured using tax rates and applicable legislation at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Derecognition

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

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

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

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

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 either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date the asset is delivered to the counterparty.

Employees benefits

The Group provides for end of service benefits to all its employees. Entitlement to these benefits is usually based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. National employees of the Bank are also covered by the Social Insurance Organisation scheme and the Bank's obligations are limited to the amount contributed to the scheme.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

Impairment of financial assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, an impairment loss, is recognised in the consolidated statement of income.

Financial assets carried at amortised cost

A financial asset is considered impaired when there is an objective evidence of credit-related impairment as a result of one or more loss event(s) that occurred after the initial recognition of the asset and those loss events have an impact on the estimated future cash flows of the financial asset or group of financial assets and can be reliably estimated.

A specific provision for credit losses, due to impairment of a loan or any other financial asset held at amortised cost, is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective yield basis.

In addition to a specific provision for credit losses, a provision for collective impairment is made on a portfolio basis for credit losses where there is an objective evidence that unidentified losses exist at the reporting date. These are based on any deterioration in the risk rating (i.e. downward migration of risk ratings) of the financial asset since it was originally granted. This provision is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Group has had in dealing with a borrower or group of borrowers and available historical default information.

The carrying amount of the asset is adjusted through the use of a provision for impairment account and the amount of the adjustment is included in the consolidated statement of income.

Investments available-for-sale

For available-for-sale financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of income – is removed from other comprehensive income and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognised directly in other comprehensive income.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Investments available-for-sale (continued)

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the consolidated statement of income for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less costs to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffer impairment are reviewed for possible reversal of the impairment at each reporting date.

Foreign currencies

The consolidated financial statements have been presented in US Dollars being the functional and presentational currency of the Bank. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

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

Translation of foreign currency transactions and balances

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Exchange differences arising on the retranslation of monetary items, are included in consolidated statement of income for the year. Non-monetary items measured at fair value in a foreign currency are retranslated using the exchange rates at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary investments carried at fair value through the statement of income are included in the consolidated statement of income for the year. Exchange differences arising on the retranslation of available for sale equity investments, other than those which are carried at cost, are recognised directly in a fair value reserve in the consolidated statement of comprehensive income. 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.

Translation of financial statements of foreign operations

Assets (including goodwill) and liabilities of foreign operations are translated at the exchange rates prevailing at the statement of financial position date. Income and expense items are translated at average exchange rates for the relevant period. All resulting exchange differences are taken directly to a foreign currency translation reserve in equity through other comprehensive income.

On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of income.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition of income and expenses

Interest income and related fees are recognised using the effective yield method, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Recognition of interest income is suspended when the related financial asset becomes impaired. Notional interest is recognised on impaired financial assets based on the rate used to discount future cash flows to their net present value.

Commission income and other fees are recognised when earned.

Rental income on investment properties is recognised on a straight line basis.

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

Contingent liabilities and contingent assets

Contingent liabilities are not recognised in the financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the financial statements, but are disclosed when an inflow of economic benefits is probable.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Acting Chief Executive Officer of the Bank as its chief operating decision-maker.

All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and expenses being eliminated at Group level. Income and expenses directly associated with each segment are included in determining business segment performance.

Significant assumptions, accounting judgements and estimates

In the process of applying the Group's accounting policies, management has made the following assumptions, judgements and estimates in determining the amounts recognised in the consolidated financial statements:

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, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant assumptions, accounting judgements and estimates (continued)

Classification of investments

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

The Group classifies investments as held for trading if they are acquired primarily for the purpose of making short term profit. Classification of investments designated as fair value through statement of income depends on how management monitors the performance of these investments.

For those deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and in particular the Group has the intention and ability to hold these to maturity.

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

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

Impairment of investments

The Group treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires considerable judgment.

Impairment of goodwill

The Group determines whether goodwill is impaired at each reporting date. This requires an estimation of the value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment losses on loans and receivables

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

Collective impairment provisions on loans and receivables

In addition to specific provisions against individually significant loans and receivables, the Group also makes a collective impairment provision against loans and receivables, which although not specifically identified against a loan, have a greater risk of default than when originally granted. This collective provision is based on any deterioration in the internal grade of the loan since it was granted. The amount of the provision is based on the historical loss pattern for loans within each grade and is adjusted to reflect current economic changes.

These internal gradings take into consideration factors such as any deterioration in country risk, industry, technological obsolescence as well as identified structural weaknesses or deterioration in cash flows.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

3 PROSPECTIVE CHANGES IN ACCOUNTING POLICIES**New standards and interpretations 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 that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: 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. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group plans to adopt the new standard on the required effective date. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities. Group is considering the implications of this standard and its impact on the Group's financial position and results.

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 new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

IFRS 16 Leases

IASB has published a new standard, 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 Group plans to adopt the new standard on the required effective date, however, this standard is not expected to have any significant impact on the Group's consolidated financial statements.

In addition to the above, the IASB issued the following new standards and amendments which are not expected to have a material impact on the Group:

- Annual improvements 2012-2014 Cycle;
- IFRS 14 Regulatory Deferral Accounts;
- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests;
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception;
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- Amendments to IAS 27: Equity Method in Separate Financial Statements;
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation;
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants;
- Amendments to IAS 12: Income taxes;
- Amendments to IAS 7: Statement of cash flows; and
- Amendments to IAS 1: Disclosure initiative.

4 BUSINESS COMBINATION**Acquisition of United Gulf Realty International, Ltd ("UGRIL")**

On 19 March 2015, the Bank purchased 50,000 shares comprising 100% of the share capital of UGRIL, a limited liability company incorporated in the British Virgin Islands, from United Real Estate Company K.S.C.P., an associate of the Group, for a consideration of US\$ 12,161 thousand. Accordingly, UGRIL has been consolidated in these consolidated financial statements. The acquisition has been accounted for using the acquisition method.

The fair values of the identifiable assets and liabilities of UGRIL as at the date of acquisition were:

	<i>Fair value recognised on acquisition US\$ 000</i>
Assets	
Demand and call deposits with banks	1,642
Investment property	26,500
Other assets	875
	<u>29,017</u>
Liabilities	
Loans payable	11,560
Other liabilities	3,256
	<u>14,816</u>
Total identifiable net assets at fair value	14,201
Purchase consideration transferred	(12,161)
Gain on bargain purchase	<u>2,040</u>
Net cash acquired with the subsidiary	1,500
Purchase consideration transferred	(12,161)
Net cash outflow	<u>(10,661)</u>

UGRIL is being consolidated with effect from 19 March 2015. UGRIL's revenue and profit contributed to the Group during the year ended 31 December 2015 has been accounted for from 1 April 2015 to 31 December 2015.

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5 FINANCIAL ASSETS AND LIABILITIES

The table below summarises the accounting classification of the Group's financial assets and financial liabilities:

	<i>Held for trading</i>	<i>Designated at fair value through statement of income</i>	<i>Available-for-sale</i>	<i>Amortised cost / Loans and receivables</i>	<i>Total</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>
31 December 2015					
Demand and call deposits with banks	-	-	-	176,793	176,793
Placements with banks	-	-	-	57,026	57,026
Investments carried at fair value through statement of income	21,112	29,549	-	-	50,661
Non-trading investments	-	-	285,003	-	285,003
Loans and receivables	-	-	-	1,032,098	1,032,098
Other assets	-	205	-	115,302	115,507
Assets of disposal group classified as held for sale	-	-	-	1,028	1,028
Total financial assets	21,112	29,754	285,003	1,382,247	1,718,116
Due to banks and other financial institutions	-	-	-	838,160	838,160
Deposits from customers	-	-	-	462,086	462,086
Loans payable	-	-	-	714,568	714,568
Subordinated debt	-	-	-	143,270	143,270
Other liabilities	65	15	-	54,919	54,999
Liabilities of disposal group classified as held for sale	-	-	-	166	166
Total financial liabilities	65	15	-	2,213,169	2,213,249
	<i>Held for trading</i>	<i>Designated at fair value through statement of income</i>	<i>Available-for-sale</i>	<i>Amortised cost / Loans and receivables</i>	<i>Total</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>
31 December 2014					
Demand and call deposits with banks	-	-	-	284,048	284,048
Placements with banks	-	-	-	142,481	142,481
Investments carried at fair value through statement of income	26,786	30,277	-	-	57,063
Non-trading investments	-	-	218,407	-	218,407
Loans and receivables	-	-	-	990,164	990,164
Other assets	303	3,381	-	105,105	108,789
Assets of disposal group classified as held for sale	-	-	-	7,893	7,893
Total financial assets	27,089	33,658	218,407	1,529,691	1,808,845
Due to banks and other financial institutions	-	-	-	712,615	712,615
Deposits from customers	-	-	-	548,417	548,417
Loans payable	-	-	-	781,347	781,347
Subordinated debt	-	-	-	93,270	93,270
Other liabilities	-	89	-	61,456	61,545
Liabilities of disposal group classified as held for sale	-	-	-	249	249
Total financial liabilities	-	89	-	2,197,354	2,197,443

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6 INVESTMENTS CARRIED AT FAIR VALUE THROUGH STATEMENT OF INCOME

	2015 US\$ 000	2014 US\$ 000
Investments held for trading		
Quoted equities	21,112	26,786
Investments designated at fair value through statement of income		
Credit linked notes	17,741	18,000
Managed funds	11,808	12,277
	50,661	57,063

Managed funds primarily represent funds invested through unlisted companies and limited partnership interests. The fund managers have created these legal structures for tax efficiency and to meet other investors' requirements. The underlying investments in these funds are primarily in quoted debt and equity instruments in Kuwait and other international markets.

7 NON-TRADING INVESTMENTS

Non-trading investments comprise available-for-sale investments as follows:

	2015 US\$ 000	2014 US\$ 000
Quoted		
Debt securities	134,720	-
Equities	12,547	5,752
Total quoted	147,267	5,752
Unquoted		
Equities	63,992	66,808
Other managed funds	52,837	79,495
Real estate managed funds	16,621	64,984
Debt securities	4,286	1,368
Total unquoted	137,736	212,655
Total non-trading investments	285,003	218,407

Included under non-trading investments are unquoted available-for-sale investments, primarily representing nominal equity stakes up to 13.9% (2014:13%) in various geographically and sectorally dispersed companies, amounting to US\$ 42,782 thousand (2014: US\$ 27,017 thousand) for which fair value cannot be determined with sufficient accuracy, as future cash flows are not determinable. Accordingly, these investments are carried at cost less provisions for impairment.

The movement in provision for non-trading investments was as follows:

	2015 US\$ 000	2014 US\$ 000
At 1 January	27,558	39,112
Charge for the year (note 19)	-	2,272
Written off	-	(13,826)
Reversed upon disposal	(6,056)	-
Net movement during the year	(6,056)	(11,554)
At 31 December	21,502	27,558
Gross amount of individually impaired investments	38,461	67,350

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

8 LOANS AND RECEIVABLES

	2015 US\$ 000	2014 US\$ 000
Forfeiting assets	355,064	260,395
Factoring assets	340,842	302,242
Loans to customers	164,794	215,642
Loans to banks	114,359	140,743
Syndication loans	98,091	146,628
Staff loans	3,108	3,186
	1,076,258	1,068,836
Less: Provision for impairment	(44,160)	(78,672)
	1,032,098	990,164

The movement in the provision for impairment is as follows:

	2015		
	Specific US\$ 000	Collective US\$ 000	Total US\$ 000
At 1 January	68,918	9,754	78,672
Provided (written-back) during the year - net	10,285	(668)	9,617
Written-off during the year	(41,587)	-	(41,587)
Other adjustments	(3,538)	996	(2,542)
Balance at 31 December	34,078	10,082	44,160

	2014		
	Specific US\$ 000	Collective US\$ 000	Total US\$ 000
At 1 January	-	1,006	1,006
Acquisition of a subsidiary	50,171	6,283	56,454
Provided during the year	18,747	2,465	21,212
Balance at 31 December	68,918	9,754	78,672

	2015 US\$ 000	2014 US\$ 000
Gross amount of loans, individually determined to be impaired	80,869	96,637

The table below shows the credit quality of loans and receivables:

	Neither past due nor impaired US\$ 000	Past due and impaired US\$ 000	Total US\$ 000
31 December 2015			
Forfeiting assets	355,064	-	355,064
Factoring assets	311,881	28,961	340,842
Loans to customers	141,422	23,372	164,794
Loans to banks	105,680	8,679	114,359
Syndication loans	78,234	19,857	98,091
Staff loans	3,108	-	3,108
Total	995,389	80,869	1,076,258

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

8 LOANS AND RECEIVABLES (continued)

31 December 2014

Factoring assets	252,860	49,382	302,242
Forfeiting assets	260,395	-	260,395
Loans to customers	181,526	34,116	215,642
Syndication loans	146,628	-	146,628
Loans to banks	127,604	13,139	140,743
Staff loans	3,186	-	3,186
Total	972,199	96,637	1,068,836

The Group had no loans and receivables which were past due but not impaired as of 31 December 2015 or 2014.

9 OTHER ASSETS

	2015	2014
	US\$ 000	US\$ 000
Due from customers	22,414	19,934
Deferred tax asset (Note 13)	40,568	33,912
Accounts receivable	49,647	49,549
Prepayments	4,179	4,785
Interest receivable	2,673	1,710
Derivative assets (Note 30)	205	3,684
	119,686	113,574

Due from customers and accounts receivable are stated net of provision of US\$ 157 thousand (2014: US\$ 111 thousand). Provisions of US\$ nil were written back during the year ended 31 December 2015. (2014: net provisions written back of US\$ 665 thousand)

10 INVESTMENTS IN ASSOCIATES

			Carrying	Ownership	Carrying	Ownership
	Activity		value		value	
			2015	2015	2014	2014
			US\$ 000	%	US\$ 000	%
a)	Burgan Bank S.A.K.	Commercial banking	537,150	17	558,454	17
b)	United Real Estate Company	Real estate	154,779	21	155,082	21
c)	North Africa Holding Company	Investments	53,951	44	64,969	42
d)	Manafae Investment Company	Islamic investment	11,268	31	19,981	31
e)	United Capital Transport Co K.S.C.C.	Transport	15,433	40	14,989	40
f)	Al Sharq Financial Brokerage Co.	Brokerage and investment business	9,544	19	11,809	19
g)	Kuwait Education Fund	Fund	19,345	34	12,830	22
h)	Syria Gulf Bank	Commercial banking	4,034	31	4,925	31
i)	Assoufid B.V.	Holding, finance and project-development company	28,292	40	-	-
j)	Royal Capital Company P.S.C.	Asset management and financial services	2,671	26	2,716	26

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

10 INVESTMENTS IN ASSOCIATES (continued)

			Carrying value 2015 US\$ 000	Ownership 2015 %	Carrying value 2014 US\$ 000	Ownership 2014 %
	Activity					
k)	Meena Homes Real Estate Company	Real estate	790	20	796	20
l)	United Real Estate Company - Syria	Real estate	21	20	26	20
m)	Arab Leadership Academy	Training institute	412	15	428	15
n)	The Egyptian Company for Factoring S.A.E.	Factoring and Forfaiting	15	50	583	40
o)	Brasilfactors	Factoring and Forfaiting	1,301	40	2,238	40
p)	Savanah SPV	Real estate	5,976	20	6,203	20
q)	KAMCO Real Estate Yield Fund	Real estate	9,002	22	8,962	33
			853,984		864,991	

The Group has no share of any contingent liabilities or capital commitments, as at 31 December 2015 and 2014 on behalf of its associates.

- a) Burgan Bank S.A.K. is a listed commercial bank incorporated in the State of Kuwait. The Bank directly owns 17% (2014: 17%) equity interest in Burgan Bank. The Group has the ability to exercise significant influence on Burgan Bank through representation on the board of directors of Burgan Bank.
- b) United Real Estate Company (URC), is a company listed on the Kuwait Stock Exchange. At 31 December 2015, the Bank directly owns 21% (2014: 21%) of URC.
- c) The Bank directly owns 33% (2014: 31%) of North Africa Holding Company (NAHC), a closed company incorporated in the State of Kuwait in 2006, and indirectly owns 11% (2014: 11%) through its subsidiary KAMCO. The additional 2% equity stake was acquired from Tunis International Bank, a
- d) The Bank indirectly owns 31% (2014: 31%) of Manafae Investment Company through its subsidiary KAMCO. During the year the company has made capital reduction without decrease in the holding.
- e) United Capital Transport Company K.S.C.C. (UniCap) was incorporated in State of Kuwait in 2011. The Bank owns a 40% (2014: 40%) equity stake through its subsidiary KAMCO. UniCap is a dedicated leasing solutions provider to governments, international oil companies and varied construction, mining and industrial services businesses.
- f) Al Sharq Financial Brokerage Company (Al Sharq) is a closed company incorporated in the State of Kuwait during 2005. At 31 December 2015, the Bank indirectly owns a 19% interest in the associate through its subsidiary KAMCO (2014: 19%). The Group has the ability to exercise significant influence on Al Sharq through representation on the board of directors of Al Sharq.
- g) Kuwait Education Fund is fund incorporated in the State of Kuwait in 2007. As of 31 December 2015, the Bank owns 34 % through its subsidiary KAMCO (2014: 22%).
- h) Syria Gulf Bank (SGB) is a commercial bank incorporated in the Syrian Arab Republic. SGB commenced commercial operations in 2007. The Bank directly owns a 31% (2014: 31%) equity stake in SGB.
- i) Assoufid B.V. is a closed company incorporated in the Netherlands. During the year ended 31 December 2015, the Bank acquired 40% equity stake in Assoufid B.V. from North Africa Holding Company, an associate of the Group.

10 INVESTMENTS IN ASSOCIATES (continued)

- j) Royal Capital is a closed company incorporated in the United Arab Emirates in 2007. As of 31 December 2015, the Bank owns 26% in Royal Capital through its subsidiary KAMCO (2014: 26%).
- k) The Bank indirectly owns 20% (2014: 20%) of Meena Homes Real Estate Company through its subsidiary KAMCO.
- l) United Real Estate Company - Syria is a closed company incorporated in the Syrian Arab Republic. At 31 December 2015, the Bank directly owns 20% (2014: 20%) of its equity stake.
- m) Arab Leadership Academy is training institute incorporated in the State of Kuwait in 2007. As of 31 December 2015, the Bank owns 15% (2014: 15%) through its subsidiary KAMCO. The Group has significant influence by appointment of directors on the Board of Directors of Arab Leadership Academy.
- n) The Bank indirectly owns 50% (2014: 40%) of The Egyptian Company for Factoring S.A.E. through its subsidiary FIMBank.
- o) The Bank indirectly owns 40% (2014: 40%) of Brasilfactors through its subsidiary FIMBank.
- p) The Bank indirectly owns 20% (2014: 20%) of Savanah SPV through its subsidiary KAMCO.
- q) The Bank indirectly owns 22% (2014: 33%) of KAMCO Real Estate Yield Fund through its subsidiary KAMCO.

Investments in associates include quoted associates with a carrying value of US\$ 695,963 thousand (2014: US\$ 738,421 thousand) with a total quoted market price of US\$ 519,003 thousand at 31 December 2015 (2014: US\$ 643,343 thousand). In accordance with IAS 36, 'Impairment of Assets', the group's recoverable amount of these associates (i.e. value in use) was in excess of their carrying values and accordingly no impairment was recognised against these investments during the year ended 31 December 2015 (2014: same). The Group also assessed the recoverable amount of its unquoted investment in associates and determined that investment in Al Sharq and The Egyptian Company for Factoring S.A.E. was impaired by US\$ 1,648 thousand (2014: US\$ 855 thousand) and US\$ 1,505 thousand (2014: nil) respectively.

Investments in material associates

The tables below illustrate the Group's investment in associates that are considered as individually material:

	Burgan Bank US\$ 000	United Real Estate Company US\$ 000
Summarised statement of financial position as of 31 December 2015:		
Current assets	1,710,895	191,626
Non-current assets	20,795,897	1,633,707
Current liabilities	(1,248,382)	(243,844)
Non-current liabilities	(18,487,289)	(754,222)
Equity	2,771,121	827,267
Equity attributable to the shareholders of the Parent	2,113,172	678,467
Proportion of the Group's ownership	17%	21%
Group's ownership in equity	364,311	145,599
Other adjustments	172,839	9,180
Carrying amount of investments	537,150	154,779
Fair value of investment in associate based on quoted market price	442,105	72,173

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10 INVESTMENTS IN ASSOCIATES (continued)

Investments in material associates (continued)

	<i>Burgan Bank US\$ 000</i>	<i>United Real Estate Company US\$ 000</i>
Summarised statement of financial position as of 31 December 2014:		
Current assets	16,068,216	154,513
Non-current assets	10,448,697	1,627,876
Current liabilities	(21,576,037)	(399,369)
Non-current liabilities	(1,670,874)	(576,955)
Equity	3,270,002	806,065
Equity attributable to the shareholders of the Parent	2,260,677	678,007
Proportion of the Group's ownership	17%	21%
Group's ownership in equity	384,315	145,500
Other adjustments	174,139	9,582
Carrying amount of investments	558,454	155,082
Fair value of investment in associate based on quoted market price	544,918	78,862
Summarised statement of income for the year ended 31 December 2015:		
Operating income	168,956	93,863
Interest income	868,745	1,404
Interest expense	(352,633)	(36,532)
Administrative expenses	(380,283)	(24,962)
Profit for the year	304,785	33,773
Other comprehensive (loss) income for the year	(162,365)	15,007
Total comprehensive income for the year	142,420	48,780
Group's share of profit for the year (Also refer Note 23)	44,042	6,003
Cash dividend received from the associate during the year	16,405	3,799
Summarised statement of income for the year ended 31 December 2014:		
Operating income	308,474	59,019
Interest income	1,043,569	2,283
Interest expense	(408,860)	(33,822)
Administrative expenses	(694,466)	(1,053)
Profit for the year	248,717	26,427
Other comprehensive (loss) income for the year	(4,102)	9,752
Total comprehensive income for the year	244,615	36,179
Group's share of profit for the year (Also refer Note 23)	49,872	5,039
Cash dividend received from the associate during the year	6,859	6,583

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10 INVESTMENTS IN ASSOCIATES (continued)**Investments in associates that are individually not significant**

The aggregate summarised financial information of the Group's associates that are not individually significant are provided below:

	2015 US\$ 000	2014 US\$ 000
Summarised statement of financial position as of 31 December:		
Total assets	698,607	591,793
Total liabilities	(267,097)	(252,037)
Equity	<u>431,510</u>	<u>339,756</u>
Carrying amount of investments	<u>162,055</u>	<u>151,455</u>
Summarised statement of income for the year ended 31 December:		
Revenue	<u>30,946</u>	<u>42,218</u>
Loss for the year	<u>(6,306)</u>	<u>(11,118)</u>
Other comprehensive (loss) income for the year	<u>(24,462)</u>	<u>7,802</u>
Total comprehensive loss for the year	<u>(30,768)</u>	<u>(3,316)</u>
Group's share of loss for the year	<u>(4,195)</u>	<u>(17,653)</u>

11 INVESTMENT PROPERTIES

	2015 US\$ 000	2014 US\$ 000
At 1 January	4,774	14
Acquisition*	19,708	4,760
Acquisition of a subsidiary (Note 4)	26,500	-
Disposal/transfers	(4,760)	-
At 31 December	<u>46,222</u>	<u>4,774</u>

Investment properties comprise of land and buildings owned by the Group. These are stated at fair values, determined based on independent valuations performed by external professional valuers at the year end.

* Acquisition during the year includes land of US\$ 6.98 million which is located in Riyadh, Kingdom of Saudia Arabia and held under a trust arrangement.

Valuations of investment properties were conducted by independent appraisers with a recognised and relevant professional qualification and recent experience of the location and category of investment property being valued. The discounted future cash flow method or property market value method have been used as deemed appropriate considering the nature and usage of the property.

The Group's investment properties are categorised in level 2 and 3 of the fair value hierarchy as at 31 December 2015 and 2014.

12 GOODWILL

	2015 US\$ 000	2014 US\$ 000
At 1 January	54,509	56,008
Recognised on acquisition of subsidiaries during the year	-	33,599
Impairment recognised during the year	-	(31,417)
Foreign currency translation adjustments	(2,188)	(3,681)
At 31 December	<u>52,321</u>	<u>54,509</u>

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12 GOODWILL (continued)

The goodwill remaining as of 31 December mainly relates to KAMCO (a subsidiary) and is allocated to the asset management and investment banking operating segment, a cash generating unit (a CGU). The recoverable amount of the CGU is determined based on a value in use calculation using cash flow projections from financial budgets approved by the Group's senior management covering a five year period. The key assumptions used in the value in use calculation include a perpetuity growth rate of 3% (2014: 3%) and discount factor of 10% (2014: 10%). There was no goodwill impairment identified in 2015 or 2014 as the recoverable amount of the CGU was higher than its net book value.

The calculation of value in use for the CGU is sensitive primarily to market risk premium, growth risk rate, risk free rate and country risk premium.

The sensitivity of the value in use calculation to changes in key assumptions used in the impairment assessment of goodwill is disclosed below:

	<i>Impact of change</i>	
	<i>+10 %</i>	<i>-10 %</i>
Key assumptions	US\$ 000	US\$ 000
Growth rate	8,502	(7,804)
Discount factor	(30,459)	40,739

These changes do not result in impairment of goodwill.

13 TAXATION

The Group's subsidiaries are in Malta, the United Kingdom and India are subject to income tax.

a) Deferred tax assets

Deferred tax assets relate to the following:

	2015	2014
	US\$ 000	US\$ 000
Excess of capital allowances over depreciation	(416)	(472)
Allowances for uncollectibility	23,610	26,284
Changes in fair value of financial instruments	163	25
Investment tax credits	328	328
Unabsorbed capital allowances	275	-
Unabsorbed tax losses	16,608	7,747
	40,568	33,912

Reconciliation of deferred tax assets is as follows:

	<i>Opening balance</i>	<i>Recognised in other comprehensive income</i>	<i>Recognised in statement of income</i>	<i>Effects of movement in exchange rates</i>	<i>Closing balance</i>
2015	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Excess of capital allowances over depreciation	(472)	-	56	-	(416)
Allowances for uncollectibility	26,285	-	(2,213)	(462)	23,610
Changes in fair value of financial instruments	25	(205)	343	-	163
Investment tax credits	328	-	-	-	328
Unabsorbed capital allowances	-	-	275	-	275
Unabsorbed tax losses	7,747	-	9,060	(199)	16,608
	33,913	(205)	7,521	(661)	40,568

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

13 TAXATION (continued)**a) Deferred tax assets (continued)**

	<i>Arising on acquisition</i>	<i>Recognised in other comprehensive income</i>	<i>Recognised in statement of income</i>	<i>Effects of movement in exchange rates</i>	<i>Closing balance</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>
2014					
Excess of capital allowances over depreciation	(519)	-	47	-	(472)
Allowances for uncollectibility	9,927	-	16,828	(471)	26,284
Changes in fair value of financial instruments	(164)	511	(322)	-	25
Investment tax credits	328	-	-	-	328
Unabsorbed capital allowances	183	-	(183)	-	-
Unabsorbed tax losses	7,502	-	263	(18)	7,747
	<u>17,257</u>	<u>511</u>	<u>16,633</u>	<u>(489)</u>	<u>33,912</u>

As at 31 December 2015, the Group has tax losses arising out of subsidiaries in Malta, the United Kingdom and India of US\$ 95,889 thousand (31 December 2014: US\$ 100,590 thousand) that are available for offsetting against future taxable profits.

b) Deferred tax liabilities

Deferred tax liabilities on acquisition of the subsidiary relates to the following:

	<i>2015</i>
	<i>US\$ 000</i>
Excess of capital allowances over depreciation	403
Changes in fair value of financial instruments	1,805
	<u>2,208</u>

Reconciliation of deferred tax liabilities is as follows:

	<i>Arising on acquisition</i>	<i>Recognised in statement of income</i>	<i>Closing balance</i>
2015			
Excess of capital allowances over depreciation	115	288	403
Changes in fair value of financial instruments	1,259	546	1,805
	<u>1,374</u>	<u>834</u>	<u>2,208</u>

c) Income tax credit

The major components of income tax credit for the year ended 31 December are as follows:

	<i>2015</i>	<i>2014</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>
Consolidated statement of income		
Current income tax charge	(50)	(2,131)
Movement in deferred tax assets recognised in statement of income	7,521	16,633
Movement in deferred tax liabilities recognised in statement of income	(834)	-
Income tax credit reported in the statement of income - net	<u>6,637</u>	<u>14,502</u>

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

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At 31 December 2015

14 ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

During 2014, the Board of Directors of FIMBank, a subsidiary of the Group, resolved to wind down its activities related to CIS Factors Holdings B.V. ("CIS") after taking into consideration both entity-specific as well as economic and market conditions in Russia. Accordingly, the assets, liabilities and results of the entity are being presented in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations".

15 LOANS PAYABLE

31 December 2015	Currency*	Parent US\$ 000	Subsidiaries US\$ 000	Total US\$ 000
Maturing within one year				
<i>1 month or less</i>	KWD	-	21,421	21,421
	US\$	-	20,000	20,000
	EUR	-	6,121	6,121
	INR	-	5,418	5,418
	CLP	-	353	353
<i>3 months or less but over 1 month</i>	US\$	-	25,500	25,500
	KWD	-	24,717	24,717
	EUR	-	2,185	2,185
<i>1 year or less but over 3 months</i>	US\$	70,000	65,000	135,000
	KWD	-	26,364	26,364
	INR	-	20,477	20,477
	EUR	-	3,278	3,278
		70,000	220,834	290,834
Maturing after one year				
<i>More than 1 year & less than 2 years</i>	US\$	346,330	-	346,330
	KWD	-	16,478	16,478
<i>More than 2 years</i>	KWD	49,433	-	49,433
	US\$	-	11,405	11,405
	CLP	-	88	88
		395,763	27,971	423,734
		465,763	248,805	714,568
31 December 2014				
Maturing within one year				
<i>1 month or less</i>	US\$	-	40,000	40,000
	KWD	-	10,263	10,263
	INR	-	1,667	1,667
	CLP	-	823	823
<i>3 months or less but over 1 month</i>	US\$	-	22,518	22,518
	INR	-	66,475	66,475
	KWD	-	6,842	6,842
	CLP	-	1,135	1,135
<i>1 year or less but over 3 months</i>	US\$	127,355	119,000	246,355
	EUR	-	26,364	26,364
	KWD	-	21,381	21,381
	INR	-	11,582	11,582
		127,355	328,050	455,405

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At 31 December 2015

15 LOANS PAYABLE (continued)

	<i>Currency*</i>	<i>Parent US\$ 000</i>	<i>Subsidiaries US\$ 000</i>	<i>Total US\$ 000</i>
Maturing after one year				
More than 1 year & less than 2 years	US\$	70,000	-	70,000
	KWD	-	17,105	17,105
More than 2 years	US\$	215,000	6,605	221,605
	KWD	-	17,105	17,105
	CLP	-	127	127
		<u>285,000</u>	<u>40,942</u>	<u>325,942</u>
		<u>412,355</u>	<u>368,992</u>	<u>781,347</u>

* KWD represents Kuwaiti Dinar.

* INR represents Indian Rupee.

* CLP represents Chilean Peso.

16 SUBORDINATED DEBT

The Group's sub-ordinated debt comprises of 10-year floating rate notes amounting to US\$ 100 million issued in 2006, and a 5-year loan amounting to US\$ 50 million issued during the year by FIMBank, a subsidiary of the Group. Both the instruments carry floating rate of interest and rank after the Group's unsubordinated, secured and unsecured creditors. The Group's subordinated debt qualifies as Tier 2 capital under the provisions of capital adequacy guidelines issued by the Central Bank of Bahrain.

17 OTHER LIABILITIES

	<i>2015 US\$ 000</i>	<i>2014 US\$ 000</i>
Staff related payables	16,607	14,654
Accrued expenses	17,620	5,779
Interest payable	7,306	7,109
Dividends payable	2,500	2,492
Deferred tax (Note 13)	2,208	-
Derivative financial liabilities (Note 30)	80	89
Other payables	8,678	31,422
	<u>54,999</u>	<u>61,545</u>

18 EQUITY**Share capital**

The Bank's authorised share capital as of 31 December 2015 comprised 1 billion shares of US\$ 0.25 each (2014: 1 billion shares of US\$ 0.25 each).

The issued and fully paid up share capital as of 31 December 2015 comprised 834,602,295 shares of US\$ 0.25 each (2014: 834,602,295 shares of US\$ 0.25 each).

Treasury shares and treasury shares reserve

At 31 December 2015, the Bank held 19,454,135 treasury shares (2014: 19,454,135 shares). These treasury shares do not carry any voting rights and are not entitled to dividends. The net gain or loss on reissuance of treasury shares is taken to treasury share reserve in the consolidated statement of changes in equity and is not available for distribution. The value of treasury shares based on the last bid price as of 31 December 2015 was US\$ 20,125 thousand (2014: US\$ 20,125 thousand).

Share premium

Share premium represents a non-distributable reserve arising from the exercise of the Bank's Employee Share Option Plan. The reserve is credited with the difference between the proceeds from the exercise of share options and the par value of the shares issued under the plan.

18 EQUITY (continued)**Statutory reserve**

In accordance with the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the profit for the year is transferred to a statutory reserve until such time as the reserve reaches 50% of the Bank's paid-up 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 Directors have approved a transfer of 10% (2014:10%) of the profit of the Group for the year to general reserve in accordance with the Bank's Articles of Association. The transfer is subject to shareholders' approval at the forthcoming Annual General Meeting. The general reserve is distributable subject to the approval of the Central Bank of Bahrain.

Dividend paid

No dividend was announced or paid during the years ended 31 December 2015 or 2014.

Foreign currency translation reserve

The foreign currency translation reserve represents the net foreign exchange gain or loss arising from translating the financial statements of the Bank's foreign subsidiaries and associated companies from their functional currencies into United States Dollars.

19 FAIR VALUE RESERVE

	2015 US\$ 000	2014 US\$ 000
Non-trading investments		
Balance at 1 January	7,628	(17,088)
Transferred to consolidated statement of income upon:		
- sale of non-trading investments	(19,628)	4,718
- impairment (Note 7)	-	2,272
Net movement in unrealised fair value during the year	(36,349)	17,726
Balance at 31 December	(48,349)	7,628
Cash flow hedges		
Balance at 1 January	(89)	(225)
Net movement in the fair values during the year	279	136
Balance at 31 December	190	(89)
	(48,159)	7,539

20 INTEREST INCOME

	2015 US\$ 000	2014 US\$ 000
Loans and receivables	53,879	55,891
Placements with banks	2,342	465
Demand and call deposits with banks	85	118
Non-trading investments	42	15
	56,348	56,489

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21 INVESTMENT INCOME - NET

	2015 US\$ 000	2014 US\$ 000
Dividend income	5,104	4,170
Gain (loss) on sale of an associates and subsidiaries	2,631	(8)
Gain on bargain purchase (Note 4)	2,040	-
Rental income from investment properties	1,430	154
(Loss) gain on sale of non-trading investments	(105)	4,718
(Loss) gain on investments carried at fair value through statement of income	(4,963)	2,745
Gain on step-acquisition of an associate	-	3,197
Others	1,525	29,234
	7,662	44,210

22 FEES AND COMMISSIONS - NET

	2015 US\$ 000	2014 US\$ 000
Credit related fees, commissions and other income - net	14,486	19,873
Management fees from fiduciary activities	13,891	15,519
Advisory fees	3,336	2,842
	31,713	38,234

23 SHARE OF RESULTS OF ASSOCIATES - NET

	2015 US\$ 000	2014 US\$ 000
Burgan Bank *	44,042	49,872
United Real Estate Company	6,003	5,039
United Capital Transport Company	1,279	1,791
KAMCO Real Estate Yield Fund	376	76
Kuwait Education Fund	186	305
Meena Homes Real Estate Company	23	23
Royal Capital Company P.S.C.	-	(39)
CIS Factors Holding B.V.	-	(219)
India Factoring and Finance Solutions Private Limited	-	(17,108)
Al Sharq Financial Brokerage Co.	(10)	271
Brasilfactors	(237)	(273)
Manafae Investment Company	(390)	709
The Egyptian Company for Factoring S.A.E.	(568)	(2,648)
Assoufid B.V.	(1,396)	-
North Africa Holding Company	(3,458)	(541)
	45,850	37,258

* This includes US\$ nil (2014: US\$ 12,386 thousand) relating to gain on deemed disposal of Burgan Bank upon purchase of treasury shares by Burgan Bank during the year ended 31 December 2014.

24 INTEREST EXPENSE

	2015 US\$ 000	2014 US\$ 000
Loans payable	29,847	32,443
Due to banks and other financial institutions	8,534	9,060
Subordinated debt	3,629	2,950
Deposits from customers	9,564	7,174
	51,574	51,627

25 EARNINGS PER SHARE

Basic and diluted

Basic and diluted earnings per share is calculated by dividing the profit attributable to the equity shareholders of the Bank by the weighted average number of shares outstanding during the year as follows:

	2015 US\$ 000	2014 US\$ 000
Profit (loss) attributable to equity shareholders of the Bank from:		
- continuing operations	12,782	22,694
- discontinued operations	(1,563)	(3,855)
	<u>11,219</u>	<u>18,839</u>
Weighted average number of shares outstanding during the year (in thousands)	<u>815,254</u>	<u>815,254</u>
Basic and diluted earnings per share (US cents)	<u>1.38</u>	<u>2.31</u>
Basic and diluted earnings per share from continuing operations (US cents)	<u>1.57</u>	<u>2.78</u>

26 CASH AND CASH EQUIVALENTS

	2015 US\$ 000	2014 US\$ 000
Demand and call deposits with banks excluding mandatory reserves	168,743	284,048
Placements with original maturities of ninety days or less	52,214	134,368
	<u>220,957</u>	<u>418,416</u>

27 SEGMENTAL INFORMATION

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Acting Chief Executive Officer, who is responsible for allocating resources to the reportable segments and assessing their performance. All operating segments reported by the Group meet the definition of a reportable segment under IFRS 8.

For management purposes, the Group is organised into business units based on the nature of their operations and services. The Group has two reportable operating segments being 'asset management and investment banking' and 'commercial banking'.

Asset management and investment banking	Undertaking asset portfolio management, corporate finance, advisory, investments in quoted and private equity/funds, real estate, capital markets, international banking and treasury activities.
Commercial banking	Loans and other credit facilities, deposit and current accounts from corporate and institutional customers.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Transactions between segments are generally recorded at estimated market rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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27 SEGMENTAL INFORMATION (continued)

Segmental information relating to the Group's operations for the year ended 31 December 2015 was as follows:

	<i>Asset management and investment banking US\$ 000</i>	<i>Commercial banking US\$ 000</i>	<i>Total US\$ 000</i>
Statement of income			
Income from external customers	30,804	68,176	98,980
Share of results of associates - net	2,613	43,237	45,850
Total income	33,417	111,413	144,830
Operating income (loss) before provisions and tax	12,629	(742)	11,887
Impairment loss on investments	(1,648)	(1,505)	(3,153)
Provisions for doubtful loans and other assets - net	-	(9,617)	(9,617)
Taxation	-	6,637	6,637
Profit (loss) for the year from continuing operations	10,981	(5,227)	5,754
Discontinued operations			
Net loss from discontinued operations	-	(2,554)	(2,554)
NET PROFIT (LOSS) FOR THE YEAR	10,981	(7,781)	3,200
Profit attributable to equity shareholders of the parent			11,219
Loss attributable to non-controlling interests			(8,019)
			3,200
Statement of financial position			
Investments in associates	311,483	542,501	853,984
Segment assets	860,721	1,855,795	2,716,516
Segment liabilities	985,306	1,227,943	2,213,249

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

27 SEGMENTAL INFORMATION (continued)

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

	Asset management and investment banking US\$ 000	Commercial banking US\$ 000	Total US\$ 000
Statement of income			
Income from external customers	60,121	71,671	131,792
Share of results of associates and joint ventures	7,634	29,624	37,258
Total income	67,755	101,295	169,050
Operating income before provisions	33,309	15,333	48,642
Impairment loss on investments	(3,127)	-	(3,127)
Provisions for doubtful loans and other assets - net	(5,327)	(15,220)	(20,547)
Impairment of goodwill	(4,868)	(26,549)	(31,417)
Taxation	-	14,502	14,502
Profit (loss) for the year	19,987	(11,934)	8,053
Discontinued operations			
Net loss from discontinued operations	-	(6,298)	(6,298)
NET PROFIT (LOSS) FOR THE YEAR	19,987	(18,232)	1,755
Profit attributable to equity shareholders of the parent			18,839
Loss attributable to non-controlling interests			(17,084)
			1,755

Statement of financial position

Investments in associates and joint ventures	298,790	566,201	864,991
Segment assets	900,502	1,877,328	2,777,830
Segment liabilities	977,792	1,219,651	2,197,443

Geographical segments

The Group operates in four geographic markets: Domestic region (G.C.C.*), Middle East and North Africa (MENA) (excluding G.C.C.), Europe, North America and others. The following table shows the distribution of the Group's total income and non-current assets by geographical segment, allocated based on the location of the customers and assets for the years ended 31 December 2015 and 2014:

	G.C.C. US\$ 000	MENA US\$ 000	Europe US\$ 000	North America US\$ 000	Others US\$ 000	Total US\$ 000
31 December 2015						
Total income	81,630	11,737	10,769	10,609	30,085	144,830
Non-current assets	1,181,341	5,810	64,102	7,152	-	1,258,405
31 December 2014						
Total income	117,523	4,800	37,477	1,808	7,442	169,050
Non-current assets	1,207,502	59,843	46,713	7,770	-	1,321,828

* The Gulf Co-operation Council (G.C.C.) countries are Kingdom of Bahrain, State of Kuwait, Kingdom of Saudi Arabia, State of Qatar, the United Arab Emirates and the Sultanate of Oman.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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28 RELATED PARTY TRANSACTIONS

Related parties represent the parent, associates and joint ventures, directors and key management personnel and entities which are controlled, jointly controlled or significantly influenced by any of the above mentioned parties.

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

	2015			
	<i>Parent</i> <i>US\$ 000</i>	<i>Associates</i> <i>US\$ 000</i>	<i>Other related parties</i> <i>US\$ 000</i>	<i>Total</i> <i>US\$ 000</i>
Loss on sale of non-trading investments	-	(614)	-	(614)
Gain on sale of investments in associates and subsidiaries	-	-	359	359
Fees and commissions - net	3,054	1,328	5,314	9,696
Dividend income	22	40	207	269
Interest income	1	996	341	1,338
Interest expense	(999)	(13,905)	(3,520)	(18,424)
Others	743	6,954	(904)	6,793
Sale transactions				
Non-trading investments	-	22,220	-	22,220
Investments in Subsidiaries	-	-	2,945	2,945
Investment properties	-	4,001	-	4,001
Purchase transactions				
Investments in associates	-	30,055	2,651	32,706
Investment in subsidiary	-	12,161	-	12,161
Investment properties	-	19,708	-	19,708
	2014			
	<i>Parent</i> <i>US\$ 000</i>	<i>Associates and joint ventures</i> <i>US\$ 000</i>	<i>Other related parties</i> <i>US\$ 000</i>	<i>Total</i> <i>US\$ 000</i>
Gain on investments carried at fair value through statement of income - net	-	1	-	1
Loss on sale of non-trading investments	-	(332)	(16)	(348)
Fees and commissions - net	840	(1)	5,020	5,859
Dividend income	6	6	310	322
Interest income	-	1,050	317	1,367
Interest expense	(771)	(14,003)	(3,868)	(18,642)
Others	6	34,614	(789)	33,831
Impairment loss on investments	-	(1,117)	(191)	(1,308)
Purchase transactions				
Non-trading investments	-	31,490	-	31,490
Investment properties	-	4,760	-	4,760

All related party transactions are on terms that are mutually agreed between the counterparties.

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28 RELATED PARTY TRANSACTIONS (continued)

The year-end balances in respect of related parties included in the consolidated financial statements are as follows:

	2015			
	Parent US\$ 000	Associates US\$ 000	Other related parties US\$ 000	Total US\$ 000
Demand and call deposits with banks	-	750	530	1,280
Placements with banks	-	10,500	20,356	30,856
Investments, carried at fair value through statement of income	724	1,104	1,931	3,759
Investments, carried at fair value through statement of income in funds managed by related party	-	-	9,962	9,962
Non-trading investments	-	4,900	23,443	28,343
Loans and receivables	-	28,014	8,825	36,839
Other assets	409	42,305	11,168	53,882
Due to banks and other financial institutions	-	(51,729)	(133,405)	(185,134)
Deposits from customers	(94)	(2,846)	(14,739)	(17,679)
Loans payable	-	(492,865)	-	(492,865)
Other liabilities	(181)	(2,561)	(2,895)	(5,637)
Subordinated debt	-	(50,000)	-	(50,000)
	2014			
	Parent US\$ 000	Associates and joint ventures US\$ 000	Other related parties US\$ 000	Total US\$ 000
Demand and call deposits with banks	-	421	589	1,010
Placements with banks	-	30,000	15,505	45,505
Investments, carried at fair value through statement of income	425	1,317	942	2,684
Investments, carried at fair value through statement of income in funds managed by related party	-	-	9,962	9,962
Non-trading investments	173	-	19,510	19,683
Loans and receivables	-	62,885	2,228	65,113
Other assets	794	43,959	5,710	50,463
Due to banks and other financial institutions	-	(183)	(202,451)	(202,634)
Deposits from customers	(86)	(321)	(13,729)	(14,136)
Loans payable	-	(453,754)	-	(453,754)
Other liabilities	(24)	(1,368)	(2,602)	(3,994)
Off statement of financial position items:				
Letters of guarantee	-	27,367	-	27,367
Funds managed or advised by the Group	-	-	37,278	37,278

All related party exposures are performing and are free of any provision for possible credit losses.

28 RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel was as follows:

	2015 US\$ 000	2014 US\$ 000
Short term employee benefits	7,780	9,842

29 COMMITMENTS AND CONTINGENCIES

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.

Letters of credit, guarantees (including standby letters of credit) and acceptances committed by the Group to make payments on behalf of customers if certain conditions are met under the terms of the contract.

The Group has the following credit and investment related commitments:

	2015 US\$ 000	2014 US\$ 000
Credit related		
Letters of credit	88,159	65,834
Letters of guarantee	11,082	49,524
	99,241	115,358
Investment related *	65,819	109,260
	165,060	224,618

* Investment related commitments represent commitments for capital calls of fund structures. These commitments can be called during the investment period of the fund which is normally 1 to 5 years.

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At 31 December 2015

30 DERIVATIVES

In the ordinary course of business the Group enters into various types of transactions that involve derivative financial instruments.

	Notional amounts by term to maturity					
	Positive fair value US\$ 000	Negative fair value US\$ 000	Notional amount Total US\$ 000	Within 3 months US\$ 000	3 - 12 months US\$ 000	1 - 5 years US\$ 000
31 December 2015						
Derivatives held for trading *						
Forward foreign exchange contracts	54	(481)	235,538	226,308	9,230	-
Derivatives used as hedge of net investments in foreign operations						
Forward foreign exchange contracts	575	(213)	699,479	699,479	-	-
Derivatives used as cash flow hedges						
Interest rate swap	205	(15)	200,000	-	50,000	150,000
31 December 2014						
Derivatives held for trading *						
Forward foreign exchange contracts	308	(5)	223,962	189,568	25,163	9,231
Derivatives used as hedge of net investments in foreign operations						
Forward foreign exchange contracts	1,265	(127)	787,936	787,936	-	-
Cross currency swaps	2,243	-	70,621	70,621	-	-
Derivatives used as cash flow hedges						
Interest rate swap	-	(89)	100,000	-	50,000	50,000

* The Group uses foreign currency denominated borrowings and forward currency contracts to manage some of its transaction exposures. These currency forward contracts are not designated as cash flow, fair value or net investment in foreign operations hedges and are entered into for periods consistent with currency transaction exposures.

Forward foreign exchange contracts are contractual agreements to either buy or sell a specified currency, at a specific price and date in the future, and are customised contracts transacted in the over-the-counter market.

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.

Hedge of net investments in foreign operations

The Bank has designated certain forward foreign exchange contracts to hedge against changes in the value of its investments in foreign operations for an amount of US\$ 699 million (KWD 212 million) [2014: US\$ 762 million (KWD 183 million)]. Gains or losses on the retranslation of these forward foreign exchange contracts are transferred to equity through other comprehensive income to offset any gains or losses on the translation of the net investments in foreign operations.

30 DERIVATIVES (continued)**Cash flow hedges**

The Group is exposed to variability in interest cash flows on liabilities which bear interest at a variable rate. The Group uses interest rate swaps as cash flow hedges of these interest rate risks. A schedule indicating as at 31 December, the periods when the net cash flows are expected to occur and when they are expected to affect the consolidated statement of income is as follows:

	2015		2014	
	<i>Within 1 year US\$ 000</i>	<i>1-5 years US\$ 000</i>	<i>Within 1 year US\$ 000</i>	<i>1-5 years US\$ 000</i>
Net cash outflows (liabilities)	94	1,717	92	405
Statement of comprehensive income	(15)	205	(80)	(9)

31 RISK MANAGEMENT**a) Introduction**

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is considered critical to the Group's continuing profitability.

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

The major risks to which the Group is exposed while conducting its business and operations, and the means and organisational structure it employs to manage them strategically for building shareholder value, are outlined below.

Risk management structure

Each subsidiary within the Group is responsible for managing its own risks and has its own Board Committees, including Audit and Executive Committees in addition to other management committees such as Credit/Investment Committee and (in the case of major subsidiaries) Asset and Liability Committees (ALCO), or equivalent, with responsibilities generally the same as the Bank's committees.

The Board's role is to approve investment strategies of the Bank. However, it has delegated authority for the day-to-day decision making to the Executive Committee so that risk can be effectively managed within the Bank.

The Board of Directors has delegated the Executive Management of the Bank to the Acting Chief Executive Officer (who is not a Director) and has appointed several Board Committees to work with him and to form and define policies and approve procedures for all of the Bank's activities.

The Executive Management of the Bank is headed by the Acting Chief Executive Officer who is broadly responsible for the day to day conduct of the Bank's business in line with the Board's approved policies and procedures and complements and facilitates the Board in meeting its responsibility towards all stakeholders. He is assisted by the six members of the Bank's management team, each of whom is responsible for his or her respective department. Several management committees have been formed which are chaired by the Acting Chief Executive Officer.

Executive Committee

The Executive Committee comprises of four directors including the Chairman, Vice Chairman and two other directors. Board meetings are held through circulation to approve all proposals not within the Investment Committee's risk authority, as well as to act on all matters within the Board's remit.

31 RISK MANAGEMENT (continued)

a) Introduction (continued)

Risk management structure (continued)

Investment Committee

The Investment Committee is mainly responsible for approving or recommending approval to the Executive Committee limits for individual exposures, investments and concentrations towards banks, countries, industries, risk rating classes, or other special risk asset categories. In addition, the Committee also monitors the overall risk profile of the Bank and recommends provision levels to the Executive Committee. The Investment Committee is constituted by a majority motion passed in the Executive Committee. Currently the Committee consists of four members.

Audit Committee

The Audit Committee is appointed by the Board and consists of four members who are Directors, including three independent Directors. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing (a) the quality and integrity of financial reporting, (b) the audit thereof, (c) the soundness of the internal controls of the Bank, (d) the risk assessment of the Bank's activities, and (e) the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

Risk and Compliance

The Risk and Compliance Committee is responsible for the monitoring and assessment of risks facing the Bank, the review of compliance with internal and external guidelines, the review and recommendation of provisioning requirements, the assessment of the impact on the Bank from new regulatory requirements, and review of Investment Committee decisions. The Committee comprises of six senior executives of the Bank including the Acting Chief Executive Officer. Additionally, the Head of Internal Audit and Quality Assurance participates in the Committee meetings in the capacity of an observer.

Asset and Liability Committee

The Asset and Liability Committee establishes policies and objectives for the asset and liability management of the Bank's statement of financial position in terms of structure, distribution, risk and return and its impact on profitability. It also monitors the cash flow, tenor and cost/yield profiles of assets and liabilities and evaluates the Bank's financial position both from interest rate sensitivity and liquidity points of view, making corrective adjustments based upon perceived trends and market conditions, monitoring liquidity, monitoring foreign exchange exposures and positions. The Committee comprises of six senior executives of the Bank including the Acting Chief Executive Officer.

Management

The Management Committee acts as the steering committee of the Bank as well as a management forum to discuss any relevant issues. It meets on a weekly basis and consists of the Acting Chief Executive Officer and all Department Heads as well as Internal Audit. It also serves to follow up on a weekly basis on the daily conduct of the Bank's business activities. The Committee is headed by the Acting Chief Executive Officer.

Key Persons

The Key Persons Committee comprises three members of senior management. The Committee is mainly responsible for the supervision of adequacy of compliance with the Central Bank of Bahrain and Bahrain Bourse guidelines on key persons trading (insider trading).

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

31 RISK MANAGEMENT (continued)**a) Introduction (continued)***Nominating and Remunerations Committee*

The Nominating and Remuneration Committee (NRC) assists the Board in assessing the skills set of Board members and is responsible to oversee the preparation of appropriate nomination documents and notifications proposing candidates for directorships. It reviews the independence of directors on an annual basis, supervises the preparation of induction materials and orientation sessions, makes recommendations to the Board regarding the management structure and ensures that there is a succession plan in place. The NRC comprises of three members, all of whom are independent.

The NRC also recommends/ reviews the remuneration policies for the Board of directors and senior management and submits recommendations for shareholders' approval.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currency transactions.

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Group.

Where warranted, the Group enters into legally enforceable netting arrangements covering its money market and foreign exchange trading activities whereby the only net amounts may be settled at maturity. With regard to the credit risk in the off statement of financial statement exposures, third party guarantees are obtained wherever possible as a risk mitigation measure.

Concentration risk

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

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on country and counterparty limits and maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Robust limit structures put in place by the Board ensures effective monitoring and control of concentration risk and any limit breaches are immediately rectified and reported to the Board.

b) Credit risk

Credit risk arises from the extension of credit facilities in the Group's banking and trading activities as well as in investment activities where there is a possibility that a counterparty may fail to honour its commitment whenever an investment may fail.

Credit risk is mitigated through:

- (i) Establishing an appropriate credit risk environment;
- (ii) Operating under a sound credit and investment approval process;
- (iii) Maintaining appropriate credit administration, measurement and monitoring processes; and
- (iv) Ensuring adequate controls over the credit risk management process.

The Group has well defined policies approved at the individual board level. These provide carefully documented guidelines for credit risk management. There is a two tier committee structure to approve and review credit and investment risk. The Investment Committee comprises of the Acting Chief Executive Officer, Head of Treasury and the Chief Financial Officer. The Acting Head of Credit and Risk Management acts as a non-voting member to the Committee. Exposures beyond Investment Committee limits are approved by the Board's Executive Committee or by the full Board.

31 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Maximum exposure to credit risk without taking account of any collateral or other credit enhancements

The table below shows the Group's maximum exposure to credit risk for the components of on and off statement of financial position exposure. The maximum exposure shown is gross before the effect of mitigation through the use of master netting and collateral arrangements, but after any provision for impairment.

	2015 US\$ 000	2014 US\$ 000
Demand and call deposits with banks	176,793	284,048
Placements with banks	57,026	142,481
Non-trading investments	139,006	1,368
Loans and receivables	1,032,098	990,164
Other assets	115,302	108,789
Letters of credit	88,159	65,834
Letters of guarantee	11,082	49,524
Derivative financial assets	205	3,684
	1,619,671	1,645,892

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any single client or counterparty as of 31 December 2015 was US\$ 104 million (2014: US\$ 49 million) before taking account of collateral or other credit enhancements.

An analysis of the Group's financial assets by geographical region, before taking into account collateral held or other credit enhancements, is as follows:

	G.C.C. US\$ 000	Middle East and North Africa US\$ 000	Europe US\$ 000	Americas US\$ 000	Asia US\$ 000	Others US\$ 000	Total US\$ 000
Demand and call deposits with banks	21,546	5,588	75,165	74,127	336	31	176,793
Placements with banks	24,004	30,356	2,666	-	-	-	57,026
Non-trading investments	4,286	-	57,053	77,667	-	-	139,006
Loans and receivables	144,991	264,553	419,997	111,730	72,984	17,843	1,032,098
Other assets	53,711	10,964	31,310	3,106	16,211	-	115,302
Letters of credit	1,302	69,651	6,738	1,846	8,622	-	88,159
Letters of guarantee	2,734	6,679	1,133	536	-	-	11,082
Derivative financial assets	205	-	-	-	-	-	205
31 December 2015	252,779	387,791	594,062	269,012	98,153	17,874	1,619,671
Demand and call deposits with banks	53,984	5,864	187,205	35,031	1,702	262	284,048
Placements with banks	119,951	15,505	7,025	-	-	-	142,481
Non-trading investments	1,368	-	-	-	-	-	1,368
Loans and receivables	121,414	23,751	321,140	135,041	120,441	268,377	990,164
Other assets	52,946	2,219	18,397	1,892	22,730	10,605	108,789
Letters of credit	4,202	921	8,418	1,293	12,627	38,373	65,834
Letters of guarantee	28,112	5,210	9,652	1,324	-	5,226	49,524
Derivative financial assets	3,684	-	-	-	-	-	3,684
31 December 2014	385,661	53,470	551,837	174,581	157,500	322,843	1,645,892

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At 31 December 2015

31 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Risk concentrations of the maximum exposure to credit risk (continued)

An industry sector analysis of the Group's financial assets, before taking into account collateral held or other credit enhancements, is as follows:

	Trading & Manufacturing	Banks and other financial institutions	Construction and real estate	Individuals	Government and public sector	Others	Total
At 31 December 2015	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Demand and call deposits with banks	-	176,793	-	-	-	-	176,793
Placements with banks	-	57,026	-	-	-	-	57,026
Non-trading investments	-	4,286	-	-	134,720	-	139,006
Loans and receivables	261,485	561,821	53,272	2,387	53,239	99,894	1,032,098
Other assets	72	54,924	1,925	258	263	57,860	115,302
Letters of credit	1,044	86,953	-	-	-	162	88,159
Letters of guarantee	1,432	7,319	-	251	-	2,080	11,082
Derivative financial assets	-	205	-	-	-	-	205
	264,033	949,327	55,197	2,896	188,222	159,996	1,619,671
At 31 December 2014							
Demand and call deposits with banks	-	284,048	-	-	-	-	284,048
Placements with banks	-	142,481	-	-	-	-	142,481
Non-trading investments	-	1,368	-	-	-	-	1,368
Loans and receivables	401,130	415,048	50,001	2,501	33,112	88,372	990,164
Other assets	130	40,828	4,622	16	167	63,026	108,789
Letters of credit	5,017	60,330	-	-	-	487	65,834
Letters of guarantee	3,578	36,110	8,504	307	-	1,025	49,524
Derivative financial assets	-	3,684	-	-	-	-	3,684
	409,855	983,897	63,127	2,824	33,279	152,910	1,645,892

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 for commercial lending include charges over real estate properties, inventory, trade receivables, trading securities and bank guarantees.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

31 RISK MANAGEMENT (continued)**b) Credit risk (continued)****Collateral and other credit enhancements (continued)**

An industry sector analysis of the Group's gross loans and advances, before and after taking into account collateral held or other credit enhancements, is as follows:

	<i>Gross maximum exposure 2015 US\$ 000</i>	<i>Net maximum exposure 2015 US\$ 000</i>	<i>Gross maximum exposure 2014 US\$ 000</i>	<i>Net maximum exposure 2014 US\$ 000</i>
Loans to banks	114,359	73,645	140,743	58,855
Loans to customers	164,794	101,857	215,642	155,385
Factoring assets	340,842	156,117	302,242	258,859
Forfaiting assets	355,064	355,064	260,395	260,395
Syndication loans	98,091	87,147	146,628	132,628
Others	3,108	391	3,186	-
	1,076,258	774,221	1,068,836	866,122

Credit risk exposure for each credit rating

	<i>Investment grade US\$ 000</i>	<i>Non- investment grade US\$ 000</i>	<i>Unrated US\$ 000</i>	<i>Total US\$ 000</i>
At 31 December 2015				
Demand and call deposits with banks	166,207	5,318	5,268	176,793
Placements with banks	36,671	-	20,355	57,026
Non-trading investments	134,720	-	4,286	139,006
Loans and receivables	115,007	143,346	773,745	1,032,098
Other assets	49,119	949	65,234	115,302
Letters of credit	13,872	23,818	50,469	88,159
Letters of guarantee	659	-	10,423	11,082
Derivative financial assets	205	-	-	205
	516,460	173,431	929,780	1,619,671

At 31 December 2014

Demand and call deposits with banks	253,626	8,445	21,977	284,048
Placements with banks	95,653	-	46,828	142,481
Non-trading investments	-	-	1,368	1,368
Loans and receivables	68,398	146,476	775,290	990,164
Other assets	36,577	462	71,750	108,789
Letters of credit	-	-	65,834	65,834
Letters of guarantee	684	-	48,840	49,524
Derivative financial assets	3,684	-	-	3,684
	458,622	155,383	1,031,887	1,645,892

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risk and the comparison of credit exposures across all business lines, geographic regions and products. All externally rated credit risk exposures are rated by the relevant External Credit Assessment Institutions ("ECAIs").

Additionally, the internal risk ratings of the Group's externally unrated credit risk exposures which are largely subjective, are tailored to the various categories and are derived in accordance with the internal rating policy and practices. The attributable internal risk ratings are assessed and updated on a regular basis.

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At 31 December 2015

31 RISK MANAGEMENT (continued)**b) Credit risk (continued)**

The table above reflects the risk ratings of the credit risk exposures rated by the relevant ECAs. All of the externally unrated credit risk exposures have been classified under "Unrated" category.

Restructured 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, the loan is no longer considered past due. The Group had US\$ 20,347 thousand of restructured loans as of 31 December 2015 (31 December 2014: US\$ 53,637 thousand).

Offsetting financial assets and financial liabilities

The disclosures set out in the table below include financial assets and financial liabilities that are offset in the Group's statement of financial position:

	<i>Loans and receivables US\$ 000</i>	<i>Customer deposits US\$ 000</i>
31 December 2015		
Gross amounts of recognised financial asset (liability)	155,000	(155,023)
Gross amounts offset in the consolidated statement of financial position	(155,000)	155,000
Net amount of financial liability presented in the consolidated statement of financial position	-	(23)
31 December 2014		
Gross amounts of recognised financial asset (liability)	170,000	(170,024)
Gross amounts offset in the consolidated statement of financial position	(170,000)	170,000
Net amount of financial liability presented in the consolidated statement of financial position	-	(24)

c) Market risk

Market risk is defined as the risk of losses in the value of on-or-off statement of financial position financial instruments caused by a change in market prices or rates, (including changes in interest rates and foreign exchange rates). The Group's policy guidelines for market risk have been vetted by the Board of Directors in compliance with the rules and guidelines provided by the Central Bank of Bahrain. The Central Bank of Bahrain guidelines introduced a risk measurement framework whereby all locally incorporated banks in Bahrain are required to measure and apply capital charges in respect of their market risk in addition to capital requirements for credit risk and operational risk.

The market risk subject to capital charge normally arises from changes in value due to market forces in the following exposures:

- Interest rate instruments and securities in the trading book; and
- Foreign exchange throughout the banking book.

The Group has entered into interest rate swaps and forward foreign exchange contracts for hedging purposes and does not actively trade in derivatives.

31 RISK MANAGEMENT (continued)**c) Market risk (continued)****Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's consolidated statement of income based on the consolidated statement of financial position as of 31 December:

Currency	Sensitivity of		Sensitivity of	
	Increase in	net interest	Increase in	net interest
	basis	income	basis	income
	points	2015	points	2014
	2015	US\$ 000	2014	US\$ 000
Kuwaiti Dinar	+ 25	(511)	+ 25	(287)
United States Dollar	+ 25	(1,040)	+ 25	(1,375)
Euro	+ 25	(109)	+ 25	6
Pound Sterling	+ 25	6	+ 25	2
Others	+ 25	143	+ 25	(204)

The decrease in the basis points will have an opposite impact on the net interest income.

The sensitivity of the consolidated statement of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2015, including the effect of hedging instruments.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group considers the United States Dollar as its functional currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

The table below indicates the effect on profit before tax for the positions as at statement of financial position date as a result of change in the currency rate with all other variables held constant.

Currency	Effect on		Effect on		Effect on	
	Change in	profit	Effect on	Change in	profit	Effect on
	currency	before tax	equity	currency	before tax	equity
	rate in %	2015	2015	rate in %	2014	2014
	2015	US\$ 000	US\$ 000	2014	US\$ 000	US\$ 000
Kuwaiti Dinar	+2	(21,653)	1,643	+2	(18,319)	1,672
	-2	21,653	(1,643)	-2	18,319	(1,672)
Euro	+2	(1,518)	-	+2	(107)	-
	-2	1,518	-	-2	107	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

31 RISK MANAGEMENT (continued)

c) Market risk (continued)

Equity price risk

Equity price risk arises from the change in fair values of equity investments. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

The geographical distribution of the Group's equity investments is as follows:

Geographical distribution

At 31 December 2015	<i>Middle East/ North Africa</i> US\$ 000	<i>Europe</i> US\$ 000	<i>North America</i> US\$ 000	<i>Others</i> US\$ 000	<i>Total</i> US\$ 000
Investments carried at fair value through statement of income					
Quoted equities	15,583	706	4,053	770	21,112
Managed funds	11,341	401	66	-	11,808
Credit linked notes	-	17,741	-	-	17,741
	26,924	18,848	4,119	770	50,661
Non-trading investments					
Quoted equities	2,497	-	10,050	-	12,547
Unquoted equities	41,131	16,406	6,455	-	63,992
Managed funds	63,072	5,689	697	-	69,458
	106,700	22,095	17,202	-	145,997
Total	133,624	40,943	21,321	770	196,658
At 31 December 2014	<i>Middle East/ North Africa</i> US\$ 000	<i>Europe</i> US\$ 000	<i>North America</i> US\$ 000	<i>Others</i> US\$ 000	<i>Total</i> US\$ 000
Investments carried at fair value through statement of income					
Quoted equities	18,862	781	5,743	1,400	26,786
Managed funds	11,585	625	67	-	12,277
Credit linked notes	-	18,000	-	-	18,000
	30,447	19,406	5,810	1,400	57,063
Non-trading investments					
Quoted equities	5,752	-	-	-	5,752
Unquoted equities	43,724	16,595	6,489	-	66,808
Managed funds	113,080	30,118	1,281	-	144,479
	162,556	46,713	7,770	-	217,039
Total	193,003	66,119	13,580	1,400	274,102

At the reporting date, the exposure to listed equity securities at fair value was US\$ 33,659 thousand (2014: US\$ 32,538 thousand). A decrease of 10% on the market indices of MENA stock exchanges could have an impact of approximately US\$ 3,365 thousand (2014: US\$ 3,254 thousand) on the income or equity attributable to the Group, depending on whether the decline is significant or prolonged. The majority of the equities in the MENA region are quoted on the Kuwait Stock Exchange.

For unquoted investments carried at cost the impact of the changes in the equity prices will only be reflected in the consolidated statement of income when the investment is sold or deemed to be impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

31 RISK MANAGEMENT (continued)**d) Liquidity risk*****Analysis of financial liabilities by remaining contractual maturities***

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2015 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

At 31 December 2015

	On demand US\$ 000	1 - 6 months US\$ 000	6 - 12 months US\$ 000	1 - 5 years US\$ 000	10 - 20 years US\$ 000	Total US\$ 000
Financial liabilities						
Due to banks and other financial institutions	112,907	417,342	159,205	158,895	-	848,349
Deposits from customers	38,826	348,633	25,957	54,144	-	467,560
Loans payable	21,450	135,083	138,080	433,370	14,854	742,837
Subordinated debt	-	-	95,485	59,390	-	154,875
Other liabilities	-	-	-	54,999	-	54,999
Liabilities of disposal group classified as held for sale	-	-	166	-	-	166
Total non-derivative undiscounted financial liabilities	173,183	901,058	418,893	760,798	14,854	2,268,786

Derivatives

Net cash outflows on interest rate swaps
Gross settled foreign currency derivatives

	1 - 6 months US\$ 000	6 - 12 months US\$ 000	1 - 5 years US\$ 000	10 - 20 years US\$ 000	Total US\$ 000
	925,787	50,000	150,000	-	200,000
		9,230	-	-	935,017

Off-statement of financial position items

Letters of credit
Letters of guarantee
Investment related commitments

	55,317	12,421	20,421	-	88,159
	11,082	-	-	-	11,082
	-	-	65,819	-	65,819

The Group expects that not all of contingent items or commitments will be drawn before expiry of the commitments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

31 RISK MANAGEMENT (continued)**d) Liquidity risk (continued)**

At 31 December 2014

Financial liabilities

Due to banks and other financial institutions
 Deposits from customers
 Loans payable
 Subordinated debt
 Other liabilities
 Liabilities of disposal group classified as held for sale
 Total non-derivative undiscounted financial liabilities

On demand US\$ 000	1 - 6 months US\$ 000	6 - 12 months US\$ 000	1 - 5 years US\$ 000	10 - 20 years US\$ 000	Total US\$ 000
346,979	243,649	124,427	1,955	-	717,010
422,050	43,881	36,282	58,784	-	560,997
52,812	98,781	311,158	356,495	-	819,246
-	-	-	105,232	-	105,232
43,963	-	16,676	408	-	61,047
-	-	249	-	-	249
865,804	386,311	488,792	522,874	-	2,263,781

Derivatives

Net cash outflows on interest rate swaps
 Gross settled foreign currency derivatives

1 - 6 months US\$ 000	6 - 12 months US\$ 000	1 - 5 years US\$ 000	10 - 20 years US\$ 000	Total US\$ 000
-	50,000	50,000	-	100,000
1,048,125	25,163	9,231	-	1,082,519

Off statement of financial position items

Letters of credit
 Letters of guarantee
 Investment related commitments

47,313	558	17,963	-	65,834
-	49,524	-	-	49,524
-	-	109,260	-	109,260

The Group expects that not all of contingent items or commitments will be drawn before expiry of the commitments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

31 RISK MANAGEMENT (continued)**d) Liquidity risk (continued)**

In order to ensure that the Group can meet its financial obligations as they fall due, there is a close monitoring of its assets / liabilities position. Besides other functions, the Asset-Liability Committee evaluates the statement of financial position both from a liquidity and an interest rate sensitivity point of view. The whole process is aimed at ensuring sufficient liquidity to fund its ongoing business activities and to meet its obligations as they fall due. A diversified funding base has evolved in deposits raised from the interbank market, deposits received from customers and medium term funds raised through syndicated and commodity based murabaha transactions. These, together with the strength of its equity and the asset quality, ensure that funds are made available on competitive rates.

The maturity analysis of assets and liabilities analysed according to when they are expected to be recovered or settled are as follows:

At 31 December 2015

	<i>Less than 12 months US\$ 000</i>	<i>Over 12 months US\$ 000</i>	<i>Total US\$ 000</i>
Demand and call deposits with banks	168,743	8,050	176,793
Placements with banks	52,214	4,812	57,026
Investments carried at fair value through statement of income	50,661	-	50,661
Non-trading investments	147,268	137,735	285,003
Loans and receivables	918,511	113,587	1,032,098
Other assets	119,686	-	119,686
Investments in associates	-	853,984	853,984
Investment properties	-	46,222	46,222
Property and equipment	-	41,694	41,694
Goodwill	-	52,321	52,321
Assets of disposal group classified as held for sale	1,028	-	1,028
Total assets	1,458,111	1,258,405	2,716,516
Due to banks and other financial institutions	685,567	152,593	838,160
Deposits from customers	410,524	51,562	462,086
Loans payable	290,834	423,734	714,568
Subordinated debt	93,270	50,000	143,270
Other liabilities	-	54,999	54,999
Liabilities of disposal group classified as held for sale	166	-	166
Total liabilities	1,480,361	732,888	2,213,249
Net	(22,250)	525,517	503,267

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31 RISK MANAGEMENT (Continued)**d) Liquidity risk (continued)**

At 31 December 2014

	<i>Less than 12 months US\$ 000</i>	<i>Over 12 months US\$ 000</i>	<i>Total US\$ 000</i>
Demand and call deposits with banks	283,730	318	284,048
Placements with banks	142,481	-	142,481
Investments carried at fair value through statement of income	57,063	-	57,063
Non-trading investments	5,752	212,655	218,407
Loans and receivables	845,509	144,655	990,164
Other assets	113,574	-	113,574
Investments in associates and joint venture	-	864,991	864,991
Investment properties	-	4,774	4,774
Property and equipment	-	39,926	39,926
Goodwill	-	54,509	54,509
Assets of disposal group classified as held for sale	7,893	-	7,893
Total assets	1,456,002	1,321,828	2,777,830
Due to banks and other financial institutions	703,553	9,062	712,615
Deposits from customers	493,597	54,820	548,417
Loans payable	455,405	325,942	781,347
Subordinated debt	-	93,270	93,270
Other liabilities	-	61,545	61,545
Liabilities of disposal group classified as held for sale	249	-	249
Total liabilities	1,652,804	544,639	2,197,443
Net	(196,802)	777,189	580,387

e) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. When controls fail to perform operational risk can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group has established a board approved framework for operational risk management which comprehensively outlines operational risk appetite for the Bank and provides operational risk management procedures. The Framework is supported by a dedicated operational risk system covering Loss Data Collection, Risk and Control Self Assessment and Key Indicator modules which have been rolled out in the Bank. While, the Group cannot expect to eliminate all operational risks, but through dedicated operational risk framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

32 FAIR VALUE MEASUREMENT

The Group uses the hierarchy for determining and disclosing the fair value of financial instruments as disclosed in Note 2.

Management has assessed that financial assets comprising of demand and call deposits with banks, placements with banks, and loans and receivables maturing within one year, and financial liabilities comprising of on-demand customer deposits, amounts due to banks and loans payable falling due within one year approximate their carrying values largely due to the short term maturities of these instruments. Non-trading investments carried at cost are disclosed in Note 7.

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.

Quantitative disclosures fair value measurement hierarchy for assets as at 31 December 2015:

	<i>Fair value measurement using</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>
Assets measured at fair value				
Investments carried at fair value through statement of income				
Quoted equities	21,112	-	-	21,112
Credit linked notes	17,741	-	-	17,741
Managed funds	9,961	1,847	-	11,808
Non-trading investments				
Equities - quoted	12,547	-	-	12,547
Debt Securities - quoted	134,720	-	-	134,720
Equities - unquoted	-	22,370	478	22,848
Real estate managed funds - unquoted	-	16,301	-	16,301
Other managed funds	-	40,238	12,599	52,837
Debt securities - unquoted	-	-	2,968	2,968
Derivatives				
Used as hedge of net investments in foreign operations	-	362	-	362
Interest rate swap	-	205	-	205
Investment properties	-	19,722	26,500	46,222
	196,081	101,045	42,545	339,671
Liabilities measured at fair value				
Derivatives				
Held for trading	-	(427)	-	(427)
Interest rate swap	-	(15)	-	(15)
	-	(442)	-	(442)
Assets not carried at fair values				
Demand and call deposits with banks	-	8,050	-	8,050
Placements with banks	-	4,812	-	4,812
Loans and receivables	-	113,587	-	113,587
	-	126,449	-	126,449
Liabilities not carried at fair values				
Loans payable	-	423,734	-	423,734
Subordinated debt	-	50,000	-	50,000
	-	473,734	-	473,734

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32 FAIR VALUE MEASUREMENT (continued)

Quantitative disclosures fair value measurement hierarchy for assets as at 31 December 2014:

	<i>Fair value measurement using</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>	<i>US\$ 000</i>
Assets measured at fair value				
Investments carried at fair value through statement of income				
Quoted equities	26,786	-	-	26,786
Credit linked notes	18,000	-	-	18,000
Managed funds	9,961	2,316	-	12,277
Non-trading investments				
Equities - quoted	5,590	-	-	5,590
Equities - unquoted	84	41,620	531	42,235
Real estate managed funds - unquoted	-	64,070	-	64,070
Other managed funds	-	64,821	14,674	79,495
Debt securities - unquoted	-	-	1,368	1,368
Derivatives				
Held for trading	-	303	-	303
Used as hedge of net investments in foreign operations	-	3,381	-	3,381
Investment properties	-	4,760	-	4,760
	<u>60,421</u>	<u>181,271</u>	<u>16,573</u>	<u>258,265</u>
Liabilities measured at fair value				
Derivatives				
Interest rate swap	-	(89)	-	(89)
	<u>-</u>	<u>(89)</u>	<u>-</u>	<u>(89)</u>
Assets not carried at fair values				
Placements with banks	-	318	-	318
Loans and receivables	-	144,655	-	144,655
	<u>-</u>	<u>144,973</u>	<u>-</u>	<u>144,973</u>
Liabilities not carried at fair values				
Loans payable	-	325,942	-	325,942
Subordinated debt	93,270	-	-	93,270
	<u>93,270</u>	<u>325,942</u>	<u>-</u>	<u>419,212</u>

Transfers between Level 1, Level 2 and Level 3

During the year ended 31 December 2015 there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into or out of Level 3 fair value measurement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

32 FAIR VALUE MEASUREMENT (continued)

Reconciliation of fair value measurement of non-trading investments in level 3 of the fair value hierarchy:

	<i>Equities</i> <i>US\$ 000</i>	<i>Other managed funds</i> <i>US\$ 000</i>	<i>Debt securities</i> <i>US\$ 000</i>	<i>Investment properties</i> <i>US\$ 000</i>	<i>Total</i> <i>US\$ 000</i>
As at 1 January 2014	520	11,600	1,912	-	14,032
Recognised in statement of income	-	(1,236)	-	-	(1,236)
Net purchases, sales and transfers and settlements	41	5,456	-	-	5,497
Remeasurement recognised in OCI	(30)	(1,146)	(544)	-	(1,720)
As at 1 January 2015	531	14,674	1,368	-	16,573
Recognised in statement of income	44	(19)	-	-	25
Net purchases, sales and transfers and settlements	(97)	(1,079)	1,600	26,500	26,924
Remeasurement recognised in OCI	-	(977)	-	-	(977)
As at 31 December 2015	478	12,599	2,968	26,500	42,545

33 CAPITAL ADEQUACY

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

Capital management

The primary objectives of the Group's capital management are to ensure that the Group complies with capital requirements of the Central Bank of Bahrain and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, or issue equity securities. No changes were made in the capital management objectives, policies and processes from previous years.

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

	2015 US\$ 000	2014 US\$ 000
Capital base:		
Tier 1	316,345	418,305
Tier 2	88,292	-
Total capital base (a)	404,637	418,305
Credit risk weighted exposure	2,576,211	2,445,069
Market risk weighted exposure	66,898	193,000
Operational risk weighted exposure	52,750	85,759
Total risk weighted exposure (b)	2,695,859	2,723,828
Capital adequacy (a/b * 100)	15.01%	15.36%
Minimum requirement	12.5%	12.0%

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At 31 December 2015

33 CAPITAL ADEQUACY (continued)

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, statutory reserve, general reserve, treasury share reserve, foreign currency reserve, retained earnings and non-controlling interests less goodwill. The other component of regulatory capital is Tier 2 capital, which includes subordinated long term debt and fair value reserves.

34 MATERIAL PARTLY OWNED SUBSIDIARIES

KAMCO and FIMBank are the subsidiaries that the Group has material non-controlling interests in, and are listed on the Kuwait Stock Exchange and Malta Stock Exchange respectively. Presented below are the aggregated financial information of these subsidiaries as disclosure of the financial information for each subsidiary is not allowed by the stock exchange by-laws until the respective financial results of these subsidiaries are published.

	2015 US\$ 000	2014 US\$ 000
Accumulated balances of material non-controlling interest	103,793	107,068
Loss allocated to material non-controlling interest	(3,180)	(22,119)

The summarised financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations.

	2015 US\$ 000	2014 US\$ 000
Summarised statement of income for the year ended 31 December:		
Total income	91,014	95,654
Total expenses	(92,335)	(81,800)
Taxation	7,471	14,502
Losses on impairment - net	(12,770)	(67,767)
Loss for the year	(6,620)	(39,411)
Total comprehensive (loss) income for the year	(11,944)	9,470
Total comprehensive loss attributable to non-controlling interests	(4,244)	(344)
Summarised statement of financial position as of 31 December:		
Total assets	1,665,804	1,634,542
Total liabilities	(1,371,309)	(1,321,297)
Total equity	294,495	313,245
Attributable to equity holders of the parent	190,702	283,826
Non-controlling interest	103,793	29,419

Summarised cash flow information for the year ended 31 December:		
Operating activities	(66,671)	(86,171)
Investing activities	(236,360)	46,920
Financing activities	85,287	(3,344)
Foreign currency translation adjustments	288	6,077
Net decrease in cash and cash equivalents	(217,456)	(36,518)