A team committed to your success

Bank ABC Islamic Annual Report 2015

Contents

Vision and Mission

Our Vision

To be the Islamic Bank of choice in the region and provide banking solutions for customers' needs.

Our Mission

Our mission is to uphold our carefully formulated Islamic principles in the quest for mutual prosperity for our clients and the Bank. In pursuit of our mission, we commit the Bank to the purest forms of Islamic banking products and services from a Shari'a perspective. We remain demonstrably independent from the conventional sector and recognise the importance of Islam's social objectives in conducting our business. We are also committed to delivering a level of service that matches, or exceeds, the market practice internationally. To do so, we seek to employ the best available human resources and technology to apply the highest professional, moral and ethical standards.

“We are committed to knowing our customers and developing long-term relationships”

Directors' Report

Dr. Khaled S. Kawan

"ABC Islamic Bank was the first Islamic Bank to obtain a rating from the Islamic International Rating Agency (IIRA)"

In the name of Allah, the Beneficent, the Merciful.

Financial performance for 2015 has sustained the momentum of good results shown in 2014. While successfully managing a moderate growth of Risk Weighted Assets, with only a one percent increase over last year, total operating income increased by a healthy 23%. This, combined with a controlled growth in total operating expenses of 7%, allowed Bank ABC Islamic to achieve a robust growth of 31% in net profit for the year of $19.7 million in 2015 compared to $15.1 million in 2014.

High profile syndications and asset churn, which earned the bank good fees and skim income contributed to this result. This activity has also improved the percentage contribution of fees to total income to 22%. A significant run-off of over $600 million in assets for the year was handled well, by replacement of good yielding assets and additions to the customer base with special focus on corporate relationships & debt capital market activity. By the Grace of God the credit portfolio remained strong with no provisions for the year and the weighted average risk rating remained at an investment grade level of triple B

(All figures stated in US dollars)

minus. Liquidity of the bank remained very comfortable, with a capital adequacy ratio of 27.9%, well above the regulatory requirement of 12.5%. One of the highlights of the year was an Internal Audit Report, which gave a well remarked overall clean audit rating to the Islamic Bank.

The regional market outlook for 2016 presents twin challenges of lower growth and greater regional geopolitical uncertainty. New investments in our team and product capabilities should help us steer through these challenges and seek safer harbors in turbulent waters. Also importantly considerable effort has been expended towards laying down a solid platform for Debt Capital Market activity in conjunction with the Group's DCM team. A solid pipeline of co-leads last year is expected to be the springboard for mandated lead transactions this year some of which are already beginning to bear fruit.

We are grateful that these achievements of ABC Islamic Bank together with its future outlook have been vindicated by the market place also. ABC Islamic Bank was the first Islamic Bank to obtain a rating from the Islamic International Rating Agency (IIRA). This was reaffirmed recently in October 2015 as being unchanged from the previous year at A-/A-2 on the International scale and A+(bh)/A-1(bh) on the National scale with a stable outlook.

In closing, I would like to thank the Central Bank of Bahrain for its regulatory oversight and all relevant Government ministries for their collegial co-operation. I would also like to thank our customers for their continued patronage and all of our staff for their dedication and hard work. Finally I would like to thank, the shareholder for its support and to express the Board's appreciation to the Shari'a Board for their direction and wisdom in Shari'a matters.

Dr. Khaled S. Kawan
Chairman

> "A solid pipeline of co-leads last year is expected to be the springboard for mandated lead transactions this year some of which are already beginning to bear fruit."

Board of Directors

Dr. Khaled S. Kawan
Chairman
RC æ >|<

Ph.D. (Doctorat D'Etat) in Banking Laws, University of Paris (Sorbonne), France

Dr. Kawan joined Bank ABC in June 1991. Dr. Kawan is the Group Chief Executive Officer of Bank ABC since October 2013. Previously, Dr. Kawan was Group Legal Counsel until December 2009, when he was appointed Group Deputy Chief Executive of Bank ABC. Dr. Kawan joined the Board of Bank ABC Islamic in June 2010. He also represents Bank ABC as Chairman of Bank ABC Egypt and Director of ABC International Bank PLC, London.

Mr. Paul Jennings
Deputy Chairman
RC æ >|<

Mr. Jennings is Managing Director and CEO of ABC International Bank plc. Previously, Mr Jennings was Deputy CEO of ABC International Bank plc and Group Head, Global Trade Finance of Arab Banking Corporation (B.S.C.). Mr Jennings joined ABC International Bank plc in September 1999 and has over 30 years' experience in the International Wholesale Banking sector. He also represents Bank ABC as a Director of Banco ABC Brasil.

Mr. Abdulrahman Abdulla Al-Sayed
Director
AC NCCGC § ▯

MBA, University Of Dundee, UK

Certified Public Accountant (CPA)

Mr. Al-Sayed has over 16 years of experience in Islamic banking and its regulations. He is the co-founder and Deputy Chairman of Itqan Financial Services, an investment business company licensed and regulated by the Central Bank of Bahrain. Prior to that, he was the Director of Islamic Financial Institutions Supervision Directorate at the Central Bank of Bahrain between 1998 and 2008. He represented the Central Bank of Bahrain in several committees, notably, the Corporate Governance Working Group and the Capital Adequacy requirements for Sukuk, Securitizations and Real Estate Investments Working Group of the Islamic Financial Services Board, Malaysia. He also served as a member and an expert in number of boards and committees within banks in Bahrain in recent years. Mr. Al-Sayed has presented papers at various conferences and seminars and published articles on various subjects, particularly, regulations, Basel and risk management of Islamic banks.

Mr. Saleh H A Hussain
Director
AC NCCGC § ▯

MBA, Brunel University, UK

Mr. Hussain has over 35 years of banking experience. He is the President of his own Company, Saleh Hussain Consultancy. His other memberships include Bahrain Development Bank - Board Member; Solidarity Holding Company - Director, Bahrain; Saudi Hollandi Bank, Saudi Arabia – Audit Committee member; Alkhabeer Capital, Saudi Arabia - Head of Audit Committee; and AlMajdouie Group, Saudi Arabia – Head of Audit Committee.

AC	Member of the Audit Committee
RC	Member of the Risk Committee
NCCGC	Member of the Nominations, Compensation & Corporate Governance Committee
▯	Non-Executive
æ	Executive
>|<	Non-independent
§	Independent

Mr. Andrew Wilson
Director
RC AC NCCGC æ >|<

BSc (Hons) degree in Banking and Finance from the University of Loughborough, United Kingdom and an Associate of the Chartered Institute of Bankers

Mr. Wilson joined Arab Banking Corporation ("ABC" or the "Bank") in January 1989 initially in the Accounting, Systems and Compliance Department. He joined Group Audit in 1991 and served as a Senior Team Leader responsible for assessing the credit quality of risk assets and reviewing the operations of ABC Group branches and subsidiaries in various locations worldwide. Mr. Wilson was appointed as Head of Operations for ABC Bahrain in March 2005 and as Head of Group Operations in June 2014. He also served as ABC's Group Money Laundering Reporting Officer for 3 years and as a Director of ABC Securities (the Bank's brokerage company) for 2 years. Prior to joining the Bank, Mr. Wilson, worked for Standard Chartered Bank, first in London and then in Qatar and Bahrain.

Mr. Naveed Khan
Managing Director
æ >|<

MBA (Finance) University of the Punjab, Pakistan

Mr. Khan is Global Head of Islamic Banking at Arab Banking Corporation (B.S.C.) and has over 25 years of international banking experience in Corporate Banking, Treasury & Capital Markets, Consumer Banking and Islamic Finance. He spent his formative years in banking with Citigroup. Over a 15 year period with Citigroup, Mr. Khan moved from Karachi, where he was Citi's Corporate Banking Head to Citibank London, Budapest, New York and finally back to London where his last role was as East European Treasurer. In 1999, Mr. Khan moved to Riyadh to become Head of Islamic Banking at a Citi affiliate, Saudi American Bank. In 2004 Mr. Khan moved to ABC Islamic Bank as Managing Director. Mr. Khan was appointed as the Global Head for Islamic Banking for the ABC Group of companies in 2009 and was also appointed as a member of the Head Office Credit Committee of ABC BSC in 2011. Mr. Khan was also appointed as a member of the Head Office Asset & Liability Committee (ALCO) of ABC BSC in 2013 in addition to being voted as the Deputy Chairman of IIFM & Chairman of the Executive Committee of IIFM.

Mr. Abdulkarim Ismaeel Ahmed
Secretary to the Board

Post Graduate Accounting Diploma, Gulf Polytechnic, Bahrain

Mr. Ahmed has over 30 years of experience in both Islamic and conventional banking activities covering wide areas such as Fund managing, administration, operations, accounting, auditing, regulatory and Shari'a compliance through various posts held at Banco do Brasil, Banque Nationale De Paris and the ABC Group. His long years of audit experience with the Group Audit Department of ABC at various Arab and international branches and subsidiaries further exposed him to a wider range of conventional and Islamic retail/ wholesale products and enhanced his awareness of the requirements and responsibilities of the positions he currently holds.

Senior Management

Mr. Naveed Khan
Managing Director

MBA (Finance) University of the Punjab, Pakistan

Mr. Khan is Global Head of Islamic Banking at Arab Banking Corporation (B.S.C.) and has over 25 years of international banking experience in Corporate Banking, Treasury & Capital Markets, Consumer Banking and Islamic Finance. He spent his formative years in banking with Citigroup. Over a 15 year period with Citigroup, Mr. Khan moved from Karachi, where he was Citi's Corporate Banking Head to Citibank London, Budapest, New York and finally back to London where his last role was as East European Treasurer. In 1999, Mr. Khan moved to Riyadh to become Head of Islamic Banking at a Citi affiliate, Saudi American Bank. In 2004 Mr. Khan moved to ABC Islamic Bank as Managing Director. Mr. Khan was appointed as the Global Head for Islamic Banking for the ABC Group of companies in 2009 and was also appointed as a member of the Head Office Credit Committee of ABC BSC in 2011. Mr. Khan was also appointed as a member of the Head Office Asset & Liability Committee (ALCO) of ABC BSC in 2013 in addition to being voted as the Deputy Chairman of IIFM & Chairman of the Executive Committee of IIFM.

Mr. Hammad Hassan
Head of Marketing

MBA, Lahore University of Management Sciences, Pakistan; B.Sc. Electrical Engineering, University of Engineering & Technology, Lahore, Pakistan

Mr. Hassan has over twenty years of banking experience, and has been with ABC Islamic Bank (E.C.) since March 2005. Prior to joining ABC, Mr. Hassan worked for over eleven years with Citigroup and its affiliate in Saudi Arabia, Samba Financial Group. Mr. Hassan joined Citigroup in Pakistan in 1994 and moved to Samba Financial Group in 1997. Over these years at Citi and Samba, Mr. Hassan worked in different product areas including Global Transaction Services, Corporate Banking and Islamic Finance. In his last assignment at Samba before moving to ABC Islamic Bank, Mr. Hassan was the Product and Business Development Head of Samba's Islamic Banking Group. In 2005, Mr. Hassan joined ABC Islamic Bank and in his current role as Head of Marketing has the responsibility for managing the corporate/ wholesale and financial institutions (FIs) businesses for ABC Islamic Bank.

Mr. Iftikhar Ali
Head of Structuring & Capital Markets

MBA, Institute of Business Administration, Karachi; Chartered Financial Analyst (CFA) from CFA Institute, USA

Mr. Ali has 20 years of Islamic & Investment banking experience. He is responsible for originating and executing Islamic capital markets business for the bank. He joined ABC Islamic Bank in 2013 from Gulf International Bank where he was heading the Debt Capital Markets and Islamic Banking units. Previously, Mr. Ali headed the Corporate Finance team for Credit Agricole Indosuez for Pakistan before moving to Abu Dhabi Islamic Bank as part of their Structured and Project Finance team. He also has been an elected board member of the local CFA society.

Mr. Abdulkarim Ismaeel Ahmed
MLRO/Regulatory & Sharia Compliance Officer

Post Graduate Accounting Diploma, Gulf Polytechnic, Bahrain

Mr. Ahmed has over 30 years of experience in both Islamic and conventional banking activities covering wide areas such as Fund managing, administration, operations, accounting, auditing, regulatory and Shari'a compliance through various posts held at Banco do Brasil, Banque Nationale De Paris and the ABC Group. His long years of audit experience with the Group Audit Department of ABC at various Arab and international branches and subsidiaries further exposed him to a wider range of conventional and Islamic retail/wholesale products and enhanced his awareness of the requirements and responsibilities of the positions he currently holds.

Mr. Khalid Alraee
Chief Financial Officer

B.Com, University of the Punjab, Pakistan

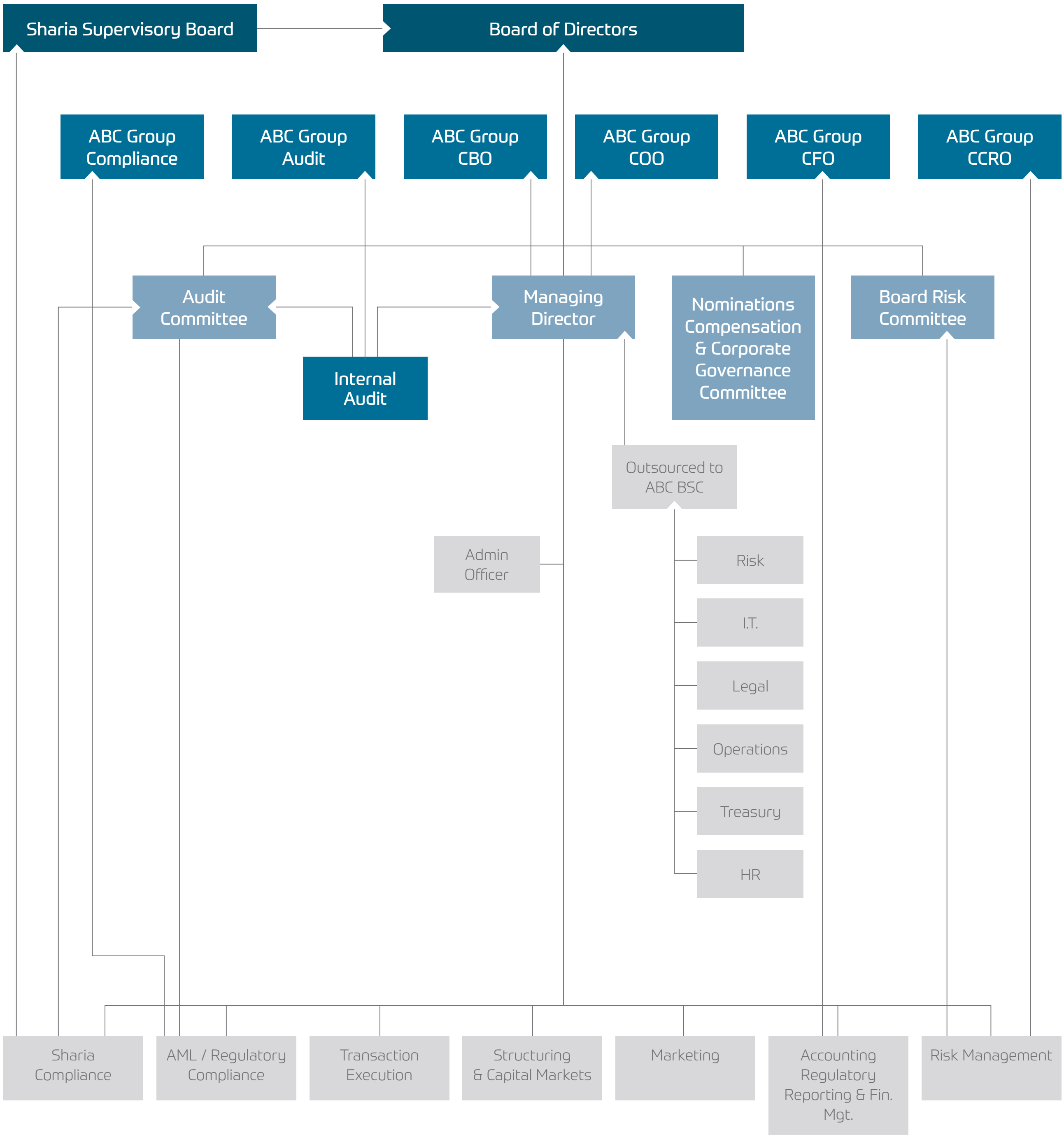
Mr. Alraee started his career with Peat Marwick, Mitchell & Co (merged with KPMG Fakhro), auditing banking clients, trading and shipping companies in 1984. Two years later he joined Reuters Middle East limited as the Regional Assistant Manager, Financial Control – responsible for financial reporting and accounting systems for Bahrain, Saudi Arabia, Qatar and Yemen offices. In 1992, Mr. Alraee joined the Accounting Systems & Compliance Department of ABC Investment and Services Co, which was later converted to a fully-fledged Islamic entity and consequently renamed ABC Islamic Bank.

Mr. Hisham Mouzughi
Head of Risk & Credit Support

Master of Science in Business Administration (MSBA), Boston University; MBA, Webster University; Postgraduate Diploma in Accounting & Finance, London School of Economics; Postgraduate Diploma in Islamic Banking & Insurance, Institute of Islamic Banking & Insurance, London

Mr. Mouzughi has been associated with the ABC Group for more than 20 years. He initially joined ABC's London Branch in 1989. In 1991, he took a university teaching assignment in Libya as well as some trading activities. He rejoined the ABC Group in 1996 in London with the Credit Function of ABC International Bank plc. During this period he progressed to the position of Deputy Head of Credit and in 2006 was transferred to Bahrain to head the Risk function of ABC Islamic Bank. He is currently serving on the Boards and Board Committees of ABC subsidiaries in Algeria and Egypt.

Organisational Chart



"We are trusted to deliver every time in the right way, demonstrating integrity to all our stakeholders"

Financial Highlights

FINANCIAL PERFORMANCE

Net profit after Zakah was $19.7 million compared to $15.1 million in 2014, an increase of 30.8%.

The bank's operating income and profitability improved significantly over 2014 on account of the following factors:

- Fee based income from syndicated deals and yield enhancement from distribution and asset churn.
- Focus on debt capital markets in conjunction with the parent group (Bank ABC)

The bank achieved these results despite a regional slowdown that started in the second half of the year. It is well positioned to face the challenging economic environment expected in 2016.

Statement of Financial Position

Total footings of the bank increased by $16 million or 1%. On a gross basis, the bank booked new assets of $627 million. However, these were off-set by repayments of $611 million from transactions maturing in 2015. The increase of $16 million in the total assets of the bank came about as a result of increase of $89 million in Investments, $4 million in Ijara assets combined with a decrease in Murabaha receivables of $77 million.

Income Statement

Total operating income amounted to $27.3 million, 23.3% higher than last year of $22.2 million. Income from Investments, Murabaha receivables and financial institution have shown a positive trend with an increase of $2.4 million, $4.8 million and $0.5 million compared to last year respectively. On the other hand, profit on Murabaha payables was also higher than previous year by $2.9 million. The proportion of fee to margin income is encouraging with a higher volume of customer related fee income recorded for the year, at the back of syndicated deals for prime customers as well as fee pick up from asset churn. This however, was marginally offset by $1.1 million decrease in income from Ijara. Staff expenses category was higher by only $0.2 million. However, the recurring expenses of $2 million were higher by $0.3 million due additional business related expenses as a result of higher business volume.

Zakah payments were above the AAOIFI requirement but in line with the index for inflation in Bahrain as a core Board Policy of community support and involvement.

Sources and applications of financial resources

The Board decision not to pay any dividends to the Parent and the retention of current years' net profit of $19.7 million led to healthy capitalization ratios. After earmarking for regulatory reserves, the total equity of the Bank grew to $283 million compared to $264 million in 2014.

Geographical diversification in assets and liabilities

The bank's core target market is concentrated largely in the Middle East, with the GCC countries accounting for more than 78.4% of its total portfolio and Turkey with 16.3% share. Saudi Arabia is the largest with a 34% share followed by UAE, Bahrain, Kuwait, Qatar and Oman.

Liabilities and owners' equity comprised 99.2% from the Middle East and North Africa, 0.6% from Europe (including Turkey) and 0.2% from North America.

Industrial distribution of assets

Banks and financial institutions made up 44.8%, Government 17.4%, manufacturing 12.6%, trading 8.9%, construction and commercial real estate 6.6%, transportation 3.8%, mining & quarrying 1.0% and other 4.9%.

Liquidity

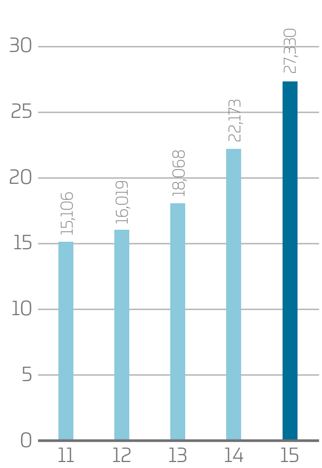
ABC Islamic Bank has retained strong liquidity historically and last year due to the following main factors:

1. Strong loyalty from core customers because of niche liability products unmatched by other Islamic banks.
2. Continued strong support from the Parent for its backstop liquidity requirements as Islamic liability marketing is also domiciled at ABC BSC.
3. Retention of Capital at the level of ABC Islamic Bank well above regulatory requirements.

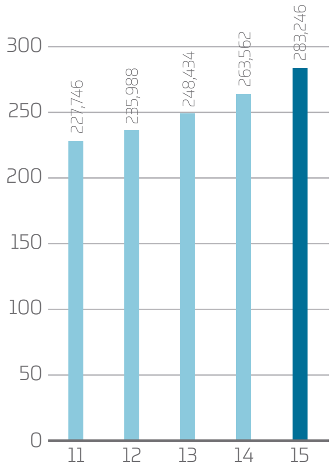
Capital adequacy

The Bank abides by international regulatory authorities' requirements in all its financial ratios. The bank is also keen to comply with Central Bank of Bahrain (CBB) regulations and directives pertaining to Islamic banking transactions and practices. The Bank's Capital Adequacy Ratio was calculated at 27.9% in 2015 compared to 23.6% in 2014. This ratio exceeds the minimum amount of 12.5% required by the CBB.

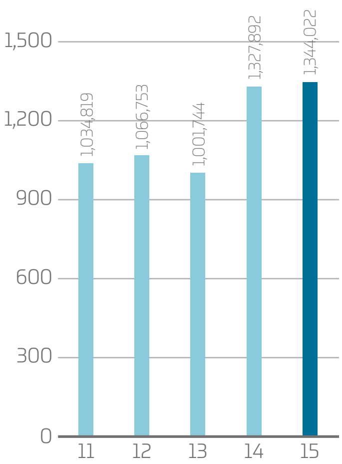
Total Operating Income US$ 000's



Owners' Equity US$ 000's



Total Assets US$ 000's



Breakdown of assets by industry sector

Percentage	**2015 %**	2014 %
Manufacturing	**12.6**	20.3
Mining & quarrying	**1.0**	1.1
Construction	**6.1**	8.0
Trading	**8.9**	11.6
Banks and financial institutions	**44.8**	39.7
Government	**17.4**	10.1
Commercial real estate	**0.5**	6.3
Transportation	**3.8**	2.5
Other	**4.9**	0.4

	2011	**2012**	**2013**	**2014**	**2015**
Ratios (%)					
Cost / income ratio	40.8	43.3	30.6	30.5	26.6
Return on average equity	3.6	3.6	5.0	5.9	7.2
Return on average assets	0.7	0.8	1.2	1.3	1.5
Liquidity assets ratio	25.9	17.7	8.9	22.5	28.8
Short-term assets to short-term liabilities	43.2	72.2	62.9	50.0	44.5
Risk asset ratio - Tier 1	26.5	25.3	26.2	22.2	27.9
Risk asset ratio - Total	27.5	26.2	27.6	23.6	27.9

The Shari'a Supervisory Board

REPORT OF THE SHARI'A SUPERVISORY BOARD TO THE SHAREHOLDERS ON PERFORMANCE OF ABC ISLAMIC BANK (E.C.) FOR THE YEAR 2015

In the name of Allah, The Beneficent, The Merciful

Praise be to Allah, the Lord of the worlds, and blessing and peace be upon His Prophet Mohammad and the people of His house and His companions.

The Shareholders of ABC Islamic Bank (E.C.)

Assalam Alaikum Wa Rahmat Allah Wa Barakatuh

In compliance with the letter of appointment and the Bank's articles of association, we are required to submit the following report:

We have reviewed the principles and the contracts relating to the transactions and applications introduced by the ABC Islamic Bank (E.C.) (the Bank) during the year ended 31 December 2015. We have also conducted our review to form an opinion as to whether the Bank has complied with Shari'a Rules and Principles and also with the specific fatwas, rulings and guidelines issued by us.

The Bank's management is responsible for ensuring that the financial institution conducts its business in accordance with Islamic Shari'a Rules and Principles. It is our responsibility to form an independent opinion, based on our review of the operations of the Bank, and to report to you.

We conducted our review, with the cooperation of the Shari'a Compliance Officer, which included examining, on a test basis, each type of transaction, the relevant documentation and procedures adopted by the Bank.

We planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Bank has not violated Islamic Shari'a Rules and Principles.

In our opinion:

a) the contracts, transactions and dealings entered into by the Bank during the year ended 31 December 2015 that we have reviewed are in compliance with the Islamic Shari'a Rules and Principles;

b) the allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Islamic Shari'a Rules and Principles;

c) all earnings that have been realized from sources or by means prohibited by Islamic Shari'a Rules and Principles have been disposed of to charitable causes; and

d) the calculation of Zakah is in compliance with Islamic Shari'a Rules and Principles.

The Board takes this opportunity to offer praise to Allah, exalted be He, His guidance, and to express its thanks to the Bank's management for their co-operation and their keenness in understanding and adherence to the rules of the noble Islamic Shari'a.

We beg Allah the Almighty to grant us all the success and straight-forwardness.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh

Shari'a Supervisory Board

Shaikh Abdul Latif Al Mahmood | **Shaikh Dr. Nedham Yaqoubi** | **Shaikh Mohamed Ali Elgari**

25 Rabi Al-Thani 1437 H
4 February 2016 G

Manama, Kingdom of Bahrain

Corporate Governance

ABC Islamic Bank (E.C.) (**"Bank ABC Islamic"** or the **"Bank"**) follows internationally-recognised best practice principles and guidelines, having a corporate governance system that provides an effective and transparent control framework, which is fair and accountable.

The Central Bank of Bahrain (**"CBB"**) licenses Bank ABC Islamic as an Islamic wholesale bank. Incorporated in 1985 as a Bahrain exempt closed joint stock company, Bank ABC Islamic has an authorised capital of $200 million and a paid up capital of $132.5 million as at 31 December 2015.

Bank ABC Islamic communicates all relevant information to stakeholders punctually and clearly through a variety of channels, including a well-maintained website. In particular, the Bank reports its profits on an annual, semi-annual and quarterly basis.

At least the last three years' financial statements are maintained on the Bank's website (http://www.bank-abc.com/world/IslamicBank).

Shareholders

The following table shows the ownership structure of Bank ABC Islamic as at 31 December 2015 and 31 December 2014:

Name of Shareholder	Percentage Shareholding	Nationality
Arab Banking Corporation (B.S.C.)	99%	Bahrain
Varner Holdings Limited[1]	1%	Jersey
Total	**100%**	

Arab Banking Corporation (B.S.C.) ("Bank ABC") was incorporated in 1980 as a Bahrain joint stock company and its shares have been listed on the Bahrain Bourse since 1990. It has an authorised capital of $3.50 billion and a paid up capital of $3.11 billion (as at 31 December 2015). Accordingly, none of the shares of Bank ABC Islamic are directly owned by a government. The CBB licenses Bank ABC as a conventional wholesale bank.

[1] *Varner Holdings Limited is 100% owned by Bank ABC and accordingly is a member of the ABC group of companies.*

(All figures stated in US dollars unless otherwise indicated)

Bank ABC Islamic has one wholly owned subsidiary. The ownership details of the subsidiary as at 31 December 2015 are as follows:

Name of subsidiary	Nature of business	Country of incorporation	Amount and percentage of holding
ABC Clearing Company	Investment Company	Cayman Islands	$2,000 and 100% of management shares

Bank ABC Islamic's corporate governance Charter and recent changes
In 2010, the CBB substantially updated its corporate governance requirements (particularly the CBB Rulebook's High Level Controls module) for financial institutions which are incorporated in Bahrain (the **"CBB Corporate Governance Requirements"**). The CBB Corporate Governance Requirements took full effect at the end of 2011. The CBB updated the CBB Corporate Governance Requirements including the High Level Controls module, from time to time thereafter.

Bank ABC Islamic has previously adopted a corporate governance charter and charters for the various Board committees (the **"ABC Islamic Board Mandates"**). These were updated in February 2013 and February 2015 to reflect such updates and now substantially reflect the CBB Corporate Governance Requirements. The main update in February 2015 was relating to the Board's responsibilities with regard to employee remuneration and to the mandate of the Nominations, Compensation and Corporate Governance Committee (the **"NCCG Committee"**). These changes were approved in response to amendments to the CBB Corporate Governance Requirements in January and July 2014, which in turn were based on the Financial Stability Board's Principles and Standards for Sound Compensation Practices. Two of the main principles behind the recent amendment to the Corporate Governance Charter are that the Board, rather than executive management, should be in control of employee remuneration, and that the remuneration policy and philosophy of Bank ABC Islamic should be aligned with its long-term business strategy, business objectives, risk appetite, values and long term interests, while recognising the interests of all relevant stakeholders.

The Bank ABC Islamic Board Mandates are displayed on the website of Bank ABC Islamic, and deals with a number of corporate governance-related matters, including:

- the role and responsibilities of the Board and its committees;
- the responsibilities of Directors to Bank ABC Islamic and the shareholder;
- the appointment, training and evaluation of the Board;
- remuneration of the Board and of Bank ABC Islamic employees;
- Bank ABC Islamic's management structure;
- communications with shareholder and the disclosure of information to relevant stakeholders;
- the detailed mandates of each of the committees of the Board.

Compliance with CBB Corporate Governance Requirements
The CBB Corporate Governance Requirements contain a mixture of rules (**"Rules"**) and recommendations (**"Guidance"**). The CBB requires the financial institutions to which the CBB Corporate Governance Requirements apply (including Bank ABC Islamic), to comply with the Rules and expects them to comply with the Guidance, or explain their non-compliance in the Annual Report and to the CBB.

Save as may otherwise be disclosed in this Annual Report, Bank ABC Islamic complied with the CBB Corporate Governance Requirements as at 31 December 2015, except where Bank ABC Islamic obtained an exemption from the CBB.

Bank ABC Islamic had two independent, non-executive Directors (representing one-third of the Board) and four non-independent, executive Directors as at 31 December 2015. However, the Chairman of Bank ABC Islamic is an executive director, which is not in line with the CBB Corporate Governance Requirements[2].

Also, as at 31 December 2015, the NCCG Committee comprised of two independent Directors (including its Chairman) and one executive Director. This is not compliant with the Rule for Nominations Committee membership and the Guidance for Compensation Committee membership in the CBB Corporate Governance Requirements, which require only independent directors or, alternatively, only non-executive directors of whom a majority must be independent directors[3].

[2] *Approved by the CBB*
[3] *Approved by the CBB*

Corporate Governance

Additionally, a member of the NCCG Committee is also a member of the Board Risk Committee. This is not in compliance with the Rule for Remuneration Committee membership which requires members of the remuneration committee to be independent of any risk taking function or committees[4].

Below are some additional instances of non-compliance with certain Guidance, together with the required explanations as per the "Comply or Explain" requirement of the CBB:

- **To dedicate a specific section of Bank ABC Islamic's website to describing shareholders' rights to participate and vote at each shareholders meeting, and to post significant documents relating to meetings including the full text of notices and minutes:** Bank ABC Islamic is directly and indirectly 100% owned by Bank ABC. Therefore, Bank ABC Islamic does not propose to comply with this Guidance because such information is readily available to its single shareholder by other means.

- **To have at least three independent members in the Corporate Governance Committee one of whom is recommended to be a Shari'a scholar and Shari'a Supervisory Board member:** The NCCG Committee currently has three members, comprising two independent directors (including its Chairman) and one executive director, with a wide range of skills and experience. However, given its 100% direct and indirect ownership by Bank ABC (which provides group-wide corporate governance oversight and which makes other expertise available to Bank ABC Islamic), the Bank does not intend to have three independent directors on this committee.

Also, with regard to having a Shari'a scholar and Shari'a Supervisory Board member in the committee, the Bank does not intend to comply with this Guidance since the Shari'a Compliance Officer at Bank ABC Islamic performs his reviews as per the Shari'a and Corporate Governance Standards issued by the Accounting and Auditing Organization For Islamic Financial Institutions (**"AAOIFI"**). The Shari'a Compliance Officer reports his findings to the Shari'a Supervisory Board as well as to the Audit Committee on such matters, and hence is considered to be the link between the Shari'a Supervisory Board and the Board with respect to compliance and governance issues relating to Shari'a.

BOARD OF DIRECTORS

Responsibilities of the Board
The Bank ABC Islamic Board Mandates are displayed on the Bank ABC Islamic's website. The Board of Directors (the "Board") is responsible for the overall direction, supervision and control of the Bank. In particular, the Board's responsibilities include (but are not limited to):

a) those responsibilities assigned to the Board by the Articles of Association of Bank ABC Islamic;

b) establishing Bank ABC Islamic's objectives;

c) Bank ABC Islamic's overall business performance;

d) monitoring management performance;

e) the adoption and annual review of strategy;

f) monitoring the implementation of strategy by management;

g) causing financial statements to be prepared which accurately disclose Bank ABC Islamic's financial position;

h) convening and preparing the agenda for shareholder meetings;

i) monitoring conflicts of interest and preventing abusive related-party transactions;

j) assuring equitable treatment of shareholders, including any minority shareholders;

k) the adoption and review of management structure and responsibilities;

l) the adoption and review of the systems and controls framework;

m) overseeing the design and operation of the remuneration system of Bank ABC Islamic and ensuring that such systems are not primarily controlled by the executive management of the Bank ABC Islamic.

The Board meets regularly (at least four times a year) to consider key aspects of Bank ABC Islamic's affairs, strategy and operations.

The Board exercises its responsibilities for best practice management and risk oversight mainly through the Board Risk Committee, which oversees the definition of risk/reward guidelines, risk appetite, risk tolerance standards and risk policies and standards.

The Board is responsible for the preparation and fair presentation of consolidated financial statements in accordance with the Financial Accounting Standards issued by AAOIFI, and for matters for which no AAOIFI standards exist, the International Financial Reporting Standards (**"IFRS"**) issued by the

[4] *Approved by the CBB*

International Accounting Standards Board (**"IASB"**). The Board is also responsible for such internal controls as the Board determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Appointment of Directors

The shareholders appoint the Board for a term of three years. At the 2015 year end, there were six Directors on the Board, with diverse and relevant skills who worked well together as a team. Collectively, they exercised independent and objective judgement in meeting their responsibilities.

Directors are elected by the shareholders of Bank ABC Islamic. In accordance with the Bank ABC Islamic Board Mandates, each proposal for the election or re-election of a Director shall be accompanied by a recommendation of the Board, and a summary of the advice of the NCCG Committee (see description of the role of the NCCG Committee in this report).

The Board also has the power under Bank ABC's Articles of Association to appoint new directors and fill any Board vacancies that may arise, subject to such appointment being subsequently ratified by shareholders.

When a new Director is inducted, the Chairman, or Bank ABC Islamic's Legal Counsel or Compliance Officer or other individual delegated by the Chairman, reviews the Board's role and duties with that person. In particular, they describe the legal and regulatory requirements of the Bank ABC Islamic Board Mandates and the CBB Corporate Governance Requirements. The Chairman of the Board ensures that each new Director receives a formal and tailored induction to ensure his contribution to the Board from the beginning of his term. This includes meetings with senior management, internal and independent auditors and legal counsel; visits to Bank ABC Islamic facilities; presentations regarding strategic plans, compliance programmes, and significant financial, accounting and risk management issues.

Bank ABC Islamic has a written appointment agreement with each Director. This describes the Director's powers, duties, responsibilities and accountabilities, as well as other matters relating to his appointment including his term, the time commitment envisaged, the Board committee assignments (if any), Directors' remuneration and expense reimbursement entitlement, and Directors' access to independent professional advice when needed.

Assessment of the Board

The Bank ABC Islamic Board Mandates require that the Board evaluates its own performance each year, as well as the performance of each Board Committee and individual Director. This evaluation includes:

a) assessing how the Board operates;

b) evaluating the performance of each Board committee in light of its specific purposes and responsibilities, which shall include review of the self-evaluations undertaken by each Board committee;

c) reviewing each Director's work, his attendance at Board and Board committee meetings, and his constructive involvement in discussions and decision making;

d) reviewing the Board's current composition against its desired composition in order to maintain an appropriate balance of skills and experience, and to ensure planned and progressive refreshing of the Board;

e) recommendations for new Directors to replace long-standing Directors, or those Directors whose contribution to Bank ABC Islamic or its Board committees (such as the Audit Committee) is not adequate.

The Board has conducted an evaluation and self-assessment of its performance, and the performance of each Board committee and each individual Director in relation to the financial year ending on 31 December 2015.

Independence of Directors

The Bank ABC Islamic Board Mandates include detailed criteria to determine whether a Director should be classified as independent or not. The Bank ABC Islamic independence criteria are at least as restrictive as the formal criteria specified in the CBB Corporate Governance Requirements.

As a rule, Directors do not have any direct or indirect material interest in any contract of significance with Bank ABC Islamic or any of its subsidiaries or any material conflicts of interest. This remained the case in 2015. The Bank ABC Islamic Board Mandates require that any transaction that causes a Director to have a material conflict of interest must be unanimously approved by the Board (other than the relevant Director) or the shareholders. Each Director is required to inform the entire Board of any actual, or potential, conflicts of interest in their activities with, or commitments to, other organisations as they arise, and to abstain from voting on these matters. Disclosures shall include all material facts.

Each Director has a legal duty of loyalty to Bank ABC Islamic, and can be personally sued by Bank ABC Islamic or its shareholders for any violation.

Corporate Governance

Compensation & Interests of Directors
The general remuneration policy of Bank ABC Islamic with regard to Directors is included in the Bank ABC Islamic Board Mandates (as set out on the Bank's website). The compensation for members of the Board of Directors (other than executive Directors) consists of the following elements:

(a) an annual fee, which is approved by the Annual General Meeting of Bank ABC Islamic; and

(b) reimbursement to cover travelling and/or accommodation expenses while attending Board and Board Committee meetings.

The remuneration structure of the Board of Directors is designed to reinforce its independence. In line with good corporate practice, this means that the Directors are paid a fee which is based on their role and time commitment only. Directors do not receive variable pay (annual or longer-term) or significant benefits. The remuneration of Directors (other than executive Directors who are members of senior management) is neither determined nor based on the performance of Bank ABC Islamic.

Directors' remuneration, allowances and expenses for attendance at Board meetings for 2015 amounted to $144,000 (2014: $144,000).

Board remuneration 2015 (US$)	
Attendance Fees	Nil
Monthly Retainer	144,000
Actual Board Meetings-Related Expenses	12,982
Total	**156,982**

No Director owned or traded Bank ABC Islamic shares during 2015.

Board Committees
The Board and its committees are supplied with full and timely information to enable them to discharge their responsibilities. In this respect, the Board, its committees and all Directors have access to senior management, external consultants and advisors. The Board Secretary is responsible for ensuring that the Board procedures, and applicable rules and regulations, are observed.

The Board has delegated specific responsibilities to a number of Board Committees. Each such committee has its own formal written charter, which is set out in full in the Bank ABC Islamic Board Mandates. The main Board committees are:

- The **Audit Committee,** which is responsible to the Board for the integrity and effectiveness of Bank ABC Islamic's system of financial and accounting controls and practices, and for reviewing compliance with legal requirements. This Committee also recommends the appointment, compensation and oversight of the external auditors, as well as the exercise of the internal audit function which (notwithstanding the requirements contained in the CBB Corporate Governance Requirements) is exercised through the group audit function of the ABC group of companies ("ABC Group")[5]. The Audit Committee also recommends the appointment of head of compliance and oversights the performance of compliance function. The Audit Committee meets not less than four times a year.

- The **Board Risk Committee**, which is responsible for the review and approval of Bank ABC Islamic's Risk Policies and recommends the appointment/removal of head of risk. The Committee reviews and makes recommendations to the Board regarding the risk strategy/appetite, within which business strategy, objectives and targets are formulated. The Committee delegates authority to senior management to conduct day-to-day business within the prescribed policy and strategy parameters, while ensuring that processes and controls are adequate to manage Bank ABC Islamic's risk Policies and Strategy. The Board Risk Committee meets not less than three times a year.

- The **Nominations, Compensation and Corporate Governance Committee** (the **"NCCG Committee"**), the Committee assists the Board in shaping and monitoring Bank ABC Islamic's Corporate Governance policies and practices, reviewing and assessing the adequacy of these policies and practices, and evaluation Bank's compliance with them. The Committee is also responsible for the formulation of Bank ABC Islamic's executive and staff remuneration policy, as well as senior management appointments, ensuring that Bank

[5] *Approved by the CBB*

ABC Islamic's remuneration levels remain competitive so it can attract, develop and retain the skilled staff needed to meet its strategic objectives. The Committee also ensures that the remuneration policy and philosophy of Bank ABC Islamic are aligned with its long-term business strategy, business objectives, risk appetite, values and long-term interests, while recognising the interests of relevant stakeholders. The NCCG Committee meets not less than twice per year.

The Bank ABC Islamic Board Mandates (available on the Bank's website) include charters for each of the Board committees.

As at 31 December 2015, the members of each of the Board committees were as set out in the table below:

Board Committees	Member Name	Member Position	Classification of Director
The Audit Committee	Mr. Saleh Hussain	Chairman	Independent
	Mr. Abdulrahman Al-Sayed	Deputy Chairman	Independent
	Mr. Andrew Wilson	Member	Non-independent
The Board Risk Committee	Dr. Khaled Kawan	Chairman	Non-independent
	Mr. Paul Jennings	Deputy Chairman	Non-independent
	Mr. Andrew Wilson	Member	Non-independent
	Mr. Vijay Srivastava[6]	Member	Not applicable
The Nominations, Compensation and Corporate Governance Committee	Mr. Abdulrahman Al-Sayed	Chairman	Independent
	Mr. Saleh Hussain	Member	Independent
	Mr. Andrew Wilson	Member	Non-independent

Attendance of Directors
The details of Directors' attendance or participation (including by video conference or teleconference) at Board and Board committee meetings during 2015 are set out in the following table:

Board Members	Board Meetings	The Audit Committee	The Board Risk Committee	The Nominations, Compensation and Corporate Governance Committee
Dr. Khaled Kawan - Chairman[7]	4 (4)	N/A	4 (4)	N/A
Mr. Paul Jennings – Deputy Chairman[8]	4 (4)	N/A	4 (4)	N/A
Mr. Abdulrahman Al Sayed - Director[9]	4 (4)	4 (4)	N/A	3 (3)
Mr. Saleh Hussain - Director[10]	4 (4)	4 (4)	N/A	3 (3)
Mr. Naveed Khan - Director[11]	4 (4)	N/A	N/A	N/A
Mr. Andrew Wilson - Director[12]	4 (4)	4 (4)	4 (4)	3 (3)
Mr. Vijay Srivastava – Board Risk Committee Member[13]	N/A	N/A	4 (4)	N/A

Figures in brackets indicate the maximum number of meetings during the period of membership.

"N/A" indicates that a Director was not a member of the relevant Board committee during 2015.

[6] *Non-voting member*
[7] *Current term start date: April 2013*
[8] *Current term start date: April 2013*
[9] *Current term start date: April 2013*
[10] *Current term start date: April 2013*
[11] *Current term start date: April 2013*
[12] *Current term start date: May 2013*
[13] *Non-voting member. Meeting attended by Mr. Vijay Srivastav or his designate*

Corporate Governance

Meeting Dates during 2015:

The details of the dates of the Board and Board committee meetings in 2015 are set out below:

	Dates of Meetings
Board of Directors	19 February, 3 June, 6 September and 10 November
Board Risk Committee	19 February, 3 June, 6 September and 10 November
Audit Committee	5 February, 5 May, 15 July and 2 November
Nominations, Compensation and Corporate Governance Committee	21 January, 5 February and 2 November

INTERNAL CONTROLS

The Board of Directors is responsible for establishing and reviewing Bank ABC Islamic's system of internal control. The Board receives minutes and reports from the Board Risk Committee and the Audit Committee, identifying any significant issues relating to the adequacy of Bank ABC Islamic's risk management policies and procedures, as well as reports and recommendations from the NCCG Committee. The Board then decides what action to take.

Management informs the Board regularly about how Bank ABC Islamic is performing versus budget, identifying major business issues and examining the impact of the external business and economic environment.

Day-to-day responsibility for internal control rests with management. The key elements of the process for identifying, evaluating and managing the significant risks faced by Bank ABC Islamic can be summarised as:

- a well-defined management structure - with clear authorities and delegation of responsibilities, documented procedures and authority levels - to ensure that all material risks are properly assessed and controlled;
- internal control policies that require management to identify major risks, and to monitor the effectiveness of internal control procedures in controlling them and reporting on them;
- a robust compliance function including, but not limited to, regulatory compliance and anti-money laundering, combating the financing of terrorism policies, and anti-insider trading policies;
- an internal audit function, exercised through the group audit function of the ABC Group, which reports to the Audit Committee on the effectiveness of key internal controls in relation to the major risks faced by Bank ABC Islamic, and conducts reviews of the efficacy of management oversight in regard to delegated responsibilities, as part of its regular audits of ABC Group departments and business units;
- a comprehensive planning and budgeting process that delivers detailed annual financial forecasts and targets for Board of Directors approval;
- a Risk Management function exercised internally and through the group risk management function of the ABC Group, comprising overarching Head Office risk management committees and a dedicated risk management support group.

COMPLIANCE

Bank ABC Islamic is committed to complying with all applicable rules and regulations across all of its businesses and geographies, including the Central Bank of Bahrain ("CBB") requirements and those of the local regulators in all relevant jurisdictions.

The Compliance function provides independent compliance oversight on behalf of the Board of Directors and senior management. So that the function can carry out its work freely and objectively, the Bank ABC Islamic Compliance Officer, who is responsible for ensuring adherence to the applicable CBB rules and regulations, reports directly to senior management and the Audit Committee, with access to the Board of Directors when needed. Copies of reports of the Bank ABC Islamic Compliance Officer are also provided periodically to the ABC Group Compliance Officer. Additionally, the Bank ABC Islamic Compliance Officer has the right to contact the CBB, or any other local regulator where Bank ABC Islamic operates.

Over the year, the capability and capacity of the ABC Group Compliance function (which provides group-wide oversight to the various units of the ABC Group, including Bank ABC Islamic) has been upgraded by significant addition of resources to the Compliance team. This reinforcement reflected positively on the Compliance function of Bank ABC Islamic and enhanced its performance.

The ABC Group Compliance is currently upgrading its existing Compliance and Financial Crime systems and implementing a new automated anti-money laundering system for "know your customer" (KYC), transaction monitoring and FATCA compliance. The system is being rolled-out across ABC Group, including Bank ABC Islamic. Full implementation of the system is expected in the first half of 2016. The new system brings additional functionalities and capabilities enabling more effective and efficient management of transaction monitoring and sanctions risks. Furthermore, a senior level Committee was established over the year at ABC Group (Group Compliance Oversight Committee) specifically to oversee compliance and financial crime risks for ABC Group, including Bank ABC Islamic.

Bank ABC Islamic has published written guidelines to staff on policies and procedures for the appropriate implementation of laws, regulations, rules and standards (including in relation to conflicts of interest). This includes the Code of Conduct (see Appendix A) which was updated during the year, and Compliance Policy, which are approved by the Board of Directors and updated on a regular basis. Bank ABC Islamic's Compliance Policy requires all officers and staff to comply with both the letter and the spirit of all relevant laws, rules, regulations and standards of good market practice.

Bank ABC Islamic is committed to complying with all applicable laws and regulations relating to Anti-Money Laundering (AML), combating the financing of terrorism (CFT), know your customer (KYC) and international sanctions, as well as the relevant recommendations of the Basel Committee and Financial Action Task Force. In accordance with the AML Manual, the Money Laundering Reporting Officer ("MLRO") maintains appropriate and effective systems, controls and records to ensure compliance with the applicable AML, CFT and sanctions regulations, as well as those of the CBB.

The MLRO develops and maintains Bank ABC Islamic's AML strategy and policies, as well as overseeing staff AML training. In order to raise awareness, AML training is carried out for the relevant staff. The scope of e-learning courses is being widened, and more face-to-face training and product and business specific training are being rolled out including in areas such as Trade Finance and Sanctions.

Bank ABC Islamic has in place documented policies and procedures for effective handling of customer complaints and designated a senior officer for this purpose. The contact details of the Complaints Officer are published on Bank's website.

The Compliance/MLRO reports material compliance and financial crime issues to senior management, the Audit Committee and the Board of Directors, as appropriate.

Bank ABC Islamic is an Islamic wholesale bank and does not offer mediation or investment advices to its customer. Also, providing investor / consumer awareness programmes for information on new products and services is not particularly pertinent to its client base.

SHARI'A SUPERVISORY BOARD

The Shari'a Supervisory Board (the "SSB") of Bank ABC Islamic and its subsidiaries (together the "Group") consists of three Islamic scholars who review the Group's compliance with general Shari'a principles and specific pronouncements, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the Group to ensure that its activities are conducted in accordance with Islamic Shari'a principles. The SSB meets not less than twice a year.

During 2015, the SSB met on 5 February and 2 September, and passed by circulation a number of resolutions relating to Bank ABC Islamic's business proposals.

As of 31 December 2015, the members of the SSB were:

- Dr. Sheikh Abdul Latif Al-Mahmood (chairman)
- Dr. Sheikh Nedham Yaqoubi (member)
- Dr. Sheikh Mohamed Elgari (member)

Key responsibilities of the SSB include the following:

a) providing Bank ABC Islamic with binding advice on all Shari'a related matters for products and services referred to it by Bank ABC Islamic;

b) giving an opinion on Bank ABC Islamic's annual consolidated financial statements and operations from a Shari'a compliance perspective in the form of an annual report to the shareholders;

c) preventing or minimising income that is impermissible from a Shari'a

Corporate Governance

perspective and ensuring that such amounts (if received) are disbursed to charities;

d) overseeing payments made by Bank ABC Islamic of Zakah and prohibited income;

e) performing documentation and transactional review to ensure compliance with the relevant Shari'a standards issued by AAOIFI and pronouncements issued by the SSB.

The compensation for members of the SSB consists of the following elements:

(a) attendance fees payable to SSB members for attending SSB meetings;

(b) reimbursement to cover travelling and/or accommodation expenses while attending SSB meetings; and

(c) an annual fee, payable irrespective of the number of meetings held during the year or the financial results of the Group.

SHARI'A COMPLIANCE

Shari'a compliance risk is an operational risk facing Islamic banks which may lead to non-recognition of income, reputational loss and resulting franchise risk on grounds of non-Shari'a compliance. To manage such risks, the Shari'a Compliance Officer of the Group has been tasked to conduct regular Shari'a compliance reviews to ensure that documentation, procedures and execution of transactions are in accordance with the Shari'a Standards issued by AAOIFI and Shari'a rules and principles as determined by the SSB. The results of such reviews are regularly reported to the SSB. Cases of Shari'a non-compliance (if any) are thoroughly investigated to establish their causes and to introduce adequate controls to avoid their recurrence in the future.

Shari'a non-compliant earnings during 2015 amounted to $15,879. This amount mainly represents penalty fees received from customers for making late payments ($13,909 in 2014). Such amounts are kept in a special suspense account and subsequently disposed of to charitable causes.

SOCIAL RESPONSIBILITY

The Group discharges its social responsibility by making a voluntary payment of Zakah to organisations selected by the Group and approved by the SSB. Also, prohibited income amounts earned by the Group are paid to such charitable foundations selected by the Group and approved by the SSB. The beneficiaries of Zakah and prohibited income amounts are charitable foundations or Quran teaching centres within the Kingdom of Bahrain, which are licensed by the relevant governmental authority.

MANAGEMENT STRUCTURE

The Managing Director, supported by management, is responsible for managing the day-to-day operations of Bank ABC Islamic. The heads of Bank ABC Islamic's major functions report directly to the Managing Director. There is a clear segregation of duties.

REMUNERATION POLICIES OF BANK ABC IN COMPLIANCE WITH THE REQUIREMENTS OF THE CBB

Senior management and staff receive compensation based on a number of fixed elements, covering: salary, allowances and benefits, as well as variable, performance-related elements.

In January 2014, the Central Bank of Bahrain (CBB) issued new rules relating to the remuneration of approved persons and material risk-takers and others, which were subsequently amended later during 2014 (the "CBB Sound Remuneration Practices"). Bank ABC has implemented remuneration policies and procedures to cover both Bank ABC and Bank ABC Islamic, which are compliant with the CBB Remuneration Rules.

Senior management sought a consultant's advice to review the Bank's variable compensation scheme (VCS) and to work with Bank ABC to redesign the scheme in order to be fully compliant with the CBB's requirements. Key changes to Bank ABC's remuneration systems and governance processes were made during 2014 to comply with the CBB regulations and included:

i. Ensuring the risk framework is extensive and captured in decisions around variable pay, including confirming risk-adjustments to any bonus pool.

ii. Separating control functions from the Group bonus pool and ensuring they are measured independently from the businesses they oversee.

iii. Introducing an equity-linked vehicle in which to deliver the appropriate amount of variable remuneration for covered persons.

iv. Introducing deferral arrangements that defer the appropriate amount of variable remuneration for the Group Chief Executive Officer (GCEO), deputies, top five most highly-paid business line employees, material risk takers and approved persons.

v. Introducing clawback and malus policies that apply to variable remuneration.

Further changes to the VCS were planned to be introduced in early 2016 to encourage behaviours that will help fulfil the Group's strategic goals. Variable pay will now depend on a more extensive matrix of factors, rather than just the income generated. These factors include the quality of the income, number of new clients won and the amount of capital used. The Performance Management System was redesigned at the same time to measure not just what has been achieved but also how it has been achieved.

The Nominations & Compensation Committee (NCC) reviews and approves Bank ABC's remuneration policy structure on an annual basis. Where rules on compensation exist in other jurisdictions in which Bank ABC operates, Bank ABC's Group policy is to take necessary steps to comply with local market regulations that are applicable to our foreign subsidiaries and branches. Where no rules are applicable, Bank ABC adopts local market practices.

A distinct and separate bonus pool has been created in order to reinforce the safeguarding role and independence of staff in Control Functions and is measured by the impact and quality of their safeguarding role. These measures are based on department-specific objectives and targets, which are independent of company financial performance.

Bank ABC conducts business within a set of overarching goals and limits that, together, define its risk appetite and tolerance. This is approved by the Board Risk Committee as part of the Group Risk Strategy, which complements the budgets and strategic plans proposed by the business. The Bank's bonus pool is subject to potential adjustments based on the review of the NCC, in the respect of the approved risk appetite, risk tolerance and risk policies during the fiscal year.

Variable compensation and performance management are linked. Performance expectations are clearly articulated for revenue-generating, support and control functions. Individual bonus payments reflect Group, business unit and individual performance.

Bank ABC has adopted a remuneration deferral policy in line with the CBB Sound Remuneration Practices. This defers a required amount of the variable remuneration for the GCEO, deputies, top five most highly-paid business line employees, defined material risk takers and approved persons.

Bank ABC has also adopted a malus policy, which allows any form of deferred variable remuneration to be reduced or cancelled in specific and exceptional circumstances. Exceptional circumstances are defined as material events. They may include a material restatement of the Bank's financial statements, the discovery of significant failures in risk management or exposure to material financial losses at Group, business unit or individual level. In respect of unvested awards, and depending on each specific circumstance, malus may be applied to either that portion of unvested awards linked to the performance year in question or the total outstanding set of unvested awards.

A clawback policy has been introduced to allow Bank ABC to recover part, or all, of the awards already paid to an employee or former employee if a material event is discovered. Clawback provisions may be enforced upon the discovery of an employee, or former employee's, accountability or responsibility for, or direct implication in, material events that may bring the Bank into serious disrepute. Additionally, they may be enforced in the event of individual criminal or other substantial misconduct.

The design of the Bank's reward structure aligns pay outcomes with prudent risk management and sound governance practices. The mix of an individual employee's pay, allowances and variable compensation is dictated by the nature of the role he/she holds. Variable pay is delivered using a blend of cash and equity-linked instruments. It may be paid up-front in cash or deferred in accordance with the Bank's deferral policy. With board approval, the variable pay multiples may be reviewed from time to time to ensure competitiveness with the market.

The remuneration disclosures have been reviewed and approved by the NCC and have been confirmed they are aligned to the CBB rulebook requirements.

Bank ABC takes risk seriously. Reward practices embed and reinforce the Bank's desired risk culture, and risk behaviours directly impact variable pay, based on the following principles:

i. Financial performance is not the sole measure of performance; both quantitative and qualitative approaches are used to measure risk; bonus pools are adjusted for all types of risk, both tangible and intangible, reflecting both Group and business unit performance;

ii. Bonuses can be diminished (or nil) in light of excessive risk taking at Group, business or individual level;

iii. Bonus pools reflect the cost of capital required and liquidity risk assumed in the conduct of business; and

iv. Pay for material risk takers is significantly weighted towards variable pay.

In addition, Bank ABC has a process for assessing the performance of senior management against a set of pre-agreed audit, risk & compliance (ARC) objectives, which are cascaded down in the organisation. Their pay is linked to long-term profitability and sustainable value.

Pay principles

The following 'pay principles' apply at Bank ABC and govern all current and future remuneration decisions. These principles have been approved by the NCC.

Corporate Governance

Summary

Principle	Theme
Principle 1	We pay for performance
Principle 2	We take risk seriously
Principle 3	We think long-term
Principle 4	Pay decisions are governed effectively
Principle 5	Clear and simple
Principle 6	Competitive, sustainable and affordable

Principle 1 | We pay for performance

Approach

- Performance expectations are clearly articulated for revenue-generating, support and control functions.
- Pay and performance management are linked.
- Bank ABC rewards performance that delivers its strategy, and that delivers the behaviours, cultures and ways of working that underpin doing business with the Bank.

Delivery

- Group and / or business unit underperformance can result in no bonus pool.
- Bonuses can be diminished (or nil) in light of poor Group, business unit or individual performance.
- Individual bonus payments reflect Group, business unit and individual performance.
- Group and business units are expected to meet demanding but achievable performance targets.
- Low performance ratings for any employee can result in no bonus.
- High performing business units may pay bonuses, even if the Group underperforms.
- Bank ABC differentiates high performance from average or low performance.
- Bonuses can be paid for non-profitable business units in start-up or turn-around phases.
- Bonus calculations reflect a measure of the appropriate behaviours which support doing business with Bank ABC.
- Control functions are measured on the impact and quality of their safeguarding role.
- Pay for employees engaged in control functions promotes impartiality and objectivity – it ensures that all employees at Bank ABC take risk seriously.
- Bonuses can be paid to control function employees who exercise their roles effectively, even in light of poor Group or business unit performance.

Principle 2 | We take risk seriously

Approach

- Reward practices embed and reinforce Bank ABC's desired risk culture.
- Risk behaviours directly impact variable pay.

Delivery

- Financial performance is not the sole measure of performance.
- Bonuses can be diminished (or nil) in light of excessive risk taking at Group, business or individual level.
- Bonus pools reflect the cost of capital required, and liquidity risk assumed, in the conduct of business.
- Bonus pools are adjusted for all types of risk, both tangible and intangible, which are reflected in both Group and business unit performance.
- Both quantitative and qualitative approaches are used to measure risk.
- Pay for material risk takers is significantly weighted towards variable pay.
- Material risk takers' performance is rewarded using a mix of cash and equity (or an equity-linked vehicle) to reflect their influence on the Bank's risk profile.
- Risk behaviours of material risk takers have a direct impact on variable pay outcomes.

Principle 3 | We think long-term

Approach

- Pay is linked to long-term profitability and sustainable value.

Delivery

- Deferral mechanisms are used for approved persons / material risk takers.
- Deferral mechanisms include an equity-linked vehicle.
- 60% of variable pay for GCEO and the most highly-paid employees is deferred for three years.
- 40% of variable pay for material

risk takers and approved persons (paid over BHD100,000) is deferred for three years.

- No form of guaranteed variable remuneration can be granted, except in exceptional circumstances, for a period of no more than one year following hire.
- Unvested deferred bonuses can be recovered in light of discovering past failures in risk management, or policy breaches, that led to the award originally being granted.
- Participation in deferral is reviewed on an annual basis, subject to meeting the minimum requirements under the CBB rules.

Principle 4 | Pay decisions are governed effectively

Approach

- Variable pay schemes are owned and monitored by the NCC.
- The NCC oversees remuneration practices across the Bank.

Delivery

- The NCC oversees the design and delivery of variable pay across the Bank.
- The NCC reviews and approves the Bank's remuneration policy on an annual basis.
- The GCEO and senior management do not directly own or control remuneration systems.
- The NCC reviews and approves bonus pools and payouts across the bank, and reviews and approves the pay proposals for material risk takers and approved persons.
- Risk and Compliance provide information to the NCC before it determines the bonus pool and Group performance.
- HR controls remuneration policies, while line managers have suitable discretion to apply them.
- HR develops compliance and monitoring practices to actively track global compliance with Group remuneration policy.

Principle 5 | Clear and simple

Approach

- Reward communications are clear, user-friendly and written in plain language.
- The aims and objectives of the new VCS are clear and transparent.

Delivery

- Clearly communicate what is meant by malus and clawback, and the instances in which these provisions could be applied.
- Open and easy access to the variable pay policy, plan rules and relevant communications.

Principle 6 | Competitive, sustainable and affordable

Approach

- The VCS helps to attract and retain high-calibre talent.
- The VCS structure can be maintained over the long term, and its total cost is always affordable to the Bank.

Delivery

- Bonus pools vary year-on-year, based on Group performance, external market conditions, the internal climate and affordability.
- Individual pay opportunities are driven by the external market and internal positioning.

Application of pay principles

Bank ABC will remunerate covered employees so as to attract, retain and motivate sufficient talent to safeguard the interests of the Bank and its shareholders, while ensuring the Bank avoids paying more than necessary. The remuneration systems fairly reward performance delivered within the risk appetite of the Bank, over an appropriate time horizon, so as to align with risk.

Variable remuneration is paid according to the ABC Group scheme as per the categorisation below, and as disclosed in ABC Group Annual Report:

- Approved persons in business lines: For the GCEO and the five most highly-paid business line employees, variable pay in 2015 was paid as 40% upfront cash, 10% in deferred cash and 50% in a deferred equity-linked vehicle. For the others in the same category, the pay split was 50% upfront cash, 10% upfront equity-linked vehicle, 40% deferred equity-linked vehicle.
- Approved persons in control functions: The variable pay for employees in this category was paid as 50% upfront cash, 10% upfront equity-linked vehicle, 40% deferred equity-linked vehicle.
- Other material risk takers: The variable pay for employees in this category was paid as 50% upfront cash, 10% upfront equity-linked vehicle, 40% deferred equity-linked vehicle.
- Other staff of Bahrain operations: The variable pay was paid fully in cash upfront.

Remuneration arrangements are structured to promote sound risk behaviours. Employees categorised as approved persons in business lines or material risk takers have their total remuneration weighted towards variable pay. Their performance is measured against a range of financial and non-financial factors related to risk. Employees categorised as approved persons in control functions have their remuneration weighted more heavily towards fixed pay. Their performance is measured independently of the business that they oversee, so ensuring sufficient independence and authority. All variable pay is subject to malus and clawback.

Risk Management

Including Basel III - Pillar 3 disclosures

1. INTRODUCTION

ABC Islamic Bank and its subsidiary (the Group), being an integral part of Arab Banking Corporation Group (ABC), complies with the Central Bank of Bahrain (CBB) reporting requirements, within the Basel III risk management framework.

This report describes ABC's risk management framework, makes the disclosures required by the CBB and profiles the risk-weighted assets.

However, the credit risk exposures detailed here differ from the credit risk exposures reported in the consolidated financial statements, due to different methodologies applied respectively under Basel III and AAOIFI. These differences are as follows:

- As per the CBB Basel III framework, off balance sheet exposures are converted into balance sheet equivalents by applying a credit conversion factor (CCF). The CCF varies between 20%, 50% or 100% depending on the type of contingent item.
- Under this risk management section, the credit exposures are classified as per the 'Standard Portfolio' approach set out in the CBB's Basel III capital adequacy framework covering the "Standardised Approach" for credit risk. In the case of guaranteed exposures, the exposures would normally be reported based on the guarantor. However, in the consolidated financial statements the assets are presented based on asset class (i.e. Islamic financing facilities, securities, etc.).
- Eligible collateral is taken into consideration in arriving at the net exposure under the Basel III framework, whereas collateral is not netted in the consolidated financial statements.
- Under the Basel III framework, certain items are considered as a part of the regulatory capital base, whereas these items are netted off against assets in the consolidated financial statements.

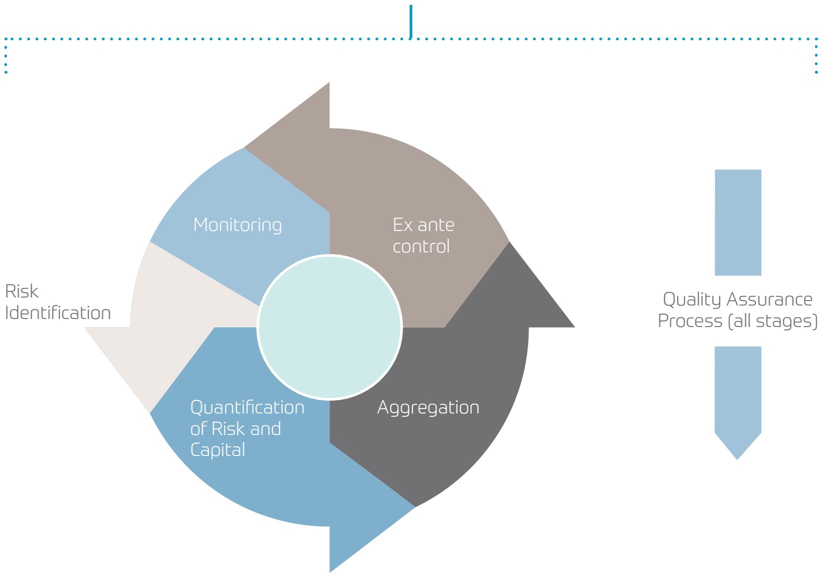
2. RISK MANAGEMENT FRAMEWORK

Risk is inherent in ABC's activities and is managed through a process of on-going identification, measurement and monitoring, subject to risk limits and other controls. ABC is exposed to credit risk, market risk, liquidity risk, operational risk, legal and strategic risk, as well as other forms of risk inherent in its financial operations.

Over the last few years, ABC has invested heavily into developing a comprehensive and robust risk management infrastructure. This includes risk identification processes under credit, market and operational risk spectrums, risk measurement models and rating systems, as well as a strong business process to monitor and control these risks. Figure 1 outlines the various congruous stages of the risk process.

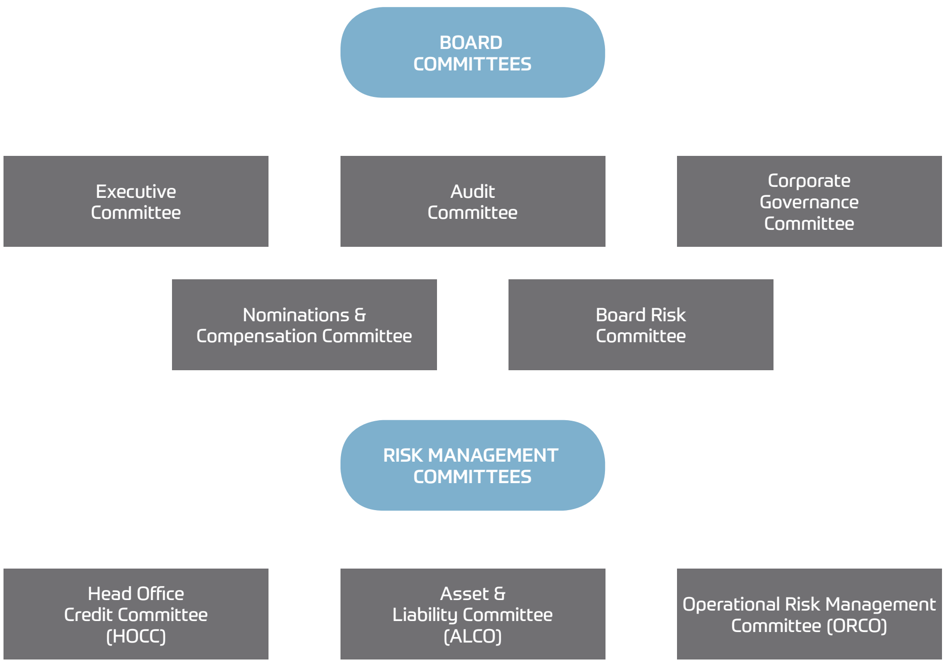
Figure 1:

Board and Senior Management Oversight



The Board Risk Committee (BRC) sets ABC's Risk Strategy/Appetite and Policy Guidelines. Executive Management is responsible for their implementation.

Figure 2: Risk Management Structure

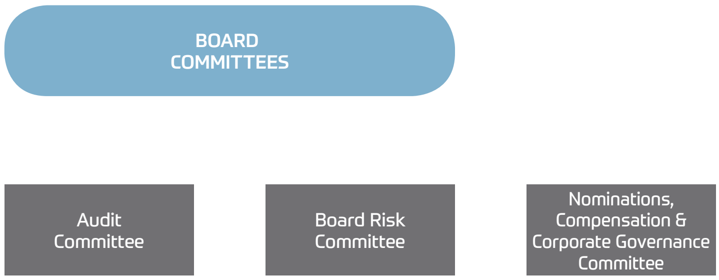


Risk Management

Within the broader governance infrastructure, the Board Committees carry the main responsibility of best practice management and risk oversight. At this level, the BRC oversees the definition of risk appetite, risk tolerance standards and risk process standards to be kept in place. The BRC is also responsible for co-ordinating with other Board Committees for monitoring compliance with the requirements of the regulatory authorities in the various countries in which ABC operates.

The **Head Office Credit Committee (HOCC)** is responsible for credit decisions at the higher levels of ABC's wholesale and retail lending portfolio, setting country and other high level ABC limits, dealing with impaired assets, provisioning and general credit policy matters.

In addition to being part of the above structure, through the outsourcing of the support functions including the credit approval, the Group has the following risk management structure:



ABC's **Asset and Liability Committee (GALCO)** is responsible for defining long-term strategic plans and policy, as well as short-term tactical initiatives for prudently directing asset and liability allocation. ALCO monitors ABC's liquidity and market risks, and the risk profile, in the context of economic developments and market fluctuations. ALCO is assisted by tactical sub-committees for Capital & Liquidity Management; Investments; Structural FX.

ABC's **Operational Risk Management Committee (GORCO)** is responsible for defining long-term strategic plans and short-term tactical initiatives for the identification, prudent management, control and measurement of ABC's exposure to operational risk and other non-financial risks. ORCO frames policy and oversees the operational risk function. Specialist risk committees, such as the ABC Group Compliance Oversight Committee, the ABC Group Business Continuity Committee and the ABC Group IT Risk Committee are responsible for the proper management of certain categories of non-financial risk.

The **Credit & Risk Group (CRG)** is responsible for centralised credit policy and procedure formulation, country risk and counterparty analysis, approval/review and exposure reporting, control and risk-related regulatory compliance, remedial loans management and the provision of analytical resources to senior management. Additionally, it identifies market and operational risks arising from ABC's activities, recommending to the relevant central committees appropriate policies and procedures for managing exposure.

Under the single obligor regulations of the CBB and other host regulators, the CRG and its local equivalents have to obtain approval for any planned exposures above specific thresholds to single counterparties, or groups of connected counterparties.

3. CREDIT RISK

ABC's portfolio and credit exposures are managed in accordance with the Group Credit Policy, which applies ABC Group-wide qualitative and quantitative guidelines, with particular emphasis on avoiding undue concentrations or aggregations of risk. ABC's banking subsidiaries are governed by specific credit policies that are aligned with the Group Credit Policy, but may be adapted to suit local regulatory requirements as well as individual units' product and sectoral needs.

The first level of protection against undue credit risk is through ABC's counterparty, country, industry and other risk threshold limits, together with customer and customer group credit limits. The BRC and the HOCC sets these limits and allocates them between ABC and its banking subsidiaries. A tiered hierarchy of delegated approval authorities, based on the risk rating of the customer under ABC's internal credit rating system, controls credit exposure to individual customers or customer groups.

Credit limits are prudent, and ABC uses standard mitigation and credit control technologies.

ABC employs a Risk-Adjusted Return on Capital (RAROC) measure to evaluate risk/reward at the transaction approval stage. This is aggregated for each business segment and business unit, and for ABC as a whole. It is upgraded when appropriate.

Business unit account officers are responsible for day-to-day management of existing credit exposures, and for periodic review of the client and associated risks, within the framework developed and maintained by the CRG. ABC Group Audit, meanwhile, carries out separate risk asset reviews of business units, to provide an independent opinion on the quality of their credit exposures, and adherence to credit policies and procedures. These measures, collectively, constitute the main lines of defence against undue risk for ABC.

ABC remains committed to developing the credit skills of its entire staff involved in the credit process within the Bank. To this end in late 2012, a training initiative was launched as a means of both enhancing and unifying credit standards across ABC. The new initiative, entitled Credit Culture Transformation or "CCT@ABC", harnesses the expertise of Moody's Analytics to deliver a broad bespoke training programme, ranging from corporate analysis through to the structuring skills required to preserve the quality of the Bank's asset book. In 2015, several training sessions were organised across the Group as part of this program and it is intended that further topics will be added to the training programme as it is developed going forward.

Credit exposures that have significantly deteriorated are segregated and supervised more actively by the CRG's Remedial Loans Unit (RLU). Subject to minimum loan loss provision levels mandated under the ABC Group Credit Policy, specific provisions in respect of impaired assets are based on estimated potential losses, through a quarterly portfolio review and adequacy of provisioning exercise. A collective impairment provision is also maintained to cover unidentified possible future losses.

4. RISK MANAGEMENT

4.1 Large exposures

As at 31 December 2015, the Group's three largest exposures in excess of 15% of the capital base are shown below:

US$ Thousands	On Balance Sheet Exposure	Off Balance Sheet Exposure	Total Exposure
Counterparty [A]	100,225	-	100,225
Counterparty [B]	65,160	-	65,160
Counterparty [C]	60,484	-	60,484

The exposures are exempt under the large exposure policy of the Central Bank of Bahrain for subsidiaries of locally incorporated banks.

Risk mitigation, collateral and other credit enhancements

The amount and type of collateral depends on an assessment of the credit risk of the counterparty. The types of collateral held by the Group mainly include cash, guarantees from banks and guarantees from ABC.

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

Exposures by type of Islamic financing contract that are covered by guarantees or by eligible collaterals are as follows:

US$ Thousands	Exposures	Guaranteed	Collateral	Net exposure
Funded Exposures (Murabaha)	33,460	33,460	4,006	29,454
Funded Exposures (Sukuk)	1,500	1,500	-	1,500
Un-funded Exposures (LCs / LGs)	39,615	-	1,342	38,273

i) Definition of exposure classes per Standard Portfolio

The Group has a diversified funded and unfunded credit portfolio. The exposures are classified as per the Standard Portfolio approach mentioned under the CBB's Basel III capital adequacy framework covering the standardised approach for credit risk.

Risk Management

The descriptions of the counterparty classes along with the risk weights to be used to derive the risk-weighted assets are as follows:

a. **Claims on sovereigns**
These pertain to exposures to governments and their central banks. Claims on Bahrain and GCC sovereigns are risk weighted at 0%. Claims on all other sovereigns are given a risk weighting of 0% where such claims are denominated and funded in the relevant domestic currency of that sovereign. Claims on sovereigns, other than the aforementioned, are risk-weighted based on their credit ratings.

b. **Claims on public sector entities [PSEs]**
Listed Bahrain PSEs are assigned 0% risk weight. Other sovereign PSEs, in the relevant domestic currency and for which the local regulator has assigned risk weight as 0%, are assigned 0% risk weight by the CBB. PSEs other than the aforementioned are risk-weighted based on their credit ratings.

c. **Claims on multilateral development banks [MDBs]**
All MDBs are risk-weighted in accordance with their credit rating, except for banks part of the World Bank Group which is risk-weighted at 0%.

d. **Claims on banks**
Claims on banks are risk-weighted based on the ratings assigned to them by external rating agencies. However, short term claims on locally incorporated banks may be assigned a risk weighting of 20% where such claims on the banks are of an original maturity of three months or less and the claims are denominated and funded in either Bahraini Dinars or US Dollars.

Preferential risk weights that are one category more favourable than the standard risk weighting are assigned to claims on foreign banks licensed in Bahrain of an original maturity of three months or less denominated and funded in the relevant domestic currency. Such preferential risk weights for short-term claims on banks licensed in other jurisdictions are allowed only if the relevant supervisor also allows this preferential risk weighting to short-term claims on its banks.

No claim on an unrated bank would receive a risk weight lower than that applied to claims on its sovereign of incorporation.

e. **Claims on corporates**
Claims on corporates are risk-weighted based on credit ratings. Risk weights for unrated corporate claims are assigned at 100%.

f. **Past due exposures**
The unsecured portion of any facility (other than a qualifying residential mortgage facility) that is past due for more than 90 days, net of specific provisions (including partial write-offs), is risk-weighted as follows:

150% risk weight when specific provisions are less than 20% of the outstanding amount of the facility; and

100% risk weight when specific provisions are greater than 20% of the outstanding amount of the facility.

g. **Equity portfolios**
Investments in listed equities are risk-weighted at 100% while unlisted equities are risk weighted at 150%.

h. **Project finance exposures**
Exposures on project finance are risk-weighted according to the Regulatory Slotting Criteria, in which the risk weighting ranges between 70% and 250%.

i. **Other exposures**
These are risk-weighted at 100%.

ii) **Credit exposure and risk-**weighted assets

US$ Thousands	Gross credit exposure	Funded Exposure	Un-Funded Exposure	Risk-weighted assets for Funded Exposures	Risk-weighted assets for Un-Funded Exposures	Total Risk Weighted Assets	Capital Charge (12.5%)
Sovereigns	252,921	250,686	2,235	66,624	2,235	68,859	8,607
Claims on banks	486,476	485,805	671	313,917	-	313,917	39,240
Claims on Corporates	480,032	443,856	36,176	371,131	36,176	407,307	50,913
Past due exposures	33,460	33,460	-	16,730	-	16,730	2,091
Project finance	131,801	131,801	-	92,261	-	92,261	11,533
Other	1,390	1,390	-	1,390	-	1,390	174
Total	**1,386,080**	**1,346,998**	**39,082**	**862,053**	**38,411**	**900,464**	**112,558**

Since the year end position is representative of the risk positions of the Group during the year, average gross exposures are not disclosed separately.

Breakdown of capital requirements for credit risk per type of Islamic financing contract is as follows:

US$ Thousands Type of Financing	Gross credit exposure	Funded Exposure	Un-Funded Exposure	Risk-weighted assets for Funded Exposures	Risk-weighted assets for Un-Funded Exposures	Total Risk Weighted Assets	Capital Charge (12.5%)
Murabaha	658,552	636,457	22,095	563,176	22,095	585,271	73,159
Ijara	258,017	256,029	1,988	114,252	1,988	116,240	14,530
Ijara Rec	428	428	-	164	-	164	20
Sukuk	376,558	376,558	-	166,125	-	166,125	20,766
Due from financial institution	60,006	60,006	-	12,001	-	12,001	1,500
Equity	2,162	2,162	-	2,162	-	2,162	270
LC	14,999	-	14,999	-	14,328	14,328	1,791
Other	15,358	15,358	-	4,173	-	4,173	522
Total	**1,386,080**	**1,346,998**	**39,082**	**862,053**	**38,411**	**900,464**	**112,558**

4.2 Geographical distribution of exposures

The Bank's nature of business, being an Islamic Bank, results in concentration of exposures in the Muslim world. Moreover, the Bank's approved concentration of activities, which is also in line with its role within the ABC Group, has large concentration in the GCC countries, as illustrated in the table below:

US$ Thousands Country / Region	Gross Exposure	Percentage of Exposure
Saudi Arabia	471,343	34.01%
UAE	430,379	31.05%
Europe (Including Turkey)	225,966	16.30%
Bahrain	84,218	6.08%
Kuwait	44,709	3.23%
Qatar	41,471	2.99%
Other MENA Countries	39,122	2.82%
Other Asia	34,946	2.52%
Oman	13,926	1.00%
Total	**1,386,080**	**100.00%**

Risk Management

The geographical distribution of gross credit exposures by major type of credit exposures can be analysed as follows:

US$ Thousands Type of Financing / Region	Bahrain	Saudi Arabia	Kuwait	Qatar	UAE	Oman	Other MENA countries	Other Asia	Europe (Including Turkey)	Total
Sovereigns	53	-	-	-	163,646	-	28,612	34,946	25,664	252,921
Claims on banks	51,468	-	10,005	30,169	193,861	-	671	-	200,302	486,476
Claims on Corporates	27,238	350,705	17,500	1,878	72,872	-	9,839	-	-	480,032
Past due exposures	4,069	29,391	-	-	-	-	-	-	-	33,460
Project finance	-	91,247	17,204	9,424	-	13,926	-	-	-	131,801
Other	1,390	-	-	-	-	-	-	-	-	1,390
Total	**84,218**	**471,343**	**44,709**	**41,471**	**430,379**	**13,926**	**39,122**	**34,946**	**225,966**	**1,386,080**

4.3 Industrial sector analysis of the exposures

The industrial sector analysis of exposures is as follows:

US$ Thousands	Gross Exposure	Funded Exposure	Un-funded Exposure
Financial Institutions	584,069	583,398	671
Government	252,921	250,686	2,235
Trading	199,091	190,654	8,437
Manufacturing	195,060	176,628	18,432
Construction	54,441	47,122	7,319
Transportation	53,054	51,066	1,988
Commercial real estate	31,878	31,878	-
Mining & Quarrying	14,176	14,176	-
Other	1,390	1,390	-
Total	**1,386,080**	**1,346,998**	**39,082**

The industrial sector analysis of gross credit exposures by major types of credit exposures can be analysed as follows:

US$ Thousands Type of Financing / Industry	Financial Institutions	Commercial real estate	Manu-facturing	Con-struction	Trading	Government	Trans-portation	Mining & Quarrying	Other	Total
Sovereigns	-	-	-	-	-	252,921	-	-	-	252,921
Claims on banks	484,976	-	-	-	1,500	-	-	-	-	486,476
Claims on corporates	95,024	31,878	77,435	54,441	168,200	-	53,054	-	-	480,032
Past due exposures	4,069	-	-	-	29,391	-	-	-	-	33,460
Project finance	-	-	117,625	-	-	-	-	14,176	-	131,801
Other	-	-	-	-	-	-	-	-	1,390	1,390
Total	**584,069**	**31,878**	**195,060**	**54,441**	**199,091**	**252,921**	**53,054**	**14,176**	**1,390**	**1,386,080**

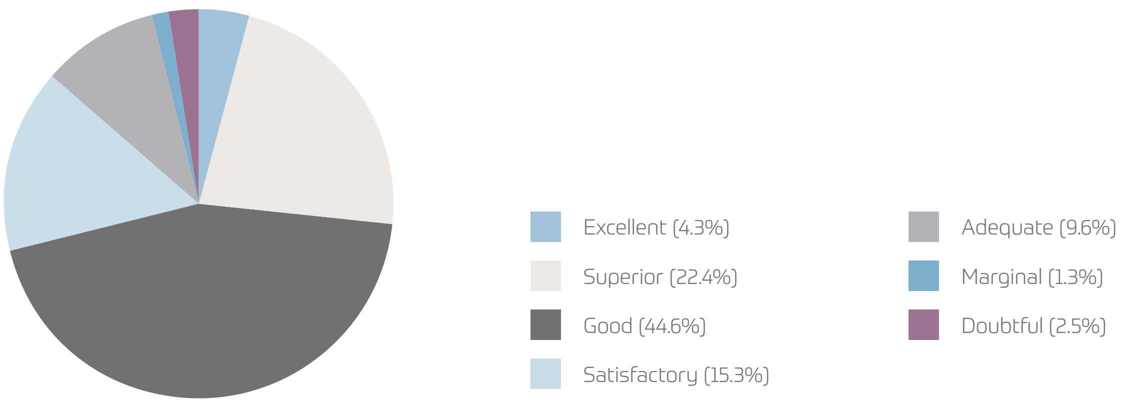
4.4 Exposure by external credit rating

The Group uses external ratings from Standard & Poor's, Moody's, Fitch Ratings and Capital Intelligence [accredited External Credit Assessment Institutions (ECAI's)]. The breakdown of the Group's exposure into rated and unrated categories is as follows:

US$ Thousands	Gross credit exposure	Rated Exposure	Unrated Exposure
Claims on banks	486,476	478,016	8,460
Claims on corporates	480,032	92,282	387,750
Sovereigns	252,921	233,038	19,883
Project finance	131,801	-	131,801
Past due exposures	33,460	-	33,460
Other	1,390	-	1,390
Total	**1,386,080**	**803,336**	**582,744**

The Group has a policy of maintaining accurate and consistent risk methodologies. It uses a variety of financial analytics, combined with market information, to support risk ratings that form the main inputs for the measurement of counterparty credit risk. All internal ratings are tailored to the various categories, and are derived in accordance with the Group's credit policy. They are assessed and updated regularly. Each risk rating class is mapped to grades equivalent to Standard & Poor's, Moody's, Fitch rating and Capital Intelligence agencies.

The Group's credit risk distribution at the 2015 financial year end is shown below:



4.5 Maturity analysis of funded exposures

Residual contractual maturity analysis of the Group's major types of funded credit exposures are as follows:

US$ Thousands	Within 1 month	1-3 months	3-6 months	6-12 months	Total within 12 months	1-5 years	5-10 years	Over 10 years	Total over 12 months	Undated	Total
Sovereigns	7,116	22,461	21,903	12,500	63,980	108,169	78,484	-	186,653	53	250,686
Claims on banks	43,247	47,033	-	40,711	130,991	349,615	1,537	-	351,152	3,662	485,805
Claims on Corporates	26,366	93,157	100,910	31,790	252,223	113,176	78,457	-	191,633	-	443,856
Past due exposures	-	-	-	-	-	-	-	33,460	33,460	-	33,460
Project finance	1,253	-	9,387	10,680	21,320	75,410	35,071	-	110,481	-	131,801
Other	-	-	-	-	-	-	-	-	-	1,390	1,390
Total	**77,982**	**162,651**	**132,200**	**95,681**	**468,514**	**646,370**	**193,549**	**33,460**	**873,379**	**5,105**	**1,346,998**

Risk Management

Residual contractual maturity analysis of the Group's funded credit exposures per type of Islamic financing contract are as follows:

US$ Thousands	Within 1 month	1-3 months	3-6 months	6-12 months	Total within 12 months	1-5 years	5-10 years	Over 10 years	Total over 12 months	Undated	Total
Murabaha	58,484	161,334	52,288	67,826	339,932	218,093	44,972	33,460	296,525	-	636,457
Sukuk	3,039	-	1,878	-	4,917	265,158	104,983	-	370,141	1,500	376,558
Due from financial institution	-	-	60,006	-	60,006	-	-	-	-	-	60,006
Equity	-	-	-	-	-	-	-	-	-	2,162	2,162
Other	13,915	-	-	-	13,915	-	-	-	-	1,443	15,358
Ijara Rec	113	275	37	3	428	-	-	-	-	-	428
Ijara	2,431	1,042	17,991	27,852	49,316	163,119	43,594	-	206,713	-	256,029
Total	**77,982**	**162,651**	**132,200**	**95,681**	**468,514**	**646,370**	**193,549**	**33,460**	**873,379**	**5,105**	**1,346,998**

4.6 Maturity analysis of unfunded exposures

Residual contractual maturity analysis of the Group's major types of unfunded credit exposures are as follows:

US$ Thousands	Within 1 month	1-3 months	3-6 months	6-12 months	Total within 12 months	1-5 years	Total over 12 months	Total
Sovereigns	-	-	-	2,235	2,235	-	-	2,235
Claims on banks	-	-	596	75	671	-	-	671
Claims on Corporates	1,242	5,113	7,109	21,785	35,249	927	927	36,176
Total	**1,242**	**5,113**	**7,705**	**24,095**	**38,155**	**927**	**927**	**39,082**

Residual contractual maturity analysis of the Group's unfunded credit exposures per type of Islamic financing contract are as follows:

US$ Thousands	Within 1 month	1-3 months	3-6 months	6-12 months	Total within 12 months	1-5 years	Total over 12 months	Total
Murabaha	-	-	2,360	19,735	22,095	-	-	22,095
Ijara	-	-	1,989	-	1,989	-	-	1,989
LC	1,242	5,113	3,356	4,360	14,071	927	927	14,998
Total	**1,242**	**5,113**	**7,705**	**24,095**	**38,155**	**927**	**927**	**39,082**

Unfunded exposures are divided into the following exposure types, in accordance with the calculation of credit risk-weighted assets in the CBB's Basel III capital adequacy framework:

(a) **Credit-related contingent items** comprising letters of credit, acceptances, guarantees and commitments.

(b) **Derivatives** including tabdeel and wa'ad in the profit rate, foreign exchange, equity and credit markets.

Credit-related contingent items

As mentioned above, for credit-related contingent items, the nominal value is converted to an exposure through the application of a credit conversion factor [CCF]. The CCF is at 20%, 50% or 100% depending on the type of contingent item, and is used to convert off-statement of financial position notional amounts into an equivalent on-statement of financial position exposure.

Undrawn facilities and other commitments represent commitments that have not been drawn down or utilised at the reporting date. The nominal amount provides the calculation base to which a CCF is applied for calculating the exposure.

CCF ranges between 20% and 50% for commitments with original maturity of up to one year and over one year respectively and 0% CCF is applicable for commitments which can be unconditionally cancelled at any time.

The table below summarises the notional principal amounts and the relative exposures before applying credit risk mitigation:

US$ Thousands	Notional Principal	Credit Exposure*
Short-term self-liquidating trade-related contingent items - 20%	16,029	3,206
Transaction-related contingent items - 50%	23,586	11,793
Undrawn facilities and other commitments	48,167	24,083
RWA for contingent items		**38,411**

** Credit exposure is after applying CCF.*

At 31 December 2015, the Group held cash collaterals in relation to credit-related contingent items amounting to US$ 1,342 thousand.

4.7 Penalties imposed on customers

Penalties imposed on customers during the year were US$ 16 thousand. This amount represents penalty fees received from customers for making late payments. Such amounts are disposed-off to charitable causes.

4.8 Impairment of assets

Impairment and un-collectability of financial assets

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

Evidence of impairment may include:

- Significant financial difficulty, default or delinquency in interest or principal payments
- The probability that it will enter bankruptcy or other financial reorganisation
- A measurable decrease in estimated future cash flows, such as changes in arrears or economic conditions, which correlate with defaults.

Impairment is determined as follows:

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

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

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

The Group uses the provision account to record impairments except for equity and similar investments, which are written down, with future increases in their fair value being recognised directly in equity.

Impairment losses on financial assets

On a quarterly basis the Group assesses whether any 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 provision 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 in such provisions.

Impairment against specific groups of financial assets

In addition to specific provisions against individually significant facilities and investments, the Group also makes a provision to cover impairment against specific group of financial assets where there is a measurable decrease in estimated future cash flows. This provision is based on any deterioration in the internal grade of the financial asset since it was granted. The amount of provision is based on the historical loss pattern for facilities within each grading and is adjusted to reflect current economic changes.

The internal grading process takes into consideration factors such as collateral held, deterioration in country risk, industry and technological obsolescence, as well as identified structural weakness or deterioration in cash flows.

Risk Management

4.9 Market risk
Market risk is the risk that the Group's earnings or capital, or its ability to support its business strategy, will be impacted by changes in market rates or prices related to profit rates, equity prices, credit spreads, foreign exchange rates and commodity prices.

ABC has established risk management policies and limits within which exposure to market risk is measured, monitored and controlled by the Credit Risk Group [CRG] with strategic oversight exercised by ABC's GALCO. The CRG's Treasury and Financial Market Risk [T&FMR] unit is responsible for the development and implementation of market risk policy, risk measurement and monitoring framework, and the review of all trading and investment products/limits before submission to GALCO. The T&FMR includes market risk, middle office, liquidity risk and product control. This function also has an additional reporting line to GCFO.

The Group classifies market risk into the following:

- **Non-trading market risk in securities**
  Non-trading market risk arises from market factors impacting securities that are held for long-term investment.

- **Asset and liability risk**
  Non-trading asset and liability risk exposures arise where the re-pricing characteristics of the Group's assets do not match with those of liabilities.

- **Liquidity Risk**
  Liquidity risk is the risk that maturing and encashable assets may not cover cash flow obligations (liabilities). In this respect, the Group is supported by ABC, through the provision of a line of credit to cover any shortfall in liquidity. Accordingly, the Group's liquidity needs are taken into consideration in ABC's liquidity management.

ABC adopts a number of methods to monitor and manage market risks across its trading and non-trading portfolios. These include: Value-at-Risk [VaR] (i.e. 1-day 99th percentile VaR using the 'historical simulation' methodology)

- Sensitivity analysis (i.e. basis-point value [BPV] for profit rate and 'Greeks' for options)
- Stress Testing / Scenario Analysis
- Non-Technical Risk Measures (e.g. nominal position values, stop loss vs. P&L, and concentration risk).
- Forward-looking analysis of distress using CDS prices, equity prices and implied volatilities
- A price-discovery and liquidity assessment process to assess liquidity risk of the AFS portfolio
- Hedge funds analytics, including mapping risk factors of hedge fund managers to market risk drivers.

On an annual basis, ABC's BRC reviews and approves VaR trading limits, BPV trading and investment limits, and Non-Technical Trading and Investment Limits.

It should be noted that the Group applies BPV on the sukuk portfolio and the non-technical risk measures in its liquidity management at the Group level. For the non-technical measures, notional limits are set for investment products, which are approved by the GALCO.

- **Currency risk**
  The Group is exposed to foreign exchange rate risk through its structural positions. In general, the Group uses matched currency funding to eliminate such a risk.

- **Profit rate risk**
  Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Group is exposed to profit rate risk as a result of mismatches of profit rate re-pricing of assets and liabilities. The most prominent market risk factor for the Bank is profit rates. This risk is minimised as the Group's rate sensitive assets and liabilities are mostly floating rate, where the duration risk is lower. In general, the Group translates fixed rate instruments to floating rate to better manage the duration in the asset book.

- **Commodity risk (price risk)**
  The Group would be exposed to commodity risk if it holds commodity for its Murabaha transactions. However, in order to minimise or eliminate this risk, the Group limits its holding of commodity to the day of the transaction and it settles its position for each specific transaction, hence eliminating overnight price risk in the commodities traded.

- **Profit Rate Risk in the Banking Book [PRRBB]**
  The Bank uses the BPV approach to control PRRBB. BPV measures changes in economic value resulting from changes in profit rates. In the BPV methodology, the modified duration approach and, for some products, the effective duration approach is used to measure the PRRBB. Modified duration is a good measure of linear risk for profit rate sensitive products.

The BPV measure incorporates the entire rate sensitive segment of the statement of financial position for the Group and is classified into appropriate buckets. Non-maturity profit rate sensitive assets and liabilities are bucketed in the short term. Equity is excluded from these computations.

As at 31 December 2015, an immediate shift by 200 basis points in profit rates would potentially impact the Group's economic value by US$ 1,598 thousand.

At the year end, the Group was exposed to profit rate risk on its financial assets and financial liabilities. The following table indicates the profit rates during the year expressed as a percentage of the principal outstanding.

US$ Thousands	%
Investments	1.46 – 6.25
Murabaha receivables	0.10 – 4.83
Ijara	0.93 – 6.10
Murabaha payables	0.10 – 3.37

4.10 Equity position risk

Equity position risk arises from the possibility that changes in the price of equities or equity indices will affect future profitability or the fair values of financial instruments. As of the reporting date, the Bank had an equity position amounting to US$ 2,162 thousand.

4.11 Liquidity risk

The Group's principal sources of liquidity are deposits placed with the subsidiary funds raised through commodity Murabahas. However, for any shortfall in liquidity, the Bank relies on ABC; hence, the Group's liquidity needs are taken into consideration in ABC's liquidity management process. ABC maintains liquid assets at prudential levels to ensure that cash can quickly be made available to honour all its obligations, even under adverse conditions. ABC is generally in a position of excess liquidity, its principal sources of liquidity being its deposit base, liquidity derived from its operations and inter-bank borrowings.

The Minimum Liquidity Guideline [MLG] metric is used to manage and monitor liquidity on a daily basis. The MLG represents the minimum number of days ABC can survive the combined outflow of all deposits and contractual draw-downs, under normal market conditions.

The following table summarises the liquidity ratios as at 31 December 2015:

Liquid assets ratio	28.8%
Short-term assets to short-term liabilities	44.5%

4.12 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk in ABC includes legal risk.

Reputational impact, regulatory impact and impact on clients and operations are taken into consideration when assessing the impact of actual, and potential, operational risk events.

ABC applies the 'Standardised Approach' for calculating its Pillar 1 operational risk capital. As at 31 December 2015, the Group's total capital charge in respect of operational risk was USD 114.8 million.

ABC applies modern, proven methodologies for the qualitative management of its operational and other non-financial risks, adapting them to ABC's size, nature, complexity and risk profile.

The ABC Group-wide framework has to be implemented by all entities that Arab Banking Corporation (B.S.C.) controls directly or indirectly.

The operational risk management framework is being introduced across ABC, following the Operational Risk Committee's rolling two-year 'master plan'. Local operational risk committees implement corresponding plans at the subsidiary levels.

ABC currently employs the following tools for the management of operational risks:

- Internal loss data and incidents, near miss events
- Risk and control self-assessments ("bottom-up" and "top-down")
- Group-wide control standards
- Risk scenarios
- Key risk and performance indicators
- New product approval process.

Operational risk tolerance

ABC uses quantitative and qualitative elements to classify actual and potential operational risks as 'very high', 'high', 'medium', 'low' or 'very low'. 'Very high' and 'high' risks must be mitigated.

Risk Management

They can only be accepted at the ABC Group level.

A separate escalation procedure requires, among other things, that the Senior Management of ABC be immediately informed of all risk events classified 'very high' or 'high' that have either happened or are likely to happen.

5. BUSINESS CONTINUITY

ABC has robust business continuity plans – both in order to meet local and international regulatory obligations, and in order to protect the ABC Group's business functions, assets and employees. These plans provide each ABC subsidiary with the necessary guidelines and procedures in case of an emergency. The business continuity plans cover local and regional risk scenarios. Continuous updates of these plans are performed regularly, to ensure that they are kept up to date with changes in each ABC unit.

6. LEGAL RISK

Examples of legal risk include inadequate documentation, legal and regulatory incapacity, insufficient authority of a counterparty and contract invalidity/unenforceability. Legal Counsel and the Corporate Secretary bear responsibility for identification and management of this risk. They consult with internal and external legal counsels. All Major Group subsidiaries have their own in-house legal departments, acting under the guidance of the Legal Counsel, which aims to facilitate the business of the Group by providing proactive, business-oriented and creative advice.

7. CAPITAL STRUCTURE

The Group's capital base comprises of Tier 1 capital which includes share capital, reserves, retained earnings, current year profit and unrealized gains arising from fair valuing equities.

The issued and paid-up share capital of the Bank was US$ 132.5 million at 31 December 2015, comprising of 1,325,000 shares of US$ 100 each.

The Group's capital base and risk weighted assets is summarized below:

Breakdown of capital base

US$ Million	Tier 1	Tier 2	Total
Issued and fully paid ordinary shares	132.5	-	132.5
Legal / statutory reserves	19.5	-	19.5
Retained profit brought forward	110.9	-	110.9
Profit for the year	19.7	-	19.7
Unrealized gains arising from fair valuing equities	0.6	-	0.6
Capital base	**283.2**	**-**	**283.2**
Risk weighted assets [RWA]			
Credit risk			900.5
Market risk			-
Operational risk			114.8
			1,015.3
Tier 1 ratio			**27.9%**
Capital adequacy ratio			**27.9%**

Market risk
The Group, with assistance from ABC, minimizes its market risk through:

(i) match-funding its assets to reduce its profit rate risk;

(ii) not taking commodity price risk by squaring position on transaction by transaction basis;

(iii) funding exposures in the same currency and, hence, avoiding any foreign exchange currency risk; and

(iv) maintaining no sukuk trading position.

Accordingly, the Group maintains no capital charge for market risk.

Operational risk

In accordance with the standardised methodology, the risk weight with respect to operational risk is US$ 114.8 million, with minimum capital requirement of US$ 14.4 million (at 12.5%). This capital charge was computed by categorising the Group's activities into two business lines (out of the eight business lines defined by the Basel III framework) and multiplying the business line's three-year average gross income by a pre-defined beta factor.

Indicators of operational risk exposures:

Gross income US$ thousands	114,828
Amount of non-Shari'a compliant income US$ thousands	16
Number of Shari'a violations	Nil

8. CAPITAL ADEQUACY RATIOS [CAR]

The purpose of capital management at ABC and the Group is to ensure the efficient utilisation of capital in relation to business requirements and growth, risk profile and shareholders' returns and expectations.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may issue capital / Tier 2 securities and / or adjust the amount of dividend payment to shareholders. The determination to pay dividends on an on-going basis and the amount thereof will depend upon, among other things, the Group's earnings, its dividend policy, the requirement to set aside minimum statutory reserves, capital requirements to support the growth (organic and inorganic), regulatory capital requirements, approval from the CBB and applicable requirements under Bahrain Commercial Companies Law, as well as other factors that the Board of Directors and the shareholders may deem relevant.

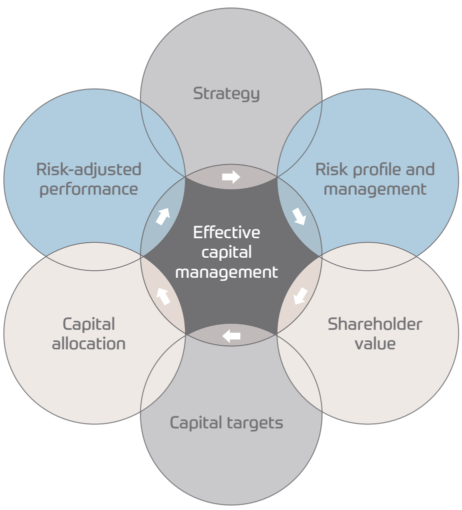
No changes have been made in the objectives, policies and processes from the previous year.

The Group's total capital adequacy ratio as at 31 December 2015 was 27.9% compared with the minimum regulatory requirement of 12.5%. The Tier 1 ratio was 27.9% for the Group. The Group ensures adherence to the CBB's requirements by monitoring its capital adequacy against higher internal limits.

9. CAPITAL MANAGEMENT

Internal Capital Adequacy Assessment Process [ICAAP]

The Group aims to maintain an optimum level of capital to enable it to pursue strategies that build long-term shareholder value, whilst always meeting minimum regulatory ratio requirements. The diagram below illustrates this concept:



Among the key principles driving capital management at ABC include:

- Adequate capital is maintained as buffer for unexpected losses to protect stakeholders, i.e. shareholders and depositors; and
- Return on capital is maximised to generate sustainable returns above the cost of capital.

The methodologies for internally estimating capital for ABC's key risks are as follows:

a. **Credit risk:** Assessed on the basis of Foundation IRB Risk Weights (FIRB). This supports the internal estimation of economic capital per business segment, business unit and aggregated at the Group level. ABC uses stress-testing to review its risk exposure against budgeted levels.

b. **Market risk:** Assessed using the Value at Risk (VaR) metric.

Risk Management

VaR measures the worst expected loss over a given timeframe, under normal market conditions and at a given confidence interval. It provides an aggregate view of the portfolio's risk that accounts for leverage, correlations and current positions. The Group uses the Historical Simulation Approach to measure VaR. The key model assumptions for the trading portfolio are:

- 2-year historical simulation
- 1-day VaR
- 99% (one tail) confidence interval

The historical simulation method provides a full valuation going back in time, such as over the last 500 days, by applying current weights to a time series of historical returns.

ABC uses the stress-testing methodology to review its exposures against historical and ABC-specific extreme scenarios.

c. **Operational risk:** Applied on the Standardised Approach basis.

d. **Other risks:** such as liquidity, strategic and reputational risks are currently captured providing a capital buffer.

10. OTHER DISCLOSURES

10.1 Related-party transactions

Related parties represent associated companies, major shareholders, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's senior management, and are based on arm's length rationale.

a. **Exposures to related parties**

US$ Thousands	
Claims on shareholders	68,443
Claims on Directors and senior management	688
Claims on staff	471

b. **Liabilities to related parties**

US$ Thousands	
Connected deposits	945,245
Other liabilities	4,129

C. **Income and expenses arising from dealing with related parties**

US$ Thousands	
Income from Murabaha receivables	113
Profit on Murabaha payables	8,173
Fees paid to ABC (B.S.C)	226
Charges by ABC (B.S.C)	700
Board remuneration	144
Shari'a Supervisory Board	105

10.2 Ageing analysis of non-performing / impaired Islamic financing and securities

In accordance with the guidelines issued by the CBB, credit facilities are placed on non-accrual status and profit suspended when either principal or profit is overdue by 90 days, whereupon profit credited to income is reversed. Following an assessment of impairment, specific provision is established if there is objective evidence that a credit facility is impaired.

An ageing analysis of all non-performing Islamic financing facilities on non-accrual basis, together with their related provisions, is as follows:

Islamic financing

US$ Thousands	Principal*	Provisions	Net book value
Over 3 years	33,460	-	33,460
Total	**34,460**	**-**	**34,460**

** Carrying values of US$ 33,460 thousand have been guaranteed by ABC. All non-performing financing facilities are from GCC countries. The industry sector analysis of the non-performing facilities of US$ 29,391 thousand is in the trading sector and US$ 4,069 thousand in the financial institution sector.*

10.3 Securities

The Group has specific impairment provisions of US$ 13,131 thousand on its securities portfolio, all of the securities are from GCC countries.

10.4 Restructured assets

As of 31 December 2015, there were no financial assets whose terms were renegotiated during the year.

10.5 Assets sold under recourse agreements

The Group has not entered into any recourse agreement during the year ended 31 December 2015.

10.6 Movement in specific and collective impairment provisions

US$ Thousands	Specific provision for securities
As at 1 January 2015	13,131
Provision	-
As at 31 December 2015	**13,131**

10.7 Industry sector analysis of the specific impairment provisions charges

Impairment of US$ 4,631 thousand is in the financial institution sector and US$ 8,500 thousand in the trading sector.

Equity positions in the banking book

As at 31 December 2015, the equity position of the Group amounted to US$ 2,162 thousand, all of which is quoted.

US$ Thousands	
Gross unrealized gains recognized in the statement of financial position	618
Unrealized gains included in Tier 1 capital	618

“We work together as one team across our international network providing a superior client experience”

Consolidated Financial Statements

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF ABC ISLAMIC BANK (E.C.)

EY
Building a better working world

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

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

Report on the consolidated financial statements

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2015, the results of its consolidated operations, its consolidated cash flows, consolidated changes in owner's equity, and consolidated sources and uses of Zakah and charity funds for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI.

Report on other regulatory requirements

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

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

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

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2015 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests. The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank.

Ernst & Young

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2015 (All figures stated in US$ thousands)

	Note	2015	2014
ASSETS			
Bank balances	5	**13,915**	14,190
Due from a financial institution		**60,000**	60,000
Investments	6	**373,093**	283,681
Murabaha receivables	7	**636,457**	713,973
Ijarah receivables		**428**	760
Ijarah	8	**256,029**	251,884
Equipment		**15**	11
Other assets	9	**4,085**	3,393
TOTAL ASSETS		**1,344,022**	1,327,892
LIABILITIES AND OWNER'S EQUITY			
Liabilities			
Other liabilities	10	**13,913**	12,226
Murabaha payables	11	**1,046,863**	1,052,104
		1,060,776	1,064,330
Owner's equity	12		
Share capital		**132,500**	132,500
Reserves		**150,746**	131,062
		283,246	263,562
TOTAL LIABILITIES AND OWNER'S EQUITY		**1,344,022**	1,327,892

Dr. Khaled S. Kawan
Chairman

Naveed Khan
Managing Director

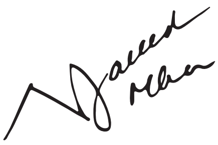
The attached notes 1 to 24 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2015 (All figures stated in US$ thousands)

	Note	2015	2014
OPERATING INCOME			
Income from financial institution		**997**	495
Income from investments		**7,616**	5,251
Income from Murabaha receivables		**17,266**	12,429
Ijarah income – net	8	**4,682**	5,775
		30,561	23,950
Profit on Murabaha payables		**(9,369)**	(6,428)
		21,192	17,522
Gain on sale of investments		**440**	-
Fees and commission income - net	14	**5,698**	4,651
Total operating income		**27,330**	22,173
OPERATING EXPENSES			
Staff costs		**5,285**	5,096
Depreciation		**8**	16
Other expenses	15	**1,989**	1,661
Total operating expenses		**7,282**	6,773
PROFIT FOR THE YEAR BEFORE ZAKAH		**20,048**	15,400
Zakah		**(342)**	(329)
PROFIT FOR THE YEAR		**19,706**	15,071

Dr. Khaled S. Kawan
Chairman



Naveed Khan
Managing Director

The attached notes 1 to 24 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2015 (All figures stated in US$ thousands)

	Note	2015	2014
OPERATING ACTIVITIES			
Profit for the year		**19,706**	15,071
Adjustments for:			
Depreciation		**8**	16
Gain on sale of investments		**(440)**	-
Amortization of discount and premium on investments		**(46)**	-
Operating profit before changes in operating assets and liabilities		**19,228**	15,087
Changes in operating assets and liabilities:			
Due from a financial institution		**-**	(60,000)
Murabaha receivables	7	**77,516**	(96,012)
Ijarah receivables		**332**	(13)
Ijarah	8	**(4,145)**	45,083
Other assets	9	**(692)**	(1,453)
Other liabilities	10	**1,687**	3,717
Murabaha payables	11	**(5,241)**	307,303
Net cash from operating activities		**88,685**	213,712
INVESTING ACTIVITIES			
Purchase of investments	6	**(121,958)**	(255,560)
Proceeds from sale/redemption of investments		**32,986**	47,505
Purchase of equipment		**12**	(4)
Net cash used in investing activities		**(88,960)**	(208,059)
NET CHANGE IN CASH EQUIVALENTS		**(275)**	5,653
Cash equivalents at 1 January		**14,190**	8,537
CASH EQUIVALENTS AT 31 DECEMBER	5	**13,915**	14,190

The attached notes 1 to 24 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNER'S EQUITY

Year ended 31 December 2015 (All figures stated in US$ thousands)

		Reserves				
	Share capital	Statutory reserve	Investments fair value reserve	Retained earnings	Total reserves	Total owner's equity
At 1 January 2015	132,500	17,589	640	112,833	131,062	263,562
Cumulative changes in fair value	-	-	(22)	-	(22)	(22)
Profit for the year	-	-	-	19,706	19,706	19,706
Transfer to statutory reserve (note 12)	-	1,971	-	(1,971)	-	-
At 31 December 2015	**132,500**	**19,560**	**618**	**130,568**	**150,746**	**283,246**
At 1 January 2014	132,500	16,082	583	99,269	115,934	248,434
Cumulative changes in fair value	-	-	57	-	57	57
Profit for the year	-	-	-	15,071	15,071	15,071
Transfer to statutory reserve (note 12)	-	1,507	-	(1,507)	-	-
At 31 December 2014	132,500	17,589	640	112,833	131,062	263,562

The attached notes 1 to 24 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUNDS

Year ended 31 December 2015 (All figures stated in US$ thousands)

	2015	2014
SOURCES OF ZAKAH AND CHARITY FUNDS		
Balance at 1 January	**457**	431
Charity	**16**	13
Zakah due from the Bank (*)	**342**	329
Total sources of Zakah and charity funds.	**815**	773
Uses of Zakah and charity funds		
Zakah and charity paid to the poor and needy	**(329)**	(316)
Undistributed Zakah and charity funds at end of the year (note 10)	**486**	457

** Zakah is calculated on the Zakah base of the Group according to Financial Accounting Standard 9 issued by the Accounting and Auditing Organization for Islamic Financial Institutions using the net invested funds method and amounts to US$ 7,300 thousand (2014: US$ 6,793 thousand) of which US$ 342 thousand (2014: US$ 329 thousand) is payable by the Bank.*

The attached notes 1 to 24 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

1 INCORPORATION AND ACTIVITIES

ABC Islamic Bank (E.C.) [the Bank] is an exempt joint stock company incorporated in the Kingdom of Bahrain on 10 December 1985 and registered with the Ministry of Industry and Commerce under commercial registration number 16864. The Bank and its subsidiary [together "the Group"] operate under an Islamic wholesale banking license issued by the Central Bank of Bahrain [the CBB] and are engaged in financial trading in accordance with the teachings of Islam (Shari'a). The postal address of the Bank's registered office is PO Box 2808, Manama, Kingdom of Bahrain. As of 31 December 2015, total number of employees employed by the Bank was 15 (2014: 15).

Arab Banking Corporation (B.S.C.) [ABC (B.S.C.)], which operates under a wholesale banking license issued by the CBB, holds 100% of the share capital of the Bank.

The Bank's Shari'a Supervisory Board is entrusted with the responsibility to ensure the Group's adherence to Shari'a rules and principles in its transactions and activities.

The ownership in the subsidiary of the Bank as at 31 December 2015 is as follows:

Name	Nature of Business	Date of incorporation	Country of incorporation	Amount and % of holding
ABC Clearing Company	Islamic Investment Company	30 November 1993	Cayman Islands	US$ 2,000 100% management shares

The Bank operates only in the Kingdom of Bahrain and does not have any branches.

The consolidated financial statements have been authorised for issue by the Board of Directors on 25 February 2016.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance and basis of preparation

The consolidated financial statements have been prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions [AAOIFI], the Islamic Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Group, and the applicable provisions of the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law and the CBB Rule Book (volume 2) and applicable provisions of volume 6 and the CBB directives. In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standards exist, the Group uses International Financial Reporting Standards [IFRS] issued by the International Accounting Standards Board [IASB].

Accounting convention

The consolidated financial statements are prepared under the historical cost convention as modified for measurement at fair value of "equity type instruments carried at fair value through equity" and Tabdeel.

The consolidated financial statements have been presented in United States Dollars [US$], being the functional currency of the Group. All values are rounded to the nearest thousand (US$ '000) unless otherwise stated.

2.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiary as at 31 December each year. A subsidiary is an entity over which the Bank has power to control which is other than fiduciary in nature. The financial information of the subsidiary is prepared using accounting policies consistent with the Bank.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control is achieved where the Group has the power, directly or indirectly, to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed off during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal as appropriate.

All intra-group balances, transactions, income and expenses and profits and losses resulting from inter-group transactions are eliminated in full.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

Non-controlling interests, if any, represents the portion of net income and net assets not held, directly or indirectly by the Group and are presented separately in the consolidated statement of income and within owner's equity in the consolidated statement of financial position, separately from parent shareholders' equity.

2.3 Summary of significant accounting policies

Following is a summary of significant accounting policies adopted in preparing the consolidated financial statements. These accounting policies are consistent with those used in the previous year.

a. Investments

These are classified as either carried at amortised cost, fair value through the statement of income or fair value through equity.

Initial measurement

All investments shall be recognised on the acquisition date and shall be recognised initially at their fair value plus transaction costs.

Debt type instrument carried at amortised cost

Investments which have fixed or determinable payments and where the Group has both the intention and the ability to hold till maturity are classified as debt type instruments carried at amortised cost. After initial measurement, such investments are carried at amortised cost, less provision for impairment in value, if any. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such type of instruments is recognised in the consolidated statement of income, when the type instruments de-recognised or impaired.

Equity type instrument carried at fair value through equity

Subsequent to acquisition, equity type instruments are remeasured at fair value, with unrealised gains and losses recognised in a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously recorded in equity is recognised in the consolidated statement of income.

b. Tabdeel

Tabdeel is a transaction structured to assist the Group to hedge its profit rate risk. The Group enters into two distinct transactions, Tawarruq financing asset and Tawarruq placement liability (representing notional amount), both with the same counterparty. The Tawarruq financing asset is offset against the Tawarruq placement liability and therefore Tabdeel transactions are recorded off-balance sheet.

c. Murabaha receivables

Murabaha receivables are stated net of deferred profits and provisions for credit losses. Murabaha receivables are sales on deferred terms. The Bank arranges a Murabaha transaction by buying a commodity (which represents the object of the Murabaha) and then resells this commodity to the Murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is repaid in installments by the Murabeh over the agreed period.

d. Ijarah receivables

Ijarah receivables are the outstanding rentals at the end of each year less any provision for doubtful receivables.

e. Mudaraba

Mudaraba are partnerships in which the Bank contributes capital. These are stated at the fair value of consideration given less provision for impairment, if any.

f. Equipment and Ijarah

These are initially recorded at cost. Ijarah comprises of plant and equipment.

Depreciation is provided on a straight-line basis on all equipment over its expected useful life.

Depreciation is provided on assets under Ijarah, at rates calculated to write-off the cost of the asset over lease term.

The estimated useful lives of assets for calculation of depreciation are as follows:

Ijarah assets	1-10 years
Equipment	3-5 years

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

g. Murabaha payables

Murabaha payables are carried at cost plus accrued profit less amounts repaid.

h. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the consolidated statement of income net any reimbursements.

i. Determination of fair values

For investments traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the date of the statement of financial position.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument with similar terms and characteristics, or is based on an assessment of the value of future cash flows or based on net asset value.

For Murabaha receivables, future cash flows are determined by the Group at current profit rates for financing contracts with similar terms and risk characteristics.

j. Revenue recognition

Income from Murabaha receivables

Income is recognised by proportionately allocating the attributable profits over the period of the credit, whereby each financial period carries its portion of profits, irrespective of when cash is received. Income related to accounts that are overdue for 90 days or more, is excluded from the consolidated statement of income.

Income from Mudaraba

Income on Mudaraba is recognised when the right to receive payments is established or on distribution. Income related to accounts that are overdue for 90 days or more, is excluded from the consolidated statement of income.

Ijarah income

Income net of depreciation is recognised on a time-apportioned basis over the lease term. Income that is overdue for 90 days or more is excluded from income until it is received in cash.

Fees and commission income

Fees and commission income are recognised when earned.

k. Profit on Murabaha payables

Profit on Murabaha payables is accrued on the basis of terms and conditions of the individual contracts.

l. Foreign currencies

Foreign currency transactions are recorded in US dollars at the spot rate of exchange prevailing at the value dates of the transactions. Monetary assets and liabilities in foreign currency are retranslated into US dollars at the rates of exchange prevailing at the date of the consolidated statement of financial position. Any gains or losses are taken to consolidated statement of 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 date of the initial transaction.

Translation gains or losses on non-monetary items carried at fair value are included in owner's equity as part of the fair value adjustments on fair value through equity investments.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

m. 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.

n. Derecognition of financial assets and financial liabilities

Financial assets

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

- the right to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to third party under a 'pass-through' arrangement; 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 assets, but has transferred control of the asset.

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

Financial liabilities

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

o. Zakah

Zakah is calculated on the Zakah base of the Group according to Financial Accounting Standard 9 issued by the Accounting and Auditing Organization for Islamic Financial Institutions using the net invested funds method.

p. Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise bank balances with original maturities of 90 days or less.

q. Trade date accounting

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

r. Employees' end of service 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. Bahraini employees are also covered by the Social Insurance Organisation and the Group's obligations are limited to the amounts contributed to the scheme, which is expensed when due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the consolidated financial statements requires management to exercise judgment and make estimates that affect the amounts reported in the consolidated financial statements. The most significant use of judgements and estimates are as follows:

Fair value of unquoted investments

Where the fair value of the Group's investment portfolio cannot be derived from an active market, they are determined using a variety of valuation techniques. These techniques rely on market observable data where possible. Judgement by management is required to establish fair values through the use of appropriate valuation models. Judgements include consideration of comparable assets or value of future cash flows.

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

Impairment

The Group assesses at each statement of financial position date whether there is objective evidence that a specific asset or a group of assets may be impaired. An asset or a group of 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 have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event(s) has an impact on the estimated future cash flows of the asset or group of the assets that can be reliably estimated.

The Group treats fair value through 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 judgement.

The Group assesses at each reporting date, or more frequently if events or changes in circumstances indicate whether the carrying value of investments in Ijarah may be impaired. If any such indication exists, the Group makes an estimate of the recoverable amount of each asset in the portfolio individually. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and an impairment loss is recognised in the consolidated statement of income.

4 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ADOPTED

FAS 27 - "Investment accounts" was issued in December 2014 replacing FAS 5 - "Disclosures of Bases for Profit Allocation between Owner's Equity and Investment Account Holders" and FAS 6 - "Equity of Investment Account Holders and their Equivalent". The adoption of this standard had no significant impact on the consolidated financial statements of the Group as it has no Investment Account Holders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015 (All figures stated in US$ thousands)

5 BANK BALANCES

	2015	2014
Balance with ABC (B.S.C.)	**13,479**	13,630
Balances with other banks	**436**	560
	13,915	14,190

6 INVESTMENTS

2015	**Amortised cost**	**Fair value through equity**	**Total**
Debt type			
Quoted investments			
Sukuk	**379,431**	**-**	**379,431**
Equity type			
Quoted investments			
Equity shares	**-**	**6,793**	**6,793**
	379,431	**6,793**	**386,224**
Allowance for impairment - net	**(8,500)**	**(4,631)**	**(13,131)**
At 31 December 2015	**370,931**	**2,162**	**373,093**

2014	Amortised cost	Fair value through equity	Total
Debt type			
Quoted investments			
Sukuk	289,997	-	289,997
Equity type			
Quoted investments			
Equity shares	-	6,815	6,815
	289,997	6,815	296,812
Allowance for impairment - net	(8,500)	(4,631)	(13,131)
At 31 December 2014	281,497	2,184	283,681

The fair value of the Sukuk carried at amortised cost as at 31 December 2015 is US$ 365,832 thousand (31 December 2014: US$ 284,671 thousand).

Fair value loss that would have been recognised in the consolidated statement of changes in owner's equity for the year ended 31 December 2015 had the investments not been reclassified on adoption of FAS 25 amounts to US$ 5,099 thousand (31 December 2014: fair value gain of US$ 3,174 thousand).

Total investments determined to be individually impaired amount to US$ 16,174 thousand (2014: US$ 16,174 thousand). These include investments amounting to US$ 1,500 thousand (2014: US$ 1,500) whose carrying values have been guaranteed by ABC (B.S.C.).

31 December 2015 (All figures stated in US$ thousands)

7 MURABAHA RECEIVABLES

	2015	2014
International Commodity Murabaha	**20,004**	404
Murabaha receivables	**619,705**	718,328
Deferred profits	**(3,252)**	(4,759)
	636,457	713,973

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

Murabaha receivables, which are non-performing and whose carrying values has been guaranteed by ABC (B.S.C.) as of 31 December 2015, amount to US$ 33,460 thousand (2014: US$ 33,460 thousand). The Group also holds tangible collateral, the fair value of such collateral at 31 December 2015 amounts to US$ 4,006 thousand (2014: US$ 4,146 thousand).

8 IJARAH

In Ijarah Muntahia Bittamleek, the legal title of the leased asset passes to the lessee at the end of the Ijarah term provided that all Ijarah installments are settled and the lessee purchases the asset.

	2015	2014
Ijarah Muntahia Bittamleek		
Cost:		
At 1 January	**400,427**	447,412
Additions during the year	**71,023**	10,000
Disposals during the year	**(56,680)**	(56,985)
At 31 December	**414,770**	400,427
Depreciation:		
At 1 January	**148,543**	150,445
Provided during the year	**29,705**	42,996
Relating to disposals during the year	**(19,507)**	(44,898)
At 31 December	**158,741**	148,543
Net book value:		
At 31 December	**256,029**	251,884

Details of Ijarah income are as follows:

	2015	2014
Ijarah income – gross	**34,387**	48,771
Depreciation provided during the year	**(29,705)**	(42,996)
Ijarah income – net	**4,682**	5,775

There are no impaired Ijarah as at 31 December 2015 (2014: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015 (All figures stated in US$ thousands)

9 OTHER ASSETS

	2015	2014
Accrued income receivable	2,657	2,234
Reserve with the Central Bank of Bahrain	53	53
Others	1,375	1,106
	4,085	3,393

10 OTHER LIABILITIES

	2015	2014
Zakah and charity funds payable	486	457
Staff related accruals	4,231	3,210
Unearned income	3,489	2,679
Accrued charges	2,799	2,439
Tabdeel fair value	2,908	3,441
	13,913	12,226

11 MURABAHA PAYABLES

	2015	2014
Customers' accounts	53,564	48,133
Banks and other financial institutions	73,551	61,390
ABC (B.S.C.)	919,748	942,581
	1,046,863	1,052,104

12 OWNER'S EQUITY

(i) Share capital

	2015	2014
Authorised - 2,000,000 shares of US$ 100 each (2014: 2,000,000 shares of US$ 100 each)	200,000	200,000
Issued, subscribed and fully paid - 1,325,000 shares of US$ 100 each (2014: 1,325,000 shares of US$ 100 each)	132,500	132,500

(ii) Statutory reserve

In accordance with the requirements of the Bahrain Commercial Companies Law, 10% of the profit for the year has been transferred to statutory reserve. The Group may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital. The reserve is not distributable but can be utilised as security for the purpose of a distribution in such circumstances as stipulated in the Bahrain Commercial Companies Law and with the prior approval of the CBB.

31 December 2015 (All figures stated in US$ thousands)

13 MEMORANDUM ITEMS

Credit-related financial instruments

These include commitments to enter into financing contracts, which are designed to meet the requirements of the Group's customers.

Commitments to extend financing represents contractual commitments under Murabaha receivables. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Letters of credit, guarantees and acceptances commit the Group to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract.

The Group has the following contingent liabilities and commitments on behalf of customers:

	2015	2014
Letters of credit	**18,663**	31,986
Guarantees	**20,952**	29,367
Irrevocable commitments *	**48,167**	96,220
	87,782	157,573

** Out of total irrevocable commitments, US$ 44,190 thousand (2014: nil) expire in less than one year.*

14 FEE AND COMMISSION INCOME - NET

	2015	2014
Fee and commission income	**5,962**	5,005
Fee and commission expense	**(264)**	(354)
	5,698	4,651

15 OTHER EXPENSES

	2015	2014
Charges by ABC (B.S.C.)	**700**	700
Business related expenses	**286**	261
Professional fees and licenses	**487**	191
Other operating expenses	**516**	509
	1,989	1,661

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015 (All figures stated in US$ thousands)

16 TOTAL COMPREHENSIVE INCOME

	2015	2014
Profit for the year	19,706	15,071
Other comprehensive income		
Net fair value movements during the year after impairment effect	(22)	57
Total other comprehensive income for the year	(22)	57
Total comprehensive income for the year	19,684	15,128

17 SEGMENTAL INFORMATION

The activities of the Group are performed on an integrated basis. Therefore, any segmentation of operating income, expenses, assets and liabilities is not relevant. As such, operating income, expenses, assets and liabilities are not segmented.

The Group has physical operations and offices solely in the Kingdom of Bahrain and, as such, no geographical segment information is presented.

18 RELATED PARTY TRANSACTIONS

The Group enters into transactions with related parties in the ordinary course of business at commercial rates. All the financing contracts with the related parties are performing and are free of any provision for credit losses.

Balances with the related parties included in the consolidated statement of financial position are as follows:

	2015	2014
Balance with ABC (B.S.C.)	13,479	13,630
Murabaha receivables	20,004	404
Murabaha payables	945,245	977,673
Other liabilities	4,129	4,266

Income and expenses arising from dealings with related parties included in the consolidated statement of income are as follows:

	2015	2014
Income from Murabaha receivables	113	38
Profit on Murabaha payables	8,173	4,974
Fees paid to ABC (B.S.C.)	226	291
Charges by ABC (B.S.C.)	700	700
Shari'a Supervisory Board	105	106

Compensation of key management personnel is as follows:

	2015	2014
Short term employee benefits	2,982	2,882
Post employment benefits	379	359

Key management personnel are those who possess significant decision making and direction setting responsibilities at different grades within the Group.

19 RISK MANAGEMENT

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 critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk, market risk and operational risk.

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 in conducting its business and operations, and the means and organisational structure it employs in seeking to manage them strategically in building shareholder value, are outlined below.

Risk management structure

Executive Management is responsible for implementing the Group's Risk Strategy/Appetite and Policy guidelines set by the Board Risk Committee (BRC), including the identification and evaluation on a continuous basis of all significant risks to the business and the design and implementation of appropriate internal controls to minimise them. This is done with the involvement of a Risk Manager and through the following board committees:

a) The Audit Committee, which is responsible to the Board for ensuring the integrity and effectiveness of the Group's system of financial, accounting and risk management controls and practices and for monitoring compliance with the requirements of the regulatory authorities in the various countries in which the Group operates. The Committee is also responsible for recommending the appointment, compensation and oversight of the external auditors and the appointment of internal audit function.

b) The Board Risk Committee, which is responsible for the review and approval of the Group's credit and risk policies. The Committee reviews and makes recommendations to the Board regarding the risk strategy/appetite, within which business strategy, objectives and targets are formulated. The Committee delegates authority to senior management to conduct day-to-day business within the prescribed policy and strategy parameters, whilst ensuring that processes and controls are adequate to manage the Group's Risk Policies and Strategy.

The following committees of ABC (B.S.C.) assist the Group with its risk management:

The BRC is responsible for the continual review and approval of the ABC (B.S.C.)'s Risk Policies and Medium Term and Annual Risk Strategy/Appetite, within which business strategy, objectives and targets are formulated. The Committee reviews the Group's Risk Profile to ensure that it is within the ABC (B.S.C.) Risk Policies and Appetite parameters. It delegates authority to senior management to conduct day-to-day business within the prescribed policy and strategy parameters, whilst ensuring that processes and controls are adequate to manage the Risk Policies and Strategy.

The Head Office Credit Committee (HOCC) is responsible for credit decisions, setting country and other high level limits, dealing with impaired assets and general credit policy matters.

The Asset and Liability Committee (ALCO) is chiefly responsible for defining long-term strategic plans and short-term tactical initiatives for directing asset and liability allocation prudently for the achievement of the Group's strategic goals. ALCO monitors the Group's liquidity and market risks and the Group's risk profile in the context of economic developments and market fluctuations, to ensure that the Group's ongoing activities are compatible with the risk/reward guidelines approved by the BRC.

The Operational Risk Management Committee oversees the independent Operational Risk Management function and is responsible for defining long-term strategic plans and short-term tactical initiatives to prudently manage, control and measure exposure to operational risks.

Shari'a compliance risk is an operational risk facing Islamic banks which can lead to non-recognition of income, reputational loss and resulting franchise risk on grounds of non-Shari'a compliance. To manage such risks, the Shari'a Compliance Officer of the Group has been tasked to conduct regular Shari'a compliance reviews to ensure that documentation, procedures and execution of transactions are in accordance with the Shari'a Standards issued by the AAOIFI and Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank [the SSB]. The results of such reviews are being regularly reported to the SSB. Cases of non-Shari'a compliance are thoroughly investigated to establish causes of occurrence and to introduce adequate controls to avoid their recurrence in the future.

19 RISK MANAGEMENT (continued)

Risk management structure (continued)

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

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

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continuously assessing the creditworthiness of counterparties. In addition to monitoring credit limits, the Group manages the credit exposure by entering into collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposure. In certain cases the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

The first level of protection against undue credit risk is through ABC (B.S.C.)'s country, industry and other risk threshold limits, together with customer and customer group credit limits, set by the BRC and the HOCC, and allocated between subsidiaries of ABC (B.S.C.) Credit exposure to individual customers or customer groups is then controlled through a tiered hierarchy of delegated approval authorities based on the risk rating of the customer under the Group's internal credit rating system. Where unsecured facilities sought are considered to be beyond prudential limits, Group policies require collateral to mitigate the credit risk in the form of cash, securities, legal charges over the customer's assets or third-party guarantees. The Group also employs threshold 'risk adjusted return on capital' as a measure to evaluate the risk/reward relationship at the transaction approval stage.

Type of credit risk

Various contracts entered into by the Group mainly comprise Murabaha receivables and Ijarah.

Murabaha receivables

The Group finances Murabaha transactions through buying a commodity which represent the object of the Murabaha and then resells this commodity to the Murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is repaid in instalments by the Murabeh over the agreed period. The Murabeh pays a down payment of the sale price upon signing the Murabaha contract.

Ijarah Muntahia Bittamleek

The legal title of the leased asset under Ijarah Muntahia Bittamleek passes to the lessee at the end of the Ijarah term, provided that all Ijarah instalments are settled and the lessee purchases the asset.

31 December 2015 (All figures stated in US$ thousands)

19 RISK MANAGEMENT (continued)

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

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

	Gross maximum exposure 2015	Gross maximum exposure 2014
Bank balances	**13,915**	14,190
Due from a financial institution	**60,000**	60,000
Investments	**373,093**	283,681
Murabaha receivables	**636,457**	713,973
Ijarah receivables	**428**	760
Ijarah	**256,029**	251,884
Other assets	**2,657**	2,234
Total	**1,342,579**	1,326,722
Letters of credit and guarantees	**39,615**	61,353
Irrevocable commitments to provide trading facilities	**48,167**	96,220
Total	**87,782**	157,573

Credit risk concentration

Concentrations of credit risk 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 of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The Group seeks to manage its credit risk exposure through diversification of financing and investment activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses.

The Group's assets, liabilities, owner's equity and memorandum items can be analysed by the following geographical regions:

	2015			2014		
	Assets	**Liabilities and owner's equity**	**Memorandum items**	Assets	Liabilities and owner's equity	Memorandum items
North America	**-**	**2,759**	**-**	-	2,497	-
Western Europe	**-**	**8,206**	**-**	31,329	8,194	-
Rest of Europe (including Turkey)	**225,144**	**14**	**-**	207,553	13	-
Arab World:						
- Middle East	**1,057,619**	**1,308,582**	**83,312**	1,071,284	1,275,631	106,246
- Africa	**26,376**	**24,461**	**4,470**	16,910	33,191	33,142
Asia:						
- Far East	**15,000**	**-**	**-**	-	8,366	-
- Other	**19,883**	**-**	**-**	816	-	18,185
	1,344,022	**1,344,022**	**87,782**	1,327,892	1,327,892	157,573

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015 (All figures stated in US$ thousands)

19 RISK MANAGEMENT (continued)

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements (continued)

An industry sector analysis of the Group's assets, liabilities, owner's equity and memorandum items is as follows:

	2015			2014		
	Assets	Liabilities and owner's equity	Memorandum items	Assets	Liabilities and owner's Equity	Memorandum items
Manufacturing	169,014	1,951	36,878	269,120	1,976	33,407
Mining & quarrying	14,175	-	-	15,138	-	-
Construction	81,566	10,357	14,638	106,802	-	36,972
Trading	119,293	667	26,477	153,822	1,875	32,328
Banks and financial institutions	602,381	1,020,755	1,342	527,214	1,036,245	3,539
Government	233,759	-	4,470	133,774	-	51,327
Commercial real estate	6,913	3,483	-	83,028	3,548	
Transportation	51,016	4,830	3,977	33,252	3,661	-
Other	65,905	301,979	-	5,742	280,587	-
	1,344,022	1,344,022	87,782	1,327,892	1,327,892	157,573

The credit quality of financial assets is managed by the Group using internal credit ratings. These internal credit ratings range from 1 to 11 for each individual borrower. They are defined as follows:

High grade: These borrowers are rated between 1 and 3 and are of high credit quality, most with strong external credit ratings and considered as low risk.

Standard grade: These borrowers are rated between 4 and 8 and are of good to marginal credit quality, often with lower external credit ratings than high grade and considered as higher risk.

Substandard grade: These borrowers are rated between 9 and 10 and full repayment is questionable.

Past due or individually impaired: These borrowers are rated 11 and are expected to be total loss.

The table below shows the credit quality by class of financial asset, based on the Group's credit rating system.

	Neither past due nor impaired			
	High grade (1-3) 2015	Standard grade (4-8) 2015	Past due or individually impaired 2015	2015 Total
Bank balances	-	13,915	-	13,915
Due from a financial institution	60,000	-	-	60,000
Investments	144,541	227,052	1,500	373,093
Murabaha receivables	47,872	555,125	33,460	636,457
Ijarah receivables	133	295	-	428
Ijarah	116,402	139,627	-	256,029
Other credit exposures	1,501	1,156	-	2,657
	370,449	937,170	34,960	1,342,579

31 December 2015 (All figures stated in US$ thousands)

19 RISK MANAGEMENT (continued)

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements (continued)

	Neither past due nor impaired			
	High grade (1-3) 2014	Standard grade (4-8) 2014	Past due or individually impaired 2014	2014 Total
Bank balances	-	14,190	-	14,190
Due from a financial institution	60,000	-	-	60,000
Investments	124,631	157,550	1,500	283,681
Murabaha receivables	48,955	631,558	33,460	713,973
Ijarah receivables	122	638	-	760
Ijarah	126,131	125,753	-	251,884
Other credit exposures	716	1,518	-	2,234
	360,555	931,207	34,960	1,326,722

Financial assets whose terms have been renegotiated

As of 31 December 2015 the Group had no financial assets whose terms were renegotiated (2014: Nil).

Collateral and other credit enhancements

The amount and type of collateral depends on an assessment of the credit risk of the counterparty. The types of collateral mainly includes cash, charges over real estate properties, inventory and trade receivables.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses. The Group also makes use of master netting agreements with counterparties.

Market risk

The Group uses ABC (B.S.C.)'s established risk management policies and limits within which exposure to market risk is monitored. These are measured and controlled by the Risk Management Department (RMD) with strategic oversight exercised by Asset and Liability Committee (ALCO). The RMD's Market Risk Management (MRM) unit is responsible for developing and implementing market risk policy and risk measuring/monitoring methodology and for reviewing all new trading products and product limits prior to ALCO approval. MRM's core responsibility is to measure and report market risk against limits throughout the ABC (B.S.C.)'s subsidiaries.

Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect the future profitability or the fair values of the financial instruments. The Group is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature in a given period.

At the year end, the Group was exposed to profit rate risk on its financial assets and financial liabilities. The following table indicates the profit rates during the year expressed as a percentage of the principal outstanding.

	2015 %	2014 %
Investments	**1.46 - 6.25**	1.44 - 6.25
Murabaha receivables	**0.10 - 4.83**	0.10 - 4.74
Ijarah	**0.93 - 6.10**	0.77 - 6.10
Murabaha payables	**0.10 - 3.37**	0.15 - 2.29

For every 25 basis points increase/decrease in profit rate, the Group profit would increase/decrease by US$ 200 thousand (2014: US$ 188 thousand).

31 December 2015 (All figures stated in US$ thousands)

19 RISK MANAGEMENT (continued)

Currency risk

The Group's transactions are carried out substantially in US Dollars, and as such currency risk is minimal.

Liquidity risk

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to cease immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind.

The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's deposit retention history.

The maturity profile of assets, liabilities, and owner's equity is as follows:

31 December 2015	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	No fixed maturity	Total
ASSETS								
Bank balances	13,915	-	-	-	-	-	-	13,915
Due from a financial institution	-	-	60,000	-	-	-	-	60,000
Investments	-	-	-	1,875	140,576	228,480	2,162	373,093
Murabaha receivables	58,484	161,334	52,288	67,826	167,558	128,967	-	636,457
Ijarah receivables	113	275	37	3	-	-	-	428
Ijarah	2,431	1,042	17,991	27,852	95,652	111,061	-	256,029
Equipment	-	-	-	-	-	-	15	15
Other assets	-	-	-	-	-	-	4,085	4,085
Total assets	74,943	162,651	130,316	97,556	403,786	468,508	6,262	1,344,022
LIABILITIES AND OWNER'S EQUITY								
Other liabilities	-	-	-	-	-	-	13,913	13,913
Murabaha payables	480,707	484,820	66,336	15,000	-	-	-	1,046,863
Owner's equity	-	-	-	-	-	-	283,246	283,246
Total liabilities and owner's equity	480,707	484,820	66,336	15,000	-	-	297,159	1,344,022
Net liquidity gap	(405,764)	(322,169)	63,980	82,556	403,786	468,508	(290,897)	
Cumulative liquidity gap	(405,764)	(727,933)	(663,953)	(581,397)	(177,611)	290,897	-	

31 December 2015 (All figures stated in US$ thousands)

19 RISK MANAGEMENT (continued)

Liquidity risk (continued)

(Since the majority of the Murabaha payables are due to the Parent, the cumulative liquidity gap does not give rise to liquidity risk on the Group)

31 December 2014	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	No fixed maturity	Total
ASSETS								
Bank balances	14,190	-	-	-	-	-	-	14,190
Due from a financial institution	-	-	-	-	60,000	-	-	60,000
Investments	-	-	-	5,000	59,511	215,486	3,684	283,681
Murabaha receivables	86,567	120,367	157,277	92,293	116,985	140,484	-	713,973
Ijarah receivables	549	164	44	3	-	-	-	760
Ijarah	2,025	4,167	15,729	27,391	95,538	107,034	-	251,884
Equipment	-	-	-	-	-	-	11	11
Other assets	-	-	-	-	-	-	3,393	3,393
Total assets	103,331	124,698	173,050	124,687	332,034	463,004	7,088	1,327,892
LIABILITIES AND OWNER'S EQUITY								
Other liabilities	-	-	-	-	-	-	12,226	12,226
Murabaha payables	448,385	379,289	198,462	25,968	-	-	-	1,052,104
Owner's equity	-	-	-	-	-	-	263,562	263,562
Total liabilities and owner's equity	448,385	379,289	198,462	25,968	-	-	275,788	1,327,892
Net liquidity gap	(345,054)	(254,591)	(25,412)	98,719	332,034	463,004	(268,700)	
Cumulative liquidity gap	(345,054)	(599,645)	(625,057)	(526,338)	(194,304)	268,700	-	

20 FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of financial assets and financial liabilities are not materially different from their carrying values as stated in the consolidated statement of financial position.

21 SHARI'A SUPERVISORY BOARD

The Group's Shari'a Supervisory Board consists of three Islamic Scholars who review the Group's compliance with general Shari'a principles and specific Fatwas, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the Group to ensure that its activities are conducted in accordance with Islamic Shari'a principles.

22 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

Earnings realised during the year from transactions that were not permitted by Shari'a amounted to US$ 16 thousand (2014: US$ 13 thousand). This amount has been taken to the charity fund.

23 SOCIAL RESPONSIBILITY

The Group discharges its social responsibility by paying out Zakah and charity to organisations approved by Shari'a Supervisory Board.

24 TABDEEL TRANSACTIONS

The Group enters into Tabdeel transactions (profit rate swaps) to hedge the fair values changes due to change in profit rates on its fixed rate Sukuk. These transactions are accounted for as fair value hedges and are highly effective hedges. Tabdeel transactions are carried at fair value using valuation techniques based on observable market inputs and include fair value hedges which are predominantly used to hedge fair value changes arising from profit rate fluctuations. The notional value of these Tabdeel transaction was US$ 364,000 thousand at 31 December 2015 (31 December 2014 : US$ 271,500 thousand) and the fair value was a negative of US$ 2,908 thousand (2014: US$ 3,441 thousand).

APPENDIX

BANK ABC ISLAMIC Code of Conduct

1. ABOUT THE CODE

1.1. Introduction

Bank ABC Islamic ("the Bank") is committed to maintaining the highest standards of ethical and professional conduct, be fully Sharia compliant by constantly adhering to the Islamic Shari'a principles, (as guided by the relevant industry Standards issued by the "Accounting & Auditing Organisation For Islamic Financial Institutions" and the rulings/pronouncements issued by the Sharia Supervisory Board of the Bank), and strictly observing their requirements when conducting business.

The Bank realize that banking is a business founded on mutual trust and public confidence and that Islamic Banking goes a step further as it incorporates Sharia Principles as the cornerstone of its banking practices.

This Code sets out the minimum standards of behavior that are expected across the Group from all our staff, directors, senior management and contract and temporary workers.

This Code is supported by relevant policies and procedures that you are also expected to read and understand. It should also be read in conjunction with the Human Resources Policies and your employment contract.

Where local laws or regulations set stricter requirements than those detailed in this Code, they must be followed.

If you have any questions about the Code, seek advice from your line manager or local Head of Compliance.

1.2. Our Values

You should display behaviors that reflect our Values in your day to day activities performed on behalf of the Bank. Our Values are:

Client Centric

We are committed to knowing our clients and developing long-term relationships with them, making sure we provide them with superb services.

- Focused on building client relationships at every level
- Responding quickly to our clients, recognizing the importance of speed in today's world
- Maintaining continuous and open dialogue to identify client needs
- Identifying and delivering insights and tailored Sharia compliant solutions

Collaborative

We work together as one team across our international network providing a superior client experience.

- Harnessing our international network footprint
- Focused on a cohesive team working across boundaries
- Putting our client's needs for cross-border service before our individual targets

Finding new and innovative ways to conduct our business and streamline operations without comprising general Sharia principles and guidelines.

Consistent

We are trusted to deliver every time in the right way, demonstrating integrity to all our stakeholders.

- Services are delivered to a high operational standard
- Reputation placed before short-term revenues
- Relentless focus on compliance with regulation, ensuring a sustainable business
- We consistently deliver on our promises to clients and to colleagues

1. ABOUT THE CODE (continued)

1.3. Your Responsibilities

We rely on your personal integrity to protect our reputation.

Your responsibility under this Code is to:

- Understand and comply with the Code
- Act fairly, honestly and with integrity when performing your duties on behalf of the Bank
- Avoid conflicts of interest
- Comply with all applicable laws and regulations
- Adhere to our policies and procedures
- Observe your limits of authority when acting on behalf of the Bank
- Cooperate with any investigations, examination, litigation or inquiry related to our business
- Complete mandatory training related to the Code when required
- Report any legal or regulatory proceeding that involves you personally
- Report any concerns of misconduct

Managers have a greater level of responsibility. As a manager you should:

- Lead by example
- Promote equal opportunity and not favor or victimize any colleagues
- Help staff with ethical queries or direct them to someone who can help
- Encourage staff to report misconduct
- Protect staff from any form of retaliation if they report misconduct in good faith

We promote a culture of personal responsibility and transparency which requires you to report and discuss any actual or pending incident or risk event that you are aware of with your line manager, who may be required to further escalate the information as per the Escalation Policy.

1.4. Compliance with the Code

On joining and annually thereafter, you must acknowledge in writing or electronically that you have read and understood your obligations under the Code and the supporting policies and procedures, and that you agree to comply with them.

If a situation arises where you find that you have breached this Code or any supporting policies, you should immediately consult your line manager and Head of Compliance who will deal with the matter in a sympathetic manner and help to ensure that the breach is remedied effectively.

However, a willful breach or any failure to disclose a known breach of the Code could result in consequences for you and/or the Bank and may result in disciplinary action including dismissal, or in some circumstances, criminal prosecution.

1.5. Ethical Decision Making

Not every situation will be covered in the Code and our policies and procedures. Here are some basic questions you can apply to help you make ethical decisions:

- Is it legal and in keeping with the spirit of the law and relevant regulations?
- Is it Sharia compliant?
- Is it consistent with our Code?

APPENDIX

BANK ABC ISLAMIC Code of Conduct

1. ABOUT THE CODE (continued)

- Am I making an informed decision?
- Do I need to consult others?
- Who else could be affected by the decision?
- Could it reflect negatively on me or the Bank?
- How would it look in the media?
- Would I be embarrassed if others knew I had made this decision?
- Does it feel right?

2. OUR PEOPLE

We recognize that our staff are our most valuable asset and essential for the success of our business. We aim to provide a safe working environment in which you are treated fairly and with respect.

2.1. Performance Management

We develop, support and embed a culture of high performance where relevant objectives are agreed, reviewed and assessed; where exceeding objectives is recognised; and where development is supported.

2.2. Equal Opportunities

We offer equal treatment to all job applicants and employees. We will not discriminate on the grounds of race, religion, color, nationality, ethnic or national origin, gender, marital status, disability or any other basis prohibited by applicable law.

Discrimination, harassment, violence or bullying of any kind will not be tolerated.

It is each employee's responsibility to report any behavior that violates this policy. We take all allegations seriously.

2.3. Fitness for Duty

You are responsible for ensuring you are fit and able to perform your duties when you report for work.

The use of alcohol or illegal drugs on our premises or during normal working hours is prohibited.

Showing signs of intoxication or consumption of illegal drugs may result in disciplinary action including termination of employment.

2.4. Safe Workplace

You have a personal responsibility while at work to take reasonable care of your own and others' health and safety.

In particular:

- Adhere to our Fire, Health and Safety Policy
- Ensure you understand the risks present in the daily work environment and take all reasonable precautions to prevent workplace accidents and injuries
- Immediately report any unsafe work conditions, serious accidents or 'near misses' to your line manager
- Know what to do in the event of an emergency
- Complete Health and Safety training as assigned by the Bank

3. OUR CLIENTS AND THE MARKETPLACE

3.1. Treating Clients Fairly

Treating clients in a fair, ethical and non-discriminatory manner, throughout the life cycle of the relationship, is an integral part of our working culture. This helps to build long-term relationships with our clients.

Always make sure:

- Communications with our clients are clear, fair and not misleading
- Only to sell approved products and services that are suitable for the client
- To handle client complaints sensitively, professionally and efficiently

Never take advantage of our clients through:

- Manipulation
- Concealment
- Abuse of privileged information
- Misrepresentation of material facts
- Any other unfair practice

3.2. Insider Trading

Insider trading undermines the integrity of the financial system by creating an unfair advantage. As an employee, you may have access to non-public material information ("Inside Information") about the Bank, our clients or other companies that we do business with. Inside Information, if it were known to the public, is likely to affect the market price of a company's securities, or affect the decision of a reasonable investor to buy or sell a company's securities.

It is a criminal offence to communicate unpublished price sensitive information to anyone who is not authorised to have it, or to act on such information.

In particular do not:

- Trade securities in your own account or any account over which you exercise control when you have Inside Information relating to those securities
- Cause anyone else to trade securities by tipping them off or passing on Inside Information relating to those securities

3.3. Confidentiality

All information that you obtain through your employment with us should be considered confidential unless clearly stated otherwise by the information owner in writing.

You must not disclose Bank, client or any other parties' information unless you are authorised to do so or required by law. This obligation applies even after you have left employment with the Bank.

You should only use the information obtained through employment with us to perform your duties of the Bank.

3.4. Supplier Relationships

You must ensure that all suppliers and contractors are treated fairly and that their selection is based on price and quality of service. There should be no personal favoritism.

Always follow our Outsourcing or Procurement Policy and Procedures when dealing with suppliers and contractors.

APPENDIX

BANK ABC ISLAMIC Code of Conduct

3. OUR CLIENTS AND THE MARKETPLACE (continued)

3.5. Conduct with Competitors

Any information gathered on the marketplace and our competitors must be obtained only through legal and ethical channels.

You must not engage an employee of a competitor to gain proprietary information.

3.6. Public Communication

Only designated spokespersons are permitted to issue statements on behalf of the Bank. Refer to the Media Policy for more guidance.

3.7. Political Neutrality

We are politically neutral. If you wish to participate in political activity such as campaigning or making political donations, do so in your own personal capacity and not as a representative of the Bank. Such activities should not be undertaken on our premises or during working hours.

4. FINANCIAL CRIME

4.1. Introduction

We are committed to promoting the highest ethical and professional standards and strive to prevent the Bank from being used, intentionally or unintentionally, for financial crime.

We adhere to all applicable laws, regulations and international standards. This includes the financial crime regulations issued by the Central Bank of Bahrain and local regulators of jurisdictions in which we operate. We also adhere to the recommendations of the Financial Action Task Force (FATF).

Financial crime includes:

- Money laundering
- Terrorist financing
- Breach of Sanctions
- Fraud
- Bribery and Corruption

4.2. Your Financial Crime Responsibilities

You are required to:

- Understand and comply with our Financial Crime Policies and Procedures, and all related laws and regulations
- Never ignore red flags indicating that a client may be seeking to engage in a relationship or transaction for other than a lawful purpose or with the proceeds of alleged illegal activity
- Never establish client relationships or engage in transactions with prohibited clients, including clients prohibited by sanctions, or clients who refuse to provide required information, intentionally provide misleading information or provide information that is insufficient to meet the on-boarding procedures
- Attend financial crime training as your job requires
- Understand and follow legally binding sanctions restrictions
- Report suspicious activity immediately to your MLRO

4.3. Bribery, Corruption, Gifts, Entertainment and Hospitality

We take a zero-tolerance approach to bribery and corruption. This includes giving or receiving inappropriate gifts, entertainment, facilitation payments or anything else of value to obtain improper business advantage.

In many of the jurisdictions in which we operate or do business, it is a criminal offence to offer, promise, give, request, or accept a bribe, and significant penalties can be imposed if found guilty.

All gifts, entertainment and hospitality given or received should be reported in accordance with the Bribery, Corruption, Gifts, Entertainment and Hospitality Policy.

4. FINANCIAL CRIME (continued)

4.4. Expenses

You are responsible for the accurate and timely reporting of expenses. All expenditures must be ordinary and necessary to accomplish expected business purposes, include required approvals and be in accordance with existing expense policies. Further, you must not use your business credit card for any purpose other than appropriate business expenses.

4.5. Charities and Non-Profit Organisations

When getting involved with a charity or non-profit organisation, remember to:

- Make sure it does not interfere with your responsibilities at the Bank
- Not solicit clients, suppliers or other employees for contributions or other participation

At times we may be asked by clients or suppliers to make a contribution to a charity or non-profit organisation. All contributions must be pre-approved by the Head of Compliance to ensure they do not contravene any local laws or policies governing these activities. For example, a contribution that would benefit a government official could breach our Anti-Bribery, Corruption, Gifts, Entertainment and Hospitality Policy.

5. PROTECTING OUR ASSETS

5.1. Introduction

You are responsible for safeguarding our assets against theft, loss, waste or abuse. They should be used for our legitimate business only.

Our assets include:

- Office furnishings, equipment and supplies
- Software, information systems and support systems
- Records, data, and any logically related group of information (e.g. backup media)
- Cash and securities
- Intellectual property
- Client relationships

5.2. Data Protection

You must comply with Data Protection laws where applicable. The following key principles are provided as guidance.

Personal information that we hold must be:

- Collected and used fairly and lawfully
- Accurate, relevant and up to date
- Held secure and stored as required in relevant legislations, regulations and, if applicable, contractual clauses
- Only disclosed to those authorised to receive it
- Not kept longer than is necessary

Respect individual's rights in respect to their personal information:

- Provide a copy of their information on request
- Provide details of where the information is sourced and how we use it
- Ensure inaccurate data is corrected or deleted

APPENDIX

BANK ABC ISLAMIC Code of Conduct

5. PROTECTING OUR ASSETS (continued)

5.3. Information Security

Information and information systems are vital to our business and operations. Incidents involving the loss of confidentiality, integrity or availability of information can be costly and damaging to our reputation.

We may monitor, review and disclose data that you create, store, send or receive on our systems. You should not have any expectation of personal privacy when you use our systems or infrastructure.

You must adhere to our Information Security Policy. In particular, you must not:

- Send confidential information outside our network without using an encryption or security program
- Send confidential information to your personal email account
- Violate software licensing agreements or intellectual property rights
- Use the Bank's computer and network resources to commit illegal activities or use them in a manner that could be embarrassing or harmful to the Bank or detrimental to its reputation or interests
- Share your password with anyone or have possession of anyone else's password
- Try to get access or scan systems, shared folders or network areas you are not entitled to
- Make unauthorised changes on the functionality or configuration of assets under your management or control
- Leave sensitive information unattended, including your company laptop and mobile devices
- Disclose or discuss sensitive matters or proprietary or confidential information in public places, including the Internet (e.g. public email, social media, etc.).

5.4. Intellectual Property

We own all rights, title and interest in all intellectual property that you develop during your employment with us.

Intellectual property includes any inventions, discoveries, improvements, ideas, processes or work related to the Bank.

5.5. Record Keeping

You are responsible for keeping accurate and complete records in accordance with relevant laws and regulations.

6. CONFLICT OF INTEREST

6.1. Introduction

It is important you avoid situations where personal interests conflict, or appear to conflict, with the interests of the Bank or our clients.

A conflict of interest exists, or may be perceived to exist, where a personal circumstance impairs professional judgment or the ability to act in the best interest of the Bank or our clients.

6.2. Avoiding Conflicts

It is difficult to identify every situation where a conflict, or perception of, may arise. You should use good judgment and seek advice from the Head of Compliance if you are unsure of the proper course of action.

Typical conflicts that may arise are:

- An outside business interest
- Hiring or working with relatives or someone with whom you have an intimate relationship
- Dealing on your own account or using your position in the Bank to gain unfair advantage
- Acting for the Bank in a transaction or business relationship that involves yourself, relatives or other people or organisations where you or your relatives have a significant person connection or financial interest

You have a responsibility to identify and disclose any conflicts or potential conflicts of interest to your Division Head, Head of HR and Head of Compliance.

6. CONFLICT OF INTEREST (continued)

6.3. Personal Finances

Conduct your own financial affairs responsibly, with integrity and in compliance with the law, to avoid situations that could reflect unfavorably on the Bank.

In general you may not:

- Participate in personal transactions with colleagues, clients or suppliers, including investment activities (unless part of a Bank sponsored investment plan)
- Borrow from or lend money to your colleagues, clients or suppliers (except nominal amounts such as for lunch)

7. RELATIONS WITH REGULATORS AND AUDITORS

It is our aim to achieve excellence in compliance when meeting all relevant regulatory obligations. Maintaining a strong and positive relationship with the regulators and other government organisations is essential for ensuring the continued success of our business.

You must be completely open, candid, co-operative and prompt with regulators and external and internal auditors, keeping them fully informed about matters which should reasonably be disclosed to them.

You must:

- Refer all enquiries received from regulators to your Head of Compliance
- Do not contact the regulators unless authorised to do so by your Head of Compliance

8. RAISING CONCERNS

We are committed to integrity, honesty and transparency in everything we do.

You are often the first person to realise that your co-workers are participating in activities that are inappropriate or contrary to our standards and policies.

We strongly encourage you to report all suspected criminal or unethical conduct. We treat all reports confidentially, consistently, fairly and in a timely manner. As long as you make the report in good faith you will be protected from suffering any detriment, loss of employment or victimization.

You can raise your concerns directly to the Compliance Officer of Bank ABC Islamic on:

Direct line: +973 1754 3340
Email: karim.ismail@bank-abc.com
Mail: Compliance Officer, Bank ABC Islamic, P.O. Box 2808, Manama, Bahrain

Or through the parent bank's hotline, email address or mailing address as mentioned in the Whistleblowing Policy:

Hotline: +973 1754 3277
Email: gco-wb@bank-abc.com
Mail: Group Compliance Officer, Bank ABC, P.O. Box 5698, Manama, Bahrain

If you do not receive a satisfactory response you may report your concern to the Group Chief Auditor:

Telephone: +973 1754 3387
Email: Jehangir.jawanmardi@bank-abc.com

BANK ABC NETWORK

Bank ABC Islamic
ABC Tower, Diplomatic Area
PO Box 2808, Manama
Kingdom of Bahrain
Tel: (973) 17 543 342
Fax: (973) 17 536 379 / 17 533 972

BAHRAIN

Head Office

Bank ABC (B.S.C.)
ABC Tower, Diplomatic Area
PO Box 5698, Manama
Kingdom of Bahrain
Tel: (973) 17 543 000
Fax: (973) 17 533 163
www.bank-abc.com
webmaster@bank-abc.com

Group Chief Executive Officer
Dr. Khaled Kawan
Tel: (973) 17 543 361

Executive Vice President
and Group Chief Operating Officer
Sael Al Waary
Tel: (973) 17 543 708

Executive Vice President
and Group Chief Banking Officer
Ray Ferguson
Tel: (973) 17 543 144

JORDAN

Shmesani, Queen noor Street
ABC Building, PO Box 926691
Amman 11190, Jordan
Tel: (962) (6) 563 3500
info@bank-abc.com

EGYPT

1, El Saleh Ayoub St., Zamalek
Cairo, Egypt
Tel: (202) 2736 2684
Fax: (202) 2736 3614 /43
abcegypt@bank-abc.com

ALGERIA

PO Box 367
38 Avenue des Trois Freres Bouaddou
Bir Mourad Rais, Algiers, Algeria
Tel: (213) (0) 23 56 95 11/22/23
(213) (0) 23 56 95 01
Fax: (213) (0) 23 56 92 08
information@bank-abc.com

TUNISIA

ABC Building, Rue du Lac d'Annecy
Les Berges du Lac, 1053 Tunis, Tunisia
Tel: (216) (71) 861 861
Fax: (216) (71) 960 427 / 960 406
(216) (71) 860 921 / 860 835
abc.tunis@bank-abc.com

LIBYA

That Emad Administrative Centre Tower 5
16th Floor, PO Box 91191, Tripoli, Libya
Tel: (218) (21) 335 0226
(218) (21) 335 0227 / 335 0228
Fax: (218) (21) 335 0229

UNITED KINGDOM

Arab Banking Corporation House
1-5 Moorgate, London EC2R 6AB, UK
Tel: (44) (20) 7776 4000
Fax: (44) (20) 7606 9987
abcib@bank-abc.com

FRANCE

4 rue Auber, 75009 Paris, France
Tel: (33) (1) 4952 5400
Fax: (33) (1) 4720 7469
abcib.paris@bank-abc.com

BANK ABC NETWORK

GERMANY

Neue Mainzer Strasse 75
60311 Frankfurt am Main, Germany
Tel: (49) (69) 7140 30
Fax: (49) (69) 7140 3240
abcib.frankfurt@bank-abc.com

ITALY

Via Amedei, 8, 20123 Milan, Italy
Tel: (39) (02) 863 331
Fax: (39) (02) 8645 0117
abcib.milan@bank-abc.com

TURKEY

Eski Büyükdere Cad. Ayazaga Yolu Sok
Iz Plaza No: 9 Kat:19 D:69
34398 Maslak, Istanbul, Turkey
Tel: (90) (212) 329 8000
Fax: (90) (212) 290 6891
abcib.istanbul@bank-abc.com

RUSSIA

4th floor, 10 block C
Presnenskaya naberezhnaya
Moscow 123317, Russia
Tel: (7) 495 651 6649
Fax: (7) 495 651 6696
abcib.moscow@bank-abc.com

SWEDEN

Stortorget 18-20
SE-111 29 Stockholm, Sweden
Tel: (46) 823 0450
Fax: (46) 823 0523
abcib.stockholm@bank-abc.com

BRAZIL

Banco ABC Brasil
Av. Cidade Jardim, 803 - 2nd floor -
Itaim Bibi - São Paulo-SP -
CEP: 01453-000, Brazil
Tel: (55) (11) 317 02000
Fax: (55) (11) 317 02001
www.abcbrasil.com.br

UNITED STATES

27th Floor, 600 Third Avenue
New York, NY 10016-1907, USA
Tel: (1) (212) 583 4720
Fax: (1) (212) 583 0921

GRAND CAYMAN

c/o ABC New York Branch

SINGAPORE

9 Raffles Place, #60-03 Republic Plaza
Singapore 048619
Tel: (65) 653 59339
Fax: (65) 653 26288

IRAN

4th Floor West
No. 17 East Haghani Expressway
Tehran 1518858138, Iran
Tel: (98) (21) 8879 1105 / 8879 1106
Fax: (98) (21) 8888 2198

SISTER COMPANIES

Arab Financial Services B.S.C. (c)
PO Box 2152, Manama
Kingdom of Bahrain
Tel: (973) 17 290 333
Fax: (973) 17 291 323

ABC (IT) Services Ltd.
Arab Banking Corporation House
1-5 Moorgate, London EC2R 6AB, UK
Tel: (44) (20) 7776 4050
Fax: (44) (20) 7606 2708
abcits@bank-abc.com

A team committed to your success

Bank ABC Islamic

ABC Tower, Diplomatic Area
P.O. Box 2808, Manama
Kingdom of Bahrain

Tel: +973 17 543 000
Fax: +973 17 536 379
webmaster@bank-abc.com

FABR173

www.bank-abc.com