

Bahrain Middle East Bank B.S.C.
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2015

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BAHRAIN MIDDLE EAST BANK B.S.C.

Report on the consolidated financial statements

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

Board of Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
BAHRAIN MIDDLE EAST BANK B.S.C. (continued)**

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Regulatory Requirements

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

- a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; and
- b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements.

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



Partner's registration no. 121
10 February 2016
Manama, Kingdom of Bahrain

Bahrain Middle East Bank B.S.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

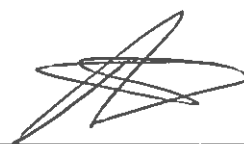
	<i>Note</i>	<i>2015</i> <i>US\$ '000</i>	<i>2014</i> <i>US\$ '000</i>
ASSETS			
Balances with banks and financial institutions		28,373	13,139
Placements with financial institutions	5	19,998	30,469
Investments at fair value through profit or loss		161	588
Loans and advances	6	110,705	117,014
Available-for-sale investments	7	9,530	8,794
Held-to-maturity investments		216	227
Other assets	8	2,889	2,613
TOTAL ASSETS		171,872	172,844
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from financial institutions	9	125,098	124,778
Deposits from customers	10	8,726	15,027
Other liabilities	11	2,786	2,035
Total liabilities		136,610	141,840
EQUITY			
Share capital	12	60,501	60,501
Accumulated losses		(26,554)	(31,633)
Fair value reserve		1,315	2,136
Total equity		35,262	31,004
TOTAL LIABILITIES AND EQUITY		171,872	172,844



Wilson S Benjamin
Chairman



Sheikh Abdullah A.K Al Sabah
Vice Chairman




Ritchie Skelding
Chief Executive Officer

The attached notes 1 to 29 form part of these consolidated financial statements

Bahrain Middle East Bank B.S.C.
CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2015

	Note	2015 US\$ '000	2014 US\$ '000
OPERATING INCOME			
Interest income	14	11,417	9,813
Interest expense	15	(1,487)	(1,207)
Net interest income		9,930	8,606
Investment banking income	16	2,170	3,466
Other income		345	207
Foreign exchange gain (loss)		121	(48)
Total operating income		12,566	12,231
OPERATING EXPENSES			
Staff expenses		3,977	3,125
Premises expenses		389	524
Other operating expenses	17	1,122	1,570
Total operating expenses		5,488	5,219
NET PROFIT FOR THE YEAR BEFORE IMPAIRMENT PROVISIONS			
		7,078	7,012
Impairment provisions - net	18	(1,999)	(2,488)
NET PROFIT FOR THE YEAR		5,079	4,524
BASIC AND DILUTED EARNINGS PER SHARE (IN US\$ CENTS)			
	19	2.10	1.87


Wilson S Benjamin
Chairman


Sheikh Abdullah A.K Al Sabah
Vice Chairman


Ritchie Skelding
Chief Executive Officer

The attached notes 1 to 29 form part of these consolidated financial statements

Bahrain Middle East Bank B.S.C.**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 December 2015

	2015 <i>US\$ '000</i>	2014 <i>US\$ '000</i>
NET PROFIT FOR THE YEAR	5,079	4,524
Other comprehensive (loss) income:		
Other comprehensive (loss) income to be reclassified to profit or loss in subsequent periods:		
Fair value reserves (available-for-sale investments):		
Net amount transferred to statement of income on sale/impairment	(707)	(3,201)
Net changes in fair value during the year	(114)	985
Total other comprehensive loss for the year	(821)	(2,216)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	4,258	2,308

The attached notes 1 to 29 form part of these consolidated financial statements

Bahrain Middle East Bank B.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	2015 US\$ '000	2014 US\$ '000
OPERATING ACTIVITIES		
Net profit for the year	5,079	4,524
Adjustments for:		
Impairment provisions - net (refer note 18)	1,999	2,488
Depreciation and amortisation	50	122
Changes in operating assets and liabilities:		
Placements with financial institutions	3,000	5,750
Investments at fair value through profit or loss	427	(179)
Loans and advances	5,363	(20,051)
Available-for-sale investments	(2,610)	4,717
Held-to-maturity investments	11	4,401
Other assets	(234)	(112)
Deposits from financial institutions	320	(173)
Deposits from customers	(6,301)	4,831
Other liabilities	751	1,377
Net cash from operating activities	<u>7,855</u>	<u>7,695</u>
INVESTING ACTIVITY		
Purchase of furniture and equipment	(92)	(59)
Net cash used in investing activity	<u>(92)</u>	<u>(59)</u>
FINANCING ACTIVITY		
Repayment of borrowings	-	(5,000)
Net cash used in financing activity	<u>-</u>	<u>(5,000)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	7,763	2,636
Cash and cash equivalents at 1 January	<u>40,608</u>	<u>37,972</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	<u>48,371</u>	<u>40,608</u>
CASH AND CASH EQUIVALENTS COMPRISE:		
Balances with banks and financial institutions	28,373	13,139
Placements with financial institutions with original maturities of three months or less	19,998	27,469
	<u>48,371</u>	<u>40,608</u>

The attached notes 1 to 29 form part of these consolidated financial statements

Bahrain Middle East Bank B.S.C.**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 December 2015

	<i>Share capital</i> <i>US\$ '000</i>	<i>Accumulated losses</i> <i>US\$ '000</i>	<i>Fair value reserve</i> <i>US\$ '000</i>	<i>Total equity</i> <i>US\$ '000</i>
Balance at 1 January 2015	60,501	(31,633)	2,136	31,004
Total comprehensive income (loss) for the year	-	5,079	(821)	4,258
Balance at 31 December 2015	60,501	(26,554)	1,315	35,262
Balance at 1 January 2014	60,501	(36,157)	4,352	28,696
Total comprehensive income (loss) for the year	-	4,524	(2,216)	2,308
Balance at 31 December 2014	60,501	(31,633)	2,136	31,004

The attached notes 1 to 29 form part of these consolidated financial statements

At 31 December 2015

1 ACTIVITIES

Bahrain Middle East Bank B.S.C. ("the Bank") is a Bahraini Shareholding Company incorporated in the Kingdom of Bahrain. On 9 April 2007, the Central Bank of Bahrain ("the CBB") issued a Conventional Wholesale Banking license to the Bank. The commercial registration ("CR") number of the Bank is 12266. The Bank is listed on the Bahrain Bourse under the ticker 'BMB'. The principal activities of the Bank and its subsidiaries (together "the Group") are trade finance and corporate advisory in the digital media and e-commerce sectors.

The registered office of the Bank is BMB Centre, Building 135, Road 1702, Block 317, Diplomatic Area, Manama, Kingdom of Bahrain.

These consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 10 February 2016.

2 BASIS OF CONSOLIDATION

These consolidated financial statements incorporate the financial statements of the Bank, its subsidiary and the investment holding companies of the Bank as at 31 December 2015.

The Bank's principal and wholly owned subsidiary is BMB Property Services W.L.L., incorporated in the Kingdom of Bahrain and engaged in building management.

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

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

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

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

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

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

2 BASIS OF CONSOLIDATION (continued)

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

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

3 BASIS OF PREPARATION

3.1 Statement of compliance

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

3.2 Accounting convention

The consolidated financial statements are prepared on a historical cost basis, except for investments at fair value through profit or loss and available-for-sale investments, that have been measured at fair value.

The consolidated financial statements are presented in United States Dollars ("US\$"), this being the functional currency of the Group, and are rounded to the nearest thousand unless otherwise stated.

4 SIGNIFICANT ACCOUNTING POLICIES

4.1 New and amended standards and interpretations issued and effective

The accounting policies adopted are consistent with those of the previous financial year, except for the following relevant new standards and amendments to IFRS effective as of 1 January 2015:

Annual Improvements 2010-2012 Cycle

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

IFRS 3 Business Combinations

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1 New and amended standards and interpretations issued and effective (continued)

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

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

The Group has not applied the aggregation criteria in IFRS 8.12. The Group has presented the reconciliation of segment assets to total assets in previous periods and continues to disclose the same in note 20 in these consolidated financial statements as the reconciliation is reported to the chief operating decision maker for the purpose of his decision making.

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

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

IAS 24 Related Party Disclosures

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

IFRS 13 Fair Value Measurement

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

Annual Improvements 2011-2013 Cycle

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

IFRS 3 Business Combinations

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

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

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

4.2 New standards and amendments issued but not yet effective

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2 New standards and amendments issued but not yet effective (continued)

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group plans to adopt the new standard on the required effective date. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities. Management is considering the implications of this standard and its impact on the Group's financial position and results.

IFRS 15 Revenue from Contracts with Customers

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

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

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

- Annual improvements 2012-2014 Cycle
- IFRS 14 *Regulatory Deferral Accounts*
- Amendments to IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests*
- Amendments to IAS 16 and IAS 38: *Clarification of Acceptable Methods of Depreciation and Amortisation*
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IAS 27: *Equity Method in Separate Financial Statements*

4.3 Foreign currencies

The assets and liabilities of foreign subsidiaries are translated into US\$ at the rates of exchange prevailing at the reporting date. The income and expenses of foreign subsidiaries are translated into US\$ at the rates of exchange prevailing on the dates of the transactions.

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Income and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on translation are recognised in the consolidated statement of income.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4 Financial instruments

i) Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity investments or available-for-sale investments, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

Purchase or sale of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss ("FVTPL") include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with net changes in fair value presented in the consolidated statement of income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as 'interest income' in the consolidated statement of income. The losses arising from impairment are recognised in the consolidated statement of income.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as 'interest income' in the consolidated statement of income. The losses arising from impairment are recognised in the consolidated statement of income.

Available-for-sale investments

Available-for-sale ("AFS") investments are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS investments are measured at fair value with unrealised gains or losses recognised as other comprehensive income in the fair value reserve until the investment is derecognised or impaired, at which time the cumulative gain or loss is reclassified from the fair value reserve to the consolidated statement of income. Interest earned whilst holding AFS investments is reported as 'interest income' using the EIR method.

At 31 December 2015

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4 Financial instruments (continued)

i) Financial assets (continued)

Derecognition

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

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

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

ii) Impairment of financial assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

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

Financial assets carried at amortised cost

For financial assets carried at amortised cost, judgment is made by the management in the estimation of the amount and timing of future cash flows along with making judgments about the financial situation of the underlying asset and realizable value of collateral. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, determined appropriately, is recognised in the consolidated statement of income. Impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The impaired financial assets together with the associated impairment provisions are written off when there is no realistic prospect of future recovery, after obtaining required regulatory approvals. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the impairment provisions. If an amount written off earlier is later recovered, the recovery is credited to the consolidated statement of income.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4 Financial instruments (continued)

ii) Impairment of financial assets (continued)

Available-for-sale financial investments

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

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

iii) Renegotiated loans

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

iv) Financial liabilities

The Group's financial liabilities comprise deposits from financial institutions, deposits from customers and other liabilities.

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, or loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Subsequent measurement

The measurement of financial liabilities depends on their classification as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprises of financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Gains or losses on these instruments are recognised in the consolidated statement of income.

Borrowings

After initial recognition, interest bearing borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the consolidated statement of income when the liabilities are derecognised as well as through the EIR amortisation process.

Financial guarantee contracts

Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

At 31 December 2015

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4 Financial instruments (continued)

iv) Financial liabilities (continued)

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of income.

v) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if (i) there is a currently enforceable legal right to offset the recognised amounts and (ii) there is an intention to settle on a net basis in order to realise the assets and settle the liabilities simultaneously.

vi) Fair values

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

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

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

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

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

4.5 Payables, accruals and provisions

Provision for employee benefit costs is made in accordance with contractual and statutory obligations and other benefit plans approved by the Board of Directors.

Provisions are recognised when the Group has a present obligation as a result of a past event, when 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.

4.6 Dividends and any other appropriations

Proposed dividends are disclosed as appropriations within equity until the time they are approved by the shareholders. On approval by shareholders, these are transferred to liabilities until paid out.

Any other appropriations from equity can only be recognised subject to the approval of the shareholders, against the appropriation for shareholders in equity. These are subsequently transferred to liabilities once approved by the shareholders.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

4.7 Treasury shares

Treasury shares are stated at acquisition cost and are shown as a deduction to equity. Any surplus arising from the subsequent sale of treasury shares at a price greater than cost is taken directly to equity and not through the consolidated statement of income. Any deficit arising from the subsequent sale of treasury shares at a price lower than cost is charged first against the cumulative surplus from past transactions in treasury shares, and where such surplus is insufficient, then any difference is charged to accumulated losses.

4.8 Segment reporting

An operating segment is a component of the Group that (i) engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, (ii) whose operating results are reviewed regularly by the Chief Executive Officer (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and (iii) for which discrete financial information is available.

4.9 Cash and cash equivalents

Cash and cash equivalents comprise cash and short term funds, placements with financial institutions and other liquid assets that are readily convertible into cash and are subject to insignificant risk of changes in value with an original maturity of three months or less.

4.10 Assets under management

Clients' assets are managed in a fiduciary capacity and the Group has no entitlement to these assets. Clients bear all of the risks and earn a majority of the rewards on their investments, subject to normal management fee arrangements. Accordingly, these assets are not included in the Group's consolidated statement of financial position.

4.11 Income and expenses

Interest income is recognised using the effective yield method.

Fee and commission income is recognised when services are rendered.

Investment income from FVTPL investments is recognised on the basis of changes in fair value for the period. Capital gains realised on FVTPL investments are recognised by comparing the sale price against the previously reported fair value, net of expenses and costs payable in respect of the realisation.

Realised capital gains or losses on available-for-sale investments are taken to the consolidated statement of income at the time of derecognition.

Interest expenses is recognised using the EIR method.

4.12 Significant accounting judgements and estimates

In the process of applying the Group's accounting policies, management has exercised judgement and estimates as mentioned below, in determining the amounts recognised in the consolidated financial statements.

Fair value measurement

When the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, their fair value is determined using net asset values provided by the fund managers or using valuation techniques, such as the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as country risk, illiquidity discounts, etc. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

At 31 December 2015

4 SIGNIFICANT ACCOUNTING POLICIES (continued)**4.12 Significant accounting judgements and estimates (continued)***Impairment of loans and advances*

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

Impairment of available-for-sale investments

The Group records impairment losses on available-for-sale investments when there has been a significant or prolonged decline in the investment's fair value compared to cost. The determination of what is 'significant' or 'prolonged' requires judgement and is assessed for each investment separately. In making this judgement, the Group evaluates, among other factors, historical share price movements and the duration and extent to which the fair value of an investment is less than its cost.

Going concern

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

5 PLACEMENTS WITH FINANCIAL INSTITUTIONS

Placements with financial institutions include US\$ 2,293 thousand (2014: US\$ 2,597 thousand) placed with a third party retail bank in the Kingdom of Bahrain; representing amounts held on account of sub-participants in private equity funds and for the purposes of honoring their capital calls to fund managers.

6 LOANS AND ADVANCES

	2015 US\$ '000	2014 US\$ '000
Trade finance	104,108	107,354
Installment sale receivable	6,533	7,876
Corporate loan	3,000	3,000
Others	-	850
	<u>113,641</u>	<u>119,080</u>
Less: Provision for loan losses	(2,936)	(2,066)
	<u>110,705</u>	<u>117,014</u>

The breakup of provision for loan losses is as follows:

	2015 US\$ '000	2014 US\$ '000
Specific provision	1,500	850
Collective provision	1,436	1,216
	<u>2,936</u>	<u>2,066</u>
Gross amount of loans, individually determined to be impaired	<u>4,669</u>	<u>850</u>

Trade finance loans relate to insurance backed trade finance transactions as undertaken by the Bank.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

6 LOANS AND ADVANCES (continued)

Installment sale receivable relates to a sale agreement entered by the Bank during 1995 to sell its investment in a piece of land in the State of Kuwait on an installment sale basis. The sale was to a corporate domiciled in the State of Kuwait for a total aggregate consideration of US\$ 43,200 thousand. This loan facility was amended on 18 November 2015 and further amended subsequent to year end on 4 January 2016. The revised repayment of the principal starts from June 2016 with final maturity in 2017. The loan is secured by corporate guarantees, share securities and by a real estate (refer note 22).

Others represent a letter of credit financing transaction to a financial institution. This loan has been fully repaid during the year.

7 AVAILABLE-FOR-SALE INVESTMENTS

	2015 US\$ '000	2014 US\$ '000
<i>Equity and managed funds investments:</i>		
Unquoted equity fund investments	6,638	8,013
Unquoted strategic investments	237	678
Quoted equity investments	-	103
	6,875	8,794
<i>Debt securities:</i>		
Quoted government sukuk	2,655	-
	9,530	8,794

8 OTHER ASSETS

	2015 US\$ '000	2014 US\$ '000
Accrued interest receivable	2,248	2,107
Prepayments	214	226
Furniture and equipment	83	85
Others	344	195
	2,889	2,613

9 DEPOSITS FROM FINANCIAL INSTITUTIONS

These represent deposits from financial institutions in the region, which carry fixed interest rates and require a minimum of 180 days notice for repayment.

10 DEPOSITS FROM CUSTOMERS

	2015 US\$ '000	2014 US\$ '000
Cash collateral deposits against trade finance loans	4,342	4,500
Customer participation in funds	2,293	2,597
Others	2,091	7,930
	8,726	15,027

Customer participation in funds represents amounts received from customers to be invested in private equity funds administered by the Bank. These funds, although treated as part of customer deposits, are retained by the Bank until draw-downs are made by private equity fund managers. Customer participation in funds includes US\$ 293 thousand (31 December 2014: US\$ 67 thousand) in deposits held on behalf of BMB Technology and Telecommunications Fund.

Others consist of deposit amounts from corporates and individual customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

11 OTHER LIABILITIES

	2015 US\$ '000	2014 US\$ '000
Accrued interest payable	849	550
Accrued expenses	1,467	860
Employees' leaving indemnity	337	256
Others	133	369
	<u>2,786</u>	<u>2,035</u>

12 SHARE CAPITAL

	2015		2014	
	Number '000	Amount US\$ '000	Number '000	Amount US\$ '000
Authorized				
Ordinary shares of US\$ 0.25 each	<u>2,000,000</u>	<u>500,000</u>	<u>2,000,000</u>	<u>500,000</u>
Issued and fully paid				
Ordinary shares of US\$ 0.25 each	<u>242,003</u>	<u>60,501</u>	<u>242,003</u>	<u>60,501</u>

Treasury shares

At 31 December 2015, the Bank owned 1 of its own shares (31 December 2014: 1 share). This share is treated as a deduction from the shareholders' equity.

13 STATUTORY RESERVE

The Bahrain Commercial Companies Law requires 10% of the net profit for the year to be transferred to a statutory reserve until such reserve equals 50% of the paid up capital. The reserve cannot be utilised for the purpose of distribution, except in such circumstances as stipulated in the Bahrain Commercial Companies Law. Transfer to statutory reserve has not been made during the year in view of the accumulated losses as of 31 December 2015.

14 INTEREST INCOME

	2015 US\$ '000	2014 US\$ '000
Loans and advances	11,171	9,364
Placements with financial institutions	178	265
Government and other bonds	68	184
	<u>11,417</u>	<u>9,813</u>

15 INTEREST EXPENSE

	2015 US\$ '000	2014 US\$ '000
Deposits from financial institutions	1,168	850
Deposits from customers	319	275
Borrowings	-	25
Others	-	57
	<u>1,487</u>	<u>1,207</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

16 INVESTMENT BANKING INCOME

	2015 US\$ '000	2014 US\$ '000
Fee and commission income	1,492	789
Gain from available-for-sale investments - net	852	3,057
Loss from investments at fair value through profit or loss - net	(174)	(161)
Loss on sale of held-to-maturity investment	-	(219)
	<u>2,170</u>	<u>3,466</u>

17 OTHER OPERATING EXPENSES

	2015 US\$ '000	2014 US\$ '000
Legal and professional expenses	295	742
Insurance and regulatory charges	235	273
Communication expenses	153	231
Business development expenses	117	116
Others	322	208
	<u>1,122</u>	<u>1,570</u>

18 IMPAIRMENT PROVISIONS

	2015			
	Loans and advances US\$ '000	Available- for-sale investments US\$ '000	Others US\$ '000	Total US\$ '000
At 1 January 2015	2,066	14,554	-	16,620
Charge for the year	1,720	1,053	-	2,773
Reversal on recovery	(774)	-	-	(774)
Written-off	-	(4,669)	-	(4,669)
Foreign exchange movements	(76)	(125)	-	(201)
At 31 December 2015	<u>2,936</u>	<u>10,813</u>	<u>-</u>	<u>13,749</u>
	2014			
	Loans and advances US\$ '000	Available- for-sale investments US\$ '000	Others US\$ '000	Total US\$ '000
At 1 January 2014	1,077	16,018	1,907	19,002
Charge for the year	1,045	1,443	-	2,488
Reversal on recovery / sale	-	(2,566)	-	(2,566)
Written-off	-	(82)	(1,907)	(1,989)
Foreign exchange movements	(56)	(259)	-	(315)
At 31 December 2014	<u>2,066</u>	<u>14,554</u>	<u>-</u>	<u>16,620</u>

Impairment provision on loans and advances includes specific provision of US\$ 1,500 thousand (2014: US\$ 850 thousand) made during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

19 BASIC AND DILUTED EARNINGS PER SHARE

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

	2015	2014
Net profit for the year attributable to the owners of the Bank (US\$ '000)	5,079	4,524
Weighted average number of shares outstanding during the year	242,003	242,003
Basic and diluted earnings per share (US\$ cents)	2.10	1.87

The Bank did not have any outstanding share options or warrants which could have a dilution effect on the earnings per share.

20 OPERATING SEGMENTS**Segment information**

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

Financing	- Financing and trade finance
Investing	- Investments in listed bonds, equities and private equity funds
Other operating segments	- Corporate advisory and building management, etc.

The Group's business segments are broken down by key business activities and those with clearly identifiable revenue streams and expenses. The segmentation is in line with segments internally reported to the Chief Executive Officer, who is the chief decision maker.

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

	<i>Financing</i> US\$ '000	<i>Investing</i> US\$ '000	<i>Others</i> US\$ '000	<i>Total</i> US\$ '000
Interest income	11,349	68	-	11,417
Interest expense	(1,487)	-	-	(1,487)
Investment banking income	1,315	678	177	2,170
Other income	-	-	345	345
Foreign exchange gain	-	-	121	121
Results from operations	11,177	746	643	12,566
Impairment provisions - net	(946)	(1,053)	-	(1,999)
Unallocated corporate expenses	-	-	-	(5,488)
Net profit (loss) for the year	10,231	(307)	643	5,079
Reportable segment assets	161,259	9,972	641	171,872
Reportable segment liabilities	134,673	-	1,937	136,610
Equity				35,262
Total liabilities and equity				171,872

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

20 OPERATING SEGMENTS (continued)

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

	<i>Financing</i> <i>US\$ '000</i>	<i>Investing</i> <i>US\$ '000</i>	<i>Others</i> <i>US\$ '000</i>	<i>Total</i> <i>US\$ '000</i>
Interest income	9,629	184	-	9,813
Interest expense	(1,207)	-	-	(1,207)
Investment banking income	-	2,677	789	3,466
Other income	-	-	207	207
Foreign exchange loss	-	-	(48)	(48)
Results from operations	8,422	2,861	948	12,231
Impairment provisions - net	(1,045)	(1,443)	-	(2,488)
Unallocated corporate expenses	-	-	-	(5,219)
Net profit for the year	7,377	1,418	948	4,524
Reportable segment assets	162,729	9,609	506	172,844
Reportable segment liabilities	140,355	369	1,116	141,840
Equity				31,004
Total liabilities and equity				172,844

Geographic information

Although the Group's two main business segments are managed on a worldwide basis, they operate in three main geographical areas. The Group's exposure to credit risk is concentrated in these areas: Europe (Primarily Western Europe), North America (United States of America and Canada) and Gulf Cooperation Council ("GCC"). The following table shows the distribution of the Group's revenue and assets by geographical segment, allocated based on the location in which the assets and liabilities are located, for the years ended 31 December 2015 and 31 December 2014:

	<i>2015</i>		<i>2014</i>	
	<i>Total</i> <i>income</i> <i>US\$ '000</i>	<i>Total</i> <i>assets</i> <i>US\$ '000</i>	<i>Total</i> <i>income</i> <i>US\$ '000</i>	<i>Total</i> <i>assets</i> <i>US\$ '000</i>
Europe	10,295	105,089	10,724	100,490
North America	1,083	11,542	1,133	28,329
GCC	1,161	47,533	742	36,926
Rest of the world	1,514	7,708	839	7,099
Total	14,053	171,872	13,438	172,844

31 December 2015

21 REMUNERATION

The remuneration paid out to the Board Members, approved persons in business lines, approved persons in control functions, other material risk takers and other staff with details on amounts, deferrals and instrument type is outlined below:

Total remuneration (US\$ '000)	2015		2014		2013	
	Fixed	Variable	Fixed	Variable	Fixed	Variable
Members of Board of Directors - Sitting fees	102	-	82	-	94	-
Members of Board of Directors - Other remuneration	-	-	-	-	-	-
Approved persons in business lines	1,095	1,146	1,087	-	1,040	763
Approved persons in control functions	657	350	470	104	432	62
Other material risk takers	136	28	121	18	61	-
Other staff not included in above categories	853	141	945	78	1,745	80
Total variable remuneration (US\$ '000)	2015		2014		2013	
	<i>Cash</i>	<i>Equity</i>	<i>Cash</i>	<i>Equity</i>	<i>Cash</i>	<i>Equity</i>
Members of Board of Directors	-	-	-	-	-	-
Approved persons in business lines	573	573	-	-	763	-
Approved persons in control functions	159	191	104	-	62	-
Other material risk takers	28	-	18	-	-	-
Other staff not included in above categories	141	-	78	-	80	-

During the year, the Group has initiated a share incentive plan under which eligible employees will receive a portion of their annual performance-based incentive compensation in the form of shares vesting over a period of three years. These shares will be granted to the employees at US\$ 15 cents. There are 5,094,273 shares (2014: Nil) in the incentive plan.

Included in the variable remuneration to be paid in cash, is US\$ 123 thousand, which is deferred cash incentive and will vest over a period of three years based on certain conditions.

The start and end date of the vesting period is based on continued employment as well as satisfaction of certain performance conditions. The determination of the amount of expense to be recognised as compensation expense in any year is estimated based on a model that takes into account the probability weighted vesting of the shares at the fair value on the grant date using the historical pattern of employee tenure. These estimates are updated regularly based on actual information.

22 RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Bank exercises significant influence, major shareholders, directors, key management personnel of the Bank and entities owned, controlled, jointly controlled or significantly influenced by such parties.

31 December 2015

22 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Key management personnel of the Group are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel comprise the Board of Directors, Chief Executive Officer, Chief Financial Officer and Heads of Departments. Transactions entered during the year and balances as at 31 December 2015 and 31 December 2014 are set out below.

All related party transactions are on terms equivalent to arm's length transactions and are approved by the Board of Directors.

<i>Key management personnel</i>		<i>Shareholders and their related parties</i>	
<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>
<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>

Statement of financial position**Assets**

Loans	-	9	-	-
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Liabilities

Deposits	-	-	304	149
Other liabilities - employee leaving indemnity	195	35	-	-

Statement of income

Investment banking income	-	-	39	-
Interest expense	-	-	92	128

Key management compensation

Compensation to key management personnel, including directors, included in the consolidated statement of income is as follows:

	<i>2015</i>	<i>2014</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Salaries and other short-term employee benefits	1,683	1,876
Employee leaving indemnity	27	25
	<u>1,710</u>	<u>1,901</u>
Directors' fees	<u>102</u>	<u>82</u>

Guarantee

The Bank has received a corporate guarantee from a shareholder with regard to the Bank's installment sale receivable (refer note 6), and an additional guarantee from an associate of the shareholder. This additional guarantee is secured by real estate in the Arab Republic of Egypt (registration of the security is in process), and by share securities.

23 CAPITAL MANAGEMENT

The primary purpose of the Bank's capital management is to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains healthy capital ratios in order to support its business and to maximise shareholders' value.

To manage its capital, the Bank employs standards mentioned in the Basel III Framework, a risk adjusted measure of capital adequacy (a Capital Adequacy Ratio or "CAR") based on the local regulatory implementation of the Basel Committee on Banking Supervision's capital adequacy guidelines.

The Bank has adopted the Standardised Approach for Credit Risk and Market Risk, and the Basic Indicator Approach for Operational Risk to determine the capital requirements.

At 31 December 2015

23 CAPITAL MANAGEMENT (continued)

The Capital Adequacy Ratio of the Bank as at 31 December 2015 and 31 December 2014 is as follows:

Regulatory capital	2015	2014
	US\$ '000	US\$ '000
<u>Tier 1 capital</u>		
Share capital	60,501	60,501
Accumulated losses	(26,742)	(31,633)
Fair value reserve on available-for-sale investments	1,211	-
Total Tier 1 capital (a)	34,970	28,868
<u>Tier 2 capital</u>		
Fair value reserve on available-for-sale investments	-	961
Collective impairment provision	1,436	1,216
Total Tier 2 capital (b)	1,436	2,177
Total capital (c) = (a) + (b)	36,406	31,045

<u>Risk weighted exposures</u>	2015			2014		
	<i>Principal</i>	<i>Risk</i>	<i>Capital</i>	<i>Principal</i>	<i>Risk</i>	<i>Capital</i>
	<i>amounts</i>	<i>weighted</i>	<i>requirement</i>	<i>amounts</i>	<i>weighted</i>	<i>requirement</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Claims on sovereigns	5,352	-	-	66	-	-
Claims on banks	45,395	13,817	1,727	43,608	11,260	1,408
Claims on corporates*	106,578	110,662	13,833	112,741	105,980	13,248
Investments in securities	7,012	10,518	1,315	8,207	12,153	1,519
Other assets	2,674	2,674	334	2,547	2,547	318
<u>Off-balance sheet items</u>						
Commitments and contingent liabilities	6,218	6,218	777	7,446	7,446	931
Credit risk weighted exposures		143,889	17,986		139,386	17,424
Market risk weighted exposure		1,225	153		1,350	169
Operational risk weighted exposure		16,546	2,068		15,450	1,931
Total risk weighted exposures (d)		161,660	20,207		156,186	19,524
<u>Capital ratios</u>						
Common equity Tier 1 and Tier 1 capital (a) / (d)		21.6%			18.5%	
Total capital (c) / (d)		22.5%			19.9%	
Minimum required as per CBB regulatory guidelines under Basel III		12.5%			12.0%	

*Substantially all claims on corporates are insured by major international insurance companies with long term credit ratings of 'AA-' (S&P) and 'A3' (Moody's). As of 31 December 2015, the Bank has utilised insurance wrap of US\$ 5.5 million (2014: US\$ 9.1 million) and eligible financial collateral of US\$ 4.3 million (2014: US\$ 4.5 million), which is reflected in the credit risk weighted exposures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

24 CLASSIFICATION OF FINANCIAL INSTRUMENTS

31 December 2015					
	<i>Fair value through profit or loss US\$ '000</i>	<i>Held-to- maturity US\$ '000</i>	<i>Available- for-sale US\$ '000</i>	<i>Amortised cost US\$ '000</i>	<i>Total US\$ '000</i>
Assets					
Balances with banks and financial institutions	-	-	-	28,373	28,373
Placements with financial institutions	-	-	-	19,998	19,998
Investment at fair value through profit or loss	161	-	-	-	161
Loans and advances	-	-	-	110,705	110,705
Available-for-sale investments	-	-	9,530	-	9,530
Held-to-maturity investment	-	216	-	-	216
Other assets	-	-	-	2,592	2,592
Total financial assets	161	216	9,530	161,668	171,575
Liabilities					
Deposits from financial institutions	-	-	-	125,098	125,098
Deposits from customers	-	-	-	8,726	8,726
Other liabilities	-	-	-	2,316	2,316
Total financial liabilities	-	-	-	136,140	136,140
31 December 2014					
	<i>Fair value through profit or loss US\$ '000</i>	<i>Held-to- maturity US\$ '000</i>	<i>Available- for-sale US\$ '000</i>	<i>Amortised cost US\$ '000</i>	<i>Total US\$ '000</i>
Assets					
Balances with banks and financial institutions	-	-	-	13,139	13,139
Placements with financial institutions	-	-	-	30,469	30,469
Investment at fair value through profit or loss	588	-	-	-	588
Loans and advances	-	-	-	117,014	117,014
Available-for-sale investments	-	-	8,794	-	8,794
Held-to-maturity investment	-	227	-	-	227
Other assets	-	-	-	2,302	2,302
Total financial assets	588	227	8,794	162,924	172,533
Liabilities					
Deposits from financial institutions	-	-	-	124,778	124,778
Deposits from customers	-	-	-	15,027	15,027
Other liabilities	-	-	-	1,410	1,410
Total financial liabilities	-	-	-	141,215	141,215

25 FINANCIAL RISK MANAGEMENT

In the normal course of its business, the Group is exposed to various risks related to the nature of the activities in which it engages. The principal sources of risk are credit risk, market risk (comprising of interest rate risk, currency risk and equity price risk), liquidity risk, operating and legal risk.

At the Group, the management of financial and other risks is based on the establishment of an appropriate risk governance structure, comprising:

- clearly defined exposure and risk limits by geography, sector and counterparty;
- day to day monitoring and management of liquidity risk;
- investment evaluation criteria based on quantitative and qualitative approaches;
- robust operating policies and procedures, including those for specific allocation of risk limits to individual obligors and/or transactions;
- on-going review of exposures, excesses and risks by an independent personnel;
- assessment of regulatory compliance by an independent personnel; and
- periodic internal audits of the control environment.

Risk limits are at the heart of this process. The Group begins by setting maximum exposure limits as a percentage of capital for major lines of business. Within these macro limits, sub limits are set by geography, obligor type/credit grade, instrument, tenor, etc. For trading activities additional controls such as VaR, duration, maximum intraday and inter-day exposures, "stop losses", etc. are applied as well. Individual transactions then take place within these sub-limits.

In addition to the existence of various risk limits, overall risk discipline is maintained by the requirement that the Group (a) maintains a Basel III Capital Adequacy Ratio in excess of the regulatory required minimum and (b) considers the impact on the Group's liquidity position of any major transaction or new business initiative.

Risk management at the Bank begins at the Board of Directors level. The Board of Directors exercise oversight and final approval of the risk management process. It operates through two Board Committees, the Executive Committee ("EXCO") and the Audit Committee ("AC"). With input provided by the Group's Executive Management Committee ("EMC") that also acts as the Risk Management Committee. The EXCO proposes the overall risk management strategy of the Group. Based on its recommendation, the Board of Directors approve the aggregate levels of risk the Group can assume as well as reviewing and approving the Group's risk management policies, risk limits and risk control framework. Among its duties, the AC is charged with reviewing and approving the Group's policies and procedures as well as overseeing both the internal and external audits of the Group, including matters related to anti-money laundering and terrorism finance.

The Board delegates certain authority to the EXCO to implement the risk control decisions. To carry out these responsibilities, the EXCO operates through the EMC.

The EMC is chaired by the Chief Executive Officer and comprises members of the senior management. It serves as the Group's credit committee and asset liability management committee. On an on-going basis, the EMC monitors the environment in which the Group operates and the risks to which it is exposed and adjusts the Group's operations as appropriate.

Risk Management ("RM") plays a key role in this process. RM is independent of the Group's trading and business areas and reports directly to the Audit Committee. It is responsible for identifying and quantifying risk exposures, recommending appropriate limits and monitoring usage of them. As part of its duties, the RM prepares a variety of daily risk reports, including stress tests, for senior management and the EMC.

Internal Audit, which is independent and also reports to the Audit Committee assists in the risk management process. In particular, Internal Audit is charged with a periodic review of the effectiveness of Group's policies and internal controls.

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At 31 December 2015

25 FINANCIAL RISK MANAGEMENT (continued)

As a further step in mitigating risks, the Group follows a policy of diversification in its activities and seeks to minimize the risk exposure to particular geographical regions, counterparties and types of business. In identifying and monitoring risk exposures, the Group uses a variety of quantitative tools as well as qualitative approaches to measure risks at the "macro" level. The Group seeks to judiciously balance the use of these two approaches rather than rely on a single approach.

The following sections review the principal risks to which the Group is exposed in the normal course of its business and how it manages those risks.

a) Credit risk

Credit risk is the risk of loss arising as a result of the inability or unwillingness of a counterparty to meet its obligations to the Group. Risk Management, under the oversight of EMC, has the responsibility for establishing credit risk standards and implementing the Group's credit risk management process.

Maximum exposure to credit risk

	2015				
	<i>Neither past due nor impaired</i> US\$ '000	<i>Past due or individually impaired</i> US\$ '000	<i>Impairment provisions</i> US\$ '000	<i>Maximum credit risk</i> US\$ '000	<i>Quarterly average balance</i> US\$ '000
ASSETS					
Balances with banks and financial institutions	28,373	-	-	28,373	15,064
Placements with financial institutions	19,998	-	-	19,998	17,083
Investment at fair value through profit or loss	161	-	-	161	441
Loans and advances	102,439	11,202	(2,936)	110,705	128,729
Available-for-sale investments	2,892	17,451	(10,813)	9,530	8,648
Held-to-maturity investment	216	-	-	216	220
Other assets	2,592	-	-	2,592	2,812
	156,671	28,653	(13,749)	171,575	172,997
<i>Off-balance sheet items</i>	7,508	-	-	7,508	8,071
	2014				
ASSETS	<i>Neither past due nor impaired</i> US\$ '000	<i>Past due or individually impaired</i> US\$ '000	<i>Impairment provisions</i> US\$ '000	<i>Maximum credit risk</i> US\$ '000	<i>Quarterly average balance</i> US\$ '000
Balances with banks and financial institutions	13,139	-	-	13,139	11,315
Placements with financial institutions	30,469	-	-	30,469	27,005
Investments at fair value through profit or loss	588	-	-	588	461
Loans and advances	118,230	850	(2,066)	117,014	112,706
Available-for-sale investments	819	22,529	(14,554)	8,794	13,545
Held-to-maturity investments	227	-	-	227	2,093
Other assets	2,302	-	-	2,302	2,138
	165,774	23,379	(16,620)	172,533	169,263
<i>Off-balance sheet items</i>	8,658	-	-	8,658	8,991

At 31 December 2015

25 FINANCIAL RISK MANAGEMENT (continued)**a) Credit risk (continued)**

As of 31 December 2015, loans and advances include past due loans of US\$ 6,533 thousand (2014: Nil) and impaired loans of US\$ 4,669 thousand (2014: US\$ 850 thousand). Past due loans relate to industry sector "Others" and geographical sector "GCC". The ageing bucket of past due loans is "Upto 3 months". The impaired loans relate to industry sector "Consumer Goods" and geographical sector "Rest of the world".

Credit quality by class of financial assets

The Group manages the credit quality of financial assets using internal credit ratings. The Group estimates the probability of default through its risk grading system which employs a ten-grade scale. The credit worthiness is measured in descending order, with '1' having the least probability of default and '10' having the highest probability of default.

The Group utilizes both quantitative and qualitative assessment of the credit risks in order to approximate the probability of default of a given counterparty. The ten grade scale system is by design aligned with External Credit Assessment Institutions (ECAI) own credit rating schematics in order to simplify and streamline the process. This also allows for direct comparisons or translations to be made from an ECAI's rating into the Group's internal rating scale. All of the Group's assets fall under Standard grade, except for those disclosed as impaired in the above table.

The following table shows the relationship between Group's internal rating system and ECAI's (i.e. Moody's and S&P) ratings.

<i>Categories</i>	<i>Internal rating</i>	<i>ECAI equivalent</i>
Standard - there is a very high likelihood of the asset being recovered and therefore, represents low risk to the Group.	1 to 7	AAA to B-
Sub-standard – inadequately protected by the paying capacity of the obligor or possibility that the Group will sustain some loss if the deficiencies are not corrected.	8	CCC-
Doubtful – highly vulnerable credit position	9	C-
Loss – already in default or expected to be in default	10	Below C-

Analysis of risk concentration

Concentration of credit risk arises when a number of obligors or 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. Accordingly, such concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or region.

The following tables summarize the Group's geographical and industry sector exposures and any potential risk concentrations arising there from. Maximum credit risk exposures are detailed without considering the effects, if any, of collateral or other credit mitigation techniques on the Group's assets, liabilities and credit related contingent items.

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At 31 December 2015

25 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Geographical region

	31 December 2015				
	Europe US\$ '000	North America US\$ '000	GCC US\$ '000	Rest of the world US\$ '000	Total US\$ '000
Balances with banks and financial institutions	2,112	4,294	21,962	5	28,373
Placements with financial institutions	-	-	15,498	4,500	19,998
Investment at fair value through profit or loss	-	161	-	-	161
Loans and advances	100,375	782	6,467	3,081	110,705
Available-for-sale investments	347	6,292	2,891	-	9,530
Held-to-maturity investment	216	-	-	-	216
Other assets	2,039	13	418	122	2,592
Total	105,089	11,542	47,236	7,708	171,575
Off-balance sheet items	1,989	2,940	2,579	-	7,508

	31 December 2014				
	Europe US\$ '000	North America US\$ '000	GCC US\$ '000	Rest of the world US\$ '000	Total US\$ '000
Balances with banks and financial institutions	1,073	11,442	617	7	13,139
Placements with financial institutions	3,000	-	27,469	-	30,469
Investment at fair value through profit or loss	-	338	250	-	588
Loans and advances	93,966	8,748	7,795	6,505	117,014
Available-for-sale investments	514	7,612	237	431	8,794
Held-to-maturity investments	227	-	-	-	227
Other assets	1,710	189	247	156	2,302
Total	100,490	28,329	36,615	7,099	172,533
Off-balance sheet items	1,931	4,148	2,579	-	8,658

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2015

25 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Industry sector

	31 December 2015				
	<i>Banking</i>		<i>Consumer</i>		
	<i>/ Finance</i>	<i>Government</i>	<i>Goods</i>	<i>Others</i>	<i>Total</i>
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Assets					
Balances with banks and financial institutions	28,373	-	-	-	28,373
Placements with financial institutions	17,354	2,644	-	-	19,998
Investment at fair value through profit or loss	161	-	-	-	161
Loans and advances	2,962	-	89,629	18,114	110,705
Available-for-sale investments	6,638	2,655	-	237	9,530
Held-to-maturity investment	-	-	-	216	216
Other assets	26	131	1,909	526	2,592
Total	55,514	5,430	91,538	19,093	171,575
Off-balance sheet items	4,929	-	-	2,579	7,508

	31 December 2014				
	<i>Banking</i>		<i>Consumer</i>		
	<i>/ Finance</i>	<i>Government</i>	<i>Goods</i>	<i>Others</i>	<i>Total</i>
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Assets					
Balances with banks and financial institutions	13,139	-	-	-	13,139
Placements with financial institutions	30,469	-	-	-	30,469
Investment at fair value through profit or loss	588	-	-	-	588
Loans and advances	2,970	-	96,471	17,573	117,014
Available-for-sale investments	8,013	237	-	544	8,794
Held-to-maturity investments	-	-	-	227	227
Other assets	64	66	1,865	307	2,302
Total assets	55,243	303	98,336	18,651	172,533
Off-balance sheet items	6,079	-	-	2,579	8,658

25 FINANCIAL RISK MANAGEMENT (continued)**b) Market risk**

Market risk is defined as potential adverse changes in the fair value or future cash flows of a trading position or portfolio of financial instruments resulting from the movement of market variables, such as interest rates, currency rates, equity and commodity prices, market indices as well as volatilities and correlations between markets.

The principal market related risks to which the Group is exposed are interest rate risk, foreign currency risk and equity price risk.

i) Interest rate risk

Interest rate risk is the risk that changes in market interest rates will affect the future cash flows or the fair values of financial instruments. The Group closely monitors interest rate movements, and seeks to limit its exposure to such movements by managing the interest rate repricing structure of its assets and liabilities. The Group actively manages its interest rate repricing gap exposure, with a bias towards fixed rates and with exposure limits that are approved by the Board of Directors. The Group does not typically take interest rate trading positions and all its interest rate risk is typically in the banking book.

All of the Group's interest earning assets and interest bearing liabilities carry fixed rates of interest, hence, there is no sensitivity to interest rate risk.

ii) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Majority of the Group's assets and liabilities are denominated in US Dollar, Qatari Riyal, Bahraini Dinar, Euro and Great Britain Pound. As the Qatari Riyal and Bahraini Dinar are pegged to the US dollar, there is minimal sensitivity to currency risk.

The table below shows the sensitivity to the Group's net profit and equity for a movement of +5% in Euro and Great Britain Pound against the US\$, with all other variables held constant. An equivalent decrease in each of these currencies against the US\$ would result in an equivalent but opposite impact.

Currency	Sensitivity to net profit and equity	
	2015 US\$ '000	2014 US\$ '000
Euro	39	(67)
Great Britain Pound	20	36
	<u>59</u>	<u>(31)</u>

iii) Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices or individual stocks. The Group is exposed to equity price risk on its investments at fair value through profit or loss and available-for-sale investments.

25 FINANCIAL RISK MANAGEMENT (continued)

b) Market risk (continued)

iii) Equity price risk (continued)

The following table depicts the sensitivity to the Group's net profit and equity for a movement of +5% in the equity prices or net asset values of investments at fair value through profit or loss, with all other variables held constant. An equivalent decrease would result in an equivalent but opposite impact.

	<i>Sensitivity to net profit and equity</i>	
	<i>2015</i>	<i>2014</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>
Investments at fair value through profit or loss	8	29

The Group's exposure to available-for-sale investments mainly represents investments in unquoted equity funds, strategic investments and listed debt securities.

Private equity risk is the risk that the Group will not be able to sell its investments at a profit within the intended time period, which might be due to the investment itself, macro trends in markets for IPO's and mergers and acquisition activity.

The Group manages risks at the specific investment level by (i) investing primarily through managed third party funds whose managers have a demonstrated successful track record, by diversifying its investments across (ii) fund managers, (iii) different stages in the investment cycle (various stages of venture capital, buy-out, etc.), and (iv) geographical locations and industries.

A change of +10% in the carrying value of available-for-sale investments as at 31 December 2015, with all other variables held constant, would result an increase in comprehensive income and equity by US\$ 0.95 million (2014: US\$ 0.88 million). An equivalent decrease would result in a decrease in comprehensive income and equity by US\$ 0.72 million (2014: US\$ 0.65 million) and a decrease of US\$ 0.23 million ((2014: US\$ 0.23 million) in net profit.

Market risk capital charge

The capital requirement for market risk using the Standardised Approach as at 31 December 2015 and 31 December 2014 was as follows:

	<i>Capital requirement</i>		
	<i>At 31</i>		
	<i>December</i>		
	<i>2015</i>	<i>Maximum</i>	<i>Minimum</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Foreign exchange risk	153	164	113

	<i>Capital requirement</i>		
	<i>At 31</i>		
	<i>December</i>		
	<i>2014</i>	<i>Maximum</i>	<i>Minimum</i>
	<i>US\$ '000</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Foreign exchange risk	169	263	108
Equity position risk	-	55	-
Total	169		

At 31 December 2015

25 FINANCIAL RISK MANAGEMENT (continued)**c) Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. It also represents the risk that the Group will be unable to realize its assets in a timely fashion for prices close to their carrying values.

In its investing activities, the Group seeks to diversify its assets across instruments and markets and to avoid obligor concentrations. This is particularly the case for investments in unlisted private equity funds where the Group has consciously implemented a strategy of reducing the Group's average individual investment size.

Liquidity is managed on a daily basis and senior management closely monitors significant daily changes to the liquidity position. In evaluating the liquidity position, the Group also takes into account the possible call of un-drawn commitments on its investment portfolio.

Held-to-maturity investments mature in 2028. The Group has a contractual maturity of deposits to a single counterparty amounting to US\$ 125.0 million in the second quarter of 2016. Subsequent to the balance sheet date, and in order to fund the settlement of these deposits, the Group has initiated the process of decreasing a part of its loans and advances. Notices have been given to the counterparties to this effect. The Bank is confident to meet its obligations, as they fall due.

The table below presents the maturity profile of the Group's assets and liabilities based on remaining expected maturities:

	31 December 2015					Total US\$ '000
	Up to 3 months US\$ '000	> 3 months up to 6 months US\$ '000	> 6 months up to 12 months US\$ '000	> 1 year up to 5 years US\$ '000	Over 5 years US\$ '000	
Assets						
Balances with banks and financial institutions	28,373	-	-	-	-	28,373
Placements with financial institutions	19,998	-	-	-	-	19,998
Investment at fair value through profit or loss	161	-	-	-	-	161
Loans and advances	70,192	32,086	1,975	6,452	-	110,705
Available-for-sale investments	4,030	2,063	3,437	-	-	9,530
Held-to-maturity investment	-	-	-	-	216	216
Other assets	2,199	397	138	89	66	2,889
Total assets	124,953	34,546	5,550	6,541	282	171,872
Liabilities						
Deposits from financial institutions	53	125,045	-	-	-	125,098
Deposits from customers	3,017	-	5,709	-	-	8,726
Other liabilities	1,410	848	528	-	-	2,786
Total liabilities	4,480	125,893	6,237	-	-	136,610
Net liquidity gap	120,473	(91,347)	(687)	6,541	282	35,262
Cumulative liquidity gap	120,473	29,126	28,439	34,980	35,262	35,262

At 31 December 2015

25 FINANCIAL RISK MANAGEMENT (continued)

c) Liquidity risk (continued)

	31 December 2014					Total US\$ '000
	Up to 3 months	> 3 months up to 6 months	> 6 months up to 12 months	> 1 year up to 5 years	Over 5 years	
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	
<i>Assets</i>						
Balances with banks and financial institutions	13,139	-	-	-	-	13,139
Placements with financial institutions	27,469	3,000	-	-	-	30,469
Investment at fair value through profit or loss	588	-	-	-	-	588
Loans and advances	71,899	34,349	1,969	8,797	-	117,014
Available-for-sale investments	1,759	2,638	4,397	-	-	8,794
Held-to-maturity investments	-	-	-	-	227	227
Other assets	1,909	269	284	85	66	2,613
Total assets	116,763	40,256	6,650	8,882	293	172,844
<i>Liabilities</i>						
Deposits from financial institutions	288	124,490	-	-	-	124,778
Deposits from customers	5,292	403	9,332	-	-	15,027
Other liabilities	997	524	514	-	-	2,035
Total liabilities	6,577	125,417	9,846	-	-	141,840
Net liquidity gap	110,186	(85,161)	(3,196)	8,882	293	31,004
Cumulative liquidity gap	110,186	25,025	21,829	30,711	31,004	31,004

Contractual maturity of financial liabilities on an undiscounted basis

The table below presents the cash flows payable by the Group relating to its financial liabilities upon their respective earliest contractual maturities at the statement of financial position date. The amounts disclosed in the table are the contractual undiscounted cash flows (i.e. nominal plus interest) determined by using the forward yield curve for the relevant periods.

	31 December 2015					Total US\$ '000
	Up to 3 months	> 3 months up to 6 months	> 6 months up to 12 months	> 1 year up to 5 years	Over 5 years	
	US\$ '000	US\$ '000	US\$ '000	US\$ '000	US\$ '000	
<i>Liabilities</i>						
Deposits from financial institutions	53	125,433	-	-	-	125,486
Deposits from customers	3,017	-	5,829	-	-	8,846
Other liabilities	1,278	848	190	-	-	2,316
Total undiscounted financial liabilities	4,348	126,281	6,019	-	-	136,648

At 31 December 2015

25 FINANCIAL RISK MANAGEMENT (continued)**c) Liquidity risk (continued)**

	31 December 2014					Total US\$ '000
	Up to 3 months US\$ '000	> 3 months up to 6 months US\$ '000	> 6 months up to 12 months US\$ '000	> 1 year up to 5 years US\$ '000	Over 5 years US\$ '000	
<i>Liabilities</i>						
Deposits from financial institutions	288	124,806	-	-	-	125,094
Deposits from customers	5,348	407	9,453	-	-	15,208
Other liabilities	741	524	145	-	-	1,410
Total undiscounted financial liabilities	6,377	125,737	9,598	-	-	141,712

d) Operating and legal risk

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

Currently, the Group conducts its business from a single location. The Bank does not operate a retail banking franchise. Accordingly, the number of client relationships and volume of transactions at the Group are lower than at such retail institutions. These factors mitigate to some extent the operational risks to which the Group is exposed, both in terms of volumes of transactions and the liquidity of the assets underlying these transactions (e.g. the Group does not offer cash deposit/withdrawal services, ATMs, credit cards, etc.).

The Group's operations are conducted according to well-defined procedures. These procedures include a comprehensive system of internal controls, including segregation of duties and other internal checks, which are designed to prevent either inadvertent staff errors or malfeasance prior to the release of a transaction.

Legal risk includes the risk of non-compliance with applicable laws or regulations, the illegality or unenforceability of counterparty obligations under contracts and additional unintended exposure or liability resulting from the failure to structure transactions or contracts properly. Legal risks are mitigated through legal counsel review of transactions and documentation, as appropriate. Where possible, the Group uses standard formats for transaction documentation.

To protect the Group from involvement in money laundering or terrorist finance activities, the Group has implemented a comprehensive set of policies and procedures. Adherence to the Group's policies and procedures is reinforced through periodic staff training and internal and external reviews, as well as internal and external review by auditors.

To further mitigate operational and legal risks, the Group purchases a variety of insurance.

26 COMMITMENTS AND CONTINGENT LIABILITIES

Commitments mainly include commitments to participate in investments. Undrawn investment commitments comprise contractual commitments to investments made in equity funds. These amounts are called by fund managers, generally for a period of between four and six years.

The outstanding commitments and contingent liabilities at 31 December were as follows:

	2015 US\$ '000	2014 US\$ '000
Undrawn investment commitments in equity funds	4,929	6,079
Other commitments	2,579	2,579

At 31 December 2015, the Bank had undrawn investment commitments to private equity funds of US\$ 4,929 thousand (31 December 2014: US\$ 6,079 thousand). Of these, the Group's proprietary commitments amounted to US\$ 3,065 thousand (31 December 2014: US\$ 3,482 thousand) and the balance relates to co-investors of the Bank who have committed to sub-participate along with the Bank.

Other commitments represent unclaimed dividend amounts written back by the Bank in 2011. However, as per regulatory requirements, these amounts have been disclosed as a contingent item.

The Group is engaged in litigation cases involving claims made by and against the Group relating to its ex-employees. The Board, after reviewing the claims pending against the Group and based on the advice of the relevant professional legal advisors, are satisfied that the outcome of these claims will not have a material adverse effect on the financial position of the Group.

27 ASSETS UNDER MANAGEMENT

The Group's clients participate in products offered under its two alternative investment asset classes. Total assets under management ("AUM") in each product category at the consolidated statement of financial position date are as follows:

	2015 US\$ '000	2014 US\$ '000
Trade finance	32,723	-
Private equity	9,903	14,215
	<u>42,626</u>	<u>14,215</u>

Assets under management, relating to trade finance, include sub-participations by various clients in trade finance deals administered by the Group.

Assets under management, relating to private equity, include BMB Technology and Telecommunications Investment Company (under liquidation), a US focused venture capital fund of funds, customer sub-participations in private equity funds managed by the Group and other client funds managed on a discretionary basis.

28 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group's financial instruments are accounted for under the historical cost convention except for the measurement at fair value of investments at fair value through profit or loss and available-for-sale investments. Fair value is the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Consequently, differences can arise between the book amounts and the fair value estimates.

28 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**Fair value hierarchy**

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Valuation techniques based on observable inputs, either directly or indirectly. This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 - Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation (i.e. net asset value received from administrator / fund managers).

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

The following table shows the carrying amounts and fair values of financial instruments, including their levels in the fair value hierarchy. It does not include fair value information for financial instruments not measured at fair value if the carrying amount is a reasonable approximation of fair value:

	31 December 2015				
	<i>Level 1</i> US\$ '000	<i>Level 2</i> US\$ '000	<i>Level 3</i> US\$ '000	<i>Total fair values</i> US\$ '000	<i>Total carrying amount</i> US\$ '000
Financial assets measured at fair value					
Investment at fair value through profit or loss	-	-	161	161	161
Available-for-sale investments	2,655	-	6,875	9,530	9,530
Financial assets not measured at fair value					
Held-to-maturity investment	-	-	176	176	216
	31 December 2014				
	<i>Level 1</i> US\$ '000	<i>Level 2</i> US\$ '000	<i>Level 3</i> US\$ '000	<i>Total fair values</i> US\$ '000	<i>Total carrying amount</i> US\$ '000
Financial assets measured at fair value					
Investments at fair value through profit or loss	250	-	338	588	588
Available-for-sale investments	103	-	8,691	8,794	8,794
Financial assets not measured at fair value					
Held-to-maturity investments	-	-	183	183	227

At 31 December 2015

28 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**Fair value hierarchy (continued)**

Management has assessed that the fair values of financial assets comprising of balances with banks and financial institutions, placements with financial institutions, loans and advances and other assets, and financial liabilities comprising of deposits from financial institutions, deposits from customers and other liabilities approximate their carrying amounts.

For held-to-maturity investments, fair value is lower than the carrying amount; however this shortfall in fair value is not relevant except in a forced sale situation since the Bank has the intention to hold held-to-maturity investments until maturity when it would recover full nominal amounts.

The fair value of held-to-maturity investments is based on last quoted market prices at the reporting date or on the present value of future cash flows.

Movements in level 3 investments measured at fair value are as follows:

	2015	2014
	US\$ '000	US\$ '000
At 1 January	9,029	17,170
Net fair value movement	(291)	854
Additions	150	878
Exits (at cost)	(577)	(5,060)
Fair value transferred to statement of income on disposals / impairment	(1,275)	(4,813)
At 31 December	7,036	9,029

Level 3 available-for-sale investments represent private equity funds where the underlying fund managers exercise judgements in valuation of investments.

During the year, there were no transfers between Level 1 and Level 2 fair value hierarchy, and no transfers into and out of Level 3 fair value hierarchy.

29 COMPARATIVES

During the year, the Group has regrouped certain items in the consolidated financial statements to improve presentation. Such regrouping did not have any impact on net equity or profit or loss of the Group previously reported.