

## Representations by Management

**Deloitte & Touche**

P. O. Box 421

Manama – Bahrain

31<sup>st</sup> December 2015

Dear Sirs,

This representation letter is provided in connection with your audit of the financial statements of all the Islamic Banks' Fund ("the Fund") for the year ended December 31, 2014 for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the Statement of Net Assets of the Fund as of December 31, 2014 and the results of its operations and its cash flows for the period then ended in accordance with Accounting Standards for Islamic Financial Institutions ("AAOIFI").

We acknowledge our responsibility for the fair presentation of the financial statements in accordance with the accounting policies noted above including the appropriate disclosure of all information required by the regulations governing the Fund. We also acknowledge our responsibility for the design, implementation and operation of accounting and internal control systems that are designed to prevent and detect fraud and error.

We confirm that (to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves):

### ***Financial Statements***

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated April 29, 2014, for the preparation of the financial statements in accordance with AAOIFI (for matters for which no AAOIFI standards exist, the Fund uses the relevant International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB)); in particular the financial statements are fairly presented in accordance therewith.
2. Where applicable, related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of AAOIFI.
3. Where applicable, all events subsequent to the date of the financial statements and for which AAOIFI require adjustment or disclosure have been adjusted or disclosed.
4. There are no uncorrected misstatements that are material, both individually and in the aggregate, to the financial statements as a whole.

5. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and where applicable have disclosed all guarantees that we have given to third parties.
6. There have been no irregularities involving management who have a significant role in internal control or that could have a material effect on the financial statements.

***Information Provided***

7. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the Fund from whom you determined it necessary to obtain audit evidence.
8. All transactions have been recorded in the accounting records and are reflected in the financial statements.
9. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund.
10. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

***Other matters***

11. Management acknowledges its responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
12. We confirm that the functional and presentation currency of the Fund is BD.

***Lawyer***

13. No claims in connection with litigation have been or are expected to be received. We further confirm that the Fund has not consulted any lawyer during the year.

***Going concern***

14. We confirm that we have no intention to liquidate the Fund within next 12 months from the date of this letter.



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**Mr. Khalid Hamad A. Rahman**  
Chairman of the of the Deposits  
& Unrestricted Investment Accounts  
Protection Board



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**Mr. Mohammed Abdulla Isa**  
Chairman of the Audit Committee  
of the Deposits & Unrestricted Investment  
Accounts Protection Board

**REPORT OF THE BOARD OF  
DIRECTORS OF ISLAMIC BANKS' FUND**

The Board of Directors of Islamic Banks' Fund (the "Fund ") has pleasure in submitting the financial statements of the Fund for the period from 1 January 2014 to 31 December 2014.

**Principal activities**

The Deposit & Unrestricted Investment Accounts Protection Scheme (the "Scheme") was established by virtue of Resolution No. (34) for the year 2010 with respect to promulgating a Regulation "Protecting Deposits and Unrestricted Investment Accounts" in accordance with the provisions of Article 177 of the Central Bank of Bahrain and Financial Institutions Law No. (64) for the year 2006.

The Fund was incorporated under the Scheme. The objective of the Fund is to promote confidence in licensed retail banks by providing a means of protection for depositors within the framework of the Regulations. The Fund commenced its activities from 1 January 2014.

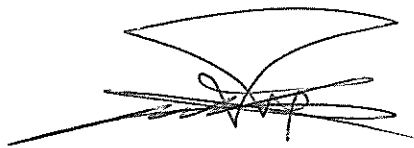
**Results**

The Deposit & Unrestricted Investment Accounts Protection Board would like to inform you that, at 31 December 2014 the Net Asset Value (NAV) of the Islamic Fund was BHD 1318,583.

**Auditors**

Deloitte & Touche has been appointed as auditors of the Fund, for the year ending 31 December 2015, as approved by the Deposit & Unrestricted Investment Accounts Protection Board on 6 April 2015.

On behalf of the Board of Directors



**Khalid Hamad A.Rahman**  
Chairman of the of the Deposits &  
Unrestricted Investment Account Protections Board

## **Islamic Banks' Fund**

**(Established by Central Bank of Bahrain under Deposit  
& Unrestricted Investment Accounts Protection Scheme)**

**31 DECEMBER 2014**

**Islamic Banks' Fund**  
**(Established by Central Bank of Bahrain under Deposit**  
**& Unrestricted Investment Accounts Protection Scheme)**  
**Annual Financial Statements for the year ended 31 December 2014**

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**Islamic Banks' Fund**  
**(Established by Central Bank of Bahrain under Deposit**  
**& Unrestricted Investment Accounts Protection Scheme)**  
**Annual Financial Statements for the year ended 31 December 2014**

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**GENERAL INFORMATION**

The Deposit & Unrestricted Investment Accounts Protection Scheme (the Scheme) was established by virtue of Resolution No. (34) for the year 2010 with respect to promulgating a Regulation "Protecting Deposits and Unrestricted Investment Accounts" in accordance with the provisions of Article 177 of the Central Bank of Bahrain and Financial Institutions Law No. (64) for the year 2006.

**MEMBERS OF THE BOARD**

Mr. Khalid Hamad Abdulrahman (Chairman)  
Mr. Yousif Hassan Yousif ( Deputy Chairman)  
Mr. Mohammed Ahmed Mohammed  
Dr. Waheed Sultan  
Mr. Ahmed Abdulrahim  
Mr. Mohammed Abdulla Isa  
Mrs. Sawsan Abu Al-Hassan  
Mrs. Shakofa Asghar  
Mrs. Najla Alshirawi  
Mr. Salah Hussain Saleh  
Mr. Nezar Raees

The above members were appointed as per resolution No. 24 for the year 2014 and its amendments.

**BOARD'S SECRETARY**

Mrs. Ebtisam Al Arrayed

**ADDRESS**

Central Bank of Bahrain  
No. 1702, Road 96  
Manama, Kingdom of Bahrain

**AUDITORS**

Deloitte  
Manama, Kingdom of Bahrain

**ADMINISTRATOR**

Ernst & Young  
Manama, Kingdom of Bahrain

**Islamic Banks' Fund**  
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**Statement of Comprehensive Income for the year ended 31 December 2014**

	<i>Note</i>	<i>2014 BHD</i>
INCOME		-
TOTAL INCOME		-
EXPENSES		
Administration Expenses	6	14,750
TOTAL EXPENSES		14,750
DEFICIT FOR THE YEAR		(14,750)
Other comprehensive income		-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		<u>(14,750)</u>

The attached notes 1 to 9 form part of these financial statements

**Islamic Banks' Fund**  
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**Statement of Financial Position as at 31 December 2014**

	<i>Note</i>	<i>2014</i> <i>BHD</i>
<b>ASSETS</b>		
<b>Non-current asset</b>		
Placements		-
<b>Current assets</b>		
Contributions receivable		94,736
Bank balances	3	1,238,597
		<u>1,333,333</u>
<b>TOTAL ASSETS</b>		<u><u>1,333,333</u></u>
<b>FUNDS AND LIABILITIES</b>		
<b>Funds and Reserves</b>		
Contributions Fund	4	1,333,333
Total comprehensive loss for the year		(14,750)
<b>TOTAL FUNDS AND RESERVES</b>		<u>1,318,583</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accruals	5	14,750
<b>TOTAL LIABILITIES</b>		<u>14,750</u>
<b>TOTAL FUNDS AND LIABILITIES</b>		<u><u>1,333,333</u></u>



Mr. Khalid Hamad Abdulrahman  
Chairman



Mr. Mohammed Abdulla Isa  
Chairman of the Audit Committee



**Islamic Banks' Fund**  
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**Statement of changes in net assets available for eligible account-holders'**  
**protection for the year ended 31 December 2014**

	<i>Note</i>	<i>2014</i> <i>BHD</i>
At 1 January 2014		-
Contributions for the year		1,333,333
Income on Sukuk		-
Profits and losses on disposal of investments		-
Other income		-
Eligible account-holders' claims paid or payable		-
Administration Expenses		(14,750)
Other expenses		-
<b>At 31 December 2014</b>		<b>1,318,583</b>

**Islamic Banks' Fund**  
**(Established by Central Bank of Bahrain under Deposit**  
**& Unrestricted Investment Accounts Protection Scheme)**

**Statement of Cash Flows for the year ended 31 December 2014**

	<i>Note</i>	<i>2014 BHD</i>
<b>OPERATING ACTIVITIES</b>		
Total comprehensive loss for the year		(14,750)
Adjustment to reconcile surplus to net cash flow		
Non cash:		
Accruals		14,750
<b>Net cash flow from operating activities</b>		<u>-</u>
<b>INVESTING ACTIVITIES</b>		
<b>Net cash flow from investing activities</b>		<u>-</u>
<b>FINANCING ACTIVITIES</b>		
Contributions received		1,238,597
<b>Net movement in cash and cash equivalents</b>		<u>1,238,597</u>
Cash and cash equivalents at 1 January		-
<b>Cash and cash equivalents at 31 December</b>		<u>1,238,597</u>
<b>Non-cash transaction</b>		
Amounts due but not received		<u>94,736</u>

**Islamic Banks' Fund**  
**(Established by Central Bank of Bahrain under Deposit**  
**& Unrestricted Investment Accounts Protection Scheme)**  
**Annual Financial Statements for the year ended 31 December 2014**

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**Notes to the Financial Statements**

**1 GENERAL**

The Deposit & Unrestricted Investment Accounts Protection Scheme (the Scheme) was established by virtue of Resolution No. (34) for the year 2010 with respect to promulgating a Regulation "Protecting Deposits and Unrestricted Investment Accounts" in accordance with the provisions of Article 177 of the Central Bank of Bahrain and Financial Institutions Law No. (64) for the year 2006.

The Islamic Banks' Fund (the Fund) was incorporated under the Scheme. The objective of the Fund is to promote confidence in licensed retail banks by providing a means of protection for eligible account holders within the framework of the Regulations. The Fund commenced its activities from 1 January 2014.

The financial statements are presented in Bahraini Dinars, which is the Fund's functional and presentational currency.

**2 BASIS OF PREPARATION**

These financial statements have been prepared under the historical cost convention. These financial statements are in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standards exist, the Fund uses the relevant International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

**3 SIGNIFICANT ACCOUNTING POLICIES**

**Financial assets**

*Initial recognition and subsequent measurement*

Financial assets are classified as available-for-sale or fair value through profit or loss or investments at amortised cost. All financial assets are initially recognised at cost, being the fair value of the consideration given including acquisition costs associated with the investment. Acquisition cost relating to investments designated as fair value through profit or loss is charged to statement of profit or loss. The Fund's financial assets include bank balances and other receivables.

*Cash and cash equivalents*

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash at bank.

**Impairment of financial assets**

The Fund assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. If such evidence exists, any impairment loss is recognised in the statement of comprehensive income. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of comprehensive income;
- (b) For assets carried at cost, impairment is the difference between the carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
- (c) For assets carried at amortised cost, impairment is the difference between the carrying amount and the present value of future cash flows discounted at the original effective interest rate.

As of the reporting date, the Fund's financial assets comprise of balance at bank.

**Islamic Banks' Fund**  
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**Annual Financial Statements for the year ended 31 December 2014**

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**Notes to the Financial Statements**

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial liabilities**

*Initial recognition and subsequent measurement*

Financial liabilities are classified, at initial recognition, as loans and borrowings and payables, as appropriate. These liabilities are measured initially at their fair value, plus any directly attributable investment costs.

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

After initial recognition profit-bearing financing are subsequently measured at amortised cost using the effective profit rate. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

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 effective profit rate. The amortisation is included in the statement of profit or loss.

**Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

**Revenue Recognition**

*Income on Sukuk*

Income on Sukuk is recognized on a time-proportionate basis based on underlying rate of return of the respective type of sukuk. Recognition of income is suspended when the Fund believes that the recovery of these amounts may be doubtful or normally when the payments are overdue by 90 days, whichever is earlier.

*Profit from Placements with Financial Institutions*

Income on placements with financial institutions is recognized on a time-apportioned basis over the period of the related contract using the effective profit method.

**4 Contributions Fund**

The Contribution of each Islamic Bank in the total amount of Funds shall be determined on an annual pro-rata basis of the total eligible accounts of all Islamic Banks in the Kingdom of Bahrain.

These contributions paid by the Islamic Banks are recognised as 'Fund's Contribution' directly in the 'Statement of changes in net assets available for deposit-holders' protection'.

**5 Accruals**

	BD
Fund Administrator's Fees	12,500
Audit Fees	2,250
	<hr/>
	<b>14,750</b>
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**Notes to the Financial Statements**

**6 Administration expenses**

	BD
Fund Administrator's Fees	12,500
Audit Fees	2,250
	<u>14,750</u>

**7 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

The preparation of financial statements in conformity with IFRS requires Board to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates.

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

**Judgements**

*Going concern*

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

**8 STANDARDS ISSUED BUT NOT YET EFFECTIVE**

Standards issued but not yet effective up to the date of issuance of the Fund's financial statements are disclosed below. The Fund reasonably expects these standards issued to be applicable at a future date. The Fund intends to adopt these standards if applicable, when they become effective:

*IFRS 9 Financial Instruments: Classification and Measurement*

The standard was initially effective for annual periods beginning on or after 1 January 2015, however the final version of IFRS 9 issued by the IASB in July 2014 moved the mandatory effective date to 1 January 2018.

*Annual improvements to IFRSs (2010-2012) Cycle*

These improvements issued in December 2013 are effective from 1 July 2014. The document contains amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38.

*Annual improvements to IFRSs (2011-2013) Cycle*

These improvements issued in December 2013 are effective from 1 July 2014. The document contains amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40.

Other standards and interpretations that have been issued but not yet effective are not likely to have any significant impact on the financial statements of the Fund in the period of their initial application.

**Islamic Banks' Fund**  
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**Annual Financial Statements for the year ended 31 December 2014**

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**Notes to the Financial Statements**

**9 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

**Introduction**

The Fund manages risk through a process of ongoing identification and monitoring of the risks it faces. The Fund is exposed primarily to market rate risk, credit risk and liquidity risk.

**Board of Directors**

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

**Credit risk**

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.

The Fund is exposed to credit risk on contributions receivable and balances at bank.

Credit risks related to receivables are subject to the Fund's policy, procedures and controls. Credit quality of the participating bank is assessed by the Board. Credit risks related to balances with bank are managed by ensuring that the balances are maintained with reputed banks. The credit risk on these is perceived to be minimal by the Fund.

**Liquidity risk**

Liquidity risk is limited as the Fund has sufficient funding resources to meet its financial obligations as they arise. However, the Fund may be required to seek substantial borrowings and extraordinary funding assistance for third party entities in the event of a claim by depositors following a bank default.

The Fund can arrange funding from banks at commercial profit rates, hence the liquidity risk is considered to be minimal.

**Profit rate risk**

Profit rate risk is combination of the rate of return risk and the risk of exposure due to the mismatch in the Fund's profit-sensitive assets and liabilities caused by variations in the market reference rate, which would result in a decrease of the Fund's net present value.

The Fund currently has limited exposure to profit rate risk.

**Capital Management Policies and Procedures**

The objective of the Fund is to provide a means of protection for depositors within the framework of the regulation. The Board, which manages and administers the Fund, is required to work in the best interest of the Fund and shall pursue and promote its objective.

The Fund's capital management objectives are :

- to ensure the Fund's ability to continue as a going-concern. For this purpose, it is required to maintain a fund or funds out of which payments shall be made to depositors and to meet such other payments or expenses as may be paid out of the fund or funds in accordance with the Regulations.
- to process claims form compensation by depositors as expeditiously as possible and to ensure that compensation is paid out without undue delay.

The capital structure of the Fund consist of a contributions fund made up of accumulated contributions paid by participants since its inception in 2014.

The Board is committed to strengthen the Fund's capital base in line with international best practices.