

**Conventional Banks' Fund**

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

**31 DECEMBER 2015**

**Conventional Banks' Fund  
(Established by Central Bank of Bahrain under Deposit  
& Unrestricted Investment Accounts Protection Scheme)  
Annual Financial Statements for the year ended 31 December 2015**

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

The Board of Directors of Conventional Banks' Fund (The "Fund") has pleasure in submitting the financial statements of the Fund for the year ended 31 December 2015.

**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 the 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 2015, the Net Assets Value ("NAV") of the Islamic Fund was BHD 8,000,168 .

On behalf of the Board of Directors



**Khalid Hamad A. Rahman**  
Chairman of the Deposit &  
Unrestricted Investment Accounts Protection Board  
Date: April 27, 2016

**Conventional Banks' Fund  
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Annual Financial Statements for the year ended 31 December 2015**

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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 (upto 30 August 2015)  
Mrs. Ghaneya Mohsen Al Derazi (from 30 August 2015)  
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 SECRETARY**

Mrs. Ebtisam Al Arrayed

**ADDRESS**

Central Bank of Bahrain  
PO Box 27  
Manama, Kingdom of Bahrain

**AUDITOR**

Deloitte & Touche - Middle East  
Manama, Kingdom of Bahrain

**ADMINISTRATOR**

EY  
Manama, Kingdom of Bahrain

## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Conventional Banks' Fund

### Report on the financial statements

We have audited the accompanying financial statements of Conventional Banks' Fund (the "Fund") which comprise the statement of financial position as at December 31, 2015, and the related statements of comprehensive income, changes in net assets available for eligible account-holders' protection and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Directors' responsibility for the financial statements*

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

#### *Auditor's responsibility*

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the 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 financial statements in order to design audit procedures that are appropriate for 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 Directors, as well as evaluating the overall presentation of the financial statements.


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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

*Opinion*

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


Manama, Kingdom of Bahrain  
April 27, 2016


  
Deloitte & Touche – Middle East  
Partner Registration No. 184

**Conventional Banks' Fund  
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& Unrestricted Investment Accounts Protection Scheme)**

**Statement of Comprehensive Income for the year ended 31 December 2015**

	<i>Note</i>	<b>2015 BD</b>	<b>2014 BD</b>
<b>INCOME</b>			
Interest income		<u>21,614</u>	7,559
<b>TOTAL INCOME</b>		<u>21,614</u>	<u>7,559</u>
<b>EXPENSES</b>			
Administration expenses	7	<u>14,255</u>	14,750
<b>TOTAL EXPENSES</b>		<u>14,255</u>	<u>14,750</u>
<b>PROFIT (LOSS) FOR THE YEAR</b>		<u>7,359</u>	(7,191)
Other comprehensive income		-	-
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR</b>		<u><u>7,359</u></u>	<u><u>(7,191)</u></u>

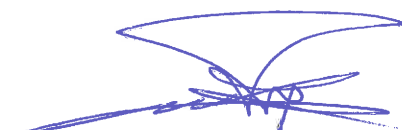
  
 \_\_\_\_\_  
 Mr. Khalid Hamad Abdulrahman  
 Chairman


  
 \_\_\_\_\_  
 Mr. Mohammed Abdulla Isa  
 Director

**Conventional Banks' Fund**  
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**Statement of Financial Position as at 31 December 2015**

	<i>Notes</i>	<b>2015</b> <b>BD</b>	<b>2014</b> <b>BD</b>
<b>ASSETS</b>			
<b>Current assets</b>			
Contributions receivable		81,555	35,472
Bank balances		2,935,113	3,972,087
Short term deposits	6	5,000,000	-
<b>TOTAL ASSETS</b>		<b>8,016,668</b>	<b>4,007,559</b>
<b>FUNDS AND LIABILITY</b>			
<b>Funds</b>			
Contributions Fund	4	8,000,000	4,000,000
Retained earnings / (accumulated loss)		168	(7,191)
<b>TOTAL FUNDS</b>		<b>8,000,168</b>	<b>3,992,809</b>
<b>LIABILITY</b>			
<b>Current liability</b>			
Accruals	7	16,500	14,750
<b>TOTAL FUNDS AND LIABILITY</b>		<b>8,016,668</b>	<b>4,007,559</b>

  
 \_\_\_\_\_  
 Mr. Khalid Hamad Abdulrahman  
 Chairman

  
 \_\_\_\_\_  
 Mr. Mohammed Abdulla Isa  
 Director



**Conventional Banks' Fund**  
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**Statement of changes in net assets available for deposit-holders' protection**  
**for the year ended 31 December 2015**

	<i>Contributions</i> <i>Fund</i> <i>BD</i>	<i>Retained</i> <i>earnings /</i> <i>(accumulated</i> <i>losses)</i> <i>BD</i>	<i>Total</i> <i>BD</i>
Contributions for the year	4,000,000	-	4,000,000
Loss for the year	-	(7,191)	(7,191)
At December 31, 2014	4,000,000	(7,191)	3,992,809
Contributions for the year	4,000,000	-	4,000,000
Profit for the year	-	7,359	7,359
<b>At December 31, 2015</b>	<b>8,000,000</b>	<b>168</b>	<b>8,000,168</b>

The attached notes 1 to 10 form part of these financial statements.

**Conventional Banks' Fund  
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**Statement of cash flows for the year ended 31 December 2015**

	<b>2015</b>	<b>2014</b>
	<b>BD</b>	<b>BD</b>
<b>OPERATING ACTIVITIES</b>		
Profit (loss) for the year	7,359	(7,191)
Adjustment to reconcile surplus to net cash flow		
Non cash:		
Accruals	1,750	14,750
<b>Net cash flow from operating activities</b>	<b>9,109</b>	<b>7,559</b>
<b>INVESTING ACTIVITY</b>		
Short term deposits	(5,000,000)	-
<b>Net cash flow used in investing activity</b>	<b>(5,000,000)</b>	<b>-</b>
<b>FINANCING ACTIVITY</b>		
Contributions received	3,953,917	3,964,528
<b>Net movement in cash and cash equivalents</b>	<b>(1,036,974)</b>	<b>3,972,087</b>
Cash and cash equivalents at 1 January	3,972,087	-
<b>Cash and cash equivalents at 31 December</b>	<b>2,935,113</b>	<b>3,972,087</b>
<b>Non-cash transaction</b>		
Amounts due but not received	46,083	35,472

The attached notes 1 to 10 form part of these financial statements.

**Conventional Banks' Fund**  
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**Annual Financial Statements for the year ended 31 December 2015**

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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" (the "Regulation") 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 Conventional 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 depositors within the framework of the Regulations. The Fund commenced its activities from 1 January 2014.

The financial statements are presented in Bahraini Dinars (BD), which is the Fund's functional and presentational currency. These financial statements were authorised for issue in accordance with a resolution of the Board of Directors on April 27, 2016.

**2 BASIS OF PREPARATION**

These financial statements have been prepared under the historical cost convention. These financial statements are in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

**3 SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted in the preparation of these financial statements are consistent with those followed in the preparation of the Fund's annual financial statements for the year ended 31 December 2014 except for the following amendments to IFRS effective as of 1 January 2015 which did not impact the annual financial statements:

- Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32;
- Recoverable Amount Disclosures for Non-Financial Assets - Amendments to IAS 36;
- Novation of Derivatives and Continuation of Hedge Accounting - Amendments to IAS 39;
- IFRIC Interpretation 21 Levies (IFRIC 21);
- Annual Improvements 2010-2012 Cycle; and
- Annual Improvements 2011-2013 Cycle.

**Financial assets**

*Initial recognition and subsequent measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales 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 Fund commits to purchase or sell the asset.

*Subsequent measurement of financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss 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 in the near term, i.e., upto six months. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as "Fair value changes in financial assets at fair value through profit or loss" in the statement of profit or loss.

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**Notes to the financial statements**

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial assets (continued)**

*Subsequent measurement of receivables*

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Fund includes in the this category only amounts relating to short term receivables.

*Cash and cash equivalents*

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash at bank and short term deposits with an original maturity of three months or less.

**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;
- (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 balances at bank and contributions receivable.

**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 interest rate. Gains, interest 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 interest 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**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured, regardless of when the payment is made. Interest income is recognised as the interest accrues using effective interest method.

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**Notes to the financial statements**

**4 CONTRIBUTIONS FUND**

The contribution of each conventional bank in the total amount of funds shall be determined on an annual pro-rata basis of the total eligible accounts of all conventional banks in the Kingdom of Bahrain.

These contributions paid by the conventional banks are recognised as 'Contribution for the year' directly in the 'Statement of changes in net assets available for deposit-holders' protection'.

**5 ADMINISTRATION EXPENSES**

	<b>2015</b>	<b>2014</b>
	<b>BD</b>	<b>BD</b>
Fund administrator's fees	<b>12,000</b>	12,500
Audit fees	<b>2,250</b>	2,250
Bank charges	<b>5</b>	-
	<b>14,255</b>	<b>14,750</b>

**6 SHORT TERM DEPOSITS**

These deposits are denominated in Bahraini Dinars, have a maturity of one month and carry an interest rate of 1 % p.a. These deposits are rolled over on a monthly basis and is not considered part of cash and cash equivalents.

**7 ACCRUALS**

	<b>2015</b>	<b>2014</b>
	<b>BD</b>	<b>BD</b>
Fund administrator's fees	<b>12,000</b>	12,500
Audit fees	<b>4,500</b>	2,250
	<b>16,500</b>	<b>14,750</b>

**8 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS**

The preparation of these financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts and accompanying disclosures in the financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

**Estimates and assumptions**

The key assumptions concerning future and other key sources of estimation uncertainty at the reporting 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 described below. The Fund based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Fund. Such changes are reflected in the assumptions when they occur.

*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.

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**Notes to the financial statements**

**9 STANDARDS ISSUED BUT NOT YET EFFECTIVE**

**New standards and interpretations issued but not yet effective**

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Fund's financial statements are disclosed below. The Fund intends to adopt these standards, if applicable, when they become effective. The following new standards and amendments have been issued by the IASB but are not yet mandatory for the year ended 31 December 2015:

- IFRS 9 *Financial Instruments*
- IFRS 14 *Regulatory Deferral Accounts*
- IFRS 15 *Revenue from Contracts with Customers*
- *Annual Improvements 2012-2014 Cycle*

The Fund's Board of Directors is considering the implications of these standards and amendments, their impact on the Fund's financial position and results and the timing of their adoption by the Fund.

**10 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, balances at bank and short term deposits.

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.

**Interest rate risk**

All interest-bearing financial assets have fixed interest rates. The Fund's incoming and operating cash flows are substantially independent of changes to market interest rates. Up to the reporting date, the Scheme did not have a hedging policy with respect to interest rate risk as exposure was not deemed to be significant by the Board.

## **Conventional Banks' Fund**

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

**Annual Financial Statements for the year ended 31 December 2015**

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### **Notes to the financial statements**

#### **9 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

##### **Capital Management Policies and Procedures**

The objective of the Scheme is to provide a mean of protection for depositors within the framework of the regulation. The Board, which manages and administers the Scheme, 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 for 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.