

Islamic Banks' Fund

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

31 DECEMBER 2015

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 2015

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**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 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 2,637,664 .

On behalf of the Board of Directors



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

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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

AUDITORS

Deloitte & Touche - Middle East
Manama, Kingdom of Bahrain

ADMINISTRATOR

EY
Manama, Kingdom of Bahrain

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Islamic Banks' Fund

Report on the financial statements

We have audited the accompanying financial statements of Islamic 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 are responsible for the preparation and fair presentation of these financial statements in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and to operate in accordance with Islamic Shari'a rules and principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation 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 Auditing Standards for Islamic Financial Institutions and 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 Islamic Banks' Fund as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Central Bank of Bahrain.


Manama, Kingdom of Bahrain
April 27, 2016


Deloitte & Touche – Middle East
Partner Registration No. 184

Islamic Banks' Fund
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Statement of Comprehensive Income for the year ended 31 December 2015

	<i>Note</i>	2015 BD	2014 BD
EXPENSES			
Administration expenses	7	<u>14,253</u>	14,750
TOTAL EXPENSES		<u>14,253</u>	14,750
LOSS FOR THE YEAR		(14,253)	(14,750)
Other comprehensive income		-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		<u>(14,253)</u>	<u>(14,750)</u>



 Mr. Khalid Hamad Abdulrahman
 Chairman



 Mr. Mohammed Abdulla Isa
 Director


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

	<i>Notes</i>	2015 BD	2014 BD
ASSETS			
Current assets			
Contributions receivable		-	94,736
Bank balances	4	<u>2,654,164</u>	<u>1,238,597</u>
TOTAL ASSETS		<u><u>2,654,164</u></u>	<u><u>1,333,333</u></u>
FUNDS AND LIABILITY			
Funds			
Contributions Fund	5	2,666,667	1,333,333
Accumulated losses		<u>(29,003)</u>	<u>(14,750)</u>
TOTAL FUNDS		<u><u>2,637,664</u></u>	<u><u>1,318,583</u></u>
LIABILITY			
Current liability			
Accruals	6	<u>16,500</u>	<u>14,750</u>
TOTAL FUNDS AND LIABILITY		<u><u>2,654,164</u></u>	<u><u>1,333,333</u></u>



 Mr. Khalid Hamad Abdulrahman
 Chairman



 Mr. Mohammed Abdulla Isa
 Director

**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 2015**

	<i>Contributions Fund BD</i>	<i>Accumulated losses BD</i>	<i>Total BD</i>
Contributions for the year	1,333,333	-	1,333,333
Loss for the year	-	(14,750)	(14,750)
At December 31, 2014	<u>1,333,333</u>	<u>(14,750)</u>	<u>1,318,583</u>
Contributions for the year	1,333,334	-	1,333,334
Loss for the year	-	(14,253)	(14,253)
At December 31, 2015	<u><u>2,666,667</u></u>	<u><u>(29,003)</u></u>	<u><u>2,637,664</u></u>

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

Islamic Banks' Fund
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Statement of Cash Flows for the year ended 31 December 2015

	2015	2014
	BD	BD
OPERATING ACTIVITIES		
Loss for the year	(14,253)	(14,750)
Adjustment to reconcile surplus to net cash flow		
Non cash:		
Accruals	1,750	14,750
Net cash flow used in operating activities	(12,503)	-
FINANCING ACTIVITY		
Contributions received	1,428,070	1,238,597
Net movement in cash and cash equivalents	1,415,567	1,238,597
Cash and cash equivalents at 1 January	1,238,597	-
Cash and cash equivalents at 31 December	2,654,164	1,238,597
Non-cash transaction		
Amounts due but not received	-	94,736

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

Islamic Banks' Fund
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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" ("Regulations") 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 Islamic 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 (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 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

New and amended standards issued and effective

The Fund has adopted the relevant changes in AAOIFI standards which are effective as on 1 January 2015. These changes in the AAOIFI standards do not have any impact on the net assets of the Fund.

During 2015, AAOIFI issued a new Financial Accounting Standard (FAS 23) "*Consolidation*" and FAS 27 – *Investment Accounts* which are effective 1 January 2015 and have no impact on the Fund.

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:

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

- (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 bank balances 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

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.

4 BANK BALANCES

These comprise of balances with a bank, mainly relating to collections from various retail Islamic banks with respect to the Fund.

5 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'.

6 ACCRUALS

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

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7 ADMINISTRATION EXPENSES

	2015	2014
	BD	BD
Fund administrator's fees	12,000	12,500
Audit fees	2,250	2,250
Bank charges	3	-
	<u>14,253</u>	<u>14,750</u>

8 SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with financial accounting standards issued by AAOIFI 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.

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.

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.

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9 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 mean 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 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.