

Representations by Management

Deloitte & Touche
P. O. Box 421
Manama – Bahrain

31st December 2015

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Conventional 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 financial position of the Fund as of December 31, 2014 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

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 IFRS; 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 IFRS.
3. Where applicable, all events subsequent to the date of the financial statements and for which IFRS 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.



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



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

**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 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.

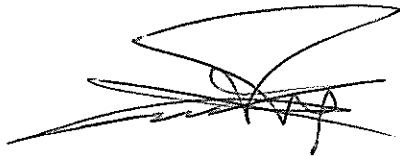
Results

The Deposit & Unrestricted Investment Accounts Protection Board would like to inform you that, at 31 December 2014 the Net Asset Value (NAV) of the Conventional Fund was BHD 3,992,809.

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

Conventional Banks' Fund

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

31 DECEMBER 2014

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 2014

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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 2014

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

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

Statement of Comprehensive Income for the year ended 31 December 2014

	<i>Note</i>	<i>2014 BHD</i>
INCOME		
Interest income	4	<u>7,559</u>
TOTAL INCOME		<u>7,559</u>
EXPENSES		
Administration Expenses	5	<u>14,750</u>
TOTAL EXPENSES		<u>14,750</u>
DEFICIT FOR THE YEAR		<u>(7,191)</u>
Other comprehensive income		<u>-</u>
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		<u><u>(7,191)</u></u>

Conventional Banks' Fund
(Established by Central Bank of Bahrain under Deposit
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Statement of Financial Position as at 31 December 2014

	<i>Note</i>	<i>2014 BHD</i>
ASSETS		
Non-current asset		
Investments		-
Current assets		
Contributions receivable		35,472
Bank balances	3	3,972,087
Total Current assets		<u>4,007,559</u>
TOTAL ASSETS		<u>4,007,559</u>
FUNDS AND LIABILITIES		
Funds and Reserves		
Contributions Fund		4,000,000
Total comprehensive loss for the year		(7,191)
TOTAL FUNDS AND RESERVES		<u>3,992,809</u>
LIABILITIES		
Current liabilities		
Accruals		14,750
TOTAL LIABILITIES		<u>14,750</u>
TOTAL FUNDS AND LIABILITIES		<u>4,007,559</u>



Mr. Khalid Hamad Abdulrahman
Chairman



Mr. Mohammed Abdulla Isa
Chairman of the Audit Committee

The attached notes 1 to 8 form part of these financial statements

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

**Statement of changes in net assets available for deposit-holders' protection for
the year ended 31 December 2014**

	<i>Note</i>	<i>2014 BHD</i>
At 1 January 2014		-
Contributions for the year		4,000,000
Interest income		7,559
Profits and losses on disposal of investments		-
Other income		-
Deposit-holders' claims paid or payable		-
Administration Expenses		(14,750)
Other expenses		-
At 31 December 2014		<u>3,992,809</u>

Conventional 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</i> <i>BHD</i>
OPERATING ACTIVITIES		
Total comprehensive loss for the year		(7,191)
Adjustment to reconcile surplus to net cash flow		
Non cash:		
Accruals		14,750
Net cash flow from operating activities		<u>7,559</u>
INVESTING ACTIVITIES		
Net cash flow from investing activities		<u>-</u>
FINANCING ACTIVITIES		
Contributions received		3,964,528
Net movement in cash and cash equivalents		<u>3,972,087</u>
Cash and cash equivalents at 1 January		-
Cash and cash equivalents at 31 December		<u>3,972,087</u>
Non-cash transaction		
Amounts due but not received		<u>35,472</u>

The attached notes 1 to 8 form part of these financial statements

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 2014

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 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, 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 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, 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.

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.

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Notes to the Financial Statements

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent Measurement of Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Fund 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 Effective Interest Rate (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 finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss.

Subsequent Measurement of Available-for-sale (AFS) financial investments

AFS financial investments include debt securities 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.

AFS financial investments are subsequently measured at fair value with unrealized gains or losses recognised in Other Comprehensive Income (OCI) and credited in the AFS reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in statement of profit or loss, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of profit or loss.

The Fund evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Fund is unable to trade these financial assets due to inactive markets, the Fund may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

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.

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Annual Financial Statements for the year ended 31 December 2014

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 interest 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.

Income on Bonds and Placements with Banks

Interest revenue is recognised in the Statement of Comprehensive Income for all interest-bearing financial instruments using EIR method.

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 Islamic Banks in the Kingdom of Bahrain.

These contributions paid by the 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
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	14,750
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Conventional Banks' Fund
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Annual Financial Statements for the year ended 31 December 2014

Notes to the Financial Statements

6 Administration expenses

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

Fund Administrator's Fee

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.

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

Interest rate risk

All interest-bearing financial assets have fixed interest rates. The Scheme'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.

Capital Management Policies and Procedures

The objective of the Scheme is to provide a means 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 Scheme and shall pursue and promote its objective.

The Fund's capital management objectives are :

- to ensure the Scheme'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.