Kuwait Finance House (Bahrain) B.S.C. (c)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014

Building a better
working world

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT FINANCE HOUSE (BAHRAIN) B.S.C. (c)

We have audited the accompanying consolidated statement of financial position of Kuwait Finance House (Bahrain) B.S.C. (c) [the "Bank"] and its subsidiaries [together the "Group"] as of 31 December 2014, and the related consolidated statements of income, cash flows, changes in owners' equity, and changes in off-balance sheet equity of investment account holders for the year then ended and a summary of significant accounting policies and other explanatory information. These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Group's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ["AAOIFI"]. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2014, the results of its operations, its cash flows, changes in equity and changes in off-balance sheet equity of investment account holders for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF KUWAIT FINANCE HOUSE (BAHRAIN) B.S.C. (c) (continued)

Other Matters

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 2), 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 directors' report 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 2 and applicable provisions of Volume 6) and CBB directives, or the terms of the Bank's memorandum and articles of association having occurred during the year that might have had a material adverse effect on the business of the Bank or on its financial position; and satisfactory explanations and information have been provided to us by the management in response to all our requests. The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank.

Ernst & Young

Partner's registration no: 45
2 March 2015
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Note	2014 BD 000	2013 BD 000
ASSETS			
Cash and balances with banks and Central Bank of Bahrain	7	**55,431**	54,490
Due from banks	8	**125,106**	117,902
Financing contracts with customers	9	**559,879**	600,544
Investments	10	**254,315**	268,276
Investment in joint ventures and associates	11	**160,826**	168,669
Investment in real estate	12	**186,179**	147,785
Receivables, prepayments and other assets	13	**94,284**	117,743
Intangibles	14	**3,760**	3,987
Premises and equipments		**42,264**	50,458
		1,482,044	1,529,854
Assets of disposal group classified as held for sale	15	**-**	35,293
TOTAL ASSETS		**1,482,044**	1,565,147
LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS, AND OWNERS' EQUITY			
LIABILITIES			
Customers' current accounts		**105,242**	77,293
Due to banks	16	**140,068**	217,770
Murabaha due to non-banks		**244,236**	300,490
Other liabilities	18	**27,214**	36,283
Subordinated murabaha payable	19	**95,349**	98,790
		612,109	730,626
Liabilities of disposal group classified as held for sale	15	**-**	14,235
		612,109	744,861
EQUITY OF INVESTMENT ACCOUNT HOLDERS	20	**509,044**	452,504
OWNERS' EQUITY			
Equity attributable to shareholders of the Parent			
Share capital	21	**177,140**	177,140
Share premium		**71,403**	71,403
Treasury shares	32	**(21,923)**	(21,923)
Statutory reserve		**16,568**	16,053
General reserve		**28,237**	28,237
Fair value through equity reserve		**(1,978)**	977
Property fair value reserve		**32,759**	35,540
Foreign currency translation reserve		**29**	(1,448)
Retained earnings		**47,865**	40,454
		350,100	346,433
Non-controlling stakeholders		**10,791**	17,900
Non-controlling stakeholders of disposal group classifed as held for sale		**-**	3,449
		360,891	367,782
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY		**1,482,044**	1,565,147
OFF-BALANCE SHEET			
EQUITY OF INVESTMENT ACCOUNT HOLDERS		**107,546**	99,176
CONTINGENT LIABILITIES AND COMMITMENTS	23	**49,192**	57,952

Ahmed Mohammad Al Aiban
Chairman of the Board of Directors

Abdulhakeem Yaqoub Alkhayyat
Managing Director and
Chief Executive Officer

The attached notes 1 to 41 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2014

	Note	2014 BD 000	2013 BD 000
Income from retail and corporate banking activities	24	**40,081**	41,619
Income from investment activities	25	**29,203**	8,948
Share of (loss) income of joint ventures and associates	11	**(1,641)**	1,943
Revenue from non-banking business entities	27	**31,692**	51,538
OPERATING INCOME		**99,335**	104,048
Direct cost of non-banking business entities	27	**(15,571)**	(39,994)
OPERATING INCOME AFTER DIRECT COSTS		**83,764**	64,054
Return on equity of investment account holders, net of mudarib share	20	**(6,092)**	(7,745)
Profit on due to banks, murabaha due to non-banks and subordinated murabaha payable	30	**(11,521)**	(11,991)
Profit paid by non-banking business entities	27	**(1,744)**	(2,309)
NET OPERATING INCOME		**64,407**	42,009
Staff costs		**12,238**	11,613
Depreciation		**1,538**	1,556
Provisions - net	28	**6,905**	(1,217)
Other expenses	29	**10,762**	10,047
Operating expenses of non-banking business entities	27	**27,847**	14,265
TOTAL OPERATING EXPENSES		**59,290**	36,264
NET INCOME FOR THE YEAR		**5,117**	5,745
Attributable to:			
Shareholders of the Parent		**5,145**	7,392
Non-controlling stakeholders		**(28)**	(2,214)
Non-controlling stakeholders of disposal group classifed as held for sale		**-**	567
		5,117	5,745

Ahmed Mohammad Al Aiban
Chairman of the Board of Directors

Abdulhakeem Yaqoub Alkhayyat
Managing Director and
Chief Executive Officer

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CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Note	2014 BD 000	2013 BD 000
OPERATING ACTIVITIES			
Net income for the year		**5,117**	5,745
Adjustments for:			
Share of loss (income) of joint ventures and associates		**1,641**	(1,943)
Depreciation		**11,417**	2,703
Provisions - net		**11,601**	(1,217)
Net unrealised loss (gain) on investments	25	**1,086**	(967)
Net gain on sale of investments	25	**(1,353)**	(3,452)
Net unrealised loss on investment in real estate	25	**41**	-
Net gain on sale of investment in real estate		**(2,852)**	(1,151)
Dividend income		**(22,844)**	-
Operating income (loss) before changes in operating assets and liabilities		**3,854**	(282)
Changes in operating assets and liabilities:			
Mandatory reserve with Central Bank of Bahrain		**(4,875)**	(3,340)
Financing contracts with customers		**37,828**	(42,733)
Receivables, prepayments and other assets		**14,960**	8,897
Due to banks		**(77,702)**	3,285
Murabaha due to non-banks		**(56,254)**	64,629
Subordinated murabaha payable		**(3,441)**	(407)
Customers' current accounts		**27,949**	25,732
Other liabilities		**(9,973)**	(7,280)
Net cash flows (used in) from operating activities		**(67,654)**	48,501
INVESTING ACTIVITIES			
Purchase of investments		**(35,287)**	(18,702)
Proceeds from sale / maturity of investments		**12,712**	11,116
Distribution from investments in joint ventures		**5,119**	647
Purchase of investment in real estate		**-**	(1,300)
Proceeds from sale of investment in real estate		**17,775**	10,355
Purchase of equipment		**(3,320)**	(1,342)
Proceeds from disposal of held for sale subsidiary		**17,905**	-
Net cash flows from investing activities		**14,904**	774
FINANCING ACTIVITIES			
Net movement in equity of investment account holders		**56,540**	634
Net movement in share of non-controlling stakeholders		**-**	(1,651)
Purchase of treasury shares		**-**	(21,923)
Net cash flows from (used in) financing activities		**56,540**	(22,940)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**3,790**	26,335
Cash and cash equivalents at 1 January		**142,797**	116,462
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	31	**146,587**	142,797

The attached notes 1 to 41 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2014

	Attributable to shareholders of the parent												
	Share capital BD 000	Share premium BD 000	Treasury shares BD 000	Statutory reserve BD 000	General reserve BD 000	Fair value through equity reserve BD 000	Property fair value reserve BD 000	Foreign currency translation reserve BD 000	Retained earnings BD 000	Total BD 000	Non - controlling stakeholders BD 000	Non-controlling stakeholders of disposal group classified as held for sale BD 000	Total owners' equity BD 000
Balance at 1 January 2014	177,140	71,403	(21,923)	16,053	28,237	977	35,540	(1,448)	40,454	346,433	17,900	3,449	367,782
Net income (loss) for the year	-	-	-	-	-	-	-	-	5,145	5,145	(28)	-	5,117
Other comprehensive (loss) for the year (note 22)	-	-	-	-	-	(2,955)	-	1,477	-	(1,478)	-	-	(1,478)
Total comprehensive income (loss) for the year	-	-	-	-	-	(2,955)	-	1,477	5,145	3,667	(28)	-	3,639
Net transfer from property fair value reserve	-	-	-	-	-	-	(2,781)	-	2,781	-	-	-	-
Transfer to statutory reserve	-	-	-	515	-	-	-	-	(515)	-	-	-	-
Net movement in share of non-controlling stakeholders	-	-	-	-	-	-	-	-	-	-	(7,081)	(3,449)	(10,530)
Balance at 31 December 2014	**177,140**	**71,403**	**(21,923)**	**16,568**	**28,237**	**(1,978)**	**32,759**	**29**	**47,865**	**350,100**	**10,791**	**-**	**360,891**
Balance at 1 January 2013	177,140	71,403	-	15,314	28,237	61	37,719	(1,455)	31,622	360,041	21,765	-	381,806
Net income (loss) for the year	-	-	-	-	-	-	-	-	7,392	7,392	(2,214)	567	5,745
Other comprehensive income for the year (note 22)	-	-	-	-	-	916	-	7	-	923	-	-	923
Total comprehensive income (loss) for the year	-	-	-	-	-	916	-	7	7,392	8,315	(2,214)	567	6,668
Repurchase of shares	-	-	(21,923)	-	-	-	-	-	-	(21,923)	-	-	(21,923)
Net transfer from property fair value reserve	-	-	-	-	-	-	(2,179)	-	2,179	-	-	-	-
Transfer to statutory reserve	-	-	-	739	-	-	-	-	(739)	-	-	-	-
Net movement in share of non-controlling stakeholders	-	-	-	-	-	-	-	-	-	-	(1,651)	2,882	1,231
Balance at 31 December 2013	177,140	71,403	(21,923)	16,053	28,237	977	35,540	(1,448)	40,454	346,433	17,900	3,449	367,782

The attached notes 1 to 41 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OFF-BALANCE SHEET EQUITY OF INVESTMENT ACCOUNT HOLDERS

For the year ended 31 December 2014

	Balance at 1 January 2014 BD 000	***Additional investments BD 000***	***Gross income BD 000***	***Mudarib share BD 000***	***Withdrawals / distributions BD 000***	***Balance at 31 December 2014 BD 000***
Murabaha contracts	**99,176**	**90,030**	**9,226**	**(1,849)**	**(89,037)**	**107,546**
	99,176	**90,030**	**9,226**	**(1,849)**	**(89,037)**	**107,546**

	Balance at 1 January 2013 BD 000	*Additional investments BD 000*	*Gross income BD 000*	*Mudarib share BD 000*	*Withdrawals / distributions BD 000*	*Balance at 31 December 2013 BD 000*
Murabaha contracts	94,345	106,865	8,983	(1,549)	(109,468)	99,176
Ijarah Muntahia Bittamleek contracts	855	-	30	(9)	(876)	-
	95,200	106,865	9,013	(1,558)	(110,344)	99,176

The attached notes 1 to 41 form part of these consolidated financial statements.

1 CORPORATE INFORMATION AND ACTIVITIES

Kuwait Finance House (Bahrain) B.S.C. (c) ("the Bank") is a closed joint stock company incorporated in the Kingdom of Bahrain on 22 January 2002 under the Bahrain Commercial Companies Law No. 21/2001 and is registered with the Ministry of Industry and Commerce under commercial registration (CR) number 48128. The Bank is regulated and supervised by the Central Bank of Bahrain (the "CBB") and has an Islamic retail banking license. The Bank operates under Islamic principles and in accordance with all the relevant regulatory guidelines for Islamic banks issued by the CBB. The address of the Bank's registered office is World Trade Centre, road number 365, Building number 1B, Block 316, P.O. Box 2066, Manama, Kingdom of Bahrain.

The Bank offers a full range of Islamic banking services and products. The activities of the Bank include accepting Shari'a money placements/deposits, managing Shari'a profit sharing investment accounts, offering Shari'a financing contracts, dealing in Shari'a compliant financial instruments as principal/agent, managing Shari'a compliant financial instruments and other activities permitted under the CBB's Regulated Islamic Banking Services as defined in the licensing framework.

The Bank is a subsidiary of Kuwait Finance House K.S.C. (the "Ultimate Parent"), a public company incorporated in the State of Kuwait and listed at the Kuwait Stock Exchange. The Ultimate Parent is regulated and supervised by the Central Bank of Kuwait. The Bank's Shari'a Supervisory Board is entrusted to ensure its adherence to Shari'a rules and principles in its transactions and activities.

The Bank and its subsidiaries (together the "Group") operate in the Kingdom of Bahrain and Hashemite Kingdom of Jordan. The activities of the Bank's key subsidiaries are mentioned in note 5.

The Bank has ten branches (2013: nine), all operating in the Kingdom of Bahrain.

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors passed on 2 March 2015.

2 BASIS OF PREPARATION

2.1 Accounting convention

The consolidated financial statements have been prepared under the historical cost basis, except for investment in real estate and equity-type investments that have been measured at fair value. The consolidated financial statements are presented in Bahraini Dinars ("BD") which is the functional and presentation currency of the Bank. All the values are rounded to the nearest BD thousand, unless otherwise indicated.

2.2 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI"), the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank, the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives. For matters not covered by FAS, the Group uses the relevant International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

2 BASIS OF PREPARATION (continued)

2.3 Basis of consolidation (continued)

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and continue to be consolidated until the date when such control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate. A change in the Group's ownership of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Share of non-controlling stakeholders represents the portion of net income and net assets not held by the Group and are presented separately in the consolidated statement of income and within owners' equity in the consolidated statement of financial position, separately from the equity attributable to shareholders of the Parent. Transaction with the non controlling interest are handled in the same way as transactions with external parties.

3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements. The most significant uses of judgments and estimates are as follows:

3.1 Going concern

The Group's management 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 management 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.

3.2 Fair value of unquoted equity securities and investment in real estate

Fair value is determined for each investment individually in accordance with the valuation policies set out in note 4.25. Where the fair values of the Group's unquoted equity securities cannot be derived from an active market, they are derived using a variety of valuation techniques. Judgment by management is required to establish fair values through the use of appropriate valuation models, consideration of comparable assets, discount rates and the assumptions used to forecast cash flows.

Investment in real estate projects are carried at fair value as determined by independent real estate valuation experts. The determination of the fair value for such assets requires the use of judgment and estimates by the independent valuation experts that are based on local market conditions existing at the date of the consolidated statement of financial position.

3.3 Impairment provisions against financing contracts with customers

The Group reviews its financing contracts at each reporting date to assess whether an impairment provision should be recorded in the consolidated financial statements. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about factors involving varying degrees of judgment and uncertainty and actual results may differ resulting in future changes to the provisions.

In addition to impairment against individually impaired financing contracts, the Group also makes a collective impairment provision against exposures which, although not specifically identified as requiring an individual impairment, have a greater risk of default than when originally granted. This takes into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

3.4 Impairment of investments at fair value through equity

The Group treats investments carried at fair value through equity as impaired when there is a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group evaluates factors, such as the historical share price volatility for comparable quoted equities and future cash flows and the discount factors for comparable unquoted equities.

3.5 Liquidity

The Group manages its liquidity through consideration of the maturity profile of its assets, liabilities and equity of investment account holders which is set out in the liquidity risk disclosures in note 36. This requires judgment when determining the maturity of assets and liabilities with no specific maturities.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

4.1 Foreign currency translation

The consolidated financial statements are presented in Bahraini Dinars, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(i) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency using the rate of exchange prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the date of the consolidated statement of financial position. All differences are taken to the consolidated statement of income with the exception of all monetary items that provide an effective protection for a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the consolidated statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial recognition. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Exchange gains and losses on non-monetary items classified as "fair value through statement of income" are taken to the consolidated statement of income and for items classified as "fair value through equity" such differences are taken to the consolidated statement of comprehensive income. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

(ii) Group companies

As at the reporting date, the assets and liabilities of subsidiaries are translated into the Group's presentation currency (Bahraini Dinars) at the rate of exchange prevailing at the date of the consolidated statement of financial position, and their statements of income are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are recognised in other comprehensive income. On disposal of a foreign subsidiary, the cumulative amount recognised in other comprehensive income relating to that particular foreign subsidiary is recognised in the consolidated statement of income in 'other operating expenses' or 'other income'.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2 Financial instruments - initial recognition and subsequent measurement

Date of recognition
All financial assets and liabilities are initially recognised on the trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument.

Initial and subsequent measurement of financial instruments
The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets recorded at fair value through statement of income.

(i) Due from banks
Murabahas are international commodity murabaha transactions. The Bank arranges a murabaha transaction by buying a commodity (which represents the object of the murabaha) and then resells this commodity to the beneficiary murabeh (after computing a profit margin). The sale price (cost plus the profit margin) is paid either lump sum at maturity or in installments by the murabeh over the agreed period.

Murabaha with banks are stated net of deferred profits and provision for impairment, if any. Wakala with banks are stated at cost less provision for impairment, if any.

(ii) Financing contracts with customers

(a) Murabaha
Murabaha represents the sale of goods at cost plus an agreed profit. Murabaha receivables are stated net of deferred profits, any amounts written off and provision for impairment, if any. Promise made in the murabaha to the purchase orderer is not obligatory upon the customer.

(b) Ijarah Muntahia Bittamleek
Ijarah Muntahia Bittamleek mainly comprise of land and buildings and certain other assets. Ijarah Muntahia Bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the ijarah (lease term), provided that all ijarah installments are settled.

Assets under Ijarah Muntahia Bittamleek are initially recognised at cost and subsequently depreciated at rates calculated to write off the cost of each asset over its useful life to its residual value.

(c) Musharaka
Musharaka represents a partnership between the Group and a customer whereby each party contributes to the capital in equal or varying proportions to establish a new project or share in an existing one, and whereby each of the parties becomes an owner of the capital on a permanent or declining basis and shall have a share of profits or losses. These are stated at the fair value of consideration given less any amounts written off and provision for impairment, if any.

(iii) Investments
Investments are classified as follows:

- Investments at fair value through statement of income
- Investments at fair value through equity
- Investments at amortised cost

(a) Investments at fair value through statement of income
Investments at fair value through statement of income include investments designated upon initial recognition as investments at fair value through statement of income.

In addition to the above, the Group utilises the exemption available in accordance with IAS 28 and FAS 24 as applicable to venture capital organisations and classifies such investments in joint ventures and associates as "investments at fair value through statement of income". Financial assets carried at fair value through statement of income are recognised at fair value, with transaction costs recognised in the consolidated statement of income.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2 Financial instruments - initial recognition and subsequent measurement (continued)

(iii) Investments (continued)

(a) Investments at fair value through statement of income (continued)
Investments classified as 'fair value through statement of income' are subsequently measured at fair value. The unrealised gains and losses arising from the remeasurement to fair value are included in the consolidated statement of income.

(b) Investments at fair value through equity
Investments at fair value through equity are those which are designated as such or are not classified as carried at fair value through statement of income or at amortised cost. These include investments in equity securities and managed funds.

Investments at fair value through equity are subsequently measured at fair value. Unrealised gains and losses are recognised in statement of comprehensive income. When the investment is disposed of or determined to be impaired, the cumulative gain or loss, previously transferred to the fair value through equity reserve, is recognised in the consolidated statement of income. Where the Group holds more than one investment in the same security they are deemed to be disposed of on a weighted average basis.

(c) Investments at amortised cost
Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as such when the Group has the positive intention and ability to hold them to maturity. After initial measurement, these investments are measured at amortised cost, less impairment. The losses arising from impairment are recognised in the consolidated statement of income under 'provisions'.

(iv) Equity of investment account holders
Equity of investment account holders is invested in due from banks, sukuk and financing contracts with customers. No priority is granted to any party for the purpose of distribution of profits. According to the terms of acceptance of the investment account holders funds, 100% of these funds are invested after deductions of mandatory reserve and sufficient operational cash requirements.

Equity of investment account holders is carried at fair value of consideration received less amounts settled. Expenses are allocated to investment accounts in proportion of average equity of investment account holders to average assets, however, investment related expenses and assets are excluded.

Income is allocated proportionately between equity of investment account holders and owners' equity on the basis of the average balances outstanding during the year and share of the funds invested.

4.3 Derecognition of financial assets and financial liabilities

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

- the rights to receive cash flows from the asset have expired; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either: (a) has transferred substantially all the risks and rewards of the assets, or (b) 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.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Derecognition of financial assets and financial liabilities (continued)

(ii) Financial liabilities
A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

4.4 Impairment of financial assets
The Group 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 (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 debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in profit or principal repayments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortised cost
For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists for individually significant financial assets, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in the collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of a provision account and the amount of the loss is recognised in the consolidated statement of income.

Financing contracts together with the associated provisions are written off when there is no realistic prospect of future recovery and collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced in the consolidated statement of income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective profit rate. If a financial asset has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system which considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4 Impairment of financial assets (continued)

(ii) Investments at fair value through equity

For investments at fair value through equity, 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 "fair value through equity", objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where 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 comprehensive income is removed from fair value through equity reserve and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value subsequent to impairment are recognised directly in equity.

4.5 Offsetting financial instruments

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable or religious right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

4.6 Land and development costs

Land and development costs consist of cost of land being developed for sale in the ordinary course of business and costs incurred in bringing such land to its saleable condition and is stated at the lower of cost and net realisable value.

Net realisable value is based on estimated selling price less any further costs expected to be incurred on completion and sale.

4.7 Recognition of income and expense

(i) Income recognition

(a) Murabaha

Where the income is quantifiable and contractually determined at the commencement of the contract, income is recognised on a time-apportioned basis over the period of the contract based on the principal amounts outstanding. Accrual of income is suspended when the Group believes that the recovery of these amounts may be doubtful.

(b) Ijarah Muntahia Bittamleek

Ijarah income is recognised on a time-apportioned basis, net of depreciation, over the lease term. Accrual of income is suspended when the Group believes that the recovery of these amounts may be doubtful.

(c) Musharaka

Income on musharaka contracts is recognised when the right to receive payment is established or on distribution by the musharek.

(d) Dividends

Dividends from investments in equity securities are recognised when the right to receive the payment is established.

(e) Fees and commission income

Fees and commission income is recognised when earned.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.7 Recognition of income and expense (continued)

(i) Income recognition (continued)

(f) Revenue from sale of real estate

Revenue on sale of real estate is recognised when all of the following conditions are met:

- A sale is consummated and contracts are signed;
- The buyer's investment, as of the date of financial statements, is adequate (25% and above) to demonstrate a commitment to pay for the property; and
- The Group has transferred to the buyer the risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property.

Where property is under development and agreement has been reached to sell such property when construction is complete, the Group considers whether the contract comprises:

- contract to construct a property; or
- contract for the sale of a completed property.

Where a contract is determined to be a construction contract, revenue is recognised using the percentage of completion method as construction progresses. The percentage of work complete is measured based on the costs incurred up until the end of the reporting period as a proportion of total costs expected to be incurred.

Where the contract is judged to be for the sale of a completed property, revenue is recognised when the significant risks and rewards of ownership of the property are transferred to the buyer.

(g) Service income

Revenue from rendering of services is recognised when the services are rendered.

(h) Revenue from sale of goods

Revenue from sales of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

(i) Group's share as a mudarib

The Group's share as a mudarib for managing the equity of investment account holders is accrued based on the terms and conditions of the related mudaraba agreements whereas, for off balance sheet equity of investment account holders, mudarib share is recognised when distributed.

(ii) Expense recognition

(a) Profit on murabaha payables (banks and non banks)

Profit on these is accrued on a time-apportioned basis over the period of the contract based on the principal amounts outstanding.

(b) Return on equity of investment account holders

Return on equity of investment account holders is based on the income generated from jointly financed assets after deducting mudarib share and is accrued based on the terms and conditions of the underlying mudaraba agreement. Investors' share of income represents income generated from assets financed by investment account holders net of allocated operating expenses excluding investment related expenses. The Group's share of profit is deducted from the investors' share of income before distribution to investors.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.8 Investment in associates

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised nor individually tested for impairment.

After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in the associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of income.

The consolidated statement of income reflects the share of the results of operations of the associate. Where there has been an income or expense recognised in the other comprehensive income of the associate, the Group recognises its share of any such income or expense, when applicable, in the consolidated statement of comprehensive income. Gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of stake in the associate.

The reporting dates of the associates and the Group are identical and their accounting policies conform to those used by the Group for like transactions and events in similar circumstances. In case of any difference in the associates' accounting policies, their results are adjusted to bring them in line with the Group accounting policies.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognised in the consolidated statement of income.

4.9 Investment in joint ventures

The Group has arrangements with other parties which represent joint ventures. These take the form of agreements to share control.

The reporting dates of the joint ventures and the Group are identical and their accounting policies conform to those used by the Group for like transactions and events in similar circumstances. In case of any difference in the joint ventures' accounting policies, their results are adjusted to bring them in line with the Group accounting policies.

Where the joint venture is established through a stake in a company (a jointly controlled entity), the Group recognises its stake in the entity's assets and liabilities using the equity method of accounting. Under the equity method, the investment in a joint venture is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of its net assets, less distributions received and less impairment in value of individual investments.

4.10 Investment in real estate

Properties held to earn rental income, for capital appreciation or both are classified as investment in real estate. Investments in real estate are measured initially at cost, including transaction costs. Subsequent to initial recognition, investments in real estate are stated at fair value, which reflects market conditions at the date of the consolidated statement of financial position. The Group engages independent valuation specialists to determine fair value as at the year end.

Unrealised gains arising from a change in the fair value of investment in real estate are recognised directly in the consolidated statement of changes in owners' equity under "Property fair value reserve" for the period in which they arise.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.10 Investment in real estate (continued)

Unrealised losses resulting from re-measurement at fair value of investment in real estate are adjusted in equity against the property fair value reserve, to the extent of the available credit balance of this reserve. In case such losses exceed the available balance, the unrealised losses are recognised in the consolidated statement of income. In case there are unrealised losses relating to investment in real estate that have been recognised in the consolidated statement of income in a previous financial period, the unrealised gains relating to the current financial period are recognised in the consolidated statement of income to the extent of crediting back such previous losses in the consolidated statement of income.

Realised gains or losses resulting from the sale of any investment in real estate are measured as the difference between the carrying value and the net cash or cash equivalent proceeds from the sale for each investment separately. The resulting gain or loss together with the available balance in the property fair value reserve is recognised in the consolidated statement of income for the current financial period.

Investment in real estate under construction is measured at cost until the construction is completed. Once the construction is completed and the property is ready for its intended use, it is measured at its fair value.

Investments in real estate are derecognised when they have been disposed of or permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gains or losses on the retirement or disposal of these real estate investments are recognised in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to investment in real estate when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease. Transfers are made from investment in real estate when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

4.11 Premises and equipment

Premises and equipment are stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value, if any.

Depreciation is calculated using the straight-line method to write down the cost of premises and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

	Years
Premises	20
Telecom & Wimax equipment	10 - 25
Hardware, software and equipment	1.5 - 7
Motor vehicles and office furniture	5 - 7

An item of premises and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the consolidated statement of income in the year the asset is derecognised.

4.12 Intangible assets

Intangible assets include the value of license rights. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.12 Intangible assets (continued)

Intangible assets with finite useful lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset maybe impaired. The amortisation period and the amortisation method are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite useful lives is recognised in the consolidated statement of income. Amortisation of license rights is calculated using the straight-line method to write down the cost of these intangible assets to their residual values over their estimated useful lives of 4 - 25 years.

4.13 Impairment of non-financial assets

The Group assesses at each reporting date or more frequently whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. Impairment losses relating to goodwill cannot be reversed for subsequent increase in its recoverable amount in future periods.

4.14 Financial guarantees

In the ordinary course of business, the Group provides financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recorded in the consolidated statement of financial position at fair value in 'other liabilities' being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recognised in the consolidated statement of income under 'provisions'. The premium received is recognised in the consolidated statement of income on a straight line basis over the life of the guarantee.

4.15 Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium. Any share options exercised during the reporting period are satisfied with treasury shares.

4.16 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and 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 obligation.

4.17 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). CODM is a person or group that allocates resources to and assesses the performance of the operating segments of the entity. The Group has determined the Managing Director and Chief Executive Officer as its CODM.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.18 Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with banks and the Central Bank of Bahrain (excluding mandatory reserve) and murabaha and due from banks with original maturity of 90 days or less from the date of financial position.

4.19 Employees' end of service benefits

Provision is made for leaving indemnity payable under the Bahraini Labor Law applicable to non-Bahraini employees' accumulated periods of service at the consolidated statement of financial position

Bahraini employees of the Group are covered by contributions made to the Social Insurance Organisation ("SIO") as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due. For Bahrainis with basic salaries above a certain threshold, the Bank recognises leaving indemnity in line with the requirements of Bahrain Labour Law.

4.20 Off-balance sheet equity of investment account holders

Off-balance sheet equity of investment account holders represents funds received by the Bank on the basis of mudaraba to be invested in specified products as directed by the investment account holders. The assets funded by these funds are managed in a fiduciary capacity by the Bank for which the Bank earns mudarib share which is disclosed as part of 'income from retail and corporate banking activities'. These assets are not included in the consolidated statement of financial position as the Group does not have the right to use or dispose of them except within the conditions laid down in the underlying mudaraba contract.

4.21 Earnings prohibited by Shari'a

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is transferred to charity.

4.22 Inventories

Inventories are carried at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and an allowance applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

4.23 Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. Management must be committed to the plan, expected within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately in the statement of financial position.

A disposal group qualifies as discontinued operation if it is:

- A component of the Group that is a Cash Generating Unit (CGU) or a group of CGUs; or
- Classified as held for sale or already disposed in such a way; or
- A major line of business or major geographical area.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.23 Non-current assets held for sale and discontinued operations (continued)

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as income or loss from discontinued operations in the consolidated statement of income. Additional disclosures are provided in note 15.

Assets of a disposal group which ceases to be classified as held for sale are now consolidated on a line by line basis. Prior period balances are re-presented.

4.24 Repossessed assets

Repossessed assets are assets acquired in settlement of financing contracts with customers. These assets are carried at the lower of carrying amount and fair value less costs to sell and reported within "receivables, prepayments and other assets" in the consolidated statement of financial position.

4.25 Fair value of financial instruments

The Group measures financial instruments and non-financial assets such as investment in real estate, at fair value at the date of statement of financial position. Fair values of financial intruments are disclosed in note 35.

Fair value is the price that would be received to sell an asset or paid to transfer a liabilty 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.

The principal or the most advantageous market must be accessible to the Group.

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

The Group 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. Observable data used alongwith the Group's approach to determining fair values of financial instruments and quantitative disclosure are disclosed in note 35.

4.26 Taxation

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on overseas operations is provided for in accordance with the fiscal regulations of the respective countries in which the Group operates and is included in the accompanying consolidated statement of income under "other operating expenses".

4.27 Zakah

In accordance with the instructions of the Shari'a Supervisory Board of the Bank, payment of Zakah is the responsibility of the shareholders of the Bank. Accordingly, no Zakah has been charged to these consolidated financial statements.

4.28 New standards, amendments and interpretations issued but not yet effective

FAS 27 - "Investment accounts" was issued in December 2014 replacing FAS 5 - "Disclosures of Bases for Profit Allocation between Owner's Equity and Investment Account Holders" and FAS 6 - "Equity of Investment Account Holders and their Equivalent". The adoption of this standard would lead to enhancing certain disclosures and is not expected to have any significant impact on the financial statements of the Group. The Bank has not early adopted any new standards during 2014.

5 LIST OF KEY SUBSIDIARIES

Key subsidiaries, all of which have 31 December as their year end, are listed below.

Subsidiary	*Activities*	*Year of incorporation*	*Country of incorporation*	*Ownership %* 2014	2013
Miracle Graphics Company W.L.L.	The company is engaged in the business of ordinary photography, printing and publishing.	2003	Kingdom of Bahrain	70.00	70.00
Al-Enma House for Real Estate B.S.C. (c)	The company is engaged in property management of commercial, industrial and residential buildings and the provision of security services to buildings and facilities.	2003	Kingdom of Bahrain	100.00	59.28
Bayan Group for Property Investments W.L.L.	The principal activity of the company is to buy, sell and lease properties and to undertake joint ventures with other companies engaged in similar activities.	2004	Kingdom of Bahrain	100.00	100.00
Kuwait Finance House - Jordan and its subsidiaries	The company and its subsidiaries are engaged in investment advisory and investments in private equities and real estate development.	2007	Hashemite Kingdom of Jordan	100.00	100.00
Ishbiliya Village W.L.L.	The principal activity of the company is to invest in and develop real estate projects and consequently buying, selling and marketing of such properties.	2005	Kingdom of Bahrain	100.00	79.64
Mena Telecom W.L.L.	The company is a licensed telecommunications company.	2003	Kingdom of Bahrain	100.00	100.00

6 CLASSIFICATION OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

The Group's financial instruments have been classified in accordance with their measurement basis as follows:

	Financial assets at fair value through statement of income BD 000	*Financial assets at fair value through equity BD 000*	*Financial assets at cost/ amortised cost BD 000*	*Financial liabilities at cost/ amortised cost BD 000*	*Total 2014 BD 000*
ASSETS					
Cash and balances with banks and Central Bank of Bahrain	-	-	55,431	-	55,431
Due from banks	-	-	125,106	-	125,106
Financing contracts with customers	-	-	559,879	-	559,879
Investments	161,240	7,188	85,887	-	254,315
Receivables	-	-	28,007	-	28,007
	161,240	7,188	854,310	-	1,022,738
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS					
Customers' current accounts	-	-	-	105,242	105,242
Due to banks	-	-	-	140,068	140,068
Murabaha due to non-banks	-	-	-	244,236	244,236
Other liabilities	-	-	-	27,214	27,214
Subordinated murabaha payable	-	-	-	95,349	95,349
Equity of investment account holders	-	-	-	509,044	509,044
	-	-	-	1,121,153	1,121,153

	Financial assets at fair value through statement of income BD 000	*Financial assets at fair value through equity BD 000*	*Financial assets at cost/ amortised cost BD 000*	*Financial liabilities at cost/ amortised cost BD 000*	*Total 2013 BD 000*
ASSETS					
Cash and balances with banks and Central Bank of Bahrain	-	-	54,490	-	54,490
Due from banks	-	-	117,902	-	117,902
Financing contracts with customers	-	-	600,544	-	600,544
Investments	201,830	11,104	55,342	-	268,276
Receivables	-	-	40,234	-	40,234
	201,830	11,104	868,512	-	1,081,446
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS					
Customers' current accounts	-	-	-	77,293	77,293
Due to banks	-	-	-	217,770	217,770
Murabaha due to non-banks	-	-	-	300,490	300,490
Other liabilities	-	-	-	36,283	36,283
Subordinated murabaha payable	-	-	-	98,790	98,790
Equity of investment account holders	-	-	-	452,504	452,504
	-	-	-	1,183,130	1,183,130

7 CASH AND BALANCES WITH BANKS AND CENTRAL BANK OF BAHRAIN

	Note	*2014* *BD 000*	*2013* *BD 000*
Cash		**7,104**	5,605
Balances with banks		**8,908**	13,156
Balance with CBB		**5,469**	6,654
CBB mandatory reserve	7.1	**33,950**	29,075
	7.2	**55,431**	54,490

7.1 This mandatory reserve is not available for use in the Group's day to day operations.

7.2 This balance includes BD 32,324 thousand (2013: BD 30,040 thousand) financed by investment account holders' funds.

8 DUE FROM BANKS

	2014 *BD 000*	*2013* *BD 000*
Murabaha	**75,924**	59,592
Wakala	**49,182**	58,310
	125,106	117,902

The above amounts are entirely financed through investment account holders' funds. These carry profit rates ranging from 0.20% to 0.75% per annum (2013: 0.25% to 1.25% per annum).

9 FINANCING CONTRACTS WITH CUSTOMERS

	Self financed		*Financed through investment account holders' funds*		*Total*	
	2014 *BD 000*	*2013* *BD 000*	*2014* *BD 000*	*2013* *BD 000*	*2014* *BD 000*	*2013* *BD 000*
Murabaha	**167,763**	221,619	**166,023**	142,096	**333,786**	363,715
Deferred profits	**(24,304)**	(25,775)	**(24,052)**	(20,088)	**(48,356)**	(45,863)
Individual impairment provision	**(1,046)**	(1,257)	**(1,497)**	(980)	**(2,543)**	(2,237)
	142,413	194,587	**140,474**	121,028	**282,887**	315,615
Ijarah Muntahia Bittamleek (note 9.1)	**153,510**	163,912	**130,814**	125,350	**284,324**	289,262
Individual impairment provision	**(1,503)**	(415)	**(2,155)**	(323)	**(3,658)**	(738)
	152,007	163,497	**128,659**	125,027	**280,666**	288,524
Musharaka	**2,108**	2,576	-	-	**2,108**	2,576
	296,528	360,660	**269,133**	246,055	**565,661**	606,715
Collective impairment provision					**(5,782)**	(6,171)
					559,879	600,544

9.1 These mainly comprise of land and building and are presented net of accumulated depreciation amounting to BD 59,722 thousand (2013: BD 44,610 thousand).

9 FINANCING CONTRACTS WITH CUSTOMERS (continued)

9.2 During the year, the Bank took possession of properties with a carrying value of BD 1,034 thousand (2013: BD 7,155 thousand). This include properties amounting to Nil (2013: BD 1,823 thousand) classified as investment in real estate and properties amounting to BD 1,034 thousand (2013: BD 5,332 thousand) classified as repossessed assets.

9.3 The following is a reconciliation of the individual and collective impairment provisions for losses on financing contracts with customers:

	Individual impairment 2014 BD 000	***Collective impairment 2014 BD 000***	***Total 2014 BD 000***	*Individual impairment 2013 BD 000*	*Collective impairment 2013 BD 000*	*Total 2013 BD 000*
At 1 January	**2,975**	**6,171**	**9,146**	6,421	5,742	12,163
Charge for the year	**4,065**	**426**	**4,491**	310	-	310
Reversals for the year	**(839)**	**(815)**	**(1,654)**	-	(1,959)	(1,959)
Provision for the year	**3,226**	**(389)**	**2,837**	310	(1,959)	(1,649)
Transfer to other assets	-	-	-	(864)	-	(864)
Write-offs	-	-	-	(504)	-	(504)
Transfers	-	-	-	(2,388)	2,388	-
At 31 December	**6,201**	**5,782**	**11,983**	2,975	6,171	9,146

9.4 The Bank has recorded a net provision during the year amounting to BD 2,837 thousand against certain exposures included in the financing contracts. Such provisions are in accordance with the Bank's policy on overdue financing contracts.

10 INVESTMENTS

The Group's investments are classified as follows:

	Note	***2014 BD 000***	*2013 BD 000*
Investments at fair value through statement of income	10.1	**161,240**	201,830
Investments at fair value through equity	10.2	**7,188**	11,104
Investments at amortised cost	10.3	**85,887**	55,342
		254,315	268,276

10.1 Carried at fair value through statement of income

		2014 BD 000	*2013 BD 000*
Unquoted equity securities	10.1.1	**153,963**	193,872
Managed funds - at Net Asset Value		**7,277**	7,958
		161,240	201,830

10.1.1 During the year, Diyaar Al Muharraq W.L.L. ("Diyaar"), a jointly controlled entity, made an in-kind distribution amounting to BD 62,213 thousand to the Bank. Out of the total distribution, BD 39,369 thousand was adjusted against the carrying value of Bank's investment in Diyaar and the remaining balance amounting to BD 22,844 thousand has been recognised as dividend income (refer note 25).

10 INVESTMENTS (continued)

10.2 Carried at fair value through equity

	2014 *BD 000*	*2013* *BD 000*
Quoted equity securities	**973**	3,038
Unquoted equity securities	**6,215**	8,066
	7,188	11,104

The movement of investments carried at fair value through equity during the year is as follows:

	2014 *BD 000*	*2013* *BD 000*
At 1 January	**11,104**	11,444
Acquisitions	**-**	7,306
Fair value changes	**(1,965)**	1,643
Disposal	**(1,951)**	(9,289)
At 31 December	**7,188**	11,104

10.3 Carried at amortised cost

	Note	*2014* *BD 000*	*2013* *BD 000*
Quoted sukuk			
Government		**14,672**	15,003
Others		**-**	943
Unquoted sukuk			
Government		**8,520**	3,468
Others	10.3.2	**62,695**	35,928
		85,887	55,342

10.3.1 As at 31 December 2014 and 2013, investment in sukuk is entirely financed through equity of investment account holders' funds. All other investments are self financed. Fair value of investment in sukuk as at 31 December 2014 amounted to BD 86,445 thousand (2013: BD 57,141 thousand).

10.3.2 This includes an amount of BD 18,850 thousand due from Durrat Khaleej Al Bahrain B.S.C. (c) ("Durrat"), which settlement is allowed for extension for a period of upto six months from the original maturity date of 25 January 2015.

10.4 Composition of investment portfolio

The industry and geographic composition of the Group's investment portfolio is as follows:

	Middle East *BD 000*	*Others* *BD 000*	*Total* *2014* *BD 000*	*Total* *2013* *BD 000*
Real estate development	**200,131**	**-**	**200,131**	213,020
Banking and financial services	**38,235**	**956**	**39,191**	40,213
Others	**289**	**14,704**	**14,993**	15,043
	238,655	**15,660**	**254,315**	268,276

11 INVESTMENT IN JOINT VENTURES AND ASSOCIATES

The Group has the following joint ventures and associates as at 31 December 2014:

Name of the joint venture / associate	*Nature of business*	*Country of incorporation*	*Holding*
Joint ventures			
Diyar Homes Company W.L.L.	Real estate development, project management and the buying and selling of properties.	Kingdom of Bahrain	50.0%
Durrat Khaleej Al Bahrain B.S.C. (c)	Development of Durrat Al Bahrain project with a view of sale of land, residential and commercial properties.	Kingdom of Bahrain	50.0%
Durrat 4 W.L.L. (formerly Al Durrat Al Tijaria Company W.L.L.)	Real estate development, project management and the buying and selling of properties.	Kingdom of Bahrain	50.0%
Associates			
Deera Investment and Real Estate Development Company	Real estate project development and property management.	Hashemite Kingdom of Jordan	28.0%
Energy Central B.S.C. (c)	Providing district cooling, sea water desalination, waste water treatment and related services.	Kingdom of Bahrain	33.5%
Seef Properties B.S.C.	Engaged in the real estate development and operation sector.	Kingdom of Bahrain	15.6%

Durrat Khaleej Al Bahrain B.S.C. (c), Durrat 4 W.L.L. (formerly Al Durrat Al Tijaria Company W.L.L.) and Diyar Homes Company W.L.L. are jointly controlled entities whereby the venturers have an arrangement that establishes joint control over the economic activities of these entities. The Group recognises its stake in the joint ventures using the equity method of accounting.

Although the Group holds less than 20% of the equity shares of Seef Properties B.S.C., the Group exercises significant influence by virtue of its contractual right to appoint three directors to the board of directors of the company and has the power to participate in the financial and operating policy decisions.

The following table illustrates the summarised financial information of joint ventures and associates:

	2014 ***BD 000***	*2013* *BD 000*
Current assets	**214,732**	218,436
Non-current assets	**327,556**	322,179
Current liabilities	**(44,525)**	(39,225)
Non-current liabilities	**(96,217)**	(87,206)
Total net assets	**401,546**	414,184

	2014 ***BD 000***	*2013* *BD 000*
Commitments	**30,475**	29,224

11 INVESTMENT IN JOINT VENTURES AND ASSOCIATES (continued)

Total revenue and net income of joint ventures and associates for the year:

	2014 *BD 000*	*2013* *BD 000*
Revenues	**44,315**	47,583
Net profit	**5,197**	8,864

The movement of the Group's investment in joint ventures and associates is as follows:

	2014 *BD 000*	*2013* *BD 000*
At 1 January	**168,669**	167,749
Disposals during the year	**(5,119)**	(647)
Share of (loss) income	**(1,641)**	1,943
Share of other comprehensive (loss) income	**(16)**	546
Other movements	**(1,067)**	(922)
At 31 December	**160,826**	168,669

The quoted value of the investment in associates for which quoted prices are available is BD 18,590 thousand (2013: BD 16,934 thousand). However, the quoted price does not represent the fair value as the shares are not actively traded. The fair value based on internal models approximates their carrying value.

12 INVESTMENT IN REAL ESTATE

	Note	*2014* *BD 000*	*2013* *BD 000*
Cost			
At 1 January		**134,599**	138,133
Additions / transfers		**67,580**	6,285
Disposals / transfers		**(25,631)**	(9,819)
At 31 December		**176,548**	134,599
Fair value adjustment			
At 1 January		**13,186**	15,365
Fair value adjustments		**(41)**	-
Relating to disposals		**(3,514)**	(2,179)
At 31 December		**9,631**	13,186
Total	12.1	**186,179**	147,785

12 INVESTMENT IN REAL ESTATE (continued)

12.1 Investment in real estate, held in the Kingdom of Bahrain, at 31 December consists of the following:

	2014 *BD 000*	*2013* *BD 000*
Buildings	**41,532**	44,348
Lands	**144,647**	103,437
	186,179	147,785

Rental income included in the consolidated statement of income from investment in real estate amounted to BD 2,887 thousand (2013: BD 594 thousand).

Direct operating expenses (including repairs and maintenance) amounting to BD 1,406 thousand (2013: BD 33 thousand) arising from investment in real estate that generated rental income during the year are included in the consolidated statement of income under other expenses.

Direct operating expenses (including repairs and maintenance) amounting to BD 289 thousand (2013: BD 421) arising from investment in real estate that did not generate rental income during the year are included in the consolidated statement of income under other expenses.

Investments in real estate are stated at fair value which has been determined based on valuations performed by independent valuers possessing relevant professional qualification, with recent experience in the location and category of the properties being fair valued, at dates close to 31 December 2014 and 31 December 2013. The fair values have been determined based on recent transactions in the market, the independent valuers' knowledge and professional judgement.

Investment in real estate includes the Bank's share of BD 14,094 thousand (2013: BD 13,817 thousand) which are jointly owned with third parties and are subject to normal conditions applicable to joint ownership.

The Group's investment in real estate is not subject to any other charge, pledge or restriction on transfer of title.

13 RECEIVABLES, PREPAYMENTS AND OTHER ASSETS

	Note	*2014* *BD 000*	*2013* *BD 000*
Land and development cost	13.1	**60,117**	66,436
Fees receivable		**2,301**	8,173
Project expenses receivable		**2,056**	5,850
Inventories		**2,576**	1,757
Profit receivable		**1,547**	1,041
Repossessed assets		**4,598**	5,332
Trade receivables of subsidiaries		**8,866**	12,081
Prepaid expenses		**2,566**	1,723
Receivables relating to sale of investments		**7,848**	6,970
Receivables from corporate customers		**6,547**	8,903
Other assets	13.2	**6,557**	2,273
Gross receivables, prepayments and other assets		**105,579**	120,539
Impairment provisions	13.3	**(11,295)**	(2,796)
		94,284	117,743

13 RECEIVABLES, PREPAYMENTS AND OTHER ASSETS (continued)

13.1 Land and development cost

	2014 ***BD 000***	*2013* *BD 000*
Land	**45,578**	47,537
Development cost	**14,539**	18,899
	60,117	66,436

This development cost represents construction, consultancy and profit paid on financing, capitalised relating to various real estate projects being undertaken by the Group.

13.2 Included herein is an amount of BD 4,720 thousand due from the Ultimate Parent on account of both a BD 3,770 thousand (USD 10,000 thousand) guarantee as well as project bid consultancy expenses paid by the Bank on behalf of the Bank and its Ultimate Parent (together "the Consortium") to a government organisation ("Counterparty") in the Kingdom of Saudi Arabia for a real estate project and its related project costs. The Bank paid the guarantee on 8 May 2014 and has recorded the amount as receivable from its Ultimate Parent, in addition to other project costs incurred.

13.3 Movement in impairment provisions relating to receivables, prepayments and other assets.

	Note	***2014*** ***BD 000***	*2013* *BD 000*
At 1 January		**2,796**	1,500
Charge for the year	13.3.1	**8,499**	432
Transfer from financing contracts with customers		**-**	864
At 31 December		**11,295**	2,796

13.3.1 Charge for the year

		2014 ***BD 000***	*2013* *BD 000*
Provisions against receivables, prepayments and other assets	28	**3,803**	432
Non-banking business entities	27.1	**4,696**	-
		8,499	432

14 INTANGIBLES

		2014 ***BD 000***	*2013* *BD 000*
Goodwill		**-**	383
Intangibles	14.1	**3,760**	3,604
		3,760	3,987

14.1 Intangibles amounting to BD 3,760 thousand (2013: BD 3,604 thousand included as held for sale) relates to Mena Telecom W.L.L. (Mena) which has been reclassified on consolidation of Mena (refer note 15).

15 DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

Mena

The Group classified Mena, a wholly owned subsidiary, as held for sale at the end of 2012. Mena is engaged in providing telecommunication services under licenses issued by the Telecommunications Regulatory Authority ("TRA") of the Kingdom of Bahrain. At 31 December 2013 the Group opted to extend the period of classification of Mena as held for sale for further 12 months due to ongoing discussions with potential buyers and in accordance with the exception allowed under IFRS 5.

The Bank is still committed to sell Mena, however, the timing of expected disposal cannot be determined with certainty and therefore at 31 December 2014, Mena has been fully consolidated.

As a result, due to the required classification which is based on the relevant accounting standard, the Bank has recorded depreciation charge amounting to BD 9,562 thousand during the month of December 2014 (refer note 27.1.1).

The 2013 comparative information in the consolidated statement of financial position and consolidated statement of income has been re-presented as a result of the change in plans to dispose of the subsidiary. Such re-presentation did not affect previously reported net income or shareholders equity.

Motherwell Bridge Group Limited ("Motherwell")

On 10 March 2014 the Group signed the share sale agreement with Cape Industrial Services Group Limited ("Cape") for transfer of ownership and control of Motherwell, a United Kingdom (U.K.) based subsidiary. During October 2013, the Group classified Motherwell as held for sale and decided to sell its 79.67% equity stake. Motherwell is an engineering services contractor engaged in design, manufacture, installation and maintenance services principally for the oil, gas, petrochemical and steel industries.

16 DUE TO BANKS

	2014	*2013*
	BD 000	*BD 000*
Murabaha payables	**56,116**	26,657
Wakala payables	**81,998**	188,981
Other balances	**1,954**	2,132
	140,068	217,770

17 FUNDS UNDER MANAGEMENT

At 31 December 2014, clients' funds managed in a fiduciary capacity amounted to BD 41,904 thousand (2013: BD 46,691 thousand).

18 OTHER LIABILITIES

	2014	*2013*
	BD 000	*BD 000*
Pay orders issued but not presented	**3,399**	3,842
Payable on account of financing contracts	**-**	339
Staff related accruals	**3,270**	3,079
Profit payable on account of murabaha and due to banks and non-banks	**2,396**	1,933
Profit payable on equity of investment account holders	**1,401**	1,404
Trade payables of subsidiaries	**13,365**	22,020
Due to investors	**289**	440
Others	**3,094**	3,226
	27,214	36,283

19 SUBORDINATED MURABAHA PAYABLE

The subordinated murabaha payable carries a profit equivalent to a rate of 2% over the six month Kuwait Inter Bank Offer Rate (KIBOR). The facility has been approved by CBB to be recognised as Tier II capital and is unsecured and sub-ordinate to the claim of all creditors, including equity of investment account holders. This facility will expire in 2019.

During the year, an amount of BD 3,250 thousand (2013: BD 2,980 thousand) has been charged to the consolidated statement of income in respect of subordinated murabaha payable.

20 EQUITY OF INVESTMENT ACCOUNT HOLDERS

The mudarib share on investment accounts ranges from 20% to 40% (2013: 20% to 40%) depending on the investment period and in the case of saving accounts, where there is no restriction on cash withdrawal, the mudarib share ranges from 50% to 60% (2013: 50% to 60%). Nil mudarib share for the year ended 31 December 2014 (2013: BD 2,914 thousand) was included in financing income from retail and corporate banking activities. The rate of return to investment account holders, as at 31 December 2014 and 2013, for various types of investment accounts, denominated in BD and USD, is as follows:

	2014 Rate of return %	*2013 Rate of return %*
Investment accounts - denominated in BHD		
Saving account	**0.50**	0.50
VIP saving account	**0.60**	0.60
One month investment account	**1.00**	1.75
Three months investment account	**1.25**	2.00
Six months investment account	**1.50**	2.25
One year investment account	**2.00**	2.50
Investment accounts - denominated in USD		
Saving account	**0.20**	0.40
VIP saving account	**0.30**	0.50
One month investment account	**0.50**	1.05
Three months investment account	**0.75**	1.23
Six months investment account	**1.00**	1.32
One year investment account	**1.25**	1.40

20.1 Investment accounts by type

	2014 BD 000	*2013 BD 000*
Saving accounts	**139,866**	99,715
VIP saving accounts	**26,997**	15,316
One month investment accounts	**93,363**	94,425
Three months investment accounts	**136,830**	131,741
Six months investment accounts	**58,425**	63,561
One year investment accounts	**53,563**	47,746
	509,044	452,504

21 SHARE CAPITAL AND RESERVES

Share capital

	2014	*2013*
	BD 000	*BD 000*
Authorised:		
3,500,000 thousand (2013 : 3,500,000 thousand) ordinary shares of BD 0.1 each	**350,000**	350,000
Issued and fully paid up:		
As at the beginning and end of the year		
1,771,405 thousand (2013 : 1,771,405 thousand) shares	**177,140**	177,140

Nature and purpose of reserves

Share premium
Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue expenses, are treated as share premium. This amount is not available for distribution, but can be utilised as stipulated by the Bahrain Commercial Companies Law ("BCCL").

Treasury shares
The amount of consideration paid including all directly attributable costs incurred in connection with the acquisition of treasury shares are recognised in equity. This represents the amount paid by the Bank during 2013 to purchase shares from Themar Baytik Company B.S.C. (c).

Statutory reserve
As required by Bahrain Commercial Companies Law ("BCCL") and the Bank's articles of association, 10% of the net income for the year has been transferred to the statutory reserve. However, as allowed under BCCL the Bank may resolve to discontinue such annual transfers when the reserve totals 50% of paid up share capital. The reserve is not distributable except in such circumstances as stipulated in the BCCL and following the approval of the CBB.

General reserve
The general reserve is established in accordance with the articles of association of the Bank and is distributable following a resolution of shareholders at a general meeting and the approval of CBB. The Bank may transfer any amount to the general reserve, as approved by the shareholders at a general meeting, out of the net income for the year after appropriating statutory reserve.

Fair value through equity reserve
Unrealised gains and losses resulting from investments carried at fair value through equity, if not determined to be impaired, recorded in the fair value through equity reserve and not available for distribution. Upon disposal of such assets, the related cumulative gains or losses are transferred to retained earnings and become available for distribution.

Property fair value reserve
Unrealised gains on investment in real estate are recognised in the property fair value reserve in owners' equity and are not available for distribution. Any unrealised loss on investment in real estate is first adjusted against any unrealised gain lying in this reserve and the remainder is taken to the consolidated statement of income. Upon disposal of such assets, the related cumulative gains or losses are transferred to retained earnings and become available for distribution.

Included in the property fair value reserve is an unrealised gain of BD 24,403 thousand, on an investment carried at fair value through statement of income pertaining to prior years. No gain is recognised in the current year (2013 : Nil).

21 SHARE CAPITAL AND RESERVES (continued)

Nature and purpose of reserves (continued)

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Retained earnings

Retained earnings is the cumulative amount of annual earnings not paid out as dividends. Included in retained earnings is a non-distributable reserve amounting to BD 1,575 thousand (2013: BD 1,523 thousand) relating to subsidiaries of the Bank.

22 TOTAL COMPREHENSIVE INCOME

	2014 *BD 000*	*2013* *BD 000*
Net income for the year	**5,117**	5,745
Other comprehensive income (loss)		
Fair value adjustments against fair value through equity investments	**(2,939)**	370
Net movement in foreign currency translation reserve	**1,477**	7
Share of other comprehensive (loss) income of joint ventures and associates	**(16)**	546
Total other comprehensive (loss) income for the year	**(1,478)**	923
Total comprehensive income for the year	**3,639**	6,668
Adjustment attributable to non-controlling stakeholders	**(28)**	(2,214)
Adjustment attributable to non-controlling stakeholders of assets held for sale	**-**	567
	3,611	5,021

23 CONTINGENT LIABILITIES AND COMMITMENTS

	2014 *BD 000*	*2013* *BD 000*
Contingent liabilities		
Letters of credit	**8,998**	14,645
Guarantees	**6,243**	9,521
	15,241	24,166
Irrevocable commitments to extend credit		
Original term to maturity of one year or less	**24,951**	24,786
Investment commitment	**9,000**	9,000
	49,192	57,952

23.1 Operating lease commitments

At 31 December 2014, the Group had commitments in respect of non-cancellable operating leases amounting to BD 3,437 thousand (2013: BD 4,568 thousand) relating to leasehold premises. Of the commitments in respect of operating leases, BD 1,165 thousand (2013: BD 1,221 thousand) are due within one year, BD 2,068 thousand (2013: BD 3,106 thousand) are due in one to five years and the remaining over five years.

23.2 Construction commitments

At 31 December 2014, the Group had commitments in respect of construction contracts amounting to BD 282 thousand (2013: BD 510 thousand).

24 INCOME FROM RETAIL AND CORPORATE BANKING ACTIVITIES

	Note	***2014*** ***BD 000***	*2013* *BD 000*
Murabaha		**18,908**	19,826
Ijarah Muntahia Bittamleek	24.1	**17,136**	18,252
Musharaka		**195**	268
Murabaha and due from banks		**1,150**	440
Financing income from retail and corporate banking activities		**37,389**	38,786
Mudarib share from off balance sheet equity of investment account holders		**1,927**	2,054
Fees and commission income		**765**	779
		40,081	41,619

24.1 This is presented net of depreciation on Ijarah Muntahia Bittamleek assets amounting to BD 67,741 thousand (2013: BD 32,602 thousand).

25 INCOME FROM INVESTMENT ACTIVITIES

		2014 ***BD 000***	*2013* *BD 000*
Net unrealised (loss) gain on investments	25.1	**(1,086)**	967
Net unrealised loss on investment in real estate		**(41)**	-
Net gain on sale of investments		**1,353**	3,452
Net gain on sale of investment in real estate		**1,507**	1,151
Dividend income	25.2	**23,894**	190
Fee income		**320**	364
Rental income		**8**	125
Income from sukuk		**3,773**	2,216
Other (loss) income		**(525)**	483
		29,203	8,948

25.1 This represents fair value losses recognized during the year based on the recent net asset values "NAV's" of the funds and fair value of investments.

25.2 This includes cash dividend of BD 1,050 thousand and an in-kind dividend of BD 22,844 thousand received from a jointly controlled entity "Diyar Al Muhharaq W.L.L." (refer to note 10.1.1)

26 INCOME AND EXPENSE RELATING TO FINANCING CONTRACTS AND SUKUKS

	2014 ***BD 000***	*2013* *BD 000*
Financing income from retail and corporate banking activities	**37,389**	40,112
Income from sukuk	**3,773**	2,216
	41,162	42,328
Less: Profit on due to banks, murabaha due to non-banks and subordinated murabaha payable	**11,521**	11,991
Less: Return on equity of investment account holders, net of mudarib share	**6,092**	7,745
	17,613	19,736
	23,549	22,592

27 NON-BANKING BUSINESS ENTITIES

	Note	*Real Estate 2014 BD 000*	*Non-Real Estate 2014 BD 000*	*Total 2014 BD 000*	*Real Estate 2013 BD 000*	*Non-Real Estate 2013 BD 000*	*Total 2013 BD 000*
Revenue		**10,170**	**21,522**	**31,692**	8,297	43,241	51,538
Direct cost		**6,280**	**9,291**	**15,571**	8,284	31,710	39,994
Profit paid		**1,744**	**-**	**1,744**	2,103	206	2,309
Operating expenses	27.1	**5,428**	**22,419**	**27,847**	1,911	12,354	14,265
		(3,282)	**(10,188)**	**(13,470)**	(4,001)	(1,029)	(5,030)

27.1 Operating expenses

	Note	*Real Estate 2014 BD 000*	*Non-Real Estate 2014 BD 000*	*Total 2014 BD 000*	*Real Estate 2013 BD 000*	*Non-Real Estate 2013 BD 000*	*Total 2013 BD 000*
Staff costs		**643**	**3,753**	**4,396**	934	4,259	5,193
Depreciation	27.1.1	**19**	**9,860**	**9,879**	33	1,114	1,147
Provisions - net	13.3.1 & 27.1.2	**3,580**	**1,116**	**4,696**	-	-	-
Other expenses		**1,186**	**7,690**	**8,876**	944	6,981	7,925
		5,428	**22,419**	**27,847**	1,911	12,354	14,265

27.1.1 This includes derpreciation amounting to BD 9,562 thousand (2013 : 901 thousand) which relates to Mena Telecom (refer note 15).

27.1.2 These represents net provisions made during the year amounting to BD 4,696 thousand against risks that arises from uncertainity on the recoverability of certain items included in the receivables of non-banking entities.

28 PROVISIONS - NET

	Note	*2014 BD 000*	*2013 BD 000*
Provision (reversal) charge against financing contracts with customers	9.3	**2,837**	(1,649)
Provisions against investments		**265**	-
Provisions against receivables, prepayments and other assets	13.3.1	**3,803**	432
	28.1	**6,905**	(1,217)

28.1 In accordance with the Bank's policy and relevant accounting standards, the Bank has made provisions and recorded impairments against its financing and investment exposures. As a result, an amount of BD 6,905 thousand has been recorded as provisions on banking activities, BD 4,696 thousand (note 27.1.2) has been recorded as provisions against non-banking activities and BD 1,086 thousand (note 25.1) has been recorded as net unrealised loss on investments, resulting in an aggregate amount of BD 12,687 thousand charged to the consolidated statement of income of the Bank.

29 OTHER EXPENSES

	2014 *BD 000*	*2013* *BD 000*
Business development	**1,928**	1,652
Technology and communication	**2,402**	2,298
Legal, consulting and outsourcing	**1,690**	1,605
Premises - rentals and maintenance	**2,255**	2,202
Administration, selling and others	**2,487**	2,290
	10,762	10,047

30 PROFIT ON DUE TO BANKS, MURABAHA DUE TO NON-BANKS AND SUBORDINATED MURABAHA PAYABLE

	2014 *BD 000*	*2013* *BD 000*
Due to banks	**2,068**	3,372
Murabaha due to non-banks	**6,203**	5,639
Subordinated murabaha payable (note 19)	**3,250**	2,980
	11,521	11,991

31 CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purpose of the consolidated statement of cash flows comprise of the following amounts:

	2014 *BD 000*	*2013* *BD 000*
Cash	**7,104**	5,605
Balances with banks	**8,908**	13,156
Balances with CBB excluding mandatory reserve deposit	**5,469**	6,654
Due from banks with original maturity of less than ninety days	**125,106**	117,382
	146,587	142,797

32 TREASURY SHARES

During 2013, the Bank has purchased the Bank's shares allocated to Themar Baytik Company B.S.C. (c) ("Themar"), a special purpose vehicle incorporated in 2006 for the purpose of administering the Employee Share Option Plan ("ESOP").

Pursuant to a resolution passed by the Board of Directors of the Bank on 30 September 2013, authorising the purchase of all outstanding shares allocated to Themar, the Bank purchased a total of 120,455,525 shares at 182 fils per share, which was duly approved by the Board of Directors in its above resolution. Accordingly the Bank has classified the entire amount as Treasury Shares as of 30 September 2013.

33 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent associated companies, the parent and its major shareholders, directors and key management personnel of the Bank, the Bank's Shari'a Supervisory Board and entities controlled, jointly controlled or significantly influenced by such parties. Transactions with related parties arise from the ordinary course of business. Pricing policies and terms of these transactions are approved by the Group's management. Outstanding balances at the year end, excluding financing contracts with customers, are unsecured.

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year:

	Associated companies BD 000	*Parent BD 000*	*Directors and key management personnel BD 000*	*Other related parties BD 000*	*Total 2014 BD 000*	*Total 2013 BD 000*
Due from banks	-	1,400	-	1,903	3,303	16,073
Financing contracts with customers	5,036	-	2,931	58,881	66,848	102,296
Investments at amortised cost	18,850	-	-	43,845	62,695	35,928
Fees receivable	836	-	-	212	1,048	7,742
Project expenses receivable	-	-	-	-	-	12
Other assets	602	4,718	-	1,213	6,532	7,090
Due to banks	-	56,550	-	-	56,550	113,100
Murabaha due to non-banks	-	-	-	90,966	90,966	142,761
Customers' current accounts	2,688	1,539	140	1,234	5,601	5,453
Other liabilities	336	-	-	-	336	336
Subordinated murabaha payable	-	95,349	-	-	95,349	98,790
Equity of investment account holders	33,975	-	724	5,177	39,876	43,063
Letters of credit	20	-	-	6,698	6,718	6,718
Commitments to extend credit	-	-	-	-	-	-
Off balance sheet equity of investment account holders *						
- Funds extended to related parties	-	-	-	97,345	97,345	74,760
- Funds received from related parties	-	-	-	1,500	1,500	5,900

33 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

The income and expenses in respect of related parties included in the consolidated financial statements are as follows:

	Associated companies BD 000	*Parent BD 000*	*Directors and key management personnel BD 000*	*Other related parties BD 000*	*Total 2014 BD 000*	*Total 2013 BD 000*
Income from murabaha and due from banks	-	347	-	34	380	31
Income from financing contracts with customers	302	-	116	4,006	4,424	3,847
Income from investments at amortised cost	716	-	-	2,468	3,184	1,675
Fee income	109	-	-	212	320	127
Profit on due to banks	-	719	-	-	719	2,265
Profit on murabaha due to non-banks	-	-	-	3,245	3,245	3,478
Profit on subordinated murabaha payable	-	3,250	-	-	3,250	2,980
Profit on equity investment account holders	396	-	10	45	452	1,128
Operating expenses	-	-	-	1,288	1,288	1,330
Mudarib share of off-balance sheet equity of investment account holders	-	-	-	2,179	2,179	2,054

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

	2014 BD 000	*2013 BD 000*
Short term employee benefits	3,725	3,528
Long term employee benefits	276	142

Directors' remuneration and attendance fee for the year ended 31 December 2014 amounted to BD 141 thousand and BD 72 thousand respectively (2013: BD 130 thousand and BD 75 thousand respectively).

34 SEGMENT INFORMATION

For management purposes, the Group is organised into the following segments.

Retail & Corporate Banking Group	Principally engaged in Shari'a compliant profit sharing investment arrangements, providing Shari'a compliant financing contracts and other facilities to corporate, retail and institutional customers.
Investment Banking Group	Principally engaged in investment banking activities, including private equity, real estate investments, treasury and other activities.

No operating segments have been aggregated to form the above reportable segments.

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on segment profit (as reported in internal management reports) which is measured using the same measurement principles as are used in the preparation of these consolidated financial statements.

Group revenues for the current and prior year does not include significant revenues (i.e. more than 10% of the Group's total revenue) from any single external customer.

The following table presents revenue, net profit, total assets and total liabilities of the Group's segments for the year ended 31 December 2014:

	Retail & Corporate Group BD 000	*Investment Banking Group BD 000*	*Total BD 000*
Operating income	**40,081**	**59,254**	**99,335**
Segment profit (loss)	**15,359**	**(10,242)**	**5,117**
Segment assets	**557,410**	**924,634**	**1,482,044**
Total assets			**1,482,044**
Segment liabilities and equity of investment account holders	**624,018**	**497,135**	**1,121,153**
Total liabilities and equity for investment account holders			**1,121,153**

The following table shows the distribution of the Group's net income and total assets by geographical segments, based on the location in which the transactions and assets are recorded, for the year ended 31 December 2014.

	Bahrain BD 000	*Other countries BD 000*	*Total BD 000*
Operating income	**96,840**	**2,495**	**99,335**
Segment assets	**1,441,917**	**40,127**	**1,482,044**

Other countries mainly represent State of Kuwait, Republic of Turkey and Hashemite Kingdom of Jordan.

34 SEGMENT INFORMATION (continued)

The following table presents revenue, net profit, total assets and total liabilities of the Group's segments for the year ended 31 December 2013:

	Retail & Corporate Group BD 000	*Investment Banking Group BD 000*	*Total BD 000*
Operating income	41,619	62,429	104,048
Segment profit (loss)	19,909	(14,164)	5,745
Segment assets	578,228	951,626	1,529,854
Segment assets - discountinued operations	-	35,293	35,293
Total assets			1,565,147
Segment liabilities and equity of investment account holders	552,064	631,066	1,183,130
Segment liabilities - discountinued operations	-	14,235	14,235
Total liabilities and equity for investment account holders			1,197,365

The following table shows the distribution of the Group's net income and total assets by geographical segments, based on the location in which the transactions and assets are recorded, for the year ended 31 December 2013.

	Bahrain BD 000	*Other countries BD 000*	*Total BD 000*
Operating income	96,766	7,282	104,048
Segment assets	1,451,915	77,939	1,529,854
Segment assets - discountinued operations	-	35,293	35,293

Other countries mainly represent State of Kuwait, Republic of Turkey, Hashemite Kingdom of Jordan and United Kingdom.

35 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the value representing the estimate of the amount of cash or cash equivalent that would be received for an asset sold or the amount of cash or cash equivalent paid for a liability extinguished or transferred in an orderly transaction between a willing buyer and a willing seller at the measurement date.

At 31 December 2014 and 2013, the fair value of financial instruments approximate their carrying values.

Financial instruments recorded at fair value

The Group uses the following hierarchy for determining and disclosing the fair value of instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	Level 1 2014 BD 000	***Level 2 2014 BD 000***	***Level 3 2014 BD 000***	***Total 2014 BD 000***
Investments at fair value through statement of income				
Unquoted equity securities	**-**	**-**	**153,963**	**153,963**
Managed funds	**-**	**6,203**	**1,074**	**7,277**
Investments at fair value through equity				
Quoted equity securities	**973**	**-**	**-**	**973**
Unquoted equity securities	**-**	**-**	**6,215**	**6,215**
	973	**6,203**	**161,252**	**168,428**

	Level 1 2013 BD 000	*Level 2 2013 BD 000*	*Level 3 2013 BD 000*	*Total 2013 BD 000*
Investments at fair value through statement of income				
Unquoted equity securities	-	-	193,872	193,872
Managed funds	-	6,067	1,891	7,958
Investments at fair value through equity				
Quoted equity securities	3,038	-	-	3,038
Unquoted equity securities	-	-	8,066	8,066
	3,038	6,067	203,829	212,934

During the year ended 31 December 2014, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

35 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets which are recorded at fair value.

	Unquoted equity securities 2014 BD 000	***Managed funds 2014 BD 000***	*Unquoted equity securities 2013 BD 000*	*Managed funds 2013 BD 000*
Balance at 1 January	**201,938**	**1,891**	201,554	9,008
Investments made during the year		**-**	7,307	-
Provisions / unrealised fair value loss	**(2,391)**	**(697)**	(10)	(190)
Disposals / redemptions during the year	**(39,369)**	**(120)**	(6,913)	(6,927)
Balance at 31 December	**160,178**	**1,074**	201,938	1,891

Impact on fair value of Level 3 financial instruments measured at fair value of changes to key assumptions

	Carrying amount 2014 BD 000	***Effect of reasonably possible alternative assumption 2014 BD 000***	*Carrying amount 2013 BD 000*	*Effect of reasonably possible alternative assumption 2013 BD 000*
Investments at fair value through statement of income				
Unquoted equity securities	**153,963**	**15,396**	193,872	19,387
Managed funds	**1,074**	**107**	1,891	189
Investments at fair value through equity				
Unquoted equity securities	**6,215**	**622**	8,066	807
	161,252	**16,125**	203,829	20,383

In order to determine reasonably possible alternative assumptions the Group adjusted key unobservable models inputs as follows:

For equities, the Group adjusted the price earning ratio by increasing and decreasing the price earning ratio by 10 percent, which is considered by the Group to be within a range of reasonably possible alternatives based on the price earning ratios of companies with similar industry and risk profiles.

For managed funds, the Group values its investments based on a net asset value, which is determined by the fund manager. The Group adjusted the value of the funds to increase or decrease by ten percent, which is considered by the Group to be within a range of reasonably possible alternatives.

For equity investments in real estate sector, fair value is determined by reference to valuations by independent real estate valuation experts. The determination of the fair value of such assets is based on local market conditions existing at the date of the statement of financial position. The Group adjusted the value of these assets to increase or decrease by ten percent, which is considered by the Group to be within a range of reasonably possible alternatives.

36 MATURITY ANALYSIS OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS

The table below shows an analysis of assets, liabilities and equity of investment account holders analysed according to when they are expected to be recovered or settled. Group's contractual undiscounted repayment obligations are disclosed in note 37.3 'Risk Management - Liquidity Risk and Funding Management'.

	Up to one year			*Over one year*				
	Up to 3 months 2014 BD 000	*3 months 12 months 2014 BD 000*	*Subtotal upto 12 months 2014 BD 000*	*1 to 5 years 2014 BD 000*	*5 to 10 years 2014 BD 000*	*Over 10 years 2014 BD 000*	*Subtotal Over 1 year 2014 BD 000*	*Total 2014 BD 000*
Assets								
Cash and balances with banks and Central Bank of Bahrain	12,383	4,815	**17,198**	9,641	8,926	19,666	**38,233**	**55,431**
Due from banks	125,106	-	**125,106**	-	-	-	-	**125,106**
Financing contracts with customers	72,637	68,476	**141,113**	292,675	70,270	55,821	**418,766**	**559,879**
Investments	18,850	973	**19,823**	90,958	143,534	-	**234,492**	**254,315**
Investment in joint ventures and associates	-	-	-	160,826	-	-	**160,826**	**160,826**
Investment in real estate	-	-	-	-	173,576	12,603	**186,179**	**186,179**
Receivables, prepayments and other assets	9,504	74	**9,578**	84,706	-	-	**84,706**	**94,284**
Intangibles	-	-	-	-	3,760	-	**3,760**	**3,760**
Premises and equipments	-	-	-	-	42,264	-	**42,264**	**42,264**
Total	**238,480**	**74,338**	**312,818**	**638,806**	**442,330**	**88,090**	**1,169,226**	**1,482,044**
Liabilities and equity of investment account holders								
Customers' current accounts	34,224	9,167	**43,391**	20,617	20,617	20,617	**61,851**	**105,242**
Due to banks	30,623	50,895	**81,518**	58,550	-	-	**58,550**	**140,068**
Murabaha due to non-banks	41,239	101,758	**142,997**	53,053	24,275	24,275	**101,603**	**244,600**
Other liabilities	8,375	3,631	**12,006**	15,208	-	-	**15,208**	**27,214**
Equity of investment account holders	98,388	48,514	**146,902**	120,714	120,714	120,714	**362,142**	**509,044**
Subordinated murabaha payable	-	-	-	95,349	-	-	**95,349**	**95,349**
Total	**212,849**	**213,965**	**426,814**	**363,491**	**165,606**	**165,606**	**694,703**	**1,121,517**
Net	**25,631**	**(139,627)**	**(113,996)**	**275,315**	**276,724**	**(77,516)**	**474,523**	**360,527**
Off-balance sheet equity of investment account holders	**25,605**	**50,331**	**75,936**	**31,610**	**-**	**-**	**31,610**	**107,546**

36 MATURITY ANALYSIS OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS (continued)

	Upto one year			Over one year				
	Up to 3 months 2013 BD 000	3 months 12 months 2013 BD 000	Subtotal upto 12 months 2013 BD 000	1 to 5 years 2013 BD 000	5 to 10 years 2013 BD 000	Over 10 years 2013 BD 000	Subtotal Over 1 year 2013 BD 000	Total 2013 BD 000
Assets								
Cash and balances with banks and Central Bank of Bahrain	18,287	7,781	26,068	5,702	4,946	17,774	28,422	54,490
Due from banks	117,382	520	117,902	-	-	-	-	117,902
Financing contracts with customers	58,101	117,775	175,876	292,728	83,567	48,373	424,668	600,544
Investments	1,951	18,021	19,972	63,549	184,755	-	248,304	268,276
Investment in joint ventures and associates	-	-	-	168,669	-	-	168,669	168,669
Investment in real estate	-	-	-	-	135,256	12,529	147,785	147,785
Receivables, prepayments and other assets	19,210	78	19,288	98,455	-	-	98,455	117,743
Intangibles	-	-	-	383	3,604	-	3,987	3,987
Premises and equipments	-	-	-	-	50,458	-	50,458	50,458
Assets of disposal group classified as held for sale	-	35,293	35,293	-	-	-	-	35,293
Total	214,931	179,468	394,399	629,486	462,586	78,676	1,170,748	1,565,147
Liabilities and equity of investment account holders								
Customers' current accounts	25,135	6,732	31,867	15,142	15,142	15,142	45,426	77,293
Due to banks	75,797	17,436	93,233	124,537	-	-	124,537	217,770
Murabaha due to non-banks	36,095	150,114	186,209	70,793	21,744	21,744	114,281	300,490
Other liabilities	9,635	5,729	15,364	20,919	-	-	20,919	36,283
Equity of investment account holders	84,360	45,038	129,398	107,702	107,702	107,702	323,106	452,504
Subordinated murabaha payable	-	-	-	98,790	-	-	98,790	98,790
Liabilities of disposal group classified as held for sale	3,974	10,261	14,235	-	-	-	-	14,235
Total	234,996	235,310	470,306	437,883	144,588	144,588	727,059	1,197,365
Net	(20,065)	(55,842)	(75,907)	191,603	317,998	(65,912)	443,689	367,782
Off-balance sheet equity of investment account holders	20,400	50,876	71,276	27,900	-	-	27,900	99,176

37 RISK MANAGEMENT

37.1 Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring of material risks. The Group manages its exposure to risks within the approved risk limits. The process of risk management is critical to the Group's continuing profitability and each business unit within the Group is accountable for the risk exposures relating to its responsibilities. The Group is mainly exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. The Group is also subject to prepayment risk and operating risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. These are monitored through the Group's strategic planning process.

Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies, policies and risk appetite of the Bank.

Audit, Risk, Governance and Compliance Committee (ARGCC)

The ARGCC is a Board appointed committee which is comprised of two executive directors and an independent member. The Chairman of the Committee is also an independent director. For audit related matters, the committee assists the Board of Directors in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting, the audit thereof, the soundness of the internal controls of the Bank, the measurement system of risk assessment and methods for monitoring compliance with law, regulations and supervisory and internal policies. For risk, governance and compliance related matters ARGCC has the overall responsibility for the development of risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions. The committee also decides the governance structure and manages the compliance and anti financial crime requirements of the Bank.

Asset and Liability Committee (ALCO) / Risk Management Committee (RMC)

ALCO / RMC is a senior management committee responsible for maintaining oversight of the Bank's risk profile and governance aspects. It helps the ARGCC Committee in establishing the risk policies and strategies and monitors the risk appetite in terms of risk limits and reports. It also controls the risks by appropriate actions. ALCO / RMC establishes policy and objectives for the asset and liability management of the Bank in terms of structure, distribution, risk and return and its impact on profitability. It also monitors the cash flow, cost and yield profiles and tenor of assets and liabilities and evaluates both from profit rate sensitivity and liquidity points of view, makes corrective adjustments based upon perceived trends and market conditions and monitors liquidity, foreign exchange exposures and positions.

Shari'a Supervisory Board

The Bank's Shari'a Supervisory Board is entrusted with the responsibility of ensuring the Bank's adherence to Shari'a rules and principles in its transactions and activities.

Provisioning Committee (PC)

The Provisioning Committee (PC) is a senior management Committee responsible for ensuring adequate provisions and profit suspensions against all the past due and impaired exposures of the Bank. It reviews past due details and approve the resulting provisioning and profit suspension amounts submitted by the respective departments in line with the approved Provisioning Policy of the Bank. The PC also reviews credit classification and reclassification requests submitted by Business Units and recommends the provisions and profit suspensions to ARGCC and BOD for final approval.

37 RISK MANAGEMENT (continued)

37.1 Introduction (continued)

Risk management department
The Risk Management Department is responsible for implementing and maintaining risk related procedures to ensure an independent control process. It also helps the ALCO / RMC in establishing risk strategies, policies and limits, across the Bank. The department is also responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This department also ensures the complete capture of the risks in risk measurement and reporting systems and performs stress tests on the various portfolios of the Bank.

Treasury department
The treasury department is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal audit
Independent, objective activity that reviews the effectiveness of risk management, internal control environment and governance processes. Internal Audit discusses the results of all assessments with the management, and reports its findings and recommendations to the ARGCC.

Compliance department
The compliance department is responsible for managing all the compliance related issues with the external parties and regulators.

Risk measurement and reporting systems
The Group identifies, measures, controls and monitors its material risks on a periodic basis. The Bank has established relevant risk limit structures to quantify its risk appetite. The Bank conducts stress testing under various scenarios for its material portfolios using statistical methods to assess the impact of such scenarios on its portfolio and regulatory capital.

Established risk limits reflect the business strategy and market environment in which the Bank operates as well as the level of risk that the Bank is willing to accept. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposures across its material risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify risks at an early stage. This information is presented and explained to the Board of Directors, the ARGCC and senior management. The report includes aggregate credit exposures, concentration limits, investment limits, foreign exchange exposures, profit rate limits, liquidity gaps and ratios and changes in Group's risk profile. On a periodic basis, detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the general allowance for credit losses on a quarterly basis. The Board of Directors receives the risk management report once in a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

As part of the Risk Management's reporting framework, tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information. Periodic briefing is given to the Managing Director and Chief Executive Officer and all other relevant members of the Bank on the utilisation of market limits, proprietary investments and liquidity and any other risk developments.

37.2 Credit risk

Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties fail to discharge their contractual obligations. The Bank manages and controls its credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

37 RISK MANAGEMENT (continued)

37.2 Credit risk (continued)

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions for corporate portfolio. Counterparty limits are established with the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings for corporate customers are subject to revision at the time of renewal of the corporate facility. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit-related commitments risk

The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Bank to risks similar to financing contracts and these are mitigated by the same control processes and policies.

Risk concentrations of the maximum exposure to credit risk without taking collateral

Concentrations arise when a number of 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. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

The maximum credit exposure to any client or counterparty as of 31 December 2014 was BD 52,339 thousand (2013: BD 52,336 thousand).

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Gross maximum exposure 2014 BD 000	*Gross maximum exposure 2013 BD 000*
Balances with banks	**48,327**	48,885
Due from banks	**125,106**	117,902
Financing contracts with customers	**559,879**	600,544
Investments at amortised cost	**85,887**	55,342
Receivables	**28,007**	40,234
Total	**847,206**	862,907
Contingent liabilities and commitments	**49,192**	57,952
Total credit risk exposure	**896,398**	920,859

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

37 RISK MANAGEMENT (continued)

37.2 Credit risk (continued)

Risk concentrations of the maximum exposure to credit risk

The Group financial assets having credit risk, before taking into account any collateral held can be analysed by the following geographical regions:

	Middle East 2014 BD 000	*North America 2014 BD 000*	*Europe 2014 BD 000*	*Other 2014 BD 000*	*Total 2014 BD 000*
Balances with banks	**42,843**	**3,097**	**2,371**	**16**	**48,327**
Due from banks	**123,204**	-	-	**1,902**	**125,106**
Financing contracts with customers	**553,359**	-	**6,520**	-	**559,879**
Investments at amortised cost	**85,887**	-	-	-	**85,887**
Receivables	**22,930**	**5,077**	-	-	**28,007**
Contingent liabilities and commitments	**49,192**	-	-	-	**49,192**
Total	**877,415**	**8,174**	**8,891**	**1,918**	**896,398**

	Middle East 2013 BD 000	*North America 2013 BD 000*	*Europe 2013 BD 000*	*Other 2013 BD 000*	*Total 2013 BD 000*
Balances with banks	44,921	3,388	558	18	48,885
Due from banks	114,132	-	-	3,770	117,902
Financing contracts with customers	558,605	189	6,834	34,916	600,544
Investments at amortised cost	54,399	943	-	-	55,342
Receivables	30,150	6,038	3,098	948	40,234
Contingent liabilities and commitments	57,952	-	-	-	57,952
Total	860,159	10,558	10,490	39,652	920,859

An industry sector analysis of the Group financial assets having credit risk, before taking into account collateral held or other credit enhancements, is as follows:

	Trading and manufacturing 2014 BD 000	*Banking and financial 2014 BD 000*	*Construction and real estate 2014 BD 000*	*Other 2014 BD 000*	*Total 2014 BD 000*
Balances with banks	-	**48,327**	-	-	**48,327**
Due from banks	-	**125,106**	-	-	**125,106**
Financing contracts with customers	**53,170**	**8,025**	**423,348**	**75,336**	**559,879**
Investments at amortised cost	-	**23,192**	**62,695**	-	**85,887**
Receivables	**1,250**	**2,775**	**7,954**	**16,028**	**28,007**
Contingent liabilities and commitments	**19,153**	**4**	**14,329**	**15,706**	**49,192**
Total	**73,573**	**207,429**	**508,326**	**107,070**	**896,398**

37 RISK MANAGEMENT (continued)

37.2 Credit risk (continued)

Risk concentrations of the maximum exposure to credit risk (continued)

	Trading and manufacturing 2013 BD 000	*Banking and financial 2013 BD 000*	*Construction and real estate 2013 BD 000*	*Other 2013 BD 000*	*Total 2013 BD 000*
Balances with banks	-	48,885	-	-	48,885
Due from banks	-	117,902	-	-	117,902
Financing contracts with customers	52,128	27,720	428,486	92,210	600,544
Investments at amortised cost	-	19,414	35,928	-	55,342
Receivables	7,671	103	9,634	22,826	40,234
Contingent liabilities and commitments	27,353	-	30,438	161	57,952
Total	87,152	214,024	504,486	115,197	920,859

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained by the Bank are as follows:

- For commercial financing, lien over investment accounts, charges over real estate properties, inventory, trade receivables and unlisted equities; and
- For retail and consumer financing, lien over investment accounts, and mortgages over the related assets.

The Bank also obtains personal guarantees from companies owners for commercial financing obtained. Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained periodically during its review of the adequacy of the allowance for impairment losses.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit gradings. These internal credit gradings are assigned to each individual borrower. They are defined as follows:

Good

Good credits are those, which are performing, as the contract requires. There is no reason to suspect that the creditor's financial condition or collateral adequacy has depreciated in any way.

Past due but not impaired

Past due but not impaired facilities includes:-

- Watch list facilities which are between one and ninety days past due;
- Facilities more than ninety days past due, however, management, for reasons such as the availability of sufficient collateral after haircut, and other reasons, is confident that no losses will be incurred and as a result is not carrying any provisions on these facilities; and
- Facilities which have recently been restructured and have not yet met the minimum requirements set by the Bank for reclassification to the 'neither past due nor impaired' category.

37 RISK MANAGEMENT (continued)

37.2 Credit risk (continued)

Substandard

Substandard credits are inadequately protected by the repayment capacity of the obligor or by the collateral pledged. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard assets does not have to exist in individual assets classified as substandard. They may include facilities in past due for more than 90 days which are not classified as doubtful or loss (based on management's assessment)

Doubtful

Doubtful credits have all the weaknesses inherent in a credit classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable or improbable. They may include facilities in past due for more than 180 days but less than 365 days (based on management's assessment).

Loss

Loss facilities are considered uncollectible and of such little value that their continuance as assets is not warranted. Total loss is expected for loss credits however if management has reasons to believe that it could recover the exposure in full and no shortfalls are anticipated based on financial strength of the customers and/or collaterals provided, write off may be deferred. They include facilities in past due for more than 365 days (based on management's assessment).

Credit quality per class of financial assets

	Neither past due nor impaired 2014 BD 000	*Past due but not impaired 2014 BD 000*	*Sub-standard 2014 BD 000*	*Doubtful 2014 BD 000*	*Loss 2014 BD 000*	*Total 2014 BD 000*
Balances with banks	48,327	-	-	-	-	48,327
Due from banks	125,106	-	-	-	-	125,106
Financing contracts with customers (gross)	481,756	46,401	29,650	699	13,356	571,862
Investments at amortised cost	85,887	-	-	-	-	85,887
Receivables (gross)	29,253	-	1,757	-	8,292	39,302
Total	770,329	46,401	31,407	699	21,648	870,484

	Neither past due nor impaired 2013 BD 000	*Past due but not impaired 2013 BD 000*	*Sub-standard 2013 BD 000*	*Doubtful 2013 BD 000*	*Loss 2013 BD 000*	*Total 2013 BD 000*
Balances with banks	48,885	-	-	-	-	48,885
Due from banks	117,902	-	-	-	-	117,902
Financing contracts with customers (gross)	469,582	107,122	28,697	1,329	2,960	609,690
Investments at amortised cost	55,342	-	-	-	-	55,342
Receivables (gross)	33,136	-	9,894	-	-	43,030
Total	724,847	107,122	38,591	1,329	2,960	874,849

37 RISK MANAGEMENT (continued)

37.2 Credit risk (continued)

Credit quality per class of financial assets (continued)

Included in past due but not impaired facilities are watchlist facilities of BD 7,776 thousand (2013: BD 6,392 thousand) and renegotiated facilities of BD 38,625 thousand (2013: BD 100,136 thousand)

Substandard, doubtful and loss categories are secured with collateral amounting to BD 122,973 thousand (2013: 98,916 thousand), BD 763 (2013: BD Nil) and BD 11,999 thousand (2013: BD 1,456 thousand) respectively. The utilisation of the above collaterals will be on a customer by customer basis and will be limited to the customer's total exposure.

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographical regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly for corporate customers.

Aging analysis of past due but not impaired receivables per class of financial assets

	Less than 30 days 2014 BD 000	*31 to 60 days 2014 BD 000*	*61 to 90 days 2014 BD 000*	*More than 90 days 2014 BD 000*	*Total 2014 BD 000*
Financing contracts with customers	**14,983**	**1,374**	**21,022**	**9,022**	**46,401**

	Less than 30 days 2013 BD 000	*31 to 60 days 2013 BD 000*	*61 to 90 days 2013 BD 000*	*More than 90 days 2013 BD 000*	*Total 2013 BD 000*
Financing contracts with customers	32,525	1,258	29,311	44,028	107,122

The estimated value of collateral held by the Bank against past due but not impaired financing contracts amounts to BD 96,173 thousand (2013: BD 215,768 thousand). The utilisation of the above collaterals will be on a customer by customer basis and will be limited to the customer's total exposure.

Carrying amount by class of financial assets whose terms have been renegotiated

The outstanding amount of financing contracts with customers for which financing terms have been renegotiated during the year and six months have not elapsed amounted to BD 23,828 thousand (2013: BD 74,404 thousand) and these are secured with collateral amounting to BD 48,154 thousand (2013: BD 157,300 thousand). As a condition to restructuring, the Bank has received partial payment from customers and/or obtained additional collateral.

Included in the total amount of renegotiated facilities during the year is an amount relating to a related party of BD 9,022 thousand (2013: BD 9,023 thousand). This is secured with collateral amounting to BD 4,919 thousand (2013: BD 4,835).

Impairment assessment

The main considerations for the impairment assessment include whether any payments of principal or profit are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract.

37 RISK MANAGEMENT (continued)

37.2 Credit risk (continued)

Individually assessed provisions
The Group determines the provisions appropriate for each individually significant financing contract on an individual basis. Items considered when determining provision amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support, the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed provisions
Provisions are assessed collectively for losses on financing contracts that are not individually significant and for individually significant financing contract where there is not yet objective evidence of individual impairment. Provisions are evaluated on each reporting date with each portfolio subjected to a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration of the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment provision, and expected receipts and recoveries once impaired. Management is responsible for deciding the length of this period which can extend for as long as one year. The impairment provision is then reviewed as a part of the credit management framework to ensure alignment with the Group's overall policy.

Financial guarantees and letters of credit are assessed and provision made in a similar manner as for financing contracts.

37.3 Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management arranges diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains a mandatory reserve with the Central Bank of Bahrain equal to 5% of customer deposits denominated in Bahrain Dinars, excluding deposits from resident subsidiaries. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The most important of these is to maintain limits on the ratio of liquid assets to customer liabilities. Liquid assets comprise of cash and balances with banks and Central Bank of Bahrain, due from banks, investment in quoted securities and liquid sukuk. Customer liabilities comprise of customers' current accounts, investment accounts and murabaha due to non-banks. The ratios during the year were as follows:

	2014	*2013*
	%	*%*
31 December	**23.81**	22.49
During the year:		
Average	**22.30**	21.99
Highest	**30.91**	24.78
Lowest	**27.41**	19.57

37 RISK MANAGEMENT (continued)

37.3 Liquidity risk and funding management (continued)

Analysis of financial liabilities and equity of investment account holders by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities and equity of investment account holders at 31 December 2014 and 2013 based on contractual undiscounted repayment obligations. Maturity analysis of assets, liabilities and equity of investment account holders by expected maturities is disclosed in Note 36. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

	On demand BD 000	*Less than 3 months BD 000*	*3 to 12 months BD 000*	*1 to 5 years BD 000*	*Over 5 years BD 000*	*Total BD 000*
At 31 December 2014						
Due to banks	**1,954**	**32,533**	**106,594**	**-**	**-**	**141,081**
Murabaha due to non-banks	**-**	**162,288**	**73,621**	**10,705**	**-**	**246,614**
Customers' current accounts	**105,242**	**-**	**-**	**-**	**-**	**105,242**
Other liabilities	**-**	**8,375**	**3,631**	**15,208**	**-**	**27,214**
Equity of investment account holders	**166,863**	**280,929**	**62,192**	**-**	**-**	**509,984**
Subordinated murabaha payable	**-**	**-**	**-**	**107,864**	**-**	**107,864**
Total undiscounted liabilities 2014	**274,059**	**484,125**	**246,038**	**133,777**	**-**	**1,137,999**
At 31 December 2013						
Due to banks	598	204,765	11,383	131	-	216,877
Murabaha due to non-banks	-	205,973	97,447	-	-	303,420
Customers' current accounts	77,293	-	-	-	-	77,293
Other liabilities	-	9,637	5,727	20,919	-	36,283
Equity of investment account holders	115,031	262,972	75,832	-	-	453,835
Subordinated murabaha payable	-	-	-	-	104,717	104,717
Total undiscounted liabilities 2013	192,922	683,347	190,389	21,050	104,717	1,192,425

Contingent liabilities and commitments

These include commitments to enter into contracts which are designed to meet the requirements of the Group's customers. Commitments represent contractual commitments under murabaha, musharaka and ijarah muntahia bittamleek contracts. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being exercised, the total contract amounts do not necessarily represent future cash flow requirements.

Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract.

37 RISK MANAGEMENT (continued)

37.3 Liquidity risk and funding management (continued)

Contingent liabilities and commitments (continued)

The table below shows the contractual expiry by maturity of the Group's credit commitments and contingent items.

	On demand BD 000	*Less than 3 months BD 000*	*3 to 12 months BD 000*	*1 to 5 years BD 000*	*Total BD 000*
At 31 December 2014					
Letters of credit	**884**	-	**8,114**	-	**8,998**
Guarantees	**6,243**	-	-	-	**6,243**
Irrevocable commitments to extend credit	-	**4,357**	**17,538**	**3,056**	**24,951**
Investment commitment	-	-	-	**9,000**	**9,000**
Total	**7,127**	**4,357**	**25,652**	**12,056**	**49,192**
At 31 December 2013					
Letters of credit	2,567	-	12,078	-	14,645
Guarantees	9,521	-	-	-	9,521
Irrevocable commitments to extend credit	-	19,633	5,056	97	24,786
Investment commitment	-	-	1,000	8,000	9,000
Total	12,088	19,633	18,134	8,097	57,952

The Group does not expect any material loss in respect of the above.

37.4 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as profit rates, foreign exchange rates, and equity prices. The Group manages and monitors the positions using sensitivity analysis.

Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Bank measures the profit rate risk by measuring and managing the repricing gaps. It also performs sensitivity analysis.

The following table demonstrates the sensitivity to reasonably possible change in profit rates, with all other variables held constant of the Group's consolidated statement of income. The sensitivity of the consolidated statement of income is the effect of the assumed changes in profit rates on the consolidated net income for the year, based on the non-trading financial assets and financial liabilities held as at the date of statement of financial position.

37 RISK MANAGEMENT (continued)

37.4 Market risk (continued)

Profit rate risk (continued)

The effect of decrease in basis points is expected to be equal and opposite to the effect of the increase shown.

	2014 BD 000	*Change in basis points*	*Effect on net income for the year BD 000*
ASSETS			
Due from banks	**125,106**	**+25**	**313**
Financing contracts with customers	**356,944**	**+25**	**892**
Investments at amortised cost	**85,887**	**+25**	**215**
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDERS			
Due to banks	**140,068**	**+25**	**(350)**
Murabaha due to non-banks	**234,236**	**+25**	**(586)**
Subordinated murabaha payable	**95,349**	**+25**	**(238)**
Equity of investment account holders	**509,044**	**+25**	**(1,273)**
Total			**(1,027)**

	2013 BD 000	*Change in basis points*	*Effect on net income for the year BD 000*
ASSETS			
Due from banks	117,902	+25	295
Financing contracts with customers	410,861	+25	1,027
Investments at amortised cost	55,342	+25	138
LIABILITIES AND EQUITY INVESTMENT ACCOUNT HOLDERS			
Due to banks	216,363	+25	(541)
Murabaha due to non-banks	300,490	+25	(751)
Subordinated murabaha payable	98,790	+25	(247)
Equity of investment account holders	452,504	+25	(1,131)
Total			(1,210)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank has established Value at Risk limit for foreign currency exposures. This limit is monitored on a regular basis by the risk management department and reported to the ALCO / RMC.

37 RISK MANAGEMENT (continued)

37.4 Market risk (continued)

Currency risk (continued)

The Group had the following significant net exposures denominated in foreign currencies as of 31 December:

Currency	Equivalent long (short) 2014 BD 000	Equivalent long (short) 2013 BD 000
KWD	**316**	(124)
JOD	**23,624**	23,639
GBP	**1,040**	2,216
EUR	**547**	993

The table below indicates the currencies to which the Group had significant exposure at 31 December on all its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Bahraini Dinar, with all other variables held constant, on the consolidated statement of income.

The effect of decreases in currency rate is expected to be equal and opposite to the effect of the increases shown.

	Change in currency rate %	Effect on profit 2014 BD 000	Effect on equity 2014 BD 000	Change in currency rate %	Effect on profit 2013 BD 000	Effect on equity 2013 BD 000
KWD	+20	**63**	-	+20	(25)	-
JOD	+20	-	**4,725**	+20	-	4,728
GBP	+20	**208**	-	+20	443	-
EUR	+20	**109**	-	+20	199	-
Total		**380**	**4,725**		617	4,728

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's investment portfolio.

The effect on income and equity (as a result of a change in the fair value of equity instruments at 31 December 2014) due to a reasonably possible change (i.e. +10%) in the value of individual investments, with all other variables held constant, is BD 15,396 thousand and BD 719 thousand (2013: BD 19,387 thousand and BD 1,110 thousand) respectively, except in cases where impairment loss occured which will result in decrease being taken to the consolidated statement of income. The effect of decrease in the value of individual investments is expected to be equal and opposite to the effect of the increase shown.

37.5 *Prepayment risk*

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected. The Group is not exposed to any significant prepayment risk.

37 RISK MANAGEMENT (continued)

37.6 *Real estate investment price risk*

Real estate investment price risk is the risk that the fair values of real estate investments decrease as a result of downfall in the real estate market. The real estate investment price risk exposure arises from Group's holding of real estate investments (land and buildings).

The effect on income due to a reasonably possible change (i.e. +15%) in the value of individual investments in real estate, with all other variables held constant, is BD 27,927 thousand (2013: BD 22,168 thousand). The effect of decrease in the value of individual investment is expected to be equal and opposite to the effect of the increase shown.

37.7 *Operational risk*

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks. The Bank has implemented Risks Controls and Self Assessment process (RCSA) whereby each of the units identifies risks in processes, key risk indicators and implemented controls. The key risk indicators values and actual incidents to the operational risk unit are reported to senior management for action. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

38 CAPITAL MANAGEMENT

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the Central Bank of Bahrain in supervising the Group. The Bank has also implemented the Internal Capital Adequacy and Assessment Plan (ICAAP) as per the CBB guidelines based on Pillar II recommendations of the Basel Committee. The Bank had identified the capital requirement for future five years based on the Bank's projected financials and the risk charges required for its significant risks including credit risk, market risk, profit rate risk, liquidity risk, investments risks and operational risks. The Board of Directors, on an annual basis, review and approve the ICAAP plan for both normal and stress conditions.

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

38 CAPITAL MANAGEMENT (continued)

Regulatory capital and risk-weighted assets

The regulatory capital and risk-weighted assets have been calculated in accordance with Basel II as adopted by the CBB.

		2014	*2013*
		BD 000	*BD 000*
Tier 1 capital	38.1	**204,761**	244,327
Tier 2 capital	38.2	**14,958**	42,167
Total capital		**219,719**	286,494
Credit risk-weighted assets		**913,126**	1,087,409
Market risk-weighted assets		**41,929**	33,195
Operational risk-weighted assets		**137,097**	129,781
Total risk weighted assets		**1,092,152**	1,250,385
Capital adequacy ratio		**20.1%**	22.9%
Minimum requirement		**12.0%**	12.0%

38.1 Tier 1 capital comprises share capital, share premium, general reserve, statutory reserve and retained earnings, less unrealised loss arising from fair valuing equities net of deductions.

38.2 Tier 2 capital comprises subordinated murabaha payable, collective impairment provision and asset revaluation reserves net of deductions. Certain adjustments are made to AAOIFI-based results and reserves, as prescribed by the Central Bank of Bahrain.

39 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

The Group did not receive any significant income or incur significant expenses which were prohibited by the Shari'a.

40 SOCIAL RESPONSIBILITY

The Bank discharges its social responsibilities through donations to charitable causes and organisations approved by Shari'a Supervisory Board.

41 COMPARATIVE FIGURES

Certain of the prior year figures have been reclassified to conform to the presentation adopted in the current year. Such reclassification does not affect previously reported net income or owners' equity.