Bahrain Islamic Bank B.S.C.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2014

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صندوق بريد ٥٢٤٠ المنامة
مملكة البحرين
هاتف ٥٤٦١١١ ١٧ ٩٧٣+
فاكس ٥٣٥٨٠٨ ١٧ ٩٧٣+

بنك البحرين الإسلامي BisB

Sharia'a Supervisory Board report
for the year ended on 31/12/2014

In The Name of Allah, most Gracious, most Merciful Peace and Blessings Be Upon His Messenger.

To the shareholders of Bahrain Islamic Bank B.S.C.

Assalam Alaykum Wa Rahmatu Allah Wa Barakatoh.

In accordance to Articles of Association and the entrustment of the Sharia'a Board with supervising the Bank's activities from a Sharia perspective, we hereby submit the following report:

The Sharia'a Supervisory Board monitored the operations, related to the Bank throughout the year ended on 31st December 2014 to express opinion on the Bank's adherence to the provisions and principles of Islamic Sharia'a in its activities by following the guidelines and decisions issued by the Sharia'a Supervisory Board. The Sharia'a Supervisory Board believes that ensuring the conformity of its activities and investments with the provisions of Islamic Sharia'a is the sole responsibility of the Bank's Management while the Sharia'a Supervisory Board is only responsible for expressing an independent opinion and preparing a report thereabout.

The Sharia'a Supervisory Board's monitoring function included the checking and documentation of the procedures to scrutinize each operation carried out by the Bank, whether directly or through the Sharia'a Internal Audit department. We planned with the Sharia'a Internal Audit department to carry out monitoring functions by obtaining all the information and clarifications that were deemed necessary to confirm that the Bank did not violate the principles and provisions of Islamic Sharia'a. The Sharia'a Internal Audit department executed its mission of auditing the transactions and submitted its periodic reports to the Sharia'a Supervisory Board, which confirmed the Bank's commitment and conformity to the Sharia'a Supervisory Board's opinions.

The Sharia'a Supervisory Board obtained data and clarifications it deemed necessary to confirm that the Bank did not violate the Sharia principles. and provisions of Islamic Sharia'a. It held several

The Sharia Board held a number of meetings during the year and replied to inquiries, in addition to approving a number of new products presented by the Management. The Sharia'a Supervisory Board discussed with the Bank's officials all transactions carried out by the Management throughout the year and reviewed the Bank's conformity with the provisions and principles of Islamic Sharia'a as well as the resolutions and guidelines of the Sharia'a Supervisory Board.

The Sharia Board have reviewed the financial Statements for the year ended on 31st December 2014 with the notes and income statement and the Zakat calculation methods.

The Sharia'a Supervisory Board believes that:

1. Contracts, and transactions conducted by the Bank throughout the year ended on 31st December 2014 were in accordance with the standard contracts pre-approved by the Sharia'a Supervisory Board.
2. The distribution of profit on investment accounts was in line with the basis and principles approved by the Sharia'a Supervisory Board.
3. Any gains resulted from sources or means prohibited by the provisions and principles of Islamic Sharia'a, have been directed to the Charity and Donations Account according to SSB's resolution.
4. Zakah was calculated according to the provisions and principles of Islamic Sharia'a. And the shareholders should pay their portion of Zakah on their shares as stated in the financial report.
5. The Bank was committed to the Sharia'a standards issued by the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI).

We pray that Allah may grant all of us further success and prosperity.

Shaikh Dr. A.Latif Mahmood Al Mahmood
Chairman

Shaikh Mohammed Jaffar Al Juffairi
Vice Chairman

Shaikh Adnan Abdullah Al Qattan
Member

Shaikh Dr. Nedham M. Saleh Yacoubi
Member

Shaikh Dr. Essam Khalaf Al Onazi
Member

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Bahrain Islamic Bank B.S.C.
Manama, Kingdom of Bahrain

Report on the consolidated financial statements
We have audited the accompanying consolidated financial statements of Bahrain Islamic Bank B.S.C. (the "Bank") and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statements of income, cash flows, changes in owners' equity, sources and uses of good faith qard fund and sources and uses of zakah and charity fund for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Respective responsibilities of board of directors and auditors
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 board of directors of the Bank. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Basis of opinion
We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by Accounting and Auditing Organisation for Islamic Financial Institutions. 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion
In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2014, and of its consolidated results of operations, its consolidated cash flows, its consolidated changes in owners' equity, its consolidated sources and uses of good faith qard fund, and its consolidated sources and uses of zakah and charity fund for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

Report on other regulatory requirements
As required by the Bahrain Commercial Companies Law and Volume 2 of the Central Bank of Bahrain (CBB) Rule Book, we report that:

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
b) the financial information contained in the chairman's statement is consistent with the consolidated financial statements;
c) we are not aware of any violations during the year 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), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and
d) satisfactory explanations and information have been provided to us by management in response to all our requests.

Other matter
The financial statements of the Group as at and for the year ended 31 December 2013 were audited by another auditor whose audit report dated 3 February 2014 expressed an unqualified opinion on those financial statements and a modified conclusion on regulatory matters.

KPMG

KPMG Fakhro
Partner Registration No. 100
11 February 2015

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Note	*2014* *BD'000*	*2013* *BD'000*
ASSETS			
Cash and balances with banks and Central Bank	3	**52,118**	50,831
Placements with financial institutions	4	**68,567**	184,600
Financing assets	5	**408,021**	346,805
Investments securities	6	**123,561**	107,026
Ijarah Muntahia Bittamleek	8	**102,277**	90,356
Ijarah rental receivables	8	**14,065**	14,924
Investment in associates	7	**30,835**	36,236
Investment in real estate	10	**53,934**	58,219
Property and equipment	9	**17,101**	17,067
Other assets	11	**4,728**	4,230
TOTAL ASSETS		**875,207**	910,294
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
Liabilities			
Placements from financial institutions		**75,570**	95,144
Customers' current accounts		**137,423**	105,932
Other liabilities	12	**16,518**	13,608
Total Liabilities		**229,511**	214,684
Equity of Investment Accountholders	13	**566,601**	617,494
Owners' Equity			
Share capital	14	**93,967**	93,967
Treasury shares	14	**(563)**	(563)
Reserves		**(14,320)**	(16,530)
Attributable to equity holders of the parent		**79,084**	76,874
Non-controlling interest		**11**	1,242
Total Owners' Equity		**79,095**	78,116
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		**875,207**	910,294
COMMITMENTS AND CONTINGENT LIABILITIES	15	**22,277**	15,991

The consolidated financial statements, which consist of pages 2 to 42, were approved by the Board of Directors on 11 February 2015 and signed on its behalf by:

Abdulrazaq Al Qassim	Khalid Al Mannai	Mohammed Janahi
Chairman	Vice Chairman	Acting Chief Executive Officer

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2014

	Note	2014 BD'000	2013 BD'000
INCOME			
Income from financing	17	**28,702**	32,504
Income from investment in Sukuk		**2,535**	4,921
		31,237	37,425
Less: Return on equity of investment accountholders	13.4	**(7,287)**	(10,860)
		23,950	26,565
Expense on placements from financial institutions		**(252)**	(264)
Fee and commission income		**6,452**	5,307
Income from investments	18	**4,410**	2,918
Income from investment in real estate	19	**8,568**	(807)
Share of results of associates	7	**(1,550)**	1,197
Net gain from foreign currencies		**1,273**	694
Total net income		**42,851**	35,610
EXPENSES			
Staff costs		**11,482**	10,013
Depreciation	9	**1,641**	1,644
Other expenses	20	**8,502**	8,080
Total expenses		**21,625**	19,737
Profit before impairment allowances		**21,226**	15,873
Impairment provisions on financing assets	21.1	**(7,593)**	(5,275)
Impairment provisions on investments	21.2	**(4,336)**	(5,411)
Impairment provisions on other assets	21.3	**-**	920
PROFIT FOR THE YEAR		**9,297**	6,107
BASIC AND DILUTED EARNINGS PER SHARE (fils)	23	**9.93**	6.52

Abdulrazaq Al Qassim	Khalid Al Mannai	Mohammed Janahi
Chairman	Vice Chairman	Acting Chief Executive Officer

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Note	2014 BD'000	2013 BD'000
OPERATING ACTIVITIES			
Profit for the year		**9,297**	6,107
Adjustments for non-cash items:			
Depreciation		**1,641**	1,644
Impairment provisions on financing assets	21.1	**7,593**	5,275
Impairment provisions on investments	21.2	**4,336**	5,411
Impairment provisions on other assets	21.3	**-**	(920)
Reversal of impairment / (charge) on investment in real estate	19	**(3,617)**	1,321
Gain on sale of equity type instruments carried at fair value through equity	18	**(1,946)**	(995)
Gain on sale of investment in real estate	19	**(4,951)**	(514)
Share of results of associates	7	**1,550**	(1,197)
Unrealised gain on equity type instruments carried at fair value through statement of income	18	**-**	(55)
Dividends from investment in associates		**(70)**	-
Operating profit before changes in operating assets and liabilities		**13,833**	16,077
Working capital adjustments:			
Mandatory reserve with Central Bank of Bahrain		**1,685**	(4,485)
Financing assets		**(64,808)**	(27,389)
Ijarah Muntahia Bittamleek		**(15,021)**	1,393
Other assets		**(498)**	1,273
Customers' current accounts		**31,491**	18,800
Other liabilities		**2,911**	(1,031)
Placements from financial institutions		**(19,574)**	7,454
Customers' investment accounts		**(50,893)**	43,924
Net cash (used in) / from operating activities		**(100,874)**	56,016
INVESTING ACTIVITIES			
Disposal of investment in real estate	10	**7,799**	5,348
Dividends from investment in associates		**70**	-
Purchase of investments		**(50,229)**	(37,084)
Purchase of property and equipment		**(1,715)**	(3,181)
Disposal of property and equipment		**40**	-
Proceeds from disposal of investments		**31,849**	37,254
Net cash (used in) / from investing activities		**(12,186)**	2,337
FINANCING ACTIVITIES			
Dividends paid		**(1)**	(10)
Net cash used in financing activities		**(1)**	(10)
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(113,061)**	58,343
Cash and cash equivalents at 1 January		**202,691**	144,348
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**89,630**	202,691
Cash and cash equivalents at year end comprise of:			
Cash on hand	3	**9,048**	7,750
Balances with CBB, excluding mandatory reserve deposits	3	**4,295**	2,926
Balances with banks and other financial institutions	3	**7,720**	7,415
Placements with financial institutions with original maturities less than 90 days	4	**68,567**	184,600
		89,630	202,691

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2014

			Reserves						Equity attributable		
	Share capital BD'000	Treasury shares BD'000	Statutory reserve BD'000	General reserve BD'000	Real estate fair value reserve BD'000	Investments fair value reserve BD'000	Accumulated losses BD'000	Total reserves BD'000	to equity holders of the parent BD'000	Non-controlling interest BD'000	Total owners' equity BD'000
Balance at 1 January 2014	93,967	(563)	10,879	1,000	11,301	4,248	(43,958)	(16,530)	76,874	1,242	78,116
Profit for the year	-	-	-	-	-	-	9,297	9,297	9,297	-	9,297
Net movement in investments fair value reserve	-	-	-	-	-	(3,147)	-	(3,147)	(3,147)	-	(3,147)
Net movement in real estate fair value reserve	-	-	-	-	(3,940)	-	-	(3,940)	(3,940)	-	(3,940)
Transfer of profit to statutory reserve	-	-	930	-	-	-	(930)	-	-	-	-
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	(1,231)	(1,231)
Balance at 31 December 2014	**93,967**	**(563)**	**11,809**	**1,000**	**7,361**	**1,101**	**(35,591)**	**(14,320)**	**79,084**	**11**	**79,095**
Balance at 1 January 2013	93,967	(563)	10,268	1,000	-	1,286	(36,195)	(23,641)	69,763	-	69,763
Changes due to adoption of FAS 26	-	-	-	-	13,259	-	(13,259)	-	-	-	-
As at 1 January 2013 (restated)	93,967	(563)	10,268	1,000	13,259	1,286	(49,454)	(23,641)	69,763	-	69,763
Profit for the year	-	-	-	-	-	-	6,107	6,107	6,107	-	6,107
Net movement in investments fair value reserve	-	-	-	-	-	2,962	-	2,962	2,962	-	2,962
Net movement in real estate fair value reserve	-	-	-	-	(1,958)	-	-	(1,958)	(1,958)	-	(1,958)
Transfer of profit to statutory reserve	-	-	611	-	-	-	(611)	-	-	-	-
Net movement in non-controlling interest	-	-	-	-	-	-	-	-	-	1,242	1,242
Balance at 31 December 2013	93,967	(563)	10,879	1,000	11,301	4,248	(43,958)	(16,530)	76,874	1,242	78,116

The attached notes 1 to 32 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF GOOD FAITH QARD FUND

For the year ended 31 December 2014

	Qard Hasan receivables BD'000	*Funds available for Qard Hasan BD'000*	*Total BD'000*
Balance at 1 January 2014	79	49	128
Uses of Qard fund			
Marriage	22	(22)	-
Others (Waqf)	3	(3)	-
Total uses during the year	**25**	**(25)**	-
Repayments	(24)	24	-
Balance at 31 December 2014	**80**	**48**	**128**
Balance at 1 January 2013	15	113	128
Uses of Qard fund			
Marriage	26	(26)	-
Others (Waqf)	63	(63)	-
Total uses during the year	**89**	**(89)**	-
Repayments	(25)	25	-
Balance at 31 December 2013	**79**	**49**	**128**

	2014 BD'000	*2013 BD'000*
Sources of Qard fund		
Contribution by the Bank	**125**	125
Donation	**3**	3
	128	128

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND

For the year ended 31 December 2014

	2014	*2013*
	BD'000	*BD'000*
Sources of zakah and charity funds		
Undistributed zakah and charity funds at the beginning of the year	**225**	58
Non-Islamic income / late fee	**659**	687
Donations	**150**	150
Total sources of zakah and charity funds during the year	**1,034**	895
Uses of zakah and charity funds		
Philanthropic societies	**441**	300
Aid to needy families	**311**	370
Total uses of funds during the year	**752**	670
Undistributed zakah and charity funds at the end of the year	**282**	225

1 INCORPORATION AND ACTIVITIES

Bahrain Islamic Bank B.S.C. (the "Bank") was incorporated in the Kingdom of Bahrain in 1979 by Amiri Decree No.2 of 1979 and registered with the Ministry of Industry and Commerce ("MOIC") under Commercial Registration (CR) number 9900, to carry out banking and other financial trading activities in accordance with the teachings of Islam (Shari'a). The Bank is licensed and regulated by the Central Bank of Bahrain ("CBB") and has a retail banking license. The Bank's Shari'a Supervisory Board is entrusted to ensure the Bank's adherence to Shari'a rules and principles in its transactions and activities. The Bank is listed on the Bahrain Bourse.

The Bank's registered office is at Building 722, Road 1708, Block 317, Manama, Kingdom of Bahrain.

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

The consolidated financial statements include the financial statements of the Bank and its subsidiaries (together the "Group"). The Bank holds 100% of the share capital of both Abaad Real Estate Company B.S.C. (c) and BisB MMF Company B.S.C. (c), and 99.7% subscription of BisB Money Market Fund.

Abaad Real Estate Company B.S.C. (c) ("Abaad")
Abaad was incorporated in the Kingdom of Bahrain on 8 April 2003 with an authorised and fully paid-up share capital of BD 25 million. Abaad has started operations during the year 2007. The main activities of Abaad are the management and development of real estate (in accordance with the Islamic Shari'a rules and principles).

BisB MMF Company B.S.C. (c) ("MMF")
MMF was incorporated in the Kingdom of Bahrain as a closed joint stock company and registered with the Ministry of Industry and Commerce under Commercial Registration (CR) number 81322-1. The postal address of the Company is registered at, Building 722, Road 1708, Block 317, Diplomatic Area, Kingdom of Bahrain. The purpose of the MMF is limited to establishing funds (in accordance with the Islamic Shari'a rules and principles).

BisB Money Market Fund ("Fund")
Fund is an open ended investment fund constituted by an instrument dated 12 June 2012 and commenced its activities on 9 July 2012. The fund is a Bahrain domiciled Shari'a compliant retail collective investment scheme established by Bahrain Islamic Bank B.S.C. pursuant to the Central Bank of Bahrain regulations and directives as contained in the rulebook volume 7. The fund has been established by BisB MMF Company B.S.C. (c).

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors issued on 11 February 2015.

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting polices applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied by the Group and are consistent with those used in the previous year, except for those changes arising from revised/new AAOIFI financial accounting standards.

a. New standards, amendments, and interpretations effective from 1 January 2014:
There are no new AAOIFI accounting standards, amendments to standards and interpretations that are effective for the first time for the financial year beginning on or after 1 January 2014 that would be expected to have a material impact on the Group.

New standards, amendments and interpretations issued but not effective
The following new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2015 and are expected to be relevant to the Group.

FAS 27 – Investments Accounts
FAS 27 Investments 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'. This standard is effective for financial periods beginning 1 January 2016. The adoption of this standard would not have any significant impact on the financial statements of the Group.

The Bank has not early adopted any new standards during 2014.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Statement of Compliance

The consolidated financial statements are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group, the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law and the CBB Rule Book (Volume 2, applicable provisions of Volume 6, and CBB directives), regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standard exists, the Group uses the relevant International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board.

c. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for "investment in real estate", "equity type instruments carried at fair value through equity" and "equity type instruments carried at fair value through statement of income" that have been measured at fair value.

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Management believes that the underlying assumptions are appropriate and the Group's consolidated financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 2 dd.

The consolidated financial statements have been presented in Bahraini Dinars ("BD"), being the functional currency of the Group's operations. All the values are rounded to the nearest BD thousand except when otherwise indicated.

d. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December each year. A subsidiary is an entity over which the Bank has power to control, which is other than fiduciary in nature. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

The subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtained control, and continue to be consolidated until the date that such control ceases. Control is achieved where the Group has direct ownership of more than 50% of the voting rights over the subsidiaries or where the Group has the power, directly or indirectly, to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

Losses within the subsidiaries are attributed to the non-controlling interest even if that results in a deficit balance.

The results of the subsidiaries acquired or disposed off during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

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

e. Cash and cash equivalents

For the purpose of the consolidated cash flows statement, "cash and cash equivalents" consist of cash on hand, balances with the Central Bank of Bahrain exluding mandatory reserve deposits, and balances with banks and other financial institutions, with original maturities of 90 days or less.

f. Placements with financial institutions

Placements with financial institutions comprise commodity Murabaha receivables and Wakala receivables. Commodity Murabaha receivables are stated net of deferred profits and provision for impairment, if any. Wakala receivables are stated at cost less provision for impairment, if any.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Financing assets

Financing assets comprise Shari'a compliant financing contracts with fixed or determinable payments. These include financing provided through Murabaha and Musharaka.

h. Murabaha financing

Murabaha financing consist mainly of deferred sales transactions (Murabaha) which are stated net of deferred profits and provisions for impairment, if any.

Murabaha financing are sales on deferred terms. The Group arranges a Murabaha transaction by buying a commodity (which represents the object of the murabaha) and then resells this commodity to a Murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus profit margin) is repaid in instalments by the Murabeh over the agreed period.

i. Musharaka financing

Musharaka financing are stated at the fair value of consideration given less impairment, if any.

Musharaka financing are a form of capital partnership. These are stated at fair value of consideration given less any impairment. Musharaka financing capital provided by the Group at inception in kind (if other than cash) is measured at the fair value of the assets. If the valuation of the assets results in a difference between fair value and book value, such difference is recognised as profit or loss to the Group.

j. Investments securities

Investments securities comprise of debt type instruments carried at amortised cost, equity type instruments carried at fair value through equity and equity type instruments carried at fair value through statement of income.

All investments securities, are initially recognised at cost, being the fair value of the consideration given including acquisition charges associated with the investment, except in the case of investments carried at fair value through statement of income, where the acquisition charges are expensed in the income statement.

Debt type instruments carried at amortised cost

Investments which have fixed or determinable payments and where the Group has both the intent and ability to hold to maturity are classified as debt type instruments carried at amortised cost. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such instruments is recognised in the consolidated statement of income when the instruments are de-recognised or impaired.

Equity type instruments carried at fair value through equity

Subsequent to acquisition, equity type instruments are remeasured at fair value, with unrealised gains and losses recognised in a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously recorded in equity is recognised in the consolidated statement of income for the year.

Impairment losses on equity type instruments carried at fair value through equity are not reversed through the consolidated statement of income and increases in their fair value after impairment are recognised directly in owners' equity.

Equity type instruments carried at fair value through statement of income

These are subsequently re-measured at fair value. All related realised and unrealised gains or losses are included in the consolidated statement of income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

k. Determination of fair value

For investments traded in organised financial markets, fair value is determined by reference to quoted market bid prices at the close of business on the consolidated statement of financial position date.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same or is based on the assessment of future cash flows. The cash equivalent values are determined by the Group at current profit rates for contracts with similar terms and risk characteristics.

Investments at fair value through equity where the Bank is unable to determine a reliable measure of fair value on a continuing basis, such as investments that do not have a quoted market price or other appropriate methods from which to derive reliable fair values, are stated at cost less impairment allowances.

For Murabaha receivables the fair value is determined by the Bank at the end of the financial period at their cash equivalent value.

l. Investment in associates

The Group's investments in associates are accounted for under the equity method of accounting. Associates are entities over which the Group exercises significant influence but not control and which are neither subsidiaries nor joint ventures. Under the equity method, the investments in associates are 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, less any impairment. The consolidated statement of income reflects the Group's share of the results of its associates. Where there has been a change recognised directly in the equity of the associates, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in owners' equity. Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates.

The Group determines at each consolidated statement of financial position date whether there is any objective evidence that the investments in associates are impaired. If this is the case the Group calculates the amount of impairment as being the difference between the fair value of the associates and the carrying value and recognises this amount in the consolidated statement of income.

The reporting dates of the associates and the Group are identical and the associates accounting policies conform to those used by the Group for like transactions and events in similar circumstances. Latest available financial information is used to account for these under the equity method of accounting.

m. Ijarah Muntahia Bittamleek

These are initially recorded at cost. Ijarah assets and 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 instalments are settled.

Depreciation is calculated on all Ijarah Muntahia Bittamleek other than land (which is deemed to have an indefinite life), at rates calculated to write off the cost of each asset over its useful life.

n. Investment in real estate

Properties held for rental, or for capital appreciation purposes, or both, are classified as investment in real estate. Investments in real estate are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, investments in real estate held for capital appreciation are re-measured at fair value and changes in fair value (only gains) are recognised as property fair value reserve in the consolidated statement of changes in owners' equity.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

n. Investment in real estate (continued)

Losses arising from changes in the fair values of investment in real estate are firstly adjusted against the property fair value reserve to the extent of the available balance and then the remaining losses are recognised in the consolidated statement of income. If there are unrealised losses that have been recognised in the consoliated statement of income in previous financial periods, the current period unrealised gain shall be recognised in the consolidated statement of income to the extent of crediting back such previous losses in the consolidated statement of income. When the property is disposed of, the cumulative gain previously transferred to the property fair value reserve, is transferred to the consolidated statement of income.

o. Equipment

Equipment is recognised at cost. The cost of additions and major improvements are capitalised; maintenance and repairs are charged to the consolidated statement of income as incurred. Gains or losses on disposal are reflected in other income. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets.

The calculation of depreciation is on the following basis:

Buildings	25 to 35 years
Fixtures and fittings	5 years
Equipment	5 years
Furniture	5 years

p. Equity of investment accountholders

All equity of investment accountholders is carried at cost plus profit and related reserves less amounts settled.

Equity of investment accountholders share of income is calculated based on the income generated from investment accounts after deducting Mudarib share. Operating expenses are charged to shareholders' funds and not included in the calculation.

The basis applied by the Group in arriving at the equity of investment accountholders' share of income is total income from jointly financed assets less Bank's portion of this income based on its proportion of the jointly financed assets. The portion of the income generated from equity of investment accountholders will be deducted as Mudarib share and the remaining will be distributed to the equity of investment accountholders.

q. Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of equity of investment accountholders, after allocating the Mudarib share, in order to cater for future losses for equity of investment accountholders.

r. Profit equalisation reserve

The Group appropriates a certain amount in excess of the profit to be distributed to equity of investment accountholders after taking into consideration the Mudarib share of income. This is used to maintain a certain level of return on investment for equity of investment accountholders.

s. Zakah

Zakah is calculated on the Zakah base of the Group in accordance with FAS 9 issued by AAOIFI using the net invested funds method. Zakah is paid by the Group based on the consolidated figures of statutory reserve, general reserve and retained earning balances at the beginning of the year. The remaining Zakah is payable by individual shareholders. Payment of Zakah on equity of investment accountholders and other accounts is the responsibility of investment accountholders.

t. 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.

u. Dividends

Dividends to shareholders are recognised as liabilities in the year in which they are declared.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

v. Derecognition of financial assets and liabilities

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 when:

- the right to receive cash flows from the asset have expired;
- 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 asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset; 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.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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.

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

w. Treasury shares
These are own equity instruments of the Group which are reacquired through its own broker. Treasury shares are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Group's own equity instruments is recognised directly in equity. No gain or loss is recognised in consolidated statement of income on the purchase, sale, issue or cancellation of own equity instruments.

x. 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 credited to a charity fund where the Group uses these funds for social welfare activities.

y. Joint and self financed
Investments, financing and receivables that are jointly funded by the Group and the equity of investment accountsholders are classified under the caption "jointly financed" in the consolidated financial statements. Investments, financing and receivables that are funded solely by the Bank are classified under "self financed".

z. Offsetting
Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legal or religious enforceable 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.

aa. Revenue recognition

Murabaha receivables
Income is recognised by proportionately allocating the attributable profits over the deferred period whereby each financial period carries its portion of profits irrespective of when cash is received. Income related to accounts that are 90 days overdue is excluded from the consolidated statement of income.

Musharaka investments
Income on Musharaka is recognised when the right to receive payment is established or on distribution. In the case of losses on musharaka, the Group's share of losses is recognised to the extent that such losses are being deducted from its share of the Musharaka capital.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

aa. Revenue recognition (continued)

Placements with financial institutions
Income on placements from financial institutions is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding and the profit agreed with clients.

Ijarah Muntahia Bittamleek
Income from Ijarah Muntahia Bittamleek is recognised on a time-apportioned basis over the lease term. The Ijarah Muntahia Bittamleek income is net of depreciation. Income related to non-performing (90 days overdue) Ijarah Muntahia Bittamleek is excluded from the consolidated statement of income.

Dividends income
Dividends are recognised when the right to receive payment is established.

Income from Ijarah assets
Rental income is accounted for on a straight-line basis over the Ijarah term.

Fee and commission income
Fee and commission income is recognised when earned.

Group's share as a Mudarib
The Group's share as a Mudarib for managing equity of investment accountholders is accrued based on the terms and conditions of the related mudaraba agreements.

Income allocation
Income is allocated proportionately between equity of investment accountholders and shareholders on the basis of the average balances outstanding during the year.

bb. Foreign currencies
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into Bahraini Dinars at the rate of exchange ruling at the consolidated statement of financial position date. All differences are taken to the consolidated statement of income.

Translation gains or losses on non-monetary items carried at fair value are included in owners' equity as part of the fair value adjustment.

cc. Impairment of financial assets
An assessment is made at each consolidated financial position date to determine whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the assessment by the Group of the estimated cash equivalent value, is recognised in the consolidated statement of income. Specific provisions are created to reduce all impaired financial contracts to their realisable cash equivalent value. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted. Impairment is determined as follows:

(a) For assets carried at fair value, a significant or prolonged decline in fair value below its cost is an objective evidence of impairment. If such evidence exists impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated statement of income; and

(b) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective profit rate.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

cc. Impairment of financial assets (continued)

For equity type instruments carried at fair value through equity, impairment losses recognised in the consolidated statement of income cannot be reversed through the consolidated statement of income and are recorded as increases in cumulative changes in fair value through equity.

dd. Use of estimates and judgements in preparation of the consolidated financial statements

In the process of applying the Group's accounting policies, management has made estimates and judgements in determining the amounts recognised in the consolidated financial statements. The most significant use of judgements and estimates are as follows:

Going concern

The Bank'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 financial statements continue to be prepared on the going concern basis.

Impairment

The Group assesses at each consolidated statement of financial position date whether there is objective evidence that a specific asset or a group of assets may be impaired. An asset or a group of 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 have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event(s) has an impact on the estimated future cash flows of the asset or the group of the assets that can be reliably estimated.

Collective impairment provision

Impairment is assessed collectively for losses on Islamic financing facilities that are not individually significant and for individually significant facilities where the loss is incurred but not reported. Collective impairment is evaluated on each reporting date with each portfolio receiving a separate review.

Fair valuation of investments

The determination of fair values of unquoted investments requires management to make estimates and assumptions that may affect the reported amount of assets at the date of the consolidated financial statements. The valuation of such investments is based on the fair value criteria explained in note 2.i above.

Nonetheless, the actual amount that is realised in a future transaction may differ from the current estimate of fair value and may still be outside management estimates, given the inherent uncertainty surrounding valuation of unquoted investments.

Classification of investments

Management decides on acquisition of a financial asset whether it should be classified as equity type instrument carried at fair value through equity or through statement of income.

Fair value of investment in real estate

The fair value of investment in real estate is determined by independent real estate valuation experts based on recent real estate transactions with similar characteristics and locations.

ee. Trade date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

ff. Employees' end of service benefits
Provision is made for amounts payable under the Bahrain Labour law applicable to non-Bahraini employees' accumulated periods of service at the date of the consolidated statement of financial position, subject to completion of a minimum period of employment. Provision for this is made by calculating the notional liability had all employees left at the reporting date.

Bahraini employees of the Group are covered by contributions made to the Social Insurance Organization scheme as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

gg. Shari'a supervisory board
The Group's business activities are subject to the supervision of a Shari'a Supervisory Board consisting of five members appointed by the general assembly.

hh. Financial guarantees
Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised from the date of its issue. The liability arising from a financial guarantee contract is recognised at the present value of any expected payment, when a payment under the guarantee has become probable.

ii. Statutory reserve
The Bahrain Commercial Companies Law 2001 requires that 10 per cent of the annual net profit be appropriated to a statutory reserve which is normally distributable only on dissolution. Appropriations may cease when the reserve reaches 50 per cent of the paid up share capital.

3 CASH AND BALANCES WITH BANKS AND CENTRAL BANK

	2014 ***BD'000***	*2013* *BD'000*
Cash on hand	**9,048**	7,750
Balances with CBB, excluding mandatory reserve deposits	**4,295**	2,926
Balances with banks and other financial institutions	**7,720**	7,415
	21,063	18,091
Mandatory reserve with CBB	**31,055**	32,740
	52,118	50,831

The mandatory reserve with CBB is not available for use in the day-to-day operations.

4 PLACEMENTS WITH FINANCIAL INSTITUTIONS

	Jointly financed 2014 BD'000	*Jointly financed 2013 BD'000*
Commodity Murabaha	**30,502**	121,566
Deferred profits	**(15)**	(33)
	30,487	121,533
Wakala	**38,080**	63,067
	68,567	184,600

5 FINANCING ASSETS

	Jointly financed 2014 BD'000	Jointly financed 2013 BD'000
Murabaha (note 5.1)	**308,710**	256,038
Musharaka (note 5.2)	**99,311**	90,767
	408,021	346,805

5.1 Murabaha

	Jointly financed 2014 BD'000	Jointly financed 2013 BD'000
Tasheel	**201,487**	175,016
Tawarooq	**125,701**	93,835
Letters of credit refinance	**17,208**	16,713
Motor vehicles Murabaha	**17,139**	15,978
Credit cards	**12,357**	9,887
Others	**4,008**	414
	377,900	311,843
Qard fund	**80**	79
Gross receivables	**377,980**	311,922
Deferred profits	**(44,219)**	(36,814)
Provision for impairment (note 21)	**(25,051)**	(19,070)
	308,710	256,038

Non-performing Murabaha financing outstanding as of 31 December 2014 amounted to BD 21,593 thousand (2013: BD 25,568 thousand).

The Group considers the promise made in the Murabaha to the purchase orderer as obligatory.

The composition of the Murabaha financing portfolio before provision for impairment geographically and by sector is as follows:

	2014			2013		
	Europe BD'000	Middle East BD'000	Total BD'000	Europe BD'000	Middle East BD'000	Total BD'000
Commercial	-	**85,971**	**85,971**	-	81,316	81,316
Financial institutions	-	**18,430**	**18,430**	7,270	11,302	18,572
Others including retail	-	**229,360**	**229,360**	-	175,220	175,220
	-	**333,761**	**333,761**	7,270	267,838	275,108

5.2 Musharaka

	Jointly financed 2014 BD'000	Jointly financed 2013 BD'000
Musharaka investment in real estate	**104,943**	98,788
Provision for impairment (note 21)	**(5,632)**	(8,021)
	99,311	90,767

Non-performing Musharaka financing outstanding as of 31 December 2014 amounted to BD 19,003 thousand (2013: BD 33,369 thousand).

6 INVESTMENTS

	2014			2013		
	Self financed BD'000	*Jointly financed BD'000*	*Total BD'000*	*Self financed BD'000*	*Jointly financed BD'000*	*Total BD'000*
i) Debt type instruments carried at amortised cost						
Sukuk						
At 1 January	-	41,705	41,705	-	44,406	44,406
Acquisitions	-	50,229	50,229	-	18,947	18,947
Disposals and redemptions	-	(6,126)	(6,126)	-	(21,648)	(21,648)
At 31 December	-	85,808	85,808	-	41,705	41,705
Provision for impairment	-	(3,974)	(3,974)	-	(3,340)	(3,340)
Total net Sukuk	-	81,834	81,834	-	38,365	38,365
ii) Equity type instruments carried at fair value through equity						
Quoted shares - at fair value						
At 1 January	26,494	-	26,494	24,920	-	24,920
Acquisitions	-	-	-	4,586	-	4,586
Fair value change	(2,235)	-	(2,235)	2,186	-	2,186
Disposals	(16,941)	-	(16,941)	(5,198)	-	(5,198)
Write off	(4,849)	-	(4,849)	-	-	-
At 31 December	2,469	-	2,469	26,494	-	26,494
Provision for impairment	(1,076)	-	(1,076)	(6,499)	-	(6,499)
Total net	1,393	-	1,393	19,995	-	19,995
Unquoted shares - at cost less impairment						
At 1 January	29,249	-	29,249	34,022	-	34,022
Acquisitions	-	-	-	920	-	920
Disposals	(48)	-	(48)	-	-	-
Write off	-	-	-	(5,693)	-	(5,693)
At 31 December	29,201	-	29,201	29,249	-	29,249
Provision for impairment	(7,721)	-	(7,721)	(7,119)	-	(7,119)
Total net	21,480	-	21,480	22,130	-	22,130
Unquoted managed funds - at cost less impairment						
At 1 January	43,808	-	43,808	41,970	-	41,970
Acquisitions	-	-	-	9,384	-	9,384
Foreign currency translation changes	(1,242)	-	(1,242)	-	-	-
Disposals	(6,025)	-	(6,025)	(7,546)	-	(7,546)
At 31 December	36,541	-	36,541	43,808	-	43,808
Provision for impairment	(17,687)	-	(17,687)	(18,138)	-	(18,138)
Total net	18,854	-	18,854	25,670	-	25,670
iii) Equity type instruments carried at fair value through statement of income						
Quoted investments						
At 1 January	866	-	866	426	-	426
Acquisitions	-	-	-	3,247	-	3,247
Fair value change	-	-	-	55	-	55
Disposals	(866)	-	(866)	(2,862)	-	(2,862)
At 31 December	-	-	-	866	-	866
Total net investments securities	41,727	81,834	123,561	68,661	38,365	107,026

7 INVESTMENT IN ASSOCIATES

	Self financed 2014 BD'000	*Self financed 2013 BD'000*
At 1 January	**36,236**	35,215
Share of (loss) / profit	**(1,550)**	1,197
Share of changes in investee's equity	**(821)**	(176)
Dividends received	**(70)**	-
Provision for impairment	**(2,960)**	-
At 31 December	**30,835**	36,236

Investments in associates comprise:

Name of associate	***Ownership %***	***Country of incorporation***	***Nature of business***
*Takaful International Company B.S.C.**	*22.75%*	*Bahrain*	*Takaful International Company B.S.C. was incorporated in 1989, and carries out Takaful and Retakaful activities in accordance with the teachings of Islamic Shari'a.*
Liquidity Management Centre B.S.C. (c)	*25.00%*	*Bahrain*	*Liquidity Management Centre B.S.C. (c) was incorporated in 2002 as a bank, licensed and regulated by the Central Bank of Bahrain to facilitate the creation of an Islamic inter-bank market that will allow Islamic financial services institutions to effectively manage their assets and liabilities.*
Arabian C Real Estate Company	*19.00%*	*Kuwait*	*Arabian C Real Estate Company is a Kuwaiti Shareholding Company incorporated in accordance with the Kuwaiti Commercial Companies law, Decree No.15 of 1960, as amended and regulated by the Ministry of Commerce & Industry of Kuwait. The company's activity focuses on real estate development and the overall management of a variety of strategic investments in the real estate and infrastructure sectors in GCC/MENA region.*
Enjaz Property Development Company B.S.C. (c)	*32.76%*	*Bahrain*	*Enjaz Property Development Company B.S.C.(c) is a closed joint stock company incorporated in the Kingdom of Bahrain and is registered with the Ministry of Industry and Commerce since 6 February 2008 under commercial registration number 67713-1. The company is engaged in the purchase and sale of land and property development.*
Al Dur Energy Investment Company	*29.41%*	*Bahrain*	*Al Dur Energy Investment Company is an exempt company with limited liability incorporated in the Cayman Islands on 10 June 2009 and operates under registration number 227032. The company operates in the Kingdom of Bahrain with the sole purpose of holding a 15% indirect interest in a power and water plant project company, Al Dur Power and Water Company B.S.C.(c), in the Kingdom of Bahrain.*

* Takaful International Company B.S.C. is a listed company on the Bahrain Bourse. The latest available quoted price of BD 0.145 per share was as of 8 May 2014, no further trades have taken place on the company's shares since that date. The estimate fair value of the investment based on this price is BD 2,062 thousand (2013: BD 4,124 thousand).

8 IJARAH MUNTAHIA BITTAMLEEK

	2014					2013				
	Jointly financed					Jointly financed				
	Land	Buildings	Aviation related assets	Others	Total	Land	Buildings	Aviation related assets	Others	Total
	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000
Cost:										
At 1 January	40,588	56,058	7,287	9,101	113,034	38,913	56,772	11,157	7,585	114,427
Additions	6,824	37,766	589	2,548	47,727	4,167	10,222	-	1,516	15,905
Settlements	(3,107)	(28,712)	-	(887)	(32,706)	(2,492)	(10,936)	(3,870)	-	(17,298)
At 31 December	44,305	65,112	7,876	10,762	128,055	40,588	56,058	7,287	9,101	113,034
Depreciation:										
At 1 January	-	12,406	1,245	1,273	14,924	-	10,698	2,145	923	13,766
Provided during the year	-	3,431	547	959	4,937	-	3,580	507	350	4,437
Relating to settled assets	-	(5,793)	-	(3)	(5,796)	-	(1,872)	(1,407)	-	(3,279)
At 31 December	-	10,044	1,792	2,229	14,065	-	12,406	1,245	1,273	14,924
Provision for impairment (note 21)	(9,175)	(2,538)	-	-	(11,713)	(6,133)	(1,621)	-	-	(7,754)
Net book value:										
As at 31 December	35,130	52,530	6,084	8,533	102,277	34,455	42,031	6,042	7,828	90,356

Non-performing Ijarah Muntahia Bittamleek as of 31 December 2014 is BD 24,702 thousand (2013: BD 32,516 thousand).

Ijarah rental receivable comprises of both rental on Ijarah assets and depreciation charge on Ijarah Muntahia Bittamleek assets which is fully receivable from the customers.

9 PROPERTY AND EQUIPMENT

	2014						
	Lands	***Buildings***	***Fixture and fitting***	***Equipment***	***Furniture***	***Work in progress***	***Total***
	BD'000	***BD'000***	***BD'000***	***BD'000***	***BD'000***	***BD'000***	***BD'000***
Cost:							
At 1 January	**7,183**	**4,535**	**2,906**	**8,008**	**677**	**3,269**	**26,578**
Additions / Transfer	**-**	**2,884**	**487**	**1,057**	**146**	**-**	**4,574**
Disposals / Transfer	**(40)**	**(32)**	**-**	**-**	**-**	**(2,859)**	**(2,931)**
At 31 December	**7,143**	**7,387**	**3,393**	**9,065**	**823**	**410**	**28,221**
Depreciation:							
At 1 January	**-**	**1,255**	**2,162**	**5,566**	**528**	**-**	**9,511**
Provided during the year	**-**	**216**	**355**	**984**	**86**	**-**	**1,641**
Relating to disposed assets	**-**	**(32)**	**-**	**-**	**-**	**-**	**(32)**
At 31 December	**-**	**1,439**	**2,517**	**6,550**	**614**	**-**	**11,120**
Net Book Value	**7,143**	**5,948**	**876**	**2,515**	**209**	**410**	**17,101**

	2013						
	Lands	*Buildings*	*Fixture and fitting*	*Equipment*	*Furniture*	*Work in progress*	*Total*
	BD'000	*BD'000*	*BD'000*	*BD'000*	*BD'000*	*BD'000*	*BD'000*
Cost:							
At 1 January	40	1,108	2,688	6,980	605	2,069	13,490
Additions	7,143	3,427	218	1,028	72	1,200	13,088
At 31 December	7,183	4,535	2,906	8,008	677	3,269	26,578
Depreciation:							
At 1 January	-	1,107	1,947	4,352	461	-	7,867
Provided during the year	-	148	215	1,214	67	-	1,644
At 31 December	-	1,255	2,162	5,566	528	-	9,511
Net Book Value	7,183	3,280	744	2,442	149	3,269	17,067

10 INVESTMENT IN REAL ESTATE

	Self financed	
	2014	*2013*
	BD'000	*BD'000*
Land	**51,339**	55,264
Buildings	**2,595**	2,955
	53,934	58,219

	2014	*2013*
	BD'000	*BD'000*
At 1 January	**58,219**	64,888
Capitalized expediture	**257**	-
Disposal	**(7,799)**	(5,348)
Fair value changes	**3,257**	(1,321)
	53,934	58,219

Investment in real estate comprises properties located in the Kingdom of Bahrain and the United Arab Emirates.

Investment in real estate held for capital appreciation is stated at fair value as at 31 December each year, which has been determined based on valuations performed by independent third part property valuers who have the qualification and experience of valuing similar properties in the same location.

11 OTHER ASSETS

	2014	*2013*
	BD'000	*BD'000*
Receivables	**1,907**	1,907
Staff advances	**1,177**	1,323
Prepaid expenses	**658**	608
Income receivables	**-**	167
Other	**986**	225
	4,728	4,230

12 OTHER LIABILITIES

	2014	*2013*
	BD'000	*BD'000*
Managers' cheques	**4,150**	2,924
Payable to vendors	**3,039**	3,097
Accrued expenses	**3,334**	2,645
Life insurance (Takaful) fees payable	**1,928**	1,819
Dividends payable	**806**	807
Zakah and charity fund	**282**	225
Other	**2,979**	2,091
	16,518	13,608

13 EQUITY OF INVESTMENT ACCOUNTHOLDERS

As equity of investment accountholders' funds are commingled with the Group's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits.

The Group maintains an investment risk reserve amounting to BD 103 thousand (2013: BD 63 thousand) and maintains a profit equalisation reserve amounting to BD 395 thousand (2013: BD 295 thousand).

The Group's share, as Mudarib, in the profits of equity of investment accountholders is up to a maximum of 85% (2013: 65%).

13.1 Profit Distribution by Type of Account

The following table represents the distribution of profit by type of equity of investment accountholders:

	2014		*2013*	
Account Type	***Percentage of funds invested***	***Distributed profit rate***	*Percentage of funds invested*	*Distributed profit rate*
Defined deposits	**85%**	**1.29%**	85%	1.81%
Specific investment deposits	**85%**	**1.89%**	85%	2.86%
Investment certificates	**85%**	**3.50%**	85%	3.50%
Savings accounts	**45%**	**0.23%**	45%	0.25%
Iqra	**90%**	**2.16%**	90%	2.72%
Tejoori	**45%**	**0.23%**	45%	0.25%
Vevo	**45%**	**0.22%**	45%	0.25%

13.2 Equity of investment accountholders balances

	2014 BD'000	*2013 BD'000*
Type of Equity of Investment Accountholders		
Customer investment accounts		
Balances on demand	**246,880**	218,658
Contractual basis	**316,879**	395,256
Others	**2,842**	3,580
	566,601	617,494

13.3 Equity of Investment Accountholders Reserves

	2014 BD'000	***Movement BD'000***	*2013 BD'000*
Profit equalisation reserve	**395**	**100**	295
Investment risk reserve	**103**	**40**	63

13.4 Return on equity of investment accountholders

	2014 BD'000	*2013 BD'000*
Gross return to equity of investment accountholders	**23,519**	33,176
Profit equalization reserve	**(100)**	(295)
Group's share as a Mudarib	**(16,092)**	(22,021)
Investment risk reserve	**(40)**	-
Return on equity of investment accountholders	**7,287**	10,860

14 OWNERS' EQUITY

		2014	*2013*
		BD'000	*BD'000*
(i)	Share capital		
a)	*Authorised*		
	2,000,000,000 shares (2013: 2,000,000,000 shares) of BD 0.100 each	**200,000**	200,000
b)	*Issued and fully paid up*		
	939,673,499 shares (2013: 939,673,499 shares) of BD 0.100 each	**93,967**	93,967

(ii) Treasury Shares	*2014*		*2013*
	Number of Shares	***BD'000***	*BD'000*
At 31 December	**3,620,609**	**563**	563

	2014
	BD'000
Cost of treasury shares	**563**
Market value of treasury shares	**536**

The treasury shares as a percentage of total shares in issue is 0.39%.

Owners' equity instruments which are reacquired are deducted from equity. No gain or loss is recognised in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

(iii) Reserves

Statutory reserve
As required by Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net income for the year should be transferred to the statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve totals 50% of paid up share capital. A transfer has been made of BD 930 thousand (2013: BD 611) representing 10% of the profit for the year BD 9,297 thousand (2013: BD 6,107 thousand). The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of 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 Group 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 reserve on investment in real estate
This represents cumulative unrealised revaluation gains on investment in real estate. This reserve is transferred to the retained earnings upon sale of the investment in real estate.

Cumulative changes in fair value of investments
This represents the net unrealised gains or losses on equity investments relating to self financed investments.

14 OWNERS' EQUITY (continued)

(iv) Additional information on shareholding pattern

1) Names and nationalities of the major shareholders and the number of shares in which they have an interest of 5% or more of outstanding shares:

		2014		2013	
Names	*Nationality*	*Number of shares*	*% holding*	*Number of shares*	*% holding*
National Bank of Bahrain	Bahraini	**242,038,206**	**25.76%**	242,038,206	25.76%
Social Insurance Organisation	Bahraini	**121,113,560**	**12.89%**	121,147,267	12.89%
Social Insurance Organisation - Military Pension Fund	Bahraini	**121,113,559**	**12.89%**	121,113,559	12.89%
Islamic Development Bank	Saudi	**165,956,945**	**17.66%**	165,956,945	17.66%
General Council of Kuwaiti Awaqaf	Kuwaiti	**68,013,739**	**7.24%**	68,013,739	7.24%

2) The Group has only one class of shares and the holders of these shares have equal voting rights.

3) Distribution schedule of shares, setting out the number and percentage of holders in the following categories:

	2014			2013		
	Number of shares	*Number of shareholders*	*% of total outstanding shares*	*Number of shares*	*Number of shareholders*	*% of total outstanding shares*
Less than 1%	**153,552,651**	**3,383**	**16.40%**	153,518,944	3,411	16.44%
1% up to less than 5%	**67,884,839**	**3**	**7.22%**	67,884,839	3	7.22%
5% up to less than 10%	**68,013,739**	**1**	**7.23%**	68,013,739	1	7.23%
10% up to less than 50%	**650,222,270**	**4**	**69.15%**	650,255,977	4	69.11%
	939,673,499	**3,391**	**100.00%**	939,673,499	3,419	100.00%

Details of Directors' interests in the Group's shares as at the end of the year were:

Categories:

2014		2013	
No. of shares	***No. of directors***	*No. of shares*	*No. of directors*
400,000	**4**	200,000	2

The following is the number of shares, and percentage of shareholding of Directors, Shari'a supervisory members and senior management (Assistant General Managers and above):

	2014		2013	
	No. of shares	***Percentage of Shareholding***	*No. of shares*	*Percentage of Shareholding*
Directors	**400,000**	**0.043%**	200,000	0.021%
Shari'a supervisory members	**199,812**	**0.021%**	205,725	0.022%
Senior management	**-**	**0.000%**	22,990	0.002%
	599,812	**0.064%**	428,715	0.045%

The Bank has adopted sound remuneration practices as required under volume 2 of the CBB rulebook. Accordingly the Bank has set up an employee share incentive scheme which is subject to approval by the shareholders the fourth coming annual general meeting for the year ended 31 December 2014.

15 COMMITMENTS AND CONTINGENT LIABILITIES

Credit related commitments

These include commitments to enter into financing contracts which are designed to meet the requirements of the Group's customers.

Letters of credit and guarantees commit the Group to make payments on behalf of customers.

The Group has the following credit related commitments and contingent liabilities on behalf of customers:

	2014	*2013*
	BD'000	*BD'000*
Letters of credit and acceptances	**2,775**	3,910
Guarantees	**18,760**	11,618
Operating lease commitments *	**742**	463
	22,277	15,991

* The Group has entered into commercial leases for certain branches. The remaining average period of these leases ranges between 1 month and 3 years with renewal terms included in the contracts. Renewals are at the option of the Bank. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2014	*2013*
	BD'000	*BD'000*
Within one year	**225**	379
After one year but not more than five years	**517**	84
	742	463

16 CAPITAL ADEQUACY

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 Sukuk etc. No changes were made in the objectives, policies and processes from the previous years.

The Group's capital structure primarily consists of its paid-up capital, including share premium and reserves. From a regulatory perspective, a significant amount of the Group's capital is classified as Tier 1 as defined by the CBB, i.e. most of the capital is of a permanent nature.

The Group's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of financing facilities growth expectations for each business group, expected growth in off-balance sheet facilities and future sources and uses of funds.

In August 2014, the Central Bank of Bahrain issued the final regulation to give effect to the Basel III framework which comes into effect on 1 January 2015. The Basel III framework significantly revises the definition of regulatory capital. The framework emphasis common equity as the predominant component of tier 1 capital by adding a minimum common equity tier 1 (CET 1) capital ratio. The Basel III rules also require institutions to hold capital buffers. For the purpose of calculating CET 1 capital, the regulatory adjustments (deductions) including amounts above the aggregate limit for significant investments in financial institutions, mortgage servicing rights, and deferred tax assets from temporary differences, will be deducted from CET1 over a phased manner to be fully deducted by 1 January 2019. The Bank's current capital position is sufficient to meet the new regulatory capital requirements.

16 CAPITAL ADEQUACY (continued)

The classification of the Group's capital in accordance with the regulatory requirements is as follows:

	2014 BD'000	*2013 BD'000*
Tier 1 Capital	**74,727**	51,125
Tier 2 Capital	**19,722**	13,073
Total Capital Base	**94,449**	64,198

To assess its capital adequacy requirements in accordance with the CBB requirements, the Group adopts the Standardised Approach for its Credit Risk, Basic Indicator Approach for its Operational Risk and Standardised Measurement Approach for its Market Risk. The capital requirements for these risks are as follows:

	2014 BD'000	*2013 BD'000*
Risk weighted exposure:		
Total Credit Risk Weighted Assets	**532,703**	492,627
Total Market Risk Weighted Assets	**15,769**	18,416
Total Operational Risk Weighted Assets	**56,583**	42,133
Total Regulatory Risk Weighted Assets	**605,055**	553,176
Capital Adequacy Ratio	**15.61%**	11.61%
Tier 1 Capital Adequacy Ratio	**12.35%**	9.24%
Minimum requirement	**12%**	12%

17 INCOME FROM FINANCING

	2014 BD'000	2013 BD'000
Income from jointly financed Islamic financing assets:		
Income from Murabaha financing	**17,870**	18,987
Income from placements with financial institutions	**515**	895
Income from Musharaka financing	**5,474**	5,372
Income from Ijarah Muntahia Bittamleek - net *	**4,843**	7,250
	28,702	32,504

* The details of Income from Ijarah Muntahia Bittamleek is as follows:

	2014 BD'000	2013 BD'000
Income from Ijarah Muntahia Bittamleek – gross	**9,780**	11,687
Depreciation during the year (note 8)	**(4,937)**	(4,437)
	4,843	7,250

18 INCOME FROM INVESTMENTS

	2014 BD'000	2013 BD'000
Dividend income	**2,044**	1,494
Gain on sale of equity type instruments	**1,946**	995
Income from investment in Ijarah assets	**420**	374
Unrealised gain on equity type instruments carried at fair value through statement of income	**-**	55
	4,410	2,918

19 INCOME FROM INVESTMENT IN REAL ESTATE

	2014 BD'000	2013 BD'000
Gain on sale	**4,951**	514
Reversal of impairment / (charge)	**3,617**	(1,321)
	8,568	(807)

20 OTHER EXPENSES

	2014 BD'000	2013 BD'000
Card Centre expenses	**1,445**	1,435
Marketing and advertisement expenses	**1,124**	1,692
Premises and equipement expenses	**1,116**	1,053
Professional services	**1,018**	559
Information technology related expenses	**830**	1,019
Communication expenses	**772**	816
Board of directors sitting fees	**248**	48
Donations	**150**	150
Shari'a committee fees & remuneration	**80**	11
Board Remunerations *	**-**	300
Others	**1,719**	997
	8,502	8,080

* No provision for Board Remuneration made in 2014 as the 2013 provision was not utilised.

21 PROVISION FOR IMPAIRMENT

21.1 Impairment provisions on financing assets

	Specific impairment		Collective impairment		Total	
	2014	2013	**2014**	2013	**2014**	2013
	BD'000	BD'000	**BD'000**	BD'000	**BD'000**	BD'000
At 1 January	**30,672**	29,657	**4,173**	2,688	**34,845**	32,345
Charge for the year	**8,659**	8,087	**6,645**	1,485	**15,304**	9,572
Recoveries & write backs	**(7,711)**	(4,297)	**-**	-	**(7,711)**	(4,297)
	948	3,790	**6,645**	1,485	**7,593**	5,275
Amounts written off against provision	**(42)**	(2,775)	**-**	-	**(42)**	(2,775)
At 31 December	**31,578**	30,672	**10,818**	4,173	**42,396**	34,845

The above impairment provision relates to the following:

	2014	2013
	BD'000	BD'000
Murabaha receivables	**25,051**	19,070
Musharaka investments	**5,632**	8,021
Ijarah Muntahia Bittamleek	**11,713**	7,754
	42,396	34,845

21.2 Impairment provisions on investments

	2014	2013
	BD'000	BD'000
At 1 January	**35,096**	35,378
Charge for the year *	**6,657**	5,436
Recoveries & write backs	**(2,321)**	(25)
	4,336	5,411
Amounts written off against provision	**(4,849)**	(5,693)
Foreign currency translation changes	**(1,165)**	-
At 31 December *	**33,418**	35,096

* Impairment charge for the year and cumulative provision as of 31st December 2014 includes BD 2,960 thousand impairment provision on investment in associate (2013: nil).

21.3 Impairment provisions on other assets

	2014	2013
	BD'000	BD'000
At 1 January	**-**	3,609
Recoveries & write backs	**-**	(920)
Amounts written off against provision	**-**	(2,689)
	-	-

The fair value of collateral that the Group holds relating to non performing facilities at 31 December 2014 amounts to BD 65,298 thousand (31 December 2013: BD 105,892 thousand). The collateral consists of cash, securities and properties. The utilisation of the above collaterals will be on a customer by customer basis and will be limited to the customer's total exposure.

The Group has taken all the provision allocated to the non performing assets to their own capital. Hence the equity of investment accountholders was not charged for any provision for impairment.

22 ZAKAH

The total Zakah payable as of 31 December 2014 amounted to BD 444 thousand (2013: BD 207 thousand) of which the Bank has no Zakah payable (2013: BD nil) based on the statutory reserve, general reserve and retained earning as at 1 January 2014. The Zakah balance amounting to BD 444 thousand or 0.5 fils per share (2013: BD 207 thousand or 0.2 fils per share) is due and payable by the shareholders.

23 EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the net profit or loss for the year by the weighted average number of shares during the year as follows:

	2014	*2013*
Profit for the year in BD'000	**9,297**	6,107
Weighted average number of shares	**936,053**	936,053
Basic and diluted earnings per share (fils)	**9.93**	6.52

Basic and diluted earnings per share are the same since the Group has not issued any instruments that would have a dilutive effect.

24 RELATED PARTY TRANSACTIONS

Related parties comprise of major shareholders, directors of the Bank, senior management, close members of their families, entities owned or controlled by them and companies affiliated by virtue of common ownership or directors with that of the Bank. The transactions with these parties were made on commercial terms.

The significant balances and transactions with related parties at 31 December were as follows:

	2014				
	Shareholders BD'000	*Associates and joint ventures BD'000*	*Directors and related entities BD'000*	*Senior management BD'000*	*Total BD'000*
Assets					
Placements with financial institutions	-	4,734	-	-	4,734
Financing assets	-	-	2,339	-	2,339
Investment in associates	-	30,835	-	-	30,835
Other assets	-	-	64	194	258
Liabilities and Equity of investment accountholders					
Customers' current accounts	-	1,277	594	49	1,920
Other liabilities	-	1,928	-	-	1,928
Equity of investment accountholders	45,639	425	457	591	47,112

	2014				
	Shareholders BD'000	*Associates and joint ventures BD'000*	*Directors and related entities BD'000*	*Senior management BD'000*	*Total BD'000*
Income					
Income from financing	-	112	243	-	355
Share of results of associates	-	(1,550)	-	-	(1,550)
Less: Return on equity of investment accountholders	(990)	(7)	(6)	(21)	(1,024)
Expenses					
Other expenses	-	-	(328)	(825)	(1,153)

24 RELATED PARTY TRANSACTIONS (continued)

	2013				
	Shareholders BD'000	*Associates and joint ventures BD'000*	*Directors and related entities BD'000*	*Senior management BD'000*	*Total BD'000*
Assets					
Due from banks and financial institutions	-	9,481	-	-	9,481
Financing assets	-	-	2,111	44	2,155
Investment in associates	-	36,236	-	-	36,236
Other assets	-	-	-	244	244
Liabilities and Equity of investment accountholders					
Customers' current accounts	-	581	459	-	1,040
Other liabilities	-	1,644	-	-	1,644
Customers' investment accounts	-	2,373	443	-	2,816

	2013				
	Shareholders BD'000	*Associates and joint ventures BD'000*	*Directors and related entities BD'000*	*Senior management BD'000*	*Total BD'000*
Income					
Income from financing	-	173	123	-	296
Share of results of associates	-	1,197	-	-	1,197
Return on equity of investment accountholders	(281)	(10)	(9)	(26)	(326)
Expenses					
Other expenses	-	-	(358)	(895)	(1,253)

Compensation of the key management personnel is as follows:

Key management personnel includes staff at the grade of assistant general manager or above.

	2014 BD'000	*2013 BD'000*
Short term employee benefits	**688**	756
Other long term benefits	**137**	139
	825	895

25 RISK MANAGEMENT

Introduction
Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. These risks and the processes to mitigate these risks have not significantly changed from the previous year.

The Group is exposed mainly to credit, liquidity, market and operational risks.

Risk management objectives
The risk management philosophy of the Group is to identify, monitor and manage the various dimensions of risk with the objective of protecting asset values and income streams such that the interest of the Group's shareholders (and others to whom the Group owes a liability) are safeguarded, while maximising the returns intended to optimise the Group's shareholder return while maintaining it's risk exposure within self-imposed parameters.

The Group has defined its risk appetite within the parameters of its risk strategy. The Group reviews and realigns its risk appetite as per the evolving business plan of the Group with changing economic and market scenarios. The Group also assesses its tolerance for specific risk categories and its strategy to manage these risks.

Risk appetite of the Group is articulated in terms of the following dimensions:

1. Adequate capital level;
2. Stable profitability and growth;
3. Sufficient liquidity; and
4. Sound reputation.

Structure and Organization of the Risk Management Function
Risk Management Structure includes all levels of authorities, organizational structure, people and systems required for the effective functioning of risk management processes in the Group. The responsibilities associated with each level of the risk management structure and authorities include the following:

The Board retains ultimate responsibility and authority for all risk matters, including:

a. Establishing overall policies and procedures; and
b. Delegating authority to the Executive Committee, Credit and Investment Committee, Chief Executive Officer and further delegation to the management to approve and review.

Executive Committee (EC) comprises of three designated members of the Board of Directors. The Executive Committee is delegated authority by the Board to manage the ongoing activities of the Group. Decisions are taken by the Executive Committee either at periodic meetings or if the need arises, by circulation.

Credit and Investment Committee (CIC): As delegated by the Board of Directors and as per approved terms of reference, the Committee has been delegated with authorities and responsibilities including, approving extension or renewal of credit facilities, granting temporary excesses to customers with credit facilities approved by the Board, approving early repayments of facilities, monitoring the performance and quality of the Group's credit portfolio and overseeing the administration and effectiveness of and compliance with, the Group's credit policies through the review of such processes, reports and other information as it deems appropriate.

Risk Measurement and Reporting Systems
Based on the risk appetite, the Group has put in place various limits. These limits have been approved by the Board. Any limit breach is reported by the Risk Management Department (RMD) to the Credit Committee. The limits are reviewed and revised at least annually (or earlier if required).

25 RISK MANAGEMENT (continued)

a) Credit Risk

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss.

Credit Risk Mitigation

Credit risk mitigation refers to the use of a number of techniques, such as obtaining collateral and guarantees to mitigate the credit risks that the Group is exposed to. Credit risk mitigants reduce the credit risk by allowing the Group to protect against counterparty non-performance of credit contracts through collaterals, netting agreements and guarantees.

Generally, the Group extends credit facilities only where supported by adequate tangible collateral security and/or audited financial statements. Facilities may be considered without adequate tangible collateral security when audited financial statements reveal satisfactory financial position/repayment ability and the facilities are properly structured and supported by assignments, guarantees, etc. as appropriate.

In general, personal guarantees of the partners/promoters/directors of the borrowing entity are obtained in support of credit facilities. In all cases, a statement of net worth of the guarantor is to be compiled by the Account Officer, so that adequate information is available at a future date in case the guarantees need to be enforced.

Notwithstanding the above, when facilities are extended to family owned limited liability entities, the following is normally obtained;

a. Collateral security, fully covering the exposure; or
b. Joint and several guarantees of shareholders directly involved in managing the entity as well as of shareholders owing at least 80% of the shares of the entity.

Third party guarantees in support of credit facilities are accepted only after review and approval of appropriate guarantor lines.

(i) Gross maximum exposure to credit risk

The market value of tangible collateral security is properly evaluated by the Group approved surveyors (for properties) or based on publicly available quotations. Only the amount of such security equivalent to the exposure is taken into account while considering credit facilities.

The CIC periodically reviews and approves the value of securities. It has also approved a list of acceptable securities.

The table below shows the gross maximum exposure to credit risk for the components of the consolidated statement of financial position, including credit related commitments. The figures represent gross exposure, without taking account of any collateral held or other credit enhancements.

	2014	*2013*
	BD'000	*BD'000*
Cash and balances with banks and Central Bank	**43,070**	43,081
Placements with financial institutions	**68,567**	184,600
Financing assets	**438,704**	373,896
Ijarah Muntahia Bittamleek	**113,990**	98,110
Investments	**86,118**	41,705
Ijarah rental receivables	**14,065**	14,924
	764,514	756,316
Letters of credit, guarantees and acceptances	**21,535**	15,528

25 RISK MANAGEMENT (continued)

a) Credit Risk (continued)

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

Concentrations of credit risk 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 of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The Group seeks to manage its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses.

The distribution of the Group's assets, liabilities, equity of investment accountholders, commitments and contingent liabilities by geographic region and industry sector is as follows:

	Assets		*Liabilities and equity of investment accountholders*		*Commitments and contingent liabilities*	
	31 December 2014 BD'000	*31 December 2013 BD'000*	***31 December 2014 BD'000***	*31 December 2013 BD'000*	***31 December 2014 BD'000***	*31 December 2013 BD'000*
Geographical region						
Middle East	**867,636**	895,977	**788,901**	831,964	**22,277**	15,666
Rest of Asia	-	297	**913**	4	-	-
North America	**4,350**	1,280	**195**	183	-	-
Europe	**3,221**	12,740	**6,103**	27	-	325
	875,207	910,294	**796,112**	832,178	**22,277**	15,991
Industry sector						
Trading and manufacturing	**43,824**	77,461	**27,141**	17,045	**13,824**	7,665
Aviation	**8,241**	11,696	**17,114**	54,542	**466**	466
Real Estate	**246,215**	211,688	**15,916**	16,792	**632**	1,888
Banks and financial institutions	**119,083**	255,103	**109,928**	120,832	**2,543**	4,535
Personal / Consumer	**240,365**	237,957	**390,264**	477,706	-	-
Government Organization	**75,590**	47,424	**92,540**	63,232	-	-
Others	**141,889**	68,965	**143,209**	82,029	**4,812**	1,437
	875,207	910,294	**796,112**	832,178	**22,277**	15,991

(iii) Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of asset, based on the Group's credit rating system. Amounts reported are gross of any provision for impairment.

	31 December 2014				
	Neither past due nor impaired				
	High grade BD'000	***Standard grade BD'000***	***Past due but not impaired BD'000***	***Individually impaired BD'000***	***Total BD'000***
Murabaha	**1,257**	**274,236**	**21,637**	**36,631**	**333,761**
Musharaka	**1,117**	**66,856**	**13,251**	**23,719**	**104,943**
Ijarah Muntahia Bittamleek	**-**	**72,234**	**6,742**	**35,014**	**113,990**
Ijarah rental receivables	**-**	**9,119**	**906**	**4,040**	**14,065**
	2,374	**422,445**	**42,536**	**99,404**	**566,759**

25 RISK MANAGEMENT (continued)

a) Credit Risk (continued)

(iii) Credit quality per class of financial assets (continued)

	31 December 2013				
	Neither past due nor impaired				
	High grade	*Standard grade*	*Past due but not impaired*	*Individually impaired*	*Total*
	BD'000	*BD'000*	*BD'000*	*BD'000*	*BD'000*
Murabaha	4,614	209,055	35,871	25,568	275,108
Musharaka	1,862	53,862	9,695	33,369	98,788
Ijarah Muntahia Bittamleek	-	53,542	12,275	32,293	98,110
Ijarah rental receivables	-	11,866	2,162	896	14,924
	6,476	328,325	60,003	92,126	486,930

Restructured facilities during the year amounted to BD 21,353 thousand (2013: BD 9,571 thousand), and they included amounts totalling BD nil (2013: BD 3,467 thousand) which were past due more than 90 days.

(iv) Aging analysis of past due but not impaired financing facilities per class of financial assets

2014	***Up to 30 days***	***31 to 60 days***	***61 to 90 days***	***Total***
	BD'000	***BD'000***	***BD'000***	***BD'000***
Murabaha	**16,618**	**4,414**	**605**	**21,637**
Musharaka	**6,517**	**2,532**	**4,202**	**13,251**
Ijara Muntahia Bittamleek	**5,421**	**1,321**	**-**	**6,742**
	28,556	**8,267**	**4,807**	**41,630**

2013	*Up to 30 days*	*31 to 60 days*	*61 to 90 days*	*Total*
	BD'000	*BD'000*	*BD'000*	*BD'000*
Murabaha	35,113	319	439	35,871
Musharaka	9,110	248	337	9,695
Ijara Muntahia Bittamleek	11,020	1,217	38	12,275
	55,243	1,784	814	57,841

b) Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to cease immediately. To guard against this risk, the Group has a large customer base and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, commodity Murabaha, Wakala receivables, credit lines and quoted investments.

25 RISK MANAGEMENT (continued)

b) Liquidity Risk (continued)

Maturity profile of Group's assets and liabilities
The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's retention history of its equity of investment accountholders.

The maturity profile of assets, liabilities and equity of investment accountholders at 31 December 2014 was as follows:

	Up to 1 month	*1 to 3 months*	*3 to 6 months*	*6 months to 1 year*	*1 to 3 years*	*Over 3 years*	*No fixed maturity*	*Total*
	BD '000	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*
ASSETS								
Cash and balances with the banks and Central Bank	21,063	-	-	-	-	-	31,055	52,118
Placements with financial institutions	64,865	3,702	-	-	-	-	-	68,567
Financing assets	31,750	26,797	6,968	23,715	60,521	258,270	-	408,021
Ijarah Muntahia Bittamleek	14,573	13	2	7,569	11,451	68,669	-	102,277
Investments	24,760	6,933	9,129	-	8,266	53,096	21,377	123,561
Investment in associates	-	-	-	-	-	-	30,835	30,835
Investment in real estate	-	-	-	-	-	-	53,934	53,934
Ijarah rental receivables	-	-	-	14,065	-	-	-	14,065
Property and equipment	-	-	-	-	-	-	17,101	17,101
Other assets	-	-	4,728	-	-	-	-	4,728
Total assets	157,011	37,445	20,827	45,349	80,238	380,035	154,302	875,207
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS								
Placements from financial institutions	75,185	385	-	-	-	-	-	75,570
Customers' current accounts	137,423	-	-	-	-	-	-	137,423
Other liabilities	16,518	-	-	-	-	-	-	16,518
Equity of investment accountholders	127,278	78,299	80,252	271,858	5,931	-	2,983	566,601
Total liabilities and equity of investment accountholders	356,404	78,684	80,252	271,858	5,931	-	2,983	796,112
Liquidity gap	(199,393)	(41,239)	(59,425)	(226,509)	74,307	380,035	151,319	79,095
Cumulative liquidity gap	(199,393)	(240,632)	(300,057)	(526,566)	(452,259)	(72,224)	79,095	-

25 RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

The maturity profile of assets, liabilities and equity of investment accountholders at 31 December 2013 was as follows:

	Up to 1 month	*1 to 3 months*	*3 to 6 months*	*6 months to 1 year*	*1 to 3 years*	*Over 3 years*	*No fixed maturity*	*Total*
ASSETS	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*	*BD '000*
Cash and balances with the banks and Central Bank	18,091	-	-	-	-	-	32,740	50,831
Placements with financial institutions	157,659	17,996	8,945	-	-	-	-	184,600
Financing assets	22,985	20,087	11,049	31,781	67,804	193,099	-	346,805
Ijarah Muntahia Bittamleek	10,556	-	196	9	10,777	68,818	-	90,356
Investments	6,741	20,861	-	-	10,259	47,035	22,130	107,026
Investment in associates	-	-	-	-	-	-	36,236	36,236
Investment in real estate	-	-	-	-	-	-	58,219	58,219
Ijarah rental receivables	3,955	57	-	329	654	9,929	-	14,924
Property and equipment	-	-	-	-	-	-	17,067	17,067
Other assets	-	1,481	834	-	-	1,915	-	4,230
Total assets	219,987	60,482	21,024	32,119	89,494	320,796	166,392	910,294
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS								
Placements from financial institutions	79,371	7,484	8,289	-	-	-	-	95,144
Customers' current accounts	105,932	-	-	-	-	-	-	105,932
Other liabilities	13,608	-	-	-	-	-	-	13,608
Equity investment accountholders	100,094	106,212	128,470	273,981	5,850	-	2,887	617,494
Total liabilities and equity of investment accountholders	299,005	113,696	136,759	273,981	5,850	-	2,887	832,178
Liquidity gap	(79,018)	(53,214)	(115,735)	(241,862)	83,644	320,796	163,505	78,116
Cumulative liquidity gap	(79,018)	(132,232)	(247,967)	(489,829)	(406,185)	(85,389)	78,116	-

25 RISK MANAGEMENT (continued)

c) 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, equity prices, and foreign exchange rates.

(i) 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 Group's management believe that the Group is not exposed to material profit rate risk as a result of mismatches of profit rate repricing of assets, liabilities and equity of investment accountholders as the repricing of assets, liabilities and equity of investment accountholders occur at similar intervals. The profit distribution to equity of investment accountholders is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

However, the profit sharing agreements will result in displaced commercial risk when the Group's results do not allow the Group to distribute profits inline with the market rates.

(ii) 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 investment portfolio. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

In order to measure the risk of equity on its financial positions, the Group adopts a sensitivity analysis on its quoted equity portfolio for a 10% increase of the portfolio value with all other variables remaining constant. The effect of a similar decrease in equity prices is expected to be equal and opposite to the effect of the increase shown.

Equity price risk variation as of 31 December is as follows:

	Increase in equity price	***Sensitivity of profit or loss***	***Sensitivity of equity***
2014	***%***	***BD'000***	***BD'000***
Kuwait Stock Exchange	**+10**	**-**	**139**

	Increase in equity price	*Sensitivity of profit or loss*	*Sensitivity of equity*
2013	*%*	*BD'000*	*BD'000*
Bahrain Bourse	+10	10	806
Saudi Stock Exchange (TADAWUL)	+10	39	425
Oman Stock Exchange	+10	16	-
Kuwait Stock Exchange	+10	-	132
Qatar Stock Exchange	+10	-	320

As at the consolidated statement of financial position date, the Group has unquoted (equities and sukuk) of BD 104 million (31 December 2013: BD 33 million). The impact of changes in the value of these unquoted equities and sukuk and the related impact on equity will only be reflected when the financial instrument is sold or deemed to be impaired.

25 RISK MANAGEMENT (continued)

c) Market Risk (continued)

iii) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group views the Bahraini Dinar as its functional currency. The Board has set limits on positions by currency. Positions are monitored on a daily basis to ensure they are maintained within established limits.

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

	Equivalent Long (short) 2014 BD '000	*Equivalent Long (short) 2013 BD '000*
Currency		
Pound Sterling	**(1,149)**	(4,359)
Euro	**1,653**	(1,166)
Kuwaiti Dinars	**(11,490)**	(12,376)

As the Bahraini Dinar is pegged to the US Dollar, positions in US Dollars are not considered to represent significant currency risk.

Moreover, as the Group does not have significant exposure to other currencies, movement of the currency exchange rates against the Bahraini Dinar with other variables held constant will have an immaterial impact on the consolidated statement of income and owners' equity.

d) Operational Risk

Operational risk is the risk of loss arising from system 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 Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

26 DEPOSIT PROTECTION SCHEME

Deposits held with the Bank's Bahrain operations are covered by the regulation protecting Deposits issued by the Central Bank of Bahrain in accordance with Resolution No (34) of 2010. The scheme applies to all eligible accounts held with Bahrain offices of the Bank subject to specific exclusions, maximum total amount entitled and other regulations concerning the establishment of a Deposit Protection Scheme and a Deposit Protection Board.

27 SEGMENTAL INFORMATION

For management purposes, the Group is organised into three major business segments;

Corporate	Principally handling equity of corporate investment accountholders', corporate current accounts, and providing Islamic financing facilities to corporate customers.
Retail	Principally handling equity of individual retail customers' investment accountholders', retail current accounts, and providing Islamic financing facilities to individual customers.
Investment	Principally handling equity of banks' and financial institutions' investment accountholders, providing money market, trading and treasury services as well as the management of the Group's investment activities. Investment activities involve handling investments in local and international markets and investment in properties.

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at estimated market rates on an arm's length basis. Transfer charges are based on a pool rate which approximates the cost of funds.

Segment information is disclosed as follows:

	31 December 2014			
	Corporate BD'000	***Retail BD'000***	***Investment BD'000***	***Total BD'000***
Total net income	**7,955**	**21,716**	**13,180**	**42,851**
Total expenses	**(3,480)**	**(15,364)**	**(2,781)**	**(21,625)**
Provision for impairment	**(6,355)**	**(1,238)**	**(4,336)**	**(11,929)**
Profit / (loss) for the year	**(1,880)**	**5,114**	**6,063**	**9,297**
Other information				
Segment assets	**219,150**	**348,118**	**307,939**	**875,207**
Segment liabilities, and equity	**260,948**	**452,778**	**161,481**	**875,207**

	31 December 2013			
	Corporate BD'000	*Retail BD'000*	*Investment BD'000*	*Total BD'000*
Total income	11,950	18,440	5,220	35,610
Total expenses	(3,021)	(13,878)	(2,838)	(19,737)
Provision for impairment	(3,619)	(1,656)	(4,491)	(9,766)
Profit / (loss) for the year	5,310	2,906	(2,109)	6,107
Other information				
Segment assets	205,594	287,777	416,923	910,294
Segment liabilities, and equity	298,522	433,083	178,689	910,294

The Group operates solely in the Kingdom of Bahrain and, as such, no geographical segment information is presented.

28 FINANCIAL INSTRUMENTS

Fair value hierarchy
Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction.

Fair values of quoted securities / Sukuk are derived from quoted market prices in active markets, if available. For unquoted securities / Sukuk, fair value is estimated using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

The Group uses the following hierarchy for determining and disclosing the fair value of financial 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 at 31 December:

2014	***Level 1 BD'000***	***Level 2 BD'000***	***Level 3 BD'000***	***Total BD'000***
Investments carried at fair value through equity				
Quoted securities				
Equities	**1,393**	**-**	**-**	**1,393**

2013	*Level 1 BD'000*	*Level 2 BD'000*	*Level 3 BD'000*	*Total BD'000*
Investments carried at fair value through statement of income				
Quoted securities				
Equities	866	-	-	866
Investments carried at fair value through equity				
Quoted securities				
Equities	19,995	-	-	19,995
	20,861	-	-	20,861

Transfers between Level 1, Level 2 and Level 3
During the year ended 31 December 2013 there were no transfers between Level 1 and Level 2, and no transfers into or out of Level 3.

The carrying values of other financial assets and liabilities are not significantly different from their fair values at 31 December 2014, except for the Group's investments in Sukuk held at amortised cost amounting to BD 81,834 thousand (2013: BD 38,365 thousand) with fair values amounting to BD 81,181 thousand (2013: BD 40,033 thousand).

29 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a Qard fund account where the Group uses these funds for various social welfare activities. The movements in these funds is shown in statement of sources and uses of good faith Qard fund. The non-Islamic income includes the penalties charged on late repayments for Islamic facilities.

30 SHARI'A SUPERVISORY BOARD

The Group's Shari'a Supervisory Board consists of three Islamic scholars who review the Group's compliance with general Shari'a principles and specific Fatwas, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the Group to ensure that its activities are conducted in accordance with Islamic Shari'a principles.

31 SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through Zakah and charity fund's expenditures and donations to good faith Qard fund for marriage, refurbishment, medical treatments, etc.

32 COMPARATIVE FIGURES

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