BBK

بنك البحرين والكويت

Knowing what matters

Annual Report 2014

BBK is licensed by Central Bank of Bahrain as a Conventional Retail Bank.

H.M. King Hamad bin Isa Al Khalifa
King of the Kingdom of Bahrain

H.H. Sheikh Sabah Al Ahmed Al Sabah
Amir of the State of Kuwait

Our vision

BBK will be the premier regional financial services enterprise in providing superior products and services of high quality through innovation, technology and life-long client relationships.

Our mission

The Bank will expand its overseas presence in more locations in which it chooses to operate in order to satisfy the diversified needs of clients. We believe clients are the driving force in everything we do. We will not compromise on our absolute commitment to providing the very best in client service.

We believe our people are our number one asset with the highest degree of competence, integrity and professionalism. We instil in our people the principles of entrepreneurship, decision-making and ownership through our commitment to training, development, delegation and performance based reward systems.

We are determined to utilise cutting-edge technology which we recognise as most critical in supporting our short, medium and long-term business objectives.

Our shareholders are the source of our financial strength and can expect continued growth and profitability. They are supportive and are confident of our vision of the future.

Visit www.bbkonline.com/annualreport2014 to access the 2014 Annual Report.

BBK cares about the matters that are important – to our clients, our shareholders, our partners, and our community

With four decades of banking experience, we have accumulated in-depth ability to understand your banking needs and to provide everything you would expect from your banking partner. Whether you are a personal account holder, small business, or corporate institution, we have the knowledge and the expertise to help you achieve your goals. What matters to you, matters to us.

Business matters

Financial highlights

	2010	2011	2012	2013	2014
Income statement highlights (BD millions)					
Net interest income	53.7	58.9	65.8	68.9	**72.3**
Other income	55.4	46.9	42.9	43.5	**45.2**
Operating expenses	45.6	47.9	50.6	54.4	**46.2**
Net profit	39.1	31.8	42.4	45.1	**50.1**
Cash dividend	25%	25%	10%	10%	**20%**
Stock dividend	–	–	10%	10%	**5%**
Financial statement highlights (BD millions)					
Total assets	2,447	2,765	3,108	3,231	**3,501**
Loans and advances	1,276	1,407	1,499	1,619	**1,846**
Investments	591	830	937	1,117	**1,116**
Customer deposits	1,594	2,076	2,205	2,353	**2,471**
Term borrowings	370	237	238	239	**241**
Total equity	241	238	290	333	**359**
Profitability					
Earnings per share *(fils)*	47	38	46	44	**50**
Cost/income	41.82%	45.30%	46.54%	48.41%	**39.33%**
Return on average assets	1.63%	1.20%	1.46%	1.43%	**1.49%**
Return on average equity*	16.92%	13.42%	16.34%	14.56%	**13.93%**
Profit per employee *(BD)*	36,344	28,952	38,789	45,232	**48,826**
Capital					
Capital adequacy	18.57%	14.85%	14.29%	15.33%	**15.63%**
Equity/total assets	9.83%	8.61%	9.32%	10.31%	**10.26%**
Debt/equity	153.94%	99.41%	82.18%	71.94%	**67.05%**
Liquidity and business indicators					
Loans and advances/ total assets	52.15%	50.87%	48.23%	50.10%	**52.74%**
Loans and advances/ customer deposits	80.09%	67.75%	67.98%	68.79%	**74.72%**
Investments excluding treasury bills/total assets	18.82%	22.24%	24.85%	24.82%	**23.53%**
Liquid assets/total assets	32.39%	34.98%	36.50%	33.25%	**29.19%**
Net yield ratio	2.39%	2.38%	2.50%	2.39%	**2.32%**
Number of employees	1,077	1,098	1,092	996	**1,026**

* ROE presented above is arrived at by dividing the net profit attributed to owners by the average equity attributed to owners (net of non-controlling interest).

Net interest income
BD millions

+5.0%

72.3

Net interest income
BD millions

Performance matters

Customer deposits
BD millions

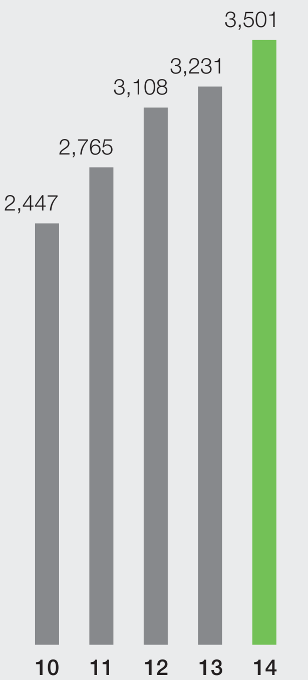
+5.0%

2,471

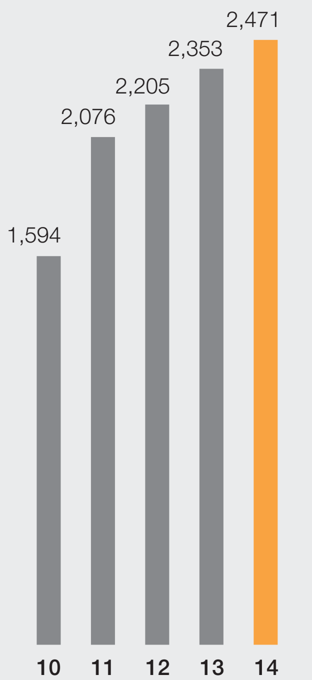
Net profit
BD millions

+11.2%

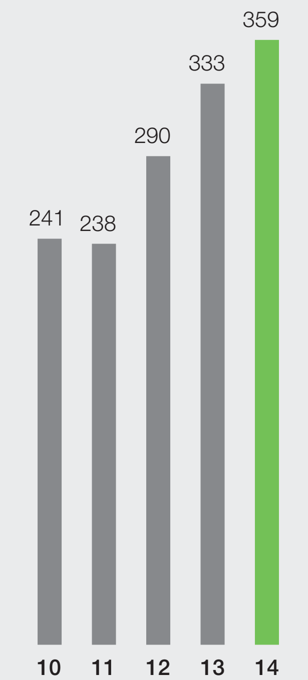
50.1



Total assets
BD millions



Customer deposits
BD millions



Total equity
BD millions

Earnings per share
Fils

Message from the Chairman

Our continued focus on diversification and cross-border expansion is central to BBK's longer-term strategy.

Once again I am honoured to present BBK's annual report – the 43rd in our history and covering the year to 31 December 2014. This was the second year of our current three-year strategic cycle and our performance was very much in line with the Bank's objectives, despite markets in the Kingdom of Bahrain and the wider Gulf region still recovering from the downturn of previous years.

Nevertheless, barring the steep fall in oil prices during the latter part of the year, 2014 was a much better year for Bahrain's economy, with overall GDP growth in the region of 4.0 to 4.2 percent. Comparatively, BBK recorded profit growth of 11.2 percent, maintaining our record of year-on-year improvement.

Although the domestic market is still far from vibrant, we were able to compensate by being more active across the region. This continued focus on diversification and cross-border expansion is central to BBK's longer-term strategy, as falling oil prices pose more challenges in the domestic economy during 2015.

Bahrain is indeed fortunate that neighbouring GCC countries have committed to substantial investment in our national infrastructure, each contributing $250 million annually for 10 years and the benefits are already being felt. The main focus is on housing, with 40,000 new units planned. This investment is finding its way into the market through local contractors, sub-contractors, and joint ventures with principals in donating countries.

In this context, BBK has always been very active in supporting local businesses and particularly so in 2014. We have experienced keen demand for finance from a wide range of sectors – industrial, contracting, services, retail, and consumer.

We have also seen an increased level of corporate activity – from SMEs to large institutional clients. The scale of the demand is reflected in the fact that growth in lending during 2014 outstripped the growth in deposits. Nevertheless, the market continues to be very liquid, with substantial volumes of local currency available.

Achievement matters

BBK itself is very liquid. Although our loan to deposit ratio had peaked at one stage, it has now returned to previous levels, giving the opportunity in 2015 to seek growth in assets through extending loans and credit facilities.

Over the past few years we have enjoyed substantial growth in investments and treasury activities, which have achieved excellent returns. However, the opportunities for good margins that were available in recent years are beginning to ease off as market conditions change.

Both the primary and secondary markets are becoming more limited in scope and we are now seeking new opportunities. This challenge is compounded by run-offs in the existing portfolio. Our $500 million five-year senior bond matures in October 2015 and BBK's Board and management team are now considering various options for refinancing.

We believe this is a good time to go to the market, although the tenor and total cost must be compared with alternatives such as a syndicated loan or private placement. Although interest rates are at historically low levels, there is no guarantee that this will be maintained in 2015, so this will have to be taken into account in the planning stages. BBK's strong liquidity means that we could comfortably manage without recourse to the market, but refinancing is the most likely option. We will also consider the implications of Basel III and the potential impact of refinancing.

Our liquidity is such that we are now in a very comfortable position, and as a result we have received clarification from the Central Bank of Bahrain that we are more than ready to meet the criteria for Basel III compliance.

Capital adequacy is of crucial importance in our planning. As BBK is consistently achieving annual asset growth of five to eight percent, we must ensure that our capital adequacy ratio keeps pace with such continuous expansion.

A very positive aspect of the last three years' net profit increase is that it arose from normal core business activities rather than being attributable to one-off exceptional events. We have therefore been able to strengthen the Bank's general provisioning, with more than double the ratio from just a few years ago (despite a concurrent growth in assets) and comfortably within regulatory requirements.

Previously, general provisions applied only to loans and advances, but now they encompass investments as well, addressing the Bank's total portfolio and meeting all eventualities in terms of asset exposure. Our new remedial function is also performing very well and contributing to good control through selective lending and corrective measures for doubtful or non-performing loans.

Having been designated as a Domestic Systemically Important Bank (D-SIB), reflecting BBK's importance to the national economy, from 2014 we have had quarterly instead of annual meetings with the Central Bank of Bahrain. The Bank will benefit from the more frequent and in-depth analysis and evaluation of key metrics that this entails.

Our 2012-13 cost reduction initiative is now bearing fruit. This applied mainly to potential savings arising from right-sizing staff numbers by offering packages for voluntary retirement. Although this entailed one-off costs that affected results in 2012-13, our cost to gross profit ratio has now improved substantially, as a result of major operating cost savings.

Cross-border operations are becoming increasingly important in our strategic planning and in diversifying our domestic income base. Our New Delhi branch, our fourth in India, was officially opened in November, and our new Business Development Division is actively seeking further opportunities for local and international expansion.

We cannot ignore the impact of technology, especially the recent advances in devices such as smart phones, and their implications for the financial services industry. The potential for innovation is vast and BBK plans to maintain its leadership in this field, much as we have in the past with internet banking, phone banking, and mobile banking.

Looking ahead, in 2015 we will complete our three-year strategic cycle and planning for the next period. The Bank will continue as a major player in the domestic market, serving all sectors of Bahrain's economy, while also expanding and diversifying our overseas activities. The coming year will be critical as we appraise achievements and determine the best ways to develop as a financial services group in the future.

I take this opportunity to extend our utmost thanks and appreciation to His Majesty King Hamad bin Isa Al Khalifa, the King of the Kingdom of Bahrain, and His Highness Sheikh Sabah Al Ahmed Al Jaber al Sabah, the Emir of Kuwait. I also extend thanks to their respective Governments and regulatory authorities for their support and guidance.

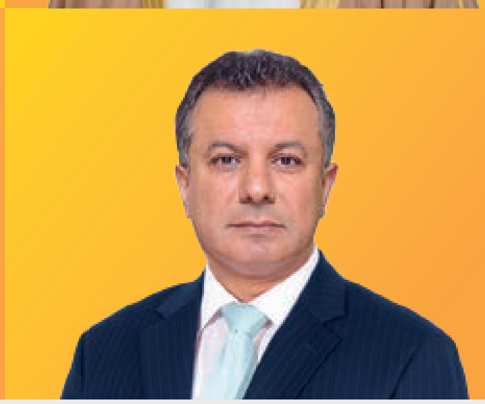
I thank the Board of Directors, and all the stakeholders for the outstanding performance during the year, which bodes well for the continued realisation of BBK's strategic vision and growth plans.

Murad Ali Murad
Chairman

Board of Directors








Murad Ali Murad
Chairman

Chairman of the Nomination, Remuneration and Corporate Governance Committee

Chairman of the Risk Committee

Director since 21 March 1999
(Independent and non-executive)

Qualification and Experience
Fellow member of the Chartered Institute of Management Accountants, London, United Kingdom. Over 42 years experience in the banking sector and has own business for the past 12 years.

Aref Saleh Khamis
Deputy Chairman

Director since 1 April 2003
(Non-independent and non-executive)

Qualification and Experience
Master in Business Administration, King Fahad University of Petroleum and Minerals, Dhahran, Kingdom of Saudi Arabia. 30 years experience in the government sector.

Nominated by:
Social Insurance Organization (SIO)

Mohamed Abdulrahman Hussain
Board Member

Chairman of the Executive Committee

Director since 2 March 2008
(Independent and non-executive)

Qualification and Experience
Bachelor of Arts, Economics and Finance, University of Aleppo, Syria. Over 35 years experience in the Banking sector.

Sh. Khalifa bin Duaij Al Khalifa
Board Member

Director since 27 February 2005
(Independent and non-executive)

Qualification and Experience
Master in Business Administration, Johns Hopkins University, United States of America.

Master in Social and Public Policy, Georgetown University, United States of America. 7 years experience in the government sector (investment field) and 8 years in the diplomatic sector.

Marwan Mohammed Al Saleh
Board Member

Director since 30 December 2014
(Non-independent and non-executive)

Qualification and Experience
Bachelor of Arts, Eckerd College, United States of America. 30 years in the investment sector.

Nominated by:
Kuwait Investment Authority

Mutlaq Mubarak Al Sanei
Board Member

Director since 6 March 2011
(Non-independent and non-executive)

Qualification and Experience
Bachelor of Economics, Kuwait University, State of Kuwait. Over 22 years experience in the management of diversified investments across the Middle East and North Africa and around 6 years in the management of real estate and tourism projects in North Africa.






Jassem Hasan Ali Zainal
Board Member

Chairman of the Audit Committee

Director since 22 November 1994
(Independent and non-executive)

Qualification and Experience
Master in Civil Engineering, Kuwait University, State of Kuwait. 24 years experience in the banking sector, 4 years in the government sector, 6 years with finance companies, 6 years with investment companies and has own business for 6 years.

Dr. Zakareya Sultan AlAbbasi
Board Member

Director since 22 February, 2012
(Non-independent and non-executive)

Qualification and Experience
PhD., University of East Anglia, United Kingdom. 29 years experience in the government sector (Social Insurance).

Nominated by:
Social Insurance Organization (SIO)

Sh. Abdulla bin Khalifa bin Salman Al Khalifa
Board Member

Director since 2 March 2008
(Non-independent and non-executive)

Qualification and Experience
Bachelor of Business Administration, George Washington University, United States of America. 14 years experience in the banking and investment sector.

Elham Ebrahim Hasan
Board Member

Director since 6 March 2011
(Non-independent and non-executive)

Qualification and Experience
Bachelor of Science in Accountancy, University of Cairo, Egypt. Certified Public Accountant from Boston, MA, United States of America. 29 years experience in the auditing field (Primarily auditing banks and financial institutions).

Nominated by:
Ithmaar Bank

Yusuf Saleh Khalaf
Board Member

Director since 6 March 2011
(Independent and non-executive)

Qualification and Experience
Associate, Association of Chartered Certified Accountants, United Kingdom. 8 years experience the auditing field and over 26 years in the banking sector.

Hassan Mohammed Mahmood
Board Member

Director since 1 September 2010
(Non-independent and non-executive)

Qualification and Experience
Bachelor of Commerce, University of Bangalore, India. Over 17 years experience in audit and consultancy and over 17 years in Islamic finance.

Nominated by:
Ithmaar Bank

Board of Directors' report

The Board of Directors is honoured to present the 43rd annual report and consolidated financial statements of BBK and its subsidiaries (the Group) for the year ending 31 December 2014.

Operating environment

Record oil revenues in the GCC region have underpinned strong economic growth in recent years, but should the sharp fall in benchmark prices during the final quarter of 2014 be sustained, this will clearly affect future planning and expectations. Consequently, the International Monetary Fund is projecting real GDP growth of 2.9 percent for 2015, compared to the 4.0 to 4.2 percent in 2014.

However, we believe that Bahrain's Government investment plans will not suffer significant adjustments because of lower oil prices, thus ensuring support for the nation's economy. Government spending in 2014 totalled BD 3.70 billion, slightly up from the previous year's BD 3.54 billion, although growth continued to be relatively slow.

A commitment by four GCC states to support Bahrain by investing $10 billion in infrastructural projects over 10 years is helping to alleviate the housing shortage. The funding is also having a beneficial effect by filtering through to local businesses involved in carrying out the work.

A year of achievement

In the context of the national economy, BBK performed admirably in 2014, maintaining its historical growth rate of around 11 percent per year. Cross-border activities contributed significantly to this performance, confirming the soundness of the Bank's expansion and diversification strategy and compensating for the comparatively subdued domestic markets.

Regional and international operations are becoming increasingly important as the Bank nears peak returns in its home environment, where it has long been a dominant player. The strengths that made this possible – operational efficiency, well-controlled costs, and quality of service – are underpinning cross-border growth and will serve the Bank well as it continues to seek new opportunities.

Financial highlights

The Group again reports solid full year result with net profits of BD 50.1 million, an increase of 11.2 percent over the previous year's BD 45.1 million. Net interest income rose 5.0 percent to BD 72.3 million, with equity showing a healthy growth of 7.7 percent compared to 2013, mainly due to higher profit retention and positive overall trends in the cumulative changes of fair value, statutory, and general reserves.

We delivered consistent underlying performance in our core business, demonstrating the strength of our strategy and management team. The Bank's total balance sheet strengthened to BD 3,501 million at the end of 2014, an increase of BD 270 million over last year's results. This was fuelled by strong growth in customer deposits, which rose by BD 118 million over the course of the year. This rise was achieved by leveraging BBK's established image as one of the safest, most prudent and community focused financial institutions in the Kingdom of Bahrain, which has won the loyalty and confidence of new and existing customers.

Our capital adequacy ratio remained at the acceptable level of 15.63 percent, exceeding the minimum regulatory requirement, with liquid assets representing 29.2 percent of total assets.

The Board has recommended a cash dividend of 20 fils per share and 5 percent stock dividends.

Innovation matters

Business review

Being the second year of BBK's three-year business cycle, 2014 was a pivotal period – very successfully achieving planned objectives while beginning preliminary planning for the next cycle and intensifying the expansion and diversification activities that are so crucial to future growth.

The Bank has a proud record of achieving successive annual increases in profitability and new revenue streams are now essential if this performance is to be maintained.

The formal opening of a fourth branch in India and the first in the capital, New Delhi, is a major step in this direction. We believe that India holds great potential for BBK, and becoming the first Middle East bank with a branch in the capital gives us a very advantageous position to make the most of the opportunities that exist in the sub-continent.

Cross-border regional activities also contributed strongly to our 2014 performance, and we made good progress towards strengthening our presence in GCC states while taking the final decision in 2015 on establishing a new investment banking joint-venture in Europe.

Locally, we maintained our leadership in core markets such as retail and corporate, and advanced with plans to expand our branch network.

Operationally, our initiatives to contain and reduce costs began to show very tangible benefits, resulting in an improved ratio of expenses to gross revenue. Our investment in employees' development, compensation and benefits, and workplace transparency also continues to yield impressive dividends. BBK is highly-rated as an employer of choice and surveys show record levels of employee engagement.

Being designated by the Central Bank of Bahrain as a Domestic Systemically Important Bank (D-SIB) strengthens the market's perceptions of BBK as a premier financial institution.

We also work closely with the regulator, especially on meeting new international requirements such as Basel III where we were able to achieve compliance well within the deadline. A notable achievement in this regard is the adoption of our new remuneration and bonus policy, becoming the first bank in Bahrain to meet the international requirements.

Our status as a leading bank – by regional and international standards – was endorsed by Global Banking and Finance Review, the authoritative UK-based online portal, which named BBK 'Best Retail Bank Bahrain 2014'.

The award was made in recognition of 'outstanding achievements in many areas of the retail banking sector', following evaluation of BBK's products and services and scoring highly for innovative technology, adherence to high standards in corporate governance, and commitment to corporate social responsibility.

Dealing with clients as business partners rather than arm's length sources of revenue has always been at the heart of our operating philosophy. Innovative new products and services now bring us even closer to our clients.

Corporate governance

Corporate governance refers to the set of systems, principles, and processes by which a company is managed, such as observing integrity, fairness, and ethics in the conduct of the business, maintaining transparency in all transactions, and being accountable and responsible to stakeholders.

In BBK's case, corporate governance is guided by the Bank's core values, well-defined code of ethics, and adherence to openness and transparency.

The Board of Directors therefore constantly seeks to ensure that the Bank complies with all the reporting regulations and requirements as defined in the Code of Corporate Governance issued by the Bahrain Ministry of Industry and Commerce and the rulebook of the Central Bank of Bahrain.

2014 was the first year that the Board engaged independent consultants to evaluate the performance of the Board itself and its oversight committees. The results confirmed the findings of the internal reviews conducted over the three previous years, with very positive feedback being received and only a few areas identified for extra attention.

In keeping with this, and new requirements from the Central Bank of Bahrain for all company directors to undergo specialist education, our Board members will from next year undertake 15 hours of development studies to enhance their corporate skills and knowledge, such as familiarity with the requirements of Basel III.

During the year, Corporate governance responsibilities also included meeting the requirements of FATCA – the US Foreign Account Tax Compliance Act – which stipulates that US citizens, including those living abroad, report their financial accounts held outside of the United States. Foreign financial institutions must report to the US Internal Revenue Service about their US clients, a measure designed to make it more difficult for US taxpayers to conceal assets held in offshore accounts and shell corporations, and thus to recoup federal tax revenues.

Looking ahead

Although falling oil prices suggest challenging times in 2015, BBK is well positioned to respond positively to any unexpected market turbulences arising from the domestic or global economy.

The Bank's performance in 2014 is a very good indicator of its inherent strengths and we can be confident that these will prove to be as invaluable as they did during the extreme turbulence of the global economic crisis a few years ago.

The Bank is now even better equipped to cope with challenges, and the strategic approach being pursued will give added advantage in our drive for sustainable growth.

Expansion and diversification – domestically, regionally, and internationally – will continue to be priorities, along with our unwavering commitment to operational excellence in every area of activity.

We may be close to saturation point in our core domestic markets, but we are always conscious of our Bahraini heritage and our incumbent responsibilities to the customers and the communities whose support and loyalty have been so instrumental to our continued success.

We believe that BBK has been a source for good in Bahrain and we will make every endeavour to ensure that we continue to discharge that role with distinction.

Our shareholders approved an amount of BD 1.25 million for distribution in 2014 to the many worthy causes that the Bank supports – from community-related projects to cultural events and sport sponsorship.

We look forward to similar commitment in 2015, mindful of our roots and origins while seeking fresh fields for our skills and expertise.

Appointment of auditors

At the Annual General Meeting held on 12 March 2014, Ernst & Young were re-appointed as external auditors to the Bank for the financial year ending 31 December 2014.

Appreciation

The Board extends its gratitude to BBK's shareholders for their continued confidence, to our clients for their loyalty and patronage, and to BBK's management and employees for the hard work and commitment that underpins another year of excellent results for the Bank.

On behalf of the Board of Directors

Murad Ali Murad
Chairman

Ratings

A positive acknowledgment of the Bank's resilient financial performance in recent years came from Fitch Ratings, which initially upgraded its Viability Rating to bbb-, from the previous bb+. Following a change to Bahrain's outlook due to reduced oil prices, the Bank's Outlook rating was changed recently (on 23 December 2014) to Negative.

Fitch

Local and Foreign Currency	Rating	Outlook
Long Term Issuer Default Rating	BBB	Negative
Short Term Issuer Default Rating	F3	
Viability Rating	bbb-	
Support Rating	2	
Support Rating Floor	BBB	

Report issue date: 1 December 2014

Moody's

Local and Foreign Currency	Rating	Outlook
Long Term Bank Deposits	Baa2	Negative
Short Term Bank Deposits	Baa2	
Bank Financial Strength	D+	
Baseline Credit Assessment	baa3	
Senior Unsecured	Baa2	

Report issue date: 29 September 2014

Appropriation

The Board of Directors recommends the below-listed appropriations of the Bank's net profit for approval by shareholders:

Appropriations	BD'000
Retained earnings as at 1 January 2014	67,747
Profit for the year 2014	50,095
Transfer to general reserve	(4,682)
Transfer to statutory reserve	(4,682)
Proposed appropriation for donations	(1,390)
Retained earnings as 31 December 2014 available for distribution (before proposed dividend)	107,088
Proposed cash dividends (20% of paid-up capital, net of treasury stock)	(20,179)
Proposed stock dividends (5% of paid-up capital)	(5,151)
Retained earnings as 31 December 2014 (after proposed dividend)	81,758

Corporate Governance report

Good corporate governance is considered central to achieving the Bank's objectives and fundamental in maintaining a leading position within the local and regional banking sectors.

BBK takes pride in ensuring exceptional standards of corporate governance are met. Our Corporate governance policy is underpinned by international standards of best practice.

Initiatives in 2014

BBK implemented initiatives in 2014 to enhance the corporate governance practices at the Bank. These include continuing reviewing the corporate governance framework and policies, Board Committees' charters and all other Bank policies – especially risk management policies by the Board. An external firm was appointed to perform the evaluation of the Board and its Committees. The process included improved questionnaires relevant to the banking sector, interviews with the management and the Board members for expressing their views freely and was concluded with recommendations for improvement. Furthermore, enhanced disclosures were published in the annual report. The corporate governance section on the website was revamped and a new Board resolution register with the objective of keeping record of all Board and Board Committees' decisions for the ease of retrieval of those resolutions was developed.

The Board has also approved new remuneration policies and a new training and competency policy to comply with the CBB requirements. A full training schedule was approved by the Board for the year 2015 to cater for the same. Consequently, the Board has approved amendments to the terms of reference of the Nomination, Remuneration, and Corporate Governance Committee to reflect the issues mentioned above.

Corporate governance philosophy

BBK shall continue its endeavour to enhance shareholders' value, protect their interests, and defend their rights by practising the pursuit of excellence in corporate life. The Bank shall not only comply with all statutory requirements – including the Corporate Governance Code of the Kingdom of Bahrain and the High Level Controls Module of the Central Bank of Bahrain – but also formulate and adhere to strong corporate governance practices.

BBK shall continuously strive to best serve the interests of its stakeholders including shareholders, clients, employees and the public at large.

The adoption and implementation of corporate governance is the direct responsibility of the Board of Directors, and this endeavour is in line with the policies of regulatory authorities and statutory requirements in the Kingdom of Bahrain and other countries where BBK operates.

Risk appetite statement

Risk appetite is the level and type of risk which the Bank is willing to assume, in order to achieve its strategic and business objectives keeping in perspective the obligations to its stakeholders.

Risk appetite of the Bank is both a qualitative and quantitative measure and reflects its level of risk tolerance in normal as well as in stressed scenarios. It is expressed as a measurable key performance indicator (KPI), a tolerance limit or as a qualitative guideline.

The Bank has a well-defined Risk Appetite Framework, that consists of the Risk Appetite Statement along with (a) well defined performance metrics in the form of KPIs, (b) risk limits, exposure criteria, restrictions and controls, lending and investment standards as laid out in the internal risk policies and procedures manual, (c) capital and liquidity benchmarks which are monitored in the Asset Liability Management Committee meetings, (d) key business and risk management objectives, goals and strategy which are defined in business, investment and risk management strategies, and (e) management and oversight structures in the Bank through Management and Board committees. Our risk appetite defines the desired performance levels which, in turn, are embedded into management of the various risks within the Bank as well as the Capital of the Bank. Our risk appetite is integrated into the strategic, capital, and risk management planning process across business verticals.

The Bank measures the contribution of each business vertical towards key KPIs.

The Bank aims towards optimising the risk-reward for the benefit of all stakeholders and it is reviewed and implemented through strategies (business, investment, risk management, ICAAP), which are closely reviewed annually. The Bank's primary exposure is to credit risk along with other Pillar 1 and Pillar 2 risks assumed in the normal course of its business. The risk appetite statement is also reviewed though a Risk Management Strategy document by the Management and recommended for approval to the Risk Committee and the Board annually. The Bank's risk appetite requires, amongst other things,

- A high level of integrity, ethical standards, respect and professionalism in our dealings
- Taking only those risks which are transparent and understood and those which can be measured, monitored, and managed
- Ensuring that the Bank has adequate levels of capital adequacy on an ongoing basis as mandated by the regulator and as assessed by the Bank in its ICAAP document; that the capital requirements and capital planning are incorporated in its capital management strategy
- Ensuring that the Bank has access to adequate levels of stable, efficient, and cost-effective funding to support liquidity and lending or investing requirements on an ongoing basis; that the Bank has in place a robust liquidity management framework and contingency plans to monitor and manage liquidity both on normal and stress liquidity conditions in addition to monitoring key liquidity ratios (internal and regulatory) in Asset Liability Management Committee meetings on a monthly basis
- Adhering to the core principles of lending which are enshrined in the general lending policy of the Bank

Leadership matters

• Maintaining a robust credit management framework with focus on geographies where the Bank has physical presence (Kuwait, India, Dubai), GCC, and select MENA and other countries; undertaking exposures to countries within the directives of the Country Risk Committee, which reviews country risk and the Bank's strategy in those countries on a dynamic basis.

• Having in place a defined monitoring, collection and restructuring framework for effective recovery mechanism

• Limiting exposures to high – risk activities which may culminate into tail-end risks jeopardising Bank's capital and credit worthiness

• Striving for optimum profitability through income generation, cost efficiency, and low impairment

• Assessing new credit products in a structured form for approval by appropriate authorities so that the underlying risks, benefits, operational processes, system requirements and legal requirements are understood and managed

• Protecting the Bank's and the customers' interest through robust operational procedures, internal controls, system support, training and operational risk management process to mitigate operational risk

• Ensuring full compliance with legal, statutory, and regulatory requirements; ensuring adherence to anti-money laundering (AML) and other obligations under International law; providing adequate training and guidance to mitigate compliance and AML risks

• Targeting an external credit rating which is, at worst, one notch lower than the sovereign rating.

Shareholder information

BBK's shares are listed on the Bahrain Bourse. The Bank has issued 1,030,140,907 equity shares, each with a face value of 100 fils. All shares are fully paid.

Annual Ordinary General Meeting and Extraordinary General Meeting

The Annual Ordinary General Meeting (AGM) and the Extraordinary General Meeting (EGM) were held on 12 March 2014 marking a new term for the Board. The EGM resolved to approve increasing the Bank's issued and paid – up capital by granting 10 percent bonus shares to the shareholders. Further, the EGM resolved to approve amendments to the Memorandum of Association and Articles of Association due to the increase in issued and paid – up capital. Seven Directors were elected by the AGM in addition to five Directors appointed by the major shareholders at the meeting. The meeting minutes of the AGM and the EGM are published in this annual report.

The Bank submits a corporate governance report to the AGM annually covering the status on compliance with the related regulatory requirements. Any material non compliance issues are also highlighted in the meeting. The Bank discloses and/or reports to the shareholders at the AGM the details under the Public Disclosure module of the Central Bank of Bahrain's Rule Book. Such disclosures include the total remuneration paid to the Board of Directors, the executive management and the external auditors. The total amount paid to directors and executive management is also contained in the annual report.

Shareholders

Name	Country of origin	Number of shares	% holding
Citizens of the Kingdom of Bahrain and others	–	215,550,121	20,92
Ithmaar Bank	Kingdom of Bahrain	261,421,933	25,38
Social Insurance Organisation (SIO) – Pension Fund Commission – General Organisation for Social Insurance (GOSI)	Kingdom of Bahrain	193,352,656 137,423,639	18,77 13,34
Kuwait Investment Authority	State of Kuwait	192,599,989	18,70
Gimbal Holding Company S.P.C	State of Kuwait	19,312,583	1,87
Global Investment House	State of Kuwait	10,479,986	1,02

Distribution schedule of each class of equity

Category	Number of shares	Number of shareholders	% Of outstanding shares
Less than 1%	215,550,121	2,384	20,92
1% to less than 5%	29,792,569	2	2,89
5% to less than 10%	-	-	-
10% to less than 20%	523,376,284	3	50,81
20% to less than 50%	261,421,933	1	25,38
50% and above	-	-	-

Board of Directors' information

Board composition

The Board composition is based on the Bank's Memorandum of Association and Articles of Association and comprises 12 members. The Board represents a mix of high-level professional skills and expertise. Furthermore, in compliance with the corporate governance requirements, the Board Committees consist of members with adequate professional backgrounds and experience. One of the Directors was approved by Central Bank of Bahrain (CBB) to be considered an independent Director. Consequently, the Board has five independent Directors. The Board periodically reviews its composition and the contribution of Directors and Committees.

The appointment of Directors is subject to CBB approval. The classification of 'Executive' Directors, 'Non-Executive' Directors and 'Independent Non-Executive' Directors is as per definitions stipulated by the CBB. The current term of the Board started in March 2014 and shall end in March 2017.

In March 2014, a new member representing Kuwait Investment Authority (KIA) was appointed, namely Dr Nayef Falah Al Hajraf, replacing Dr AbdulMohsen Medej Mohammed Al Medej who submitted his resignation to the Board in January 2014 due to his appointment as Deputy Prime Minister and Minister of Commerce and Industry in the State of Kuwait. Consequently, Dr Nayef Falah Al Hajraf submitted his resignation to the Board in August 2014 due to his appointment as a Chairman of the Capital Markets Authority in the State of Kuwait. Presently, the Board has 12 members.

Directors are elected/appointed by the shareholders at the AGM. Experts who are non-shareholders or promoters of the Bank may also be elected as Directors. Election or re-election of a Director at the AGM shall be accompanied by a recommendation from the Board, based on a recommendation from the Nomination, Remuneration, and Corporate Governance Committee with specific information such as biographical and professional qualifications and other directorships held.

Corporate Secretary

The Board is supported by the Corporate Secretary who provides professional and administrative support to the General Assembly, the Board, its Committees and members. The Corporate Secretary also assumes the responsibilities of the Corporate Governance Officer and in this context supports the processes of performance evaluation for the Board, the Board Committees, and individual Directors as well as the process of access to independent advice and other relevant issues. The appointment of the Corporate Secretary is subject to the approval of the Board.

BBK's Corporate Secretary is Ahmed A. Qudoos Ahmed who joined the Bank in 2009. His qualifications include a BSc in Engineering from the University of Bahrain in 1996 and he has since attended many advance, training programmes in corporate governance both in Bahrain and abroad accumulating over 18 years of experience in the financial sector.

Directors' roles and responsibilities

The Board of Directors oversees the implementation of the Bank's strategic initiatives and its functioning within the agreed framework, in accordance with relevant statutory and regulatory structures. The Board ensures the adequacy of financial and operational systems and internal control, as well as the implementation of Corporate Ethics and the Code of Conduct.

The Board reserves a formal schedule of matters for its decision to ensure that the direction and control of the Bank rest with the Board. This includes strategic issues and planning, performance reviews, material acquisition and disposal of assets, capital expenditure, authority levels, appointment of auditors, and review of the financial statements, financing and borrowing activities including annual operating plan and budget, ensuring regulatory compliance, and reviewing the adequacy and integrity of internal controls.

The Board shall exercise judgment in establishing and revising the delegation of authority for Board Committees and Management. This delegation could be for authorisation of expenditures, approval of credit facilities, and for other corporate actions. Such delegation may be approved and expressed under various policies of the Bank. The thresholds for the identified authorities will depend upon the operating requirements of the Bank.

The issues of major capital expenditure, divestitures, mergers and acquisitions, certain strategic investments would be within Board's authority.

Each Director holds the position for three years, after which he must present himself to the Annual General Meeting of shareholders for reappointment. The majority of BBK Directors (including the Chairman and/or Deputy Chairman) are required to attend the Board meetings in order to ensure a quorum. The Board Charter is published on the Bank's website.

Material transactions that need Board approval

Lending transaction to Directors at a certain level of exposure, require Board approval. Also credit and investment applications exceeding certain pre-defined exposure levels require approval of the Board.

Similarly, related party transactions relating to members of the Board require approval of the Board.

Independent professional assistance

The Bank has procedures approved by the Board for allowing Board members to obtain independent professional advice relating to the affairs of the Bank or to their individual responsibilities as members subject to approval by the Board.

Director's induction and professional development

The Board is required to be up to date with current business, industry, regulatory and legislative developments and trends that will affect the Bank's business operations. Immediately after appointment, the Bank will provide a formal induction. Meetings will also be arranged with executive management and the Bank's auditors. This will foster a better understanding of the business environment and markets in which the Bank operates. A continuing awareness programme is essential and it may take many different forms, through distribution of publications, workshops, presentations at Board meetings and attendance at conferences encompassing topics on directorship, business, industry, and regulatory developments.

Board and Committee evaluation

The Board performs a self-evaluation on an annual basis. The Board annually reviews its Charter and its own effectiveness and initiates suitable steps for any amendments. The Board will also review self-evaluations of the individual Board members and the Board Committees and consider appropriately any recommendations arising out of such evaluation. The relevant policy is published on the Bank's website.

Remuneration of Directors

The Board has adopted a remuneration policy for Directors with well-defined procedures to apply to the Directors' various remuneration and compensation components, reflective of their involvement and contributions in the activities of the Board of Directors and its ad hoc, temporary and permanent committees. The basic guideline of the policy is that the participation would be considered in terms of attendance in meetings. Participation in a meeting via telephone/video conference shall be considered an attendance of the meeting. The members of the Board are treated equally when they are compensated for additional work or effort in their participation. Directors' remuneration is governed by Commercial Companies Law No 21 for the Year 2001 and therefore all payments comply with the provision of the law.

Whistle-blowing policy

The Bank has a whistle-blowing policy with designated officials to whom the employee can approach. The policy provides adequate protection to the employees for any reports in good faith. The Board's Audit Committee oversees this policy. The whistle-blowing policy is published on the Banks' website.

Key persons (KP) policy

The Bank has established a 'Key Persons' policy to ensure that key persons are aware of the legal and administrative requirements regarding holding and trading of BBK shares, with the primary objective of preventing abuse of inside information. Key persons are defined to include the Directors, executive management, designated employees and any person or firm connected to the identified Key Persons. The ownership of the 'Key Persons' policy is entrusted to the Board's Audit Committee. The 'Key Persons' policy is posted on the Bank's website.

Code of Conduct

The Board has an approved Code of Conduct for BBK Directors. The Board has also approved a Code of Ethics for the Executive Management and employees. These codes outline areas of conflict of interest, confidentiality, and the responsibilities of signatories to adhere to best practices. The high level responsibility for monitoring the codes lies with the Board of Directors. The Director's Code of Conduct'is published on the Bank's website.

Conflict of interest

The Bank has a documented procedure for dealing with situations involving conflict of interest of Directors. In the event of the Board or its Committees considering any issues involving conflict of interest of Directors, the decisions are taken by the full Board/Committees. The concerned Director shall leave the meeting room during the discussions of these issues. These events are recorded in the Board/Committees proceedings. The Directors are required to inform the entire Board of conflicts of interest (potential or otherwise) in their activities with, and commitments to, other organisations as they arise and abstain from voting on the matter. This disclosure includes all material facts in the case of a contract or transaction involving the Director.

Corporate social responsibility

BBK's contribution towards the well-being of the community is an integral part of its corporate role. This corporate social responsibility is translated by the Bank through annual appropriation of a budget allocated for donations to finance community related projects and initiatives. The projects may vary in nature but ought to fall into any one of the following fields: charity, culture, research, education, philanthropy, environmental protection, and sports.

BBK has an approved high-level donation policy for the distribution of the donation budget. The policy outlines guiding principles and sets criteria for the evaluation and selection of donation requests with the ultimate objective of maximising the return on both the Bank's social image and the benefit of the community.

Disclosures relating to Board of Directors

Directors' external appointments

Murad Ali Murad		
Chairman of the Board	Bahrain Kuwait Insurance Company (BSC)	Kingdom of Bahrain
Chairman of the Board of Trustees	Human Resources Development Fund in Banking Sector	Kingdom of Bahrain
Member	Council of Vocational Training in Banking Sector	Kingdom of Bahrain
Chairman of the Board	AlJanabya Company WLL (Family Company)	Kingdom of Bahrain

Aref Saleh Khamis		
Undersecretary	Ministry of Finance	Kingdom of Bahrain
Chairman	Social Insurance Organization (SIO)	Kingdom of Bahrain
Deputy Chairman	Future Generation Fund – Ministry of Finance	Kingdom of Bahrain
Deputy Chairman	Qatar-Bahrain Causeway Foundation	Kingdom of Bahrain
Alternate Board Member	Arab Shipbuilding and Repair Yard Co (ASRY)	Kingdom of Bahrain
Member	Supreme Council for Health	Kingdom of Bahrain
Member	Sh Mohammed bin Khalifa bin Salman Al Khalifa Cardiac Centre	Kingdom of Bahrain
Member	King Hamad Hospital Consultative Board	Kingdom of Bahrain

Mohamed Abdulrahman Hussain		
Board Member and Chairman of Executive Committee	Solidarity Group Holding BSC ©	Kingdom of Bahrain
Vice-Chairman and Chairman of Executive Committee	Eskan Bank BSC ©	Kingdom of Bahrain
Board Member	Investcorp Saudi Arabia Investment Company	Kingdom of Saudi Arabia
Board Member	The K Hotel	Kingdom of Bahrain
Jassem Hasan Ali Zainal		
Chairman and CEO	Arzan Financial Group for Financing and Investment	State of Kuwait
Deputy Chairman and Acting CEO	Addax Investment Bank	Kingdom of Bahrain
Board Member	Kuwait International Bank	State of Kuwait
Board Member	Automated System Company	State of Kuwait
Board Member	Al-Masah Capital Limited	Dubai, UAE
Board Member	Al-Oula Geojit Capital Company	Kingdom of Saudi Arabia
Board Member	Miami International Securities Exchange LLC (MIAX)	United States of America
Dr. Zakareya Sultan AlAbbasi		
CEO	Social Insurance Organization (SIO)	Kingdom of Bahrain
Board Member	Osool Asset Management BSC ©	Kingdom of Bahrain
Board Member	Eskan Bank BSC ©	Kingdom of Bahrain
Sh. Abdulla bin Khalifa bin Salman Al Khalifa		
Chief Executive Officer	Osool Asset Management BSC ©	Kingdom of Bahrain
Chairman	SICO Investment Bank BSC ©	Kingdom of Bahrain
Chairman	Muharraq Mall Company WLL	Kingdom of Bahrain
Board Member	BFC Group	Kingdom of Bahrain
Sh. Khalifa bin Duaij Al Khalifa		
President	Court of HRH the Crown Prince	Kingdom of Bahrain
Board Member	Crown Prince's International Scholarship Programme	Kingdom of Bahrain
Board Member	Isa Bin Salman Educational Charitable Trusts	Kingdom of Bahrain
Board Member	Palm Capital Company WLL	Kingdom of Bahrain
Board Member	Arab Thought Foundation	Lebanon
Marwan Mohammed Al Saleh		
Director of Fixed Income	Kuwait Investment Authority	State of Kuwait
Board Member	Kuwaiti Egyptian Investment Company	Egypt
Mutlaq Mubarak Al Sanei		
Director Follow-up Department	Kuwait Investment Authority	State of Kuwait
Chairman	Tri International Consulting Group (TICG)	State of Kuwait
Vice Chairman	The Arab Investment Company	Kingdom of Saudi Arabia
Board Member	Kuwait Economic Society	State of Kuwait

Elham Ebrahim Hasan		
Managing Partner	Elham Hasan SPC	Kingdom of Bahrain
Chairman	Health Corp Middle East Limited	Kingdom of Bahrain
Chairman	Taaheal Healthcare	Kingdom of Bahrain
Board Member	BNP Paribas Investment Company	Kingdom of Saudi Arabia
Board Member	Solidarity Group Holding BSC ©	Kingdom of Bahrain

Yusuf Saleh Khalaf		
Managing Director	Vision Line Consulting WLL	Kingdom of Bahrain
Board Member	Eskan Bank BSC ©	Kingdom of Bahrain
Board Member	SICO Investment Bank BSC ©	Kingdom of Bahrain

Hassan Mohammed Mahmood		
Board Member	Faisal Finance (Maroc) SA	Morocco
Board Member	Overland Capital Group Inc	United States of America
Board Member	Egyptian Investment Company	Egypt
Board Member	Islamic Investment Company of Gulf (Bahamas) Limited	Bahamas
Board Member	Gulf Financing Investment Company	Egypt
Board Member	Egyptian Company for Business Trade	Egypt
Board Member	Faisal Islamic Bank of Egypt till 31 March 2014	Egypt
Board Member	Ithraa Capital	Kingdom of Saudi Arabia

Directors' and related parties' interests

The number of shares held by Directors as of 31 December 2014 was as follows:

Name of Director	Type of shares	31 Dec 2014	31 Dec 2013
Murad Ali Murad	Ordinary	**813,312**	739,379
Pension Fund Commission/Aref Saleh Khamis (1)	Ordinary	**127,050**	115,500
Mohamed Abdulrahman Hussain	Ordinary	**127,050**	115,500
Jassem Hasan Ali Zainal	Ordinary	**181,225**	164,750
GOSI/Dr Zakareya Sultan AlAbbasi (2)	Ordinary	**121,000**	110,000
Sh Abdulla bin Khalifa bin Salman Al Khalifa	Ordinary	**121,000**	110,000
Sh Khalifa bin Duaij Al Khalifa	Ordinary	**605,000**	550,000
Kuwait Investment Authority/Mutlaq Mubarak Al Sanei (3)	Ordinary	**121,000**	110,000
Ithmaar Bank/Mrs Elham Ebrahim Hasan (4)	Ordinary	**121,000**	110,000
Yusuf Saleh Khalaf	Ordinary	**121,000**	110,000
Ithmaar Bank/Hassan Mohammed Mahmood (4)	Ordinary	**181,500**	165,000

(1) Qualifying shares related to Mr Aref Saleh Khamis are part of the whole shares of the Pension Fund Commission ownership.
(2) Qualifying shares related to Dr Zakareya Sultan AlAbbasi are part of the whole shares of the General Organisation for Social Insurance (GOSI) ownership.
(3) Qualifying shares related to Mr Mutlaq Mubarak Al Sanei are part of the whole shares of the Kuwait Investment Authority ownership.
(4) Qualifying shares related to Mrs Elham Ebrahim Hasan and Mr. Hassan Mohammed Mahmood are part of the whole shares of Ithmaar Bank ownership.

Related parties: AlJanabeya Company owns 440,786 shares and is related to the Chairman of the Board.

Nature and extent of transactions with related parties during 2014: On 09/10/2014 AlJanabeya Company WLL (A family company Owned by Mr Murad Ali Murad and his family) purchased a total of 200,000 shares

Approval process for related parties' transactions: The Bank has a due process for dealing with transactions involving Directors and related parties. Any such transaction will require the approval of the Board of Directors.

Material Contracts and loans involving Directors:

Name of the Director	Relationship with Director	Purpose of loan	Amount of loan	Interest Rate	Terms of payment of interest	Repayment of the principal	Security
Murad Ali Murad	Chairman	Personal banking needs	BD 300,000	Fixed deposit rate over 1% p.a.	On demand	On demand	100% cash collateral
Jassem Hasan Ali Zainal	Board Member	Personal banking needs	BD 25,000 (USD 60,000)	LIBOR + 3%	On demand	On demand	Shares 38.8% plus fixed deposit of 2%
			BD 115,000	BIBOR + 3%			

Note: The materiality amount for such disclosures is considered above BD 100,000.

Directors' trading of Bank's shares during the year 2014

None.

Board Meetings

The Board of Directors meet at the summons of the Chairman or Deputy Chairman, in event of his absence or disability, or if requested to do so by at least two Directors. The Board meets at least four times a year. A meeting of the Board of Directors is deemed valid if attended by more than half of the members.

Meetings of Independent Directors

In 2012, the Board of Directors started to hold separate meetings for Independent Directors. As per the Board Charter, minority shareholders look up to Independent Directors for representation. For this purpose regular Board meetings are preceded by a meeting of Independent Directors unless it is decided by the Independent Directors that there are no issues to discuss.

The agendas for this forum's meetings are the same as the agendas for the regular Board meetings. During these meetings the Independent Directors express their views about certain issues, especially those relating to minority shareholders. The summary of the proceedings of such meetings are recorded by the Corporate Secretary and shared with the Independent Directors.

Board meeting attendance

During 2014, eight Board meetings at the Bank were held in the Kingdom of Bahrain in the following manner:

KEY: ⊙ Attended ○ Absent ⦸ was not a member during this period

Quarterly Board meetings 2014

Members	3 Feb	21 Apr	21 Jul	20 Oct
Murad Ali Murad	⊙	⊙	⊙	⊙
Aref Saleh Khamis	⊙	⊙	⊙	⊙
Mohamed Abdulrahman Hussain	⊙	⊙	⊙	⊙
Jassem Hasan Ali Zainal	⊙	⊙	⊙	⊙
Dr Zakreya Sultan AlAbbasi	⊙	⊙	⊙	⊙
Dr Nayef Falah Al Hajraf	⦸	⊙	⊙	⦸
Sh Abdulla bin Khalifa bin Salman Al Khalifa	⊙	⊙	⊙	⊙
Sh Khalifa bin Duaij Al Khalifa	⊙	⊙	○	⊙
Mutlaq Mubarak Al Sanei	⊙	⊙	⊙	⊙
Elham Ebrahim Hasan	⊙	⊙	⊙	⊙
Yusuf Saleh Khalaf	⊙	⊙	⊙	⊙
Hassan Mohammed Mahmood	⊙	⊙	⊙	⊙

Other Board meetings 2014

Members	*4 Feb	3 Mar	12 Mar	22 Dec
Murad Ali Murad	⊙	⊙	⊙	⊙
Aref Saleh Khamis	⊙	⊙	⊙	⊙
Mohamed Abdulrahman Hussain	⊙	⊙	⊙	⊙
Jassem Hasan Ali Zainal	⊙	⊙	⊙	⊙
Dr Zakareya Sultan AlAbbasi	○	⊙	⊙	⊙
Dr Nayef Falah Al Hajraf	⦸	⦸	○	⦸
Sh Abdulla bin Khalifa bin Salman Al Khalifa	⊙	⊙	⊙	⊙
Sh Khalifa bin Duaij Al Khalifa	⊙	⊙	○	○
Mutlaq Mubarak Al Sanei	⊙	⊙	⊙	⊙
Elham Ebrahim Hasan	⊙	⊙	⊙	⊙
Yusuf Saleh Khalaf	⊙	⊙	⊙	⊙
Hassan Mohammed Mahmood	⊙	⊙	⊙	⊙

* The three year strategy review meeting was held on 4 February 2014.

Board Committees

The Board level Committees are formed and their members are appointed by the Board of Directors each year after the Annual General Meeting. They are considered the high-level link between the Board and the Executive Management. The objective of these Committees is to assist the Board in supervising the actual operations of the Bank, by reviewing any issues that are submitted by the Executive Management and making recommendations to the Board for their final review.

The Board reserves the right to form temporary Committees and discontinue them, from time to time as necessary. Furthermore, the members of the Board are provided with copies of the meeting minutes of the said Committees as required by the regulators.

There are no major issues of concern to report relating to the work of the Board Committees during the year 2014.

The full texts for the Terms of Reference for Board Committees (Executive Committee, Audit Committee, Nomination, Remuneration and Corporate Governance Committee, and Risk Committee) are published on the Bank's website.

Board Committees' composition, roles and responsibilities:

Executive Committee

Members	Summary terms of reference, roles and responsibilities:	Summary of responsibilities:
Mohammed Abdulrahman Hussain Chairman **Aref Saleh Khamis** Deputy Chairman **Sh Abdulla bin Khalifa bin Salman Al Khalifa** Member **Mutlaq Mubarak Al Sanei** Member **Abdulkarim Ahmed Bucheery** Member **Elham Ebrahim Hasan** Member	• Not less than five members are appointed for a one year term. • Minimum number of meetings required each year: 8 (actual meetings in 2014: 13). • The Chairman and Deputy Chairman must be a Director and elected by the members of the Committee in the first meeting following the appointment of its members. • The quorum shall be of more than half of the members and must include the Chairman or the Deputy Chairman. Attendance by proxies is not permitted. • The Chairman or Deputy Chairman shall be available at the Annual General Meeting to answer questions relating to the Committee's functions. • The Committee conducts an annual self-assessment of the performance of the Committee/members and reports conclusions and recommendations to the Board.	*Reviews, approves and directs the executive management on matters raised to the Board of Directors such as business plans, donations, credit/ investment applications and such other proposals within its authority and the periodical review of the Bank's achievements.*

Audit Committee

Members	Summary terms of reference, roles and responsibilities:	Summary of responsibilities:
Jassem Hasan Ali Zainal Chairman (Independent) **Yusuf Saleh Khalaf** Deputy Chairman (Independent) **Sh Khalifa bin Duaij Al Khalifa** Member (Independent) **Hassan Mohammed Mahmood** Member (Non-Independent)	• The Board appoints not less than three members for a one year term. • The Chairman must be elected by the members of the Committee, from amongst the Independent Non-Executive Directors, in its first meeting after the appointment of the members, the majority of members should also be independent. • Minimum number of meetings required each year: 4 (actual meetings in 2014: 4). • Quorum shall be more than half of the members and must include the Chairman. Attendance by proxies is not permitted. • The Chairman or Deputy Chairman shall be available at the Annual General Meeting to answer questions relating to the Committee's functions. • The Committee conducts an annual self-assessment of the performance of the Committee/members and reports conclusions and recommendations to the Board.	*Reviews the internal audit programme and internal control system, considers major findings of internal audit reviews, investigations and management's response, ensures coordination among internal and external auditors, monitors trading activities of key persons and ensures prohibition of the abuse of inside information and disclosure requirements.*

Nomination, Remuneration and Corporate Governance Committee

Members	Summary terms of reference, roles and responsibilities:	Summary of responsibilities:
Murad Ali Murad Chairman (Independent) **Dr Nayef Falah Al Hajraf** Member until August 2014 (Non-Independent) **Sh Khalifa bin Duaij Al Khalifa** Member (Independent)	• The Board appoints not less than three members for a one year term. The Chairman is an Independent Director and the majority of members should also be independent. • The Chairman and the Deputy Chairman must be elected by members of the Committee in its first meeting after the appointment of the members. • Minimum number of meetings required each year: 2 (actual meetings in 2014: 4). • Quorum shall be more than half of the members and must include the Chairman or the Deputy Chairman. Attendance by proxies is not permitted. • The Chairman or Deputy Chairman shall be available at the Annual General Meeting to answer questions relating to the Committee's functions. • The Committee conducts an annual self-assessment of the performance of the Committee/members and reports conclusions and recommendations to the Board.	*Assess, evaluate and advise to the Board of Directors on all matters associated with nominations and remunerations of the Directors and the Executive Management. Also, to ensure that the Bank adopts and enhances sound corporate governance practices, which are consistent with the Corporate Governance Code of the Kingdom of Bahrain and the regulatory requirements and also reflect the best market practices in corporate governance, and makes recommendations to the Board as appropriate.*

Risk Committee

Members	Summary terms of reference, roles and responsibilities:	Summary of responsibilities:
Murad Ali Murad Chairman (Independent) **Jassem Hasan Ali Zainal** Deputy Chairman (Independent) **Dr Zakareya Sultan Al Abbasi** Member (Non-Independent) **Yusuf Saleh Khalaf** Member (Independent)	• At least four members are appointed for a one year term. • The Chairman and Deputy Chairman must be a Director and elected by the members of the Committee in its first meeting following the appointment of its members. • Minimum number of meetings required each year: 4 (actual meetings in 2014: 4). • The quorum shall be of more than half of the members and must include the Chairman or the Deputy Chairman. Attendance by proxies is not permitted. • The Chairman or Deputy Chairman shall be available at the Annual General Meeting to answer questions relating to the Committee's functions. • The Committee conducts an annual self-assessment of the performance of the Committee/members and reports conclusions and recommendation to the Board.	*Reviews risk policies and recommends to the Board of Directors for approval. Also, examines and monitors the risk issues to the Bank's business and operations and directs the management appropriately.*

Board Committee meetings and record of attendance:

KEY: ⊙ Attended ○ Absent

Executive Committee meetings 2014

Members	2 Feb	2 Mar	20 Apr	*22 Apr	22 May	15 Jun	20 Jul & *21 Jul	21 Sep	*24 Sep	19 Oct	*13 Nov	23 Nov	21 Dec
Mohamed Abdulrahman Hussain	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Aref Saleh Khamis	⊙	⊙	⊙	⊙	○	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Sh Abdulla bin Khalifa bin Salman Al Khalifa	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	○	⊙
Mutlaq Mubarak Al Sanei	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Abdulkarim Ahmed Bucheery	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙
Elham Ebrahim Hasan	⊙	⊙	⊙	⊙	○	⊙	⊙	⊙	⊙	⊙	⊙	⊙	⊙

* Unscheduled meeting

Audit Committee meetings 2014

Members	2 Feb	20 Apr	20 Jul	19 Oct
Jassem Hasan Ali Zainal	⊙	⊙	⊙	⊙
Sh Khalifa bin Duaij Al Khalifa	⊙	⊙	⊙	⊙
Yusuf Saleh Khalaf	⊙	⊙	⊙	⊙
Hassan Mohammed Mahmood	⊙	⊙	⊙	⊙

Nomination, Remuneration and Corporate Governance Committee meetings 2014

Members	3 Feb	2 Mar & *3 Mar	*15 Sep	20 Oct
Murad Ali Murad	⊙	⊙	⊙	⊙
Sh Khalifa bin Duaij Al Khalifa	⊙	⊙	⊙	⊙

* Unscheduled meeting

Risk Committee meetings 2014

Members	19 Jan	13 Apr	6 Jul	12 Oct
Murad Ali Murad	⊙	⊙	⊙	⊙
Yusuf Saleh Khalaf	⊙	⊙	⊙	⊙
Dr Zakareya Sultan AlAbbasi	⊙	⊙	⊙	○
Jassem Hasan Ali Zainal	⊙	⊙	⊙	⊙

Compliance and anti-money laundering

Compliance with regulatory and statutory requirements is an ongoing process. The Bank is conscious of its responsibilities in observing all regulatory provisions and best international practices in its functioning. The Bank has established an independent compliance function in keeping with Basel and CBB guidelines. The unit acts as a focal point for all regulatory compliance and for adapting other best practice compliance principles. The Bank continuously strives to improve the level of compliance in all its activities. The Bank's adopted corporate philosophy is: "BBK shall continue its endeavour to enhance shareholders' value, protect their interests and defend their rights by practising pursuit of excellence in corporate life." Anti-money laundering measures form an important area of the compliance function, in addition to areas of corporate governance, disclosure standards, insiders'/key persons trading, conflict of interest, and adherence to best practices.

In 2014, the Bank commenced implementation of an automated compliance system for the monitoring and management of regulatory requirements across the Bank. This system facilitates the prompt reporting of any compliance concerns or non-compliance incidents as and when they arise. The system will be rolled over to all concerned divisions within the Bank.

The Bank has documented an anti-money laundering programme for periodic awareness training to employees, record-keeping and a designated Money Laundering Reporting Officer (MLRO). The AML policy/procedure is updated annually and was last approved by the Board of Directors and Chief Executive in February 2014.

The Bank has deployed a risk based automated transaction monitoring system in keeping with the anti-money laundering regulations of the CBB.

The Bank's anti-money laundering measures are regularly audited by the internal auditors who report to the Audit Committee of the Board. The Central Bank performs periodic inspections of the Bank's compliance with anti-money laundering regulations. Additionally, the Bank's anti-money laundering measures are audited by independent external auditors every year and their report is submitted to the CBB. The overseas branches in India and Kuwait and the subsidiary, CrediMax, have designated compliance and MLRO functions to ensure implementation of local regulations and also to meet CBB requirements as applicable. The Bank is committed to combating money-laundering and, towards this end, implements all 'Prevention of Money Laundering Regulations' and other guidelines issued by the CBB. These regulations and guidelines are consistent with the revised FATF recommendations, 'Customer Due Diligence for Banks' paper, and best international practices.

Communication strategy

The Bank has an open policy on communication with its stakeholders and has adopted a communication disclosure policy consistent with Basel II requirements. Shareholders are invited by the Chairman to attend the annual general meeting (AGM). The Chairman and other Directors attend the AGM and are available to answer any questions. The Bank is at all times mindful and conscious of its regulatory and statutory obligations regarding dissemination of information to its stakeholders.

The Bank provides information on all events that merit announcement, either on its website – www.bbkonline.com – or through other forms of publication. The Bank's annual report and three years' financial statements are also published on the website, as well as the Bank's Corporate Governance Report, Corporate Governance Framework, Whistle-Blowing policy, Board Charter, Code of Conduct, Key Persons' Dealing Policy and Terms of Reference of all Board Committees. Shareholders can complete an online form which can be found on the website to forward any queries they may have.

The Bank uses a bulletin board for communicating with its employees on general matters, and sharing information of common interest and concern.

Our Business Development department was established to evaluate and pursue opportunities for diversification and increase fee-based income. During 2014, as many as 10 viable options were at various stages of assessment.

For BBK, progress and achievement were defining characteristics of 2014. Strategically and practically, the Bank had an eventful year, maintaining our consistent improvement in operational performance and shareholder returns.

As we move into the final period of our three-year strategic cycle, expansion and diversification are laying the foundations for continued growth. Among the most notable aspects were the inauguration of our fourth branch in India and advancing plans to create a presence in two neighbouring GCC countries.

At the same time, our diversification plans continued to take shape, seeking to increase the volume of fee-based income and creating regional and international cross-border growth beyond Bahrain where our opportunities are constrained by the nature of the domestic economy and our already dominant market position.

In pursuing these goals, we have established two new departments – Remedial Management and Business Development – the former helping to optimise returns from existing operations and the latter focused on the generation of new revenue streams.

Quality matters

Collectively, the measures undertaken in 2014 not only complement the Bank's very satisfactory operational performance – they form a logical continuation of our long-term strategy. They constitute the basis for our next three-year strategic cycle, which begins in 2016, and will be subject to further detailed planning and refinement during 2015.

Operating environment

Support from neighbouring GCC countries is stimulating Bahrain's economy. Saudi Arabia, Kuwait, Qatar and the UAE are committed to a 10-year programme of infrastructure development valued at $10 billion, providing a much-needed boost to the domestic economy.

Substantial investment in expanding Bahrain's aluminium plant is also under discussion, along with refinery upgrades. Such projects will do a great deal to keep the economy moving, even if they are financed by borrowing and add to the national debt. The real danger in borrowing is when the funds are applied to meet current expenses and not invested in productive assets for the future. Spending on plant and infrastructure falls into the latter category and would contribute to sustaining growth of 3.8 to 4.2 percent which, within Bahrain and the Gulf region as a whole, is considered very respectable, especially in the context of political and economic events in the region and internationally.

Controlling expenditure is crucial and is very high on the Government's agenda. We can therefore expect that containing and reducing operating costs will continue to be a major feature of domestic economic strategy, alongside investment stimulus.

Expansion and diversification

The New Delhi branch – our first in the Indian capital – began operations in August and was officially inaugurated in November 2014. In 1986 BBK became the first Arab bank to establish a presence in India when we opened a branch in Mumbai. This was followed by the Hyderabad branch and, in 2013, a third was opened in Aluva in the state of Kerala. Our latest opening in New Delhi takes BBK's operations in the sub-continent to a new level. Located in the embassies district, we are ideally placed to serve the needs of the large GCC diplomatic corps, as well as the many Gulf companies that have branches in the capital. The embassy district is also home to many domestic manufacturers and large corporates.

BBK has appointed an excellent professional team and the New Delhi branch will offer a mix of corporate and retail services. We have injected more capital and continue to evaluate opportunities to strengthen our presence in India. This will involve detailed assessment in 2015 regarding the nature of our operations there – maintaining a branch-based model, creating a subsidiary Indian company, possible joint ventures, or acquisition of a compatible financial services operation.

Although India is a challenging market, heavily regulated and intensely competitive, as a result of BBK's long-established presence we have the advantage of knowing how to respond and are confident that we can generate sufficient growth, especially with New Delhi becoming operational. Clearly, the potential is vast.

In Bahrain, we have obtained approval for our long-planned new branch in Hidd, which will be based at the BBK Hidd Health Centre. The centre is itself a BBK project, funded as part of our corporate social responsibility programme and operational for the past two years.

The new branch will serve customers in the Hidd Medical Centre and the surrounding neighbourhood. In 2015 we will also open a new branch in Sitra, replacing the existing refinery branch.

In Kuwait, the joint ventures between Invita, our call-centre subsidiary, and a quasi-governmental firm is now operational. As in Bahrain, the outsourcing business provides services for any type of company seeking a highly efficient call centre resource. Customers include other banks, government departments, utilities, retailers, and embassies.

We are also revisiting plans to establish a call centre business in an Arab country. Our experience and competence in this business is a significant asset, staffed by highly capable agents – often fresh graduates – whose multi-lingual skills are an essential success factor. A major attraction of call centre expansion is that it is not capital intensive and yields a very healthy return on investment.

Political turmoil has also impeded progress in establishing a presence in Kurdistan. We had examined the possibility of establishing a branch of CrediMax to capitalise on the opportunities identified for growth in credit card business, but security considerations put the plans on hold. However, we plan to revisit this project in the near future.

As we reach saturation point in our domestic market, such cross-border expansion and diversification is integral to our strategic approach to sustaining growth in profitability and assets. This is being undertaken carefully and selectively, while assessing the balance of risk and reward in each territory considered.

In this respect, we have made good progress with plans to open an additional representative office in a GCC country. The Board has approved the proposal and we have entered into preliminary discussions with that country's central bank. We are also well advanced in pursuing an opportunity to obtain an investment banking licence in Europe – a joint venture with a Bahrain associate – which we also hope to bring to fruition during 2015.

Several other cross-border initiatives are being investigated in Asia and Africa. However, the focus will continue to be on trade and GCC-related business – and always very selectively.

Strengthening internal functions

The two new departments formed in 2013 – Business Development and Remedial Management – are also a vital element of our strategic planning.

Remedial Management improves the quality of our total portfolio, attending to problematic or non-performing loans (NPLs). While BBK's volume of NPLs is relatively small in percentage terms, they still represent good amounts when expressed in dinars. Previously, each department was responsible for managing its own NPLs and the creation of a specialist unit is a logical step in optimising our exposure to possible impairment of our portfolio. The new unit is already proving its value in early identification of potentially troublesome business and by helping customers who are experiencing difficulties in servicing their loan obligations to the Bank.

The work of the Business Development team has already been described in my comments on diversification and expansion. As we seek growth opportunities at home and abroad, it is essential that we conduct thorough analysis and due diligence. This requires specialist expertise and the new unit gives BBK a distinctive edge in pursuing diversified growth.

As BBK grows, it is essential that we know our limitations and have the ability to overcome them. Both new departments are contributing significantly in this respect.

Retail Banking

We retain our position as retail market leader in Bahrain. During 2014, we undertook many promotions to encourage mortgage and consumer loans. With a well-established direct sales team, we are highly advanced in this area and improvement in efficiency keeps pace with our growth.

BBK was the first local bank in Bahrain to introduce ATMs, one of many industry 'firsts' in retail banking that we have recorded over the years. We were the first local bank with internet banking, first with telephone banking, and first to use IT for corporate cash management. Another ATM first was achieved in 2014 when we introduced special machines for the visually impaired, a facility that has proved popular with such customers.

We are now investigating the next generation of device banking – such as smart phones, tablets, and allied devices – and assessing what we can provide to ensure that BBK stays ahead in this rapidly changing area of banking technology.

Retail will continue to be a major focus in the coming year, with increased budgets and an emphasis on shifting from physical to electronic banking. This will involve the introduction of new cash deposit machines and an awareness programme encouraging customers to take advantage of the convenience that technology provides instead of having to visit banking halls and being attended to by tellers.

Corporate Banking

A very buoyant second half of 2014 consolidated a successful year for Corporate Banking, not only in Bahrain but the whole GCC region. BBK has capitalised on its presence in UAE and other neighbouring countries and has succeeded in booking a significant volume of new asset business.

The core domestic market in Bahrain continued to perform well, while the non-Bahrain customer base grew significantly, contributing an ever-increasing share of corporate sector profitability. The UAE in particular showed healthy growth, especially in medium-term lending. Entry to Saudi Arabia, Qatar, and Oman also proved rewarding, with growth there – in percentage terms – forging ahead of the domestic market.

Treasury, Investment, and Institutional Banking

Capital market activity and investments are growing areas of business which performed well in 2014, particularly international dealings. As a strategic principle, we hedge almost all interest rate positions, and as these are issued at fixed rates we are therefore covered should rates rise in the future. We expect increased interest rates from the second quarter of next year, in which case our performance in this area should improve further.

Foreign exchange dealing on behalf of clients has also grown, although volumes are closely linked to trade activity and reflect overall growth in the domestic economy.

Wholly-owned subsidiaries

BBK's CrediMax credit card subsidiary is rightly known as a jewel in the Group's crown and this reputation has been enhanced by the company's 2014 performance. As an organisation devoted exclusively to card business, CrediMax's success is a direct reflection of its single-minded focus on its unique market segment.

Despite intensified competition as a result of new market entrants, CrediMax's market penetration continued to grow, aided by the launch of several new products including the first Islamic cards for consumer and corporate customers. The launch of a reloadable pre-paid card also contributed to the growth. All card products are loaded with secure chip-and-pin technology, in compliance with Central Bank requirements.

Our Invita call centre operations in Bahrain and Kuwait continue to perform very well. We have revived plans to expand into an Arab country and initiated entry to another GCC territory.

Small and medium enterprises

In keeping with His Majesty King Hamad's Economic Vision 2030, created to guide Bahrain towards national prosperity and development, BBK has embarked on a major plan to enhance deliverables to the SME sector, recognised as one of our most important business areas.

"BBK is extending its reach into India, now operating four branches there following the opening of the New Delhi branch in 2014 to serve the Bank's clients in the capital city."

Growth matters

Many actions are being undertaken to improve service to SMEs and maintain the Bank's market leadership in the sector, having been one of the first banks to have a dedicated unit to support small business customers. Our team of more than 12 specialists now provides guidance and assistance, backed by three structured product packages designed to suit the different needs of SMEs.

The Bank takes a two-tier approach to the segment – medium and small businesses – with the medium segment tending to overlap with the formal Corporate Banking sector and larger semi-commercial lending practices. With SMEs estimated to generate 50 percent of GDP, their role is fundamental to the national economy and together they represent a significant growth opportunity.

Information technology

Our commitment to stay in the vanguard of the banking sector through innovation was maintained in 2014 by major enhancements to BBK's technology environments.

As part of our on-going efforts to deliver more reliable and secure services to customers, BBK's internet banking platform was upgraded to provide dual-factor security authentication. This new level of security will enable our customers to conduct their internet banking transactions with total confidence. Given the importance that the Bank attaches to its network of ATMs, cash deposit, and multi-function machines, the number of multi-function machines was increased in tandem with a new monitoring system to alert BBK employees of any issues that could lead to machines being out of service.

We also initiated an internal programme to move all desktops from the obsolete Windows XP to the newer operating system. However, in line with the stated goal of providing a secure banking environment to customers, the Bank has taken other security measures until the migration has been completed. Significant investments were made across multiple technology infrastructure components such as centralised storage, with the objective of increasing the capacity, performance, and resilience of our entire data repository.

The Bank continues to maintain and enhance its business continuity centre and the annual business continuity exercise was successful on all key parameters.

Human resources

The right-sizing initiative undertaken in recent years – offering voluntary early retirement packages – is now yielding benefits in terms of reduced costs and a leaner and more effective personnel structure. Although there were one-off costs in implementing the programme, we are now realising value by achieving a reduction of 10 percentage points in 2014 staffing costs, while raising the quality of employee performance.

The Bank has long recognised that employees are its most strategic asset and has made commensurate investments in training, externally and on the job.

BBK was the first bank to introduce the Management Trainee Development Programme and has since exposed seven batches – each of about 15 graduate trainees – to an intensive programme that covers all key areas of industry expertise and leadership. Several graduates from the earlier batches are now heading key functions within the Bank.

The 2014 intake totalled 18 trainees who are undertaking full-time specialist banking education – four months of classroom study followed by six months on the job during 2015, learning the procedures, processes, and management requirements of each department. The programme is a significant investment that brings long-term benefits and will be maintained as needed, if not always annually.

In keeping with training for the future, a well-developed succession planning programme has now been endorsed by the Board and the Central Bank of Bahrain. This creates confidence in smooth continuity of operations by identifying clear lines of succession for every major position, from department heads to Chief Executive.

Reward and remuneration policy has been realigned to conform to domestic and international requirements and the risk appetite of shareholders. BBK has worked closely with the Central Bank of Bahrain in developing and implementing the new system, becoming one of the first banks to tackle the issue and comply with the requirements laid down in Basel III and regulated by the Central Bank of Bahrain. The new policy addresses the worldwide controversy over bankers' bonuses, introducing deferred payments related to long-term performance and eliminating the contentious aspect of short-term rewards and their risk-related incentives. The policy was approved by the Board and submitted to the Central Bank of Bahrain well before deadline.

This follows the Bank-wide reappraisal of employee compensation and benefits, which is now demonstrating its value in a marked rise in levels of employee engagement.

Although the new compensation and benefits structure has been a significant contributory factor, the improvement is also attributable to an increased focus on enabling career development, and an open and accessible style of management where employees have the confidence to speak freely. The results are evident in higher profitability and the increased efficiency being achieved, despite a reduction in staff numbers.

Business development

Historically, BBK has been very much an asset-based bank with income generated by assets and loans. As the Bank nears the limit of growth potential in its core domestic market and the introduction of Basel III places more emphasis on risk-adjusted returns, BBK has to seek new initiatives to sustain its improvement in annual performance.

Consequently, evaluation of opportunities for diversification and increased fee-based income is on the agenda. During 2014, as many as 10 viable options were at various stages of assessment. Chief among them is opening an investment banking subsidiary in Europe. Development plans are well advanced and further to completing some procedures we will proceed with the licence application.

The success of the UAE representative office has prompted plans to explore similar operations in several other regional countries. Board approval has already been received for the first and that project has advanced to preliminary discussions with the relevant central bank. Subject to licence award, this could be operational next year.

Negotiations are under way with Turkey's inward investment authority and, if successful, could lead to the establishment of a local office. Other opportunities in Turkey are also being investigated, in addition to studying possibilities to expand BBK's services to North and West Africa.

Trade finance has been identified as a major growth opportunity that has strong potential for BBK to assume regional market leadership. International trade finance also holds attractive prospects and work is in progress to develop new counter-party relationships. Debtors' book factoring and ancillary services are also under serious consideration as a secondary level of trade finance activity.

Retail banking features strongly in BBK's expansion and diversification strategy. BBK is currently in talks with a financial institution for a potential acquisition subject to internal and external approvals.

The new strategy also extends to Group functions and subsidiaries. Invita's call-centre project in an Arab country has been revived and a new opportunity is being followed-up for a similar undertaking in a GCC state. CrediMax is seen to have excellent potential in Kurdistan, and this too may be reactivated following suspension as a result of earlier political insecurity.

Conclusion

Looking back on 2014, we can confidently say it was an excellent year where we made notable progress in many areas. We have clearly demonstrated how we propose to maintain – and improve on – BBK's impressive performance.

We are very conscious that our continued success in our core domestic market is a double-edged sword, in that we can no longer justifiably expect to keep up the same pace of growth. We have therefore emphasised the importance of diversification and cross-border expansion as a means of adding continued value to the Bank and to our shareholders. We look forward with enthusiasm to advancing several projects of this nature that we initiated during 2014.

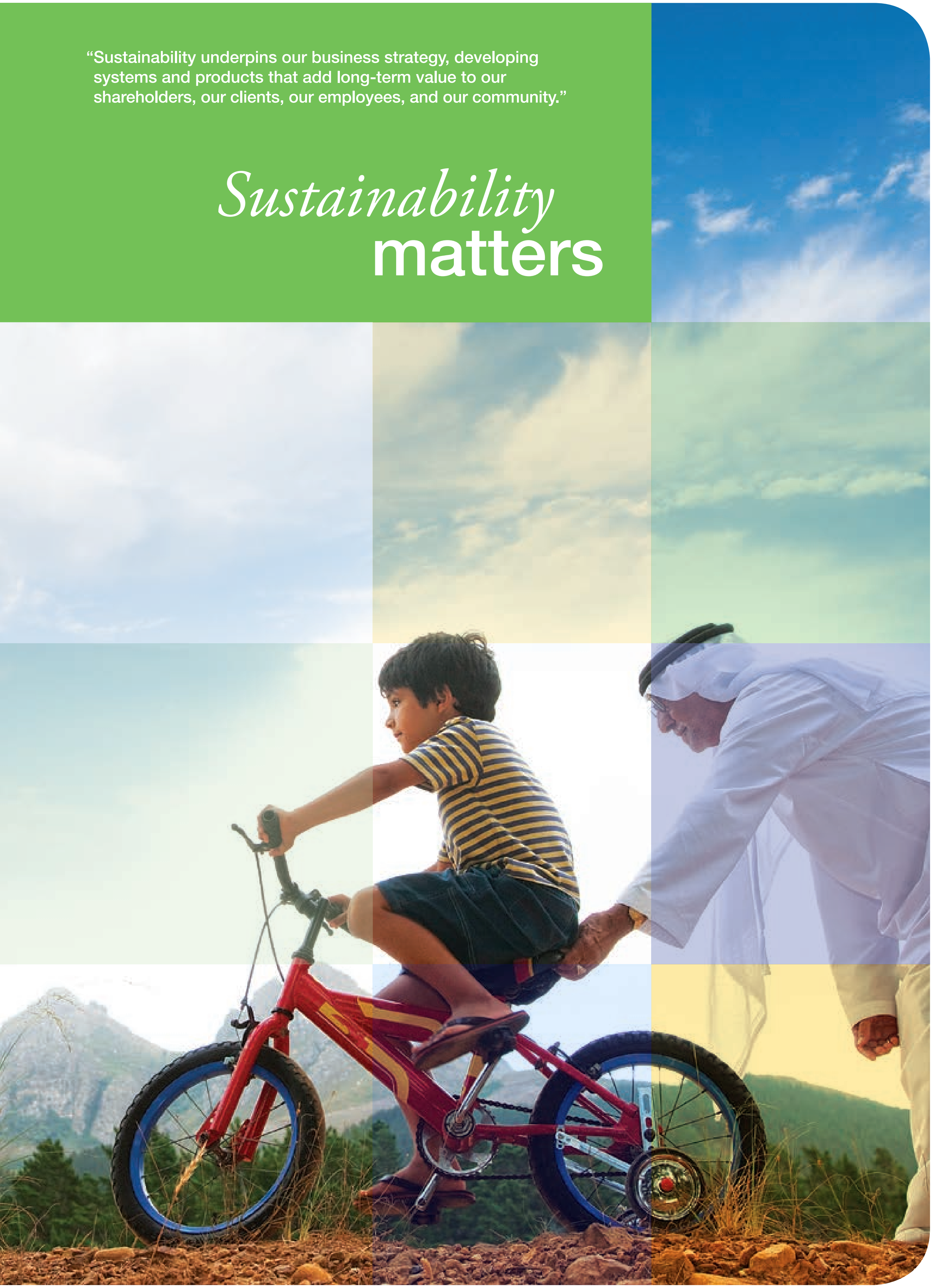
On behalf of BBK's management team, I thank our Board of Directors for their unwavering support and wise guidance during the course of the year. Our thanks go also to the Central Bank of Bahrain, the Bahrain Bourse, and the regulators of the State of Kuwait, the Republic of India, and the United Arab Emirates.

We gratefully acknowledge the support of our loyal customers at home and abroad, and of course the unstinting efforts of our employees who are so vital to our continued success.

Abdulkarim Ahmed Bucheery
Chief Executive

"Sustainability underpins our business strategy, developing systems and products that add long-term value to our shareholders, our clients, our employees, and our community."

Sustainability matters



Corporate social responsibility

Successful businesses recognise that they have an indivisible link with the communities in which they operate, and that their sustained growth must be founded on mutual goodwill.

At BBK, we fully subscribe to this principle, in the firm belief that contributing to the Kingdom of Bahrain's prosperity and economic development is instrumental in shaping our own future.

Governed by a high-level internal policy, every year the Bank allocates a substantial amount for donations and sponsorships that benefit community-related projects and worthy causes. An annual appropriation for donations is approved by the shareholders and in 2014 it amounted to BD 1.25 million.

Investing in people

BBK's long-established commitment to training and development has made BBK the employer of choice, investing in Bahrainis by empowering them with professional skills and opportunities for career advancement and leadership positions. The Bank also rewards its employees through competitive benefits, stock options, health and life insurance savings, retirement programmes, and a well-formulated recognition system. This in turn benefits the wider community by filtering through to families, education, and general upliftment of the population. Commitment to the citizens of Bahrain is well illustrated by the fact that 93 percent of the employees are Bahrainis.

Promoting Bahrain

BBK consistently strives to exceed the regulatory requirements in respect of corporate governance, adopting sound policies and practices and applying the highest standards of business ethics and transparency. This undoubtedly has an important role in strengthening trust among customers and investors and in itself contributes to strengthening Bahrain's economy, quite apart from the impact of discharging social responsibility obligations. The Bank takes every opportunity to promote the Kingdom of Bahrain and encourage inward investments as well as actively contributing to achieving the government's 2030 goals.

During the 2014 annual meeting of the International Monetary Fund in Washington DC, BBK again co-sponsored the 'Banks in Bahrain' reception to showcase Bahrain's financial sector to potential international investors.

BBK also participated as a lead sponsor in one of the most prestigious events in the economic sector, the Euromoney Bahrain Conference 2014, which attracted about 425 top financiers from more than 16 countries.

As part of its commitment to be up-to-date with worldwide HR best practices, the Bank sponsored the 4th Productivity Conference, which focused on 'Best Practices in Motivating Employees and Enhancing Productivity'.

In line with its endeavour to elevate the acumen of young Bahrainis in banking and investment, BBK sponsored the first educational dealing room in the region, recently inaugurated by BIBF on its premises. This modern facility provides highly professional dealing simulation.

The Bank has also supported the TradeQuest competition – a stock trading simulation programme for high school students – by providing monetary sponsorship and delegating one of the Bank's portfolio managers as an advisor to the participating teams.

Contributing to female empowerment

In 2014, a high level policy was approved by BBK to empower women and support Bahrain's Women Empowerment Strategy. The policy aims to develop initiatives to help facilitate the integration of women in the workplace, elevating their status and role as active citizens contributing to society. BBK is proud to have fostered, over the years, the capabilities of its female employees to acquire training and knowledge and to arm them with the right qualifications to take on high-level positions.

BBK continues to support various women's entities and associations in their endeavours to promote women's rights, protect them from abuse within the family environment, and help them become financially independent.

Funding for the future

In 2012, the Bank established a 'sinking fund' which is being built up over the years to support future CSR projects serving the community. Out of the donation appropriation for 2014, BD 300,000 has been dedicated for this purpose. BBK has already supported significant projects such as the BBK Health Centre in Hidd, the pedestrian bridge on one of the main avenues of the country, and the BBK Rehabilitation Centre.

BBK cares

Serving society

BBK places the utmost importance on the well-being of its communities and is very active in supporting the needs of the society in which it operates, directly and through various non-profit societies.

During 2014, the Bank renewed its support to the Ministry of Social Development NGO Fund with a donation of BD 30,000. The fund gives grants to societies and charitable organisations for development initiatives that help them fulfil their role in the community.

Caring for the elderly is a key focus of the Bank's philanthropic role, donating more than BD 30,000 to a wide range of care homes within Bahrain during 2014.

A further BD 100,000 was donated to special needs societies and associations, underlining the importance BBK assigns to this area. But the Bank goes far beyond just monetary support, providing beneficiaries with access to banking services, enhancing their lives, and giving them the ability to play an active part in society. Accessibility for customers with special needs is critical and BBK always strives to serve everyone equally. In this respect, the Bank is the first in Bahrain to install a state-of-the-art ATM with special functions to assist the visually impaired in making secure cash withdrawals and deposits. The Bank has also trained employees in sign language and provides wheelchair access to all branches.

Education matters

By investing in education BBK helps pave the way for future generations supporting the development of young Bahraini talent.

"Recognising the invaluable contribution of women in the workplace and their particular needs for life-work balance is part of BBK's far-reaching empowerment strategy."

Empowerment matters

As Platinum Sponsor of the Crown Prince's International Scholarship Programme, BBK presented its fifth instalment of BD 200,000 towards its pledge of BD 1 million. The programme gives Bahrain's most talented young people the opportunity to study at top international universities and colleges.

As part of a five-year commitment, BD 10,000 a year has been made available to the Isa Bin Salman Fund, a scholarship fund established in 2013 to help students pursue their studies.

Stemming from the Bank's belief in the importance of giving career guidance to young people, BBK cooperated with Injaz Bahrain, the local equivalent of America's Junior Achievement programme, to provide internship to selected students. The programme aims to model future leaders and give students insight to how the banking industry works. The Bank also provides on-the-job training to employees' children and to university students, enabling then to obtain real work experience and supplement classroom learning.

Health matters

Health and well-being have always been at the forefront of BBK contributions over the years, from fully funding community healthcare projects such as the BBK Health Centre in Hidd to encouraging employees to participate in healthcare initiatives.

BBK regularly donates to medical entities and research institutes active in fighting diseases such as diabetes, sickle cell anaemia, cancers, and many others, thus contributing to the health and longevity of Bahrain's population.

Culture matters

In supporting and preserving Bahrain's heritage and culture, BBK has made a BD 100,000 contribution as part of a five-year commitment to the Shaikh Ebrahim Bin Mohammed Al-Khalifa Centre for Culture and Research. This will help ensure the sustainability of cultural preservation and the restoration of cultural heritage and historical facilities.

BBK also co-sponsored the Spring of Culture 2014 programme, supporting the Ministry of Culture in its commitment to use art and culture to give the people of Bahrain a broader perspective of global diversity and to play an active role in the country's tourism industry.

Sport matters

BBK recognises the importance of sport as a unifying factor that brings people together and an opportunity to connect with customers, colleagues, and communities. The Bank therefore supports sport activities that enhance national pride, inspire the young, and promote physical well-being.

Continuing its support of tennis, the Bank sponsored Bahrain's Junior Open Championship for the 19th consecutive year. BBK has been an even longer-term supporter of equestrianism, the most prestigious sport of the Bahraini culture, sponsoring the annual BBK Equestrian Cup for the 27th time.

Encouraging social responsibility culture

BBK hosted a Blood Donation campaign in 2014 for employees to give blood to the Salmaniya Blood Bank to help save lives of others. Encouraging the CSR culture in this manner and giving employees opportunities to participate in voluntary service is integral to the Bank's ethos, such as working with the schools outreach programmes run by Injaz Bahrain to teach children entrepreneurial skills and financial literacy.

Environment friendly

BBK continuously enhances its digital services with the goal of reducing its environmental impact. The Bank follows energy-saving practices and recycles waste paper in efforts to reduce its carbon footprint and contribute to environmental sustainability.

Executive management

Abdulkarim Ahmed Bucheery
Chief Executive

Qualifications and experience:
BSc, University of Aleppo, Syria (1976). 37 years' banking experience.

Joined BBK in 2002.

Reyadh Yousif Sater
Deputy Chief Executive
Business Group

Qualifications and experience:
MBA, University of Glamorgan, United Kingdom (2001). 37 years' banking experience.

Joined BBK in 1978.

Jamal Mohamed Hijris
General Manager
Support Group

Qualifications and experience:
PhD in Business Administration, University of Liverpool, United Kingdom (2014). 36 years' banking experience.

Joined BBK in 1978.

Mohammed Ali Malik
General Manager
Retail Banking

Qualifications and experience:
BSc in Computer Science, University of Petroleum and Minerals, Kingdom of Saudi Arabia (1984). 29 years' work experience.

Joined BBK in 2000.

Abdulrahman Ali Saif
General Manager
Treasury, Investment and Institutional Banking

Qualifications and experience:
PhD in Economics, University of Leicester, United Kingdom (1992). 32 years' banking experience.

Joined BBK in 2008.

Rashad Ahmed Akbari
Assistant General Manager
Operations

Qualifications and experience:
MSc in Marketing, University of Stirling, United Kingdom (1997). 28 years' work experience, of which 14 years in banking.

Joined BBK in 2000.

Jamal Mohamed Al Sabbagh
Assistant General Manager
Information Technology

Qualifications and experience:
MBA, University of Glamorgan, United Kingdom (2001). 34 years' banking experience.

Joined BBK in 1980.

Hassaan Mohammed Burshaid
Assistant General Manager
Human Resources and Administration

Qualifications and experience:
MSc, Human Resources Management, DePaul University, United States of America (2006). 20 years' experience in the field of human resources.

Joined BBK in 1998.

Mohammed Abdulla Isa
Assistant General Manager
Financial Planning and Control

Qualifications and experience:
Certified Public Accountant (CPA), American Institute of Certified Public Accountants, Delaware State Board of Accountancy, United States of America (2001). 23 years' finance experience.

Joined BBK in 2001.

C.K. Jaidev
Assistant General Manager
Overseas Banking

Qualifications and experience:
MBA, Indian Institute of Management, Republic of India (1989). 25 years' banking experience.

Joined BBK in 1996.

Nadeem A. Aziz Kooheji
Assistant General Manager
Corporate Banking

Qualifications and experience:
BA in Finance and International Business, University of Texas – Austin, United States of America (1988). Nine years' audit and 17 years' banking experience.

Joined BBK in 1999.

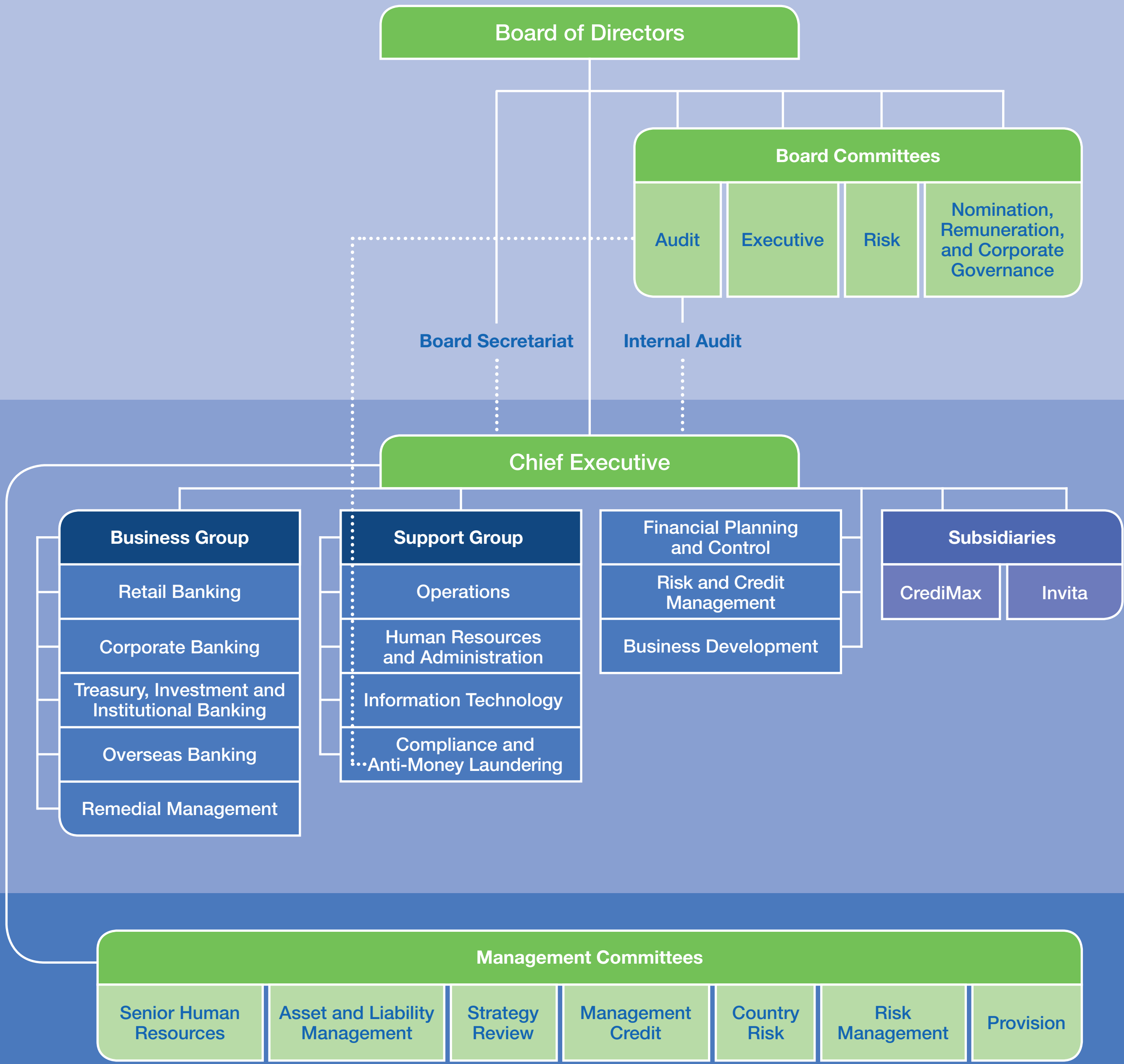
Amit Kumar
Assistant General Manager
Risk and Credit Management

Qualifications and experience:
MBA, Indian Institute of Management, Republic of India (1983). 31 years' banking experience.

Joined BBK in 1994.

Organisation information

Organisation structure



1 International branches in Kuwait and India – including the Non Resident Indian (NRI) Department in Bahrain – and the Representative Office in Dubai report to Overseas Banking.

2 The Assistant General Manager of Risk and Credit Management is a permanent attendee in Board Risk Committee meetings, and also participates in Board meetings whenever risk issues are discussed.

3 Compliance and Anti-Money Laundering reports to the General Manager of Support Group and has full access to the Board's Audit committee. The Head of Compliance and Anti-Money Laundering presents quarterly reports that are discussed in the Audit Committee.

Executive management interests

The number of shares held by members of the executive management team as of 31 December 2014 was as follows:

Name	Type of shares	31 Dec 2014	31 Dec 2013
Abdulkarim Ahmed Bucheery	Ordinary	389,072	185,622
Reyadh Yousif Sater	Ordinary	259,380	123,748
Jamal Mohamed Hijres	Ordinary	322	293
Mohammed Ali Malik	Ordinary	–	–
Abdulrahman Ali Saif	Ordinary	63,547	53,211
Rashad Ahmed Akbari	Ordinary	58,204	31,903
Jamal Mohamed Al Sabbagh	Ordinary	81,731	45,820
Hassaan Mohammed Burshaid	Ordinary	125,367	59,811
Mohammed Abdulla Isa	Ordinary	69,751	7,384
C.K. Jaidev	Ordinary	–	–
Amit Kumar	Ordinary	90,010	42,943
Nadeem A.Aziz Al Kooheji	Ordinary	–	–

Executive Management trading of Bank's shares during the year 2014

Name	Trading through Bahrain Bourse	Date of trading
Mohammed Ali Malik	Sold (30,814) shares	13 Feb 2014
Abdulrahman Ali Saif	Sold (15,081) shares	05 Mar 2014
	Sold (2,411) shares	20 Feb 2014
	Sold (26,130) shares	16 Feb 2014
C.K. Jaidev	Sold (34,049) shares	15 Apr 2014

Management Committees

Management Committees are chaired by the Chief Executive. Committee members are heads of the relevant divisions appointed by the Committee Chairman.

Committee	Summary terms of reference, roles and responsibilities:	Frequency of meetings:
Senior Human Resources	Establishes appropriate policies, procedures and guidelines for the management of human resources.	Once every other month.
Asset and Liability Management	Establishes policies and guidelines for the overall management of the statement of financial position and its associated risks.	At least once a month.
Strategy Review	Reviews and monitors progress on strategic initiatives.	Twice a year.
Management Credit	Approves credit and investment proposals above a certain limit. Also reviews and recommends any proposal requiring Executive Committee or Board approval.	Once a week.
Country Risk	Reviews country reports/ratings/strategies of the identified countries and presents recommendations for undertaking exposures to the Board for their approval.	Once a month.
Risk Management	Identifies, measures, monitors and controls risk by establishing risk policies and procedures.	Once every other month.
Provision	Reviews and establishes provisioning requirements for loans, advances and investments.	Once every quarter.

Major BBK shareholdings as of 31 December 2014

The company's ownership in other companies listed on the Bahrain Bourse (5 percent and above)

Name/Entity	Nationality/ Head Quarters	Legal status	Ownership date	%	Number of shares 31 Dec 2013 Previous	Number of shares 31 Dec 2014 Current
Bahrain Kuwait Insurance (BKIC)	Bahrain	BSC (c)	2006	6.82%	4,879,836	**4,879,818**
Securities Investment Company	Bahrain	BSC (c)	2006	9.63%	41,250,000	**41,250,000**
Bahrain Commercial Facilities Company	Bahrain	BSC (c)	1994	23.03%	37,618,691	**37,618,691**

Major shareholders of the company's outstanding shares (5 percent and above)

Name/Entity	Nationality/ Head Quarters	Legal status	Ownership date	%	Number of shares 31 Dec 2013 Previous	Number of shares 31 Dec 2014 Current
Ithmaar Bank	Bahrain	BSC	2008	25.38%	237,656,304	**261,421,933**
Pension Fund Commission (PFC)	Bahrain	Governmental Institution	1986	18.77%	175,910,143	**193,352,656**
Kuwait Investment Authority (KIA)	Kuwait	Investment Company	1990	18.70%	175,090,900	**192,599,989**
Social Insurance Organisation (SIO)	Bahrain	Governmental Institution	1986	13.34%	124,930,581	**137,423,639**

The Bank's holdings in other companies (quoted/unquoted in/out Kingdom of Bahrain) (10 percent and above)

Name/Entity	Nationality/ Head Quarters	Legal status	Ownership date	%	Number of shares 31 Dec 2013 Previous	Number of shares 31 Dec 2014 Current
CrediMax	Bahrain	BSC (c)	1999	100.00%	10,000,000	**10,000,000**
Invita	Bahrain	BSC (c)	2006	100.00%	1,000,000	**1,000,000**
Global Payment Services (1)	Bahrain	WLL	2005	55.00%	10,000	**10,000**
Sakana Holistic Housing Solutions	Bahrain	BSC (c)	2006	50.00%	10,000,000	**5,000,000**
The Benefit Company	Bahrain	BSC (c)	1997	22.00%	4,752	**5,703**
Naseej Company	Bahrain	BSC	2009	15.15%	163,636,370	**163,636,370**
Alosra Bank	Bahrain	BSC (c)	2009	10.00%	5,000,000	**5,000,000**
Diyaar Al Harameen Al Ola Limited	Cayman Islands	WLL	2011	35.00%	16,450,000	**16,450,000**
BBK Geojit Securities KSC	Kuwait	KSC	2012	40.00%	2,000,000	**2,000,000**
Invita – Kuwait (2)	Kuwait	KSC	2013	60.00%	–	**600,000**
SAUDI MAIS (3)	Saudi Arabia	WLL	2011	24.00%	8,280	**–**
EBLA (4)	Kuwait	KSC	2010	36.36%	13,333,334	**–**

(1) Shareholding through CrediMax.
(2) Shareholding through Invita.
(3,4) Shareholding has been sold 15 December 2014.

BBK offices and overseas branches

For contact details of our local and international offices and branches please visit our website www.bbkonline.com.
The Bank is headquartered in Bahrain and also operates in Dubai, Kuwait, and India.

Remuneration report

The Bank follows a total compensation approach to remuneration. This includes the Bank's variable remuneration policy for rewarding performance as well as providing competitive fixed remuneration for attracting and retaining talents.

During the year, the Bank adopted regulations concerning sound remuneration practices issued by the Central Bank of Bahrain and has proposed revisions to its variable remuneration framework. The revised policy framework and incentive components are subject to the approval of the shareholders in the upcoming Annual General Meeting. Once approved, the policy will be effective for the 2014 annual performance incentives and will be fully implemented for future periods.

The key features of the proposed remuneration framework are summarised below.

Remuneration strategy

It is the Bank's basic compensation philosophy to provide a competitive level of total compensation to attract and retain qualified and competent employees. The Bank's variable remuneration policy will be driven primarily by a performance based culture that aligns employee interests with those of the shareholders of the Bank. These elements support the achievement of the objectives through balancing rewards for both short-term results and long-term sustainable performance. The strategy is designed to share the success, of the Bank and to align employees' incentives with the risk framework and risk outcomes.

The quality and long-term commitment of all of the employees is fundamental to the success of the Bank. We therefore aim to attract, retain and motivate the very best people who are committed to maintaining a career with the Bank, and who will perform their role in the long-term interests of our shareholders. The Bank's reward package is comprised of the following key elements:

1 Fixed pay
2 Benefits
3 Annual (short term) performance bonus
4 Annual (long term) performance bonus
5 Subsidiaries Board Remuneration

A robust and effective governance framework ensures that the Bank operates within clear parameters of its compensation strategy and policy. All compensation matters, and overall compliance with regulatory requirements, are overseen by the Board Nomination, Remuneration and Corporate Governance Committee (NRCG).

The Bank's remuneration policy in particular considers the role of each employee and sets the criteria to determine on whether an employee is a material risk taker and/ or an approved person in a business line, control or support function.

An approved person is an employee whose appointment requires prior regulatory approval because of the significance of his role within the Bank and an employee is considered a material risk taker if they are the head of a significant business line or any individuals within their control who have a material impact on the Bank's risk profile.

In order to ensure alignment between what we pay our people and our business strategy, we assess individual performance against annual and long-term financial and non-financial objectives summarised in our performance management system. This assessment also takes into account adherence to the Bank's values, risks and compliance measures and above all integrity. Altogether, performance is therefore judged not only on what is achieved over the short and long-term but also importantly on how it is achieved in order to ensure long-term sustainability of the business.

NRCG role and focus

The NRCG has oversight of all reward policies for the Bank's employees. The NRCG is the supervisory and governing body for compensation policy, practices, and plans. It is responsible for determining, reviewing, and proposing variable remuneration policy for approval by the Board. It is responsible for setting the principles and governance framework for all compensation decisions. The NRCG ensures that all persons must be remunerated fairly and responsibly. The remuneration policy is reviewed on a periodic basis to reflect changes in market practices, the business plan, and risk profile of the Bank.

The responsibilities of the NRCG with regards to the Bank's variable remuneration policy, as stated in its mandate, include but are not limited to, the following:

- Approve, monitor and review the remuneration system to ensure the system operates as intended.
- Review and recommend remuneration for the approval of the Board.
- Approve the remuneration amounts for each approved person and material risk-taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, contributions, expenses, bonuses and other employee benefits.
- Recommend the Chief Executive's remuneration for the Board of Directors approval.
- Ensure remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees that generate same short-run profit but take different amount of risk on behalf of the bank.
- Ensure that for material risk takers, variable remuneration forms a substantial part of their total remuneration.
- Review the stress testing and back testing results before approving the total variable remuneration to be distributed including salaries, fees, expenses, bonuses, and other employee benefits.
- Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The NRCG will question payouts for income that cannot be realised or whose likelihood of realisation remains uncertain at the time of payment.
- Ensure that for approved persons in risk management, internal audit, operations, financial control, and compliance functions the mix of fixed and variable remuneration is weighted in favour of fixed remuneration.
- Recommend Board member remuneration based on their attendance and performance and in compliance with Article 188 of the Bahrain Commercial Companies Law.
- Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use personal hedging strategies or remuneration and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

NRCG Members

As outlined in the Corporate Governance section of the annual report, the Board is satisfied that all Directors are non-executive and that the majority of the NRCG members are independent including the Chairman of the Committee. The NRCG comprises of the following members:

NRCG member name	Appointment date	Number of meetings attended
Murad Ali Murad	21 March 1999	4
Sh Khalifa bin Duaij Al Khalifa	27 February 2005	4

The aggregate remuneration paid to NRCG members during the year in the form of sitting fees amounted to BHD 5,000 [2013: BHD 10,000].

External consultants

Consultants were appointed during the year to advise the Bank on amendments to its variable remuneration policy to be in line with the CBB's Sound Remuneration Practices policy and industry norms. This included assistance in designing an appropriate share-based incentive scheme for the Bank.

Scope of application of the remuneration policy

The variable remuneration policy has been adopted on a group basis covering BBK Bahrain, CrediMax, and BBK Kuwait. BBK India has been excluded from the policy because they follow the Reserve Bank of India in this regard. Invita is also excluded from this policy as it is a non-financial institution.

Board remuneration

The Bank's Board remuneration is determined in line with the provisions of Article 188 of the Bahrain Commercial Companies Law, 2001. The Board of Directors' remuneration will be capped so that total remuneration (excluding sitting fees) does not exceed 10% of the Bank's net profit after all required deductions in any financial year. Board remuneration is subject to approval of the shareholders in the annual general meeting. Remuneration of non-executive Directors does not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses, or pension benefits.

Variable remuneration for staff

Variable remuneration is performance related and consists primarily of the annual performance bonus award and long-term incentives for future performance. As a part of our staff's variable remuneration, the annual bonus rewards delivery of operational and financial targets set each year, the individual performance of the employees in achieving those targets, and their contribution to delivering the Bank's strategic objectives.

The Bank has adopted a Board approved framework to develop a transparent link between variable remuneration and performance. The framework is designed on the basis of meeting both satisfactory financial performance and the achievement of other non-financial factors, that will, all other things being equal, deliver a target bonus pool for employees, prior to consideration of any allocation to business lines and employees individually. In the framework adopted for determining the variable remuneration pool, the NRCG aims to balance the distribution of the Bank's profits between shareholders and employees.

Key performance metrics at the Bank level include a combination of short-term and long-term measures and include profitability, solvency, liquidity, and growth indicators. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

In determining the amount of variable remuneration, the Bank starts from setting specific targets and other qualitative performance measures that result in a target bonus pool. The bonus pool is then adjusted to take account of risk via the use of risk-adjusted measures including forward-looking considerations.

The NRCG carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. NRCG demonstrates that its decisions are consistent with an assessment of the Bank's financial condition and future prospects.

The Bank uses a formalised and transparent process to adjust the bonus pool for quality of earnings. It is the Bank's objective to pay out bonuses out of realised and sustainable profits. If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the NRCG.

For the overall Bank to have any funding for distribution of a bonus pool, threshold financial targets have to be achieved. The performance measures ensure that total variable remuneration is generally, considerably contracted where subdued or negative financial performance of the Bank occurs. Furthermore, the target bonus pool as determined above is subject to risk adjustments in line with the risk assessment and linkage framework.

Remuneration of control and support functions

The remuneration level of employees in the control and support functions allows the Bank to employ qualified and experienced personnel in these functions. The Bank ensures that the mix of fixed and variable remuneration for control and support function personnel should be weighted in favour of fixed remuneration. The variable remuneration of control functions is to be based on function-specific objectives and is not be determined by the financial performance of the business areas they monitor.

The Bank's performance management system plays a major role in deciding the performance of the support and control units on the basis of the objectives set for them. Such objectives are more focused on non-financial targets that include risk, control, compliance and ethical considerations as well as the market and regulatory environment apart from value-adding tasks which are specific to each unit.

Variable compensation for business units

The variable remuneration of the business units is primarily determined by key performance objectives set through the performance management system of the Bank. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations, and market and regulatory requirements. The consideration of risk assessments in the performance evaluation of individuals ensures that any two employees who generate the same short-run profits but take different amounts of risk on behalf of the bank are treated differently by the remuneration system.

Risk assessment framework

The purpose of risk linkages is to align variable remuneration to the risk profile of the Bank. In its endeavour to do so, the Bank considers both quantitative measures and qualitative measures in the risk assessment process. Both quantitative measures and human judgment play a role in determining any risk adjustments. The risk assessment process encompasses the need to ensure that the remuneration policy as designed reduces employees' incentives to take excessive and undue risks, is symmetrical with risk outcomes, and delivers an appropriate mix of remuneration that is risk aligned.

The Bank's NRCG considers whether the variable remuneration policy is in line with the Bank's risk profile and ensures that through the Bank's ex-ante and ex-post risk assessment framework and processes, remuneration practices where potential future revenues whose timing and likelihood remain uncertain are carefully evaluated.

Risk adjustments take into account all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Bank undertakes risk assessments to review financial and operational performance against business strategy and risk performance prior to distribution of the annual bonus.

The Bank ensures that total variable remuneration does not limit its ability to strengthen its capital base. The extent to which capital needs to be built up is a function of the bank's current capital position and its ICAAP.

The size of the variable remuneration pool and its allocation within the bank takes into account the full range of current and potential risks, including:

(a) The cost and quantity of capital required to support the risks taken

(b) The cost and quantity of the liquidity risk assumed in the conduct of business

(c) Consistency with the timing and likelihood of potential future revenues incorporated into current earnings

Risk adjustments

The Bank has an ex-post risk assessment framework which is a qualitative assessment to back-test actual performance against prior risk assumptions.

In years where the Bank suffers material losses in its financial performance, the risk adjustment framework will work as follows:

• There will be considerable contraction of the Bank's total variable remuneration

• At an individual level, poor performance by the Bank will mean individual KPIs are not met and hence employee performance ratings will be lower

• Reduction in the value of deferred shares or awards

• Possible changes in vesting periods and additional deferral applied to unvested rewards

• Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or clawback of previous variable awards may be considered

The NRCG, with the Board's approval, can rationalise and make the following discretionary decisions:

• Increase/ reduce the ex-post adjustment

• Consider additional deferrals or increase in the quantum of non-cash awards

• Recovery through malus and clawback arrangements

Malus and clawback framework

The Bank's malus and clawback provisions allow the Bank's Board of Directors to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited/adjusted or the delivered variable remuneration recovered in certain situations. The intention is to allow the Bank to respond appropriately if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer term. All deferred compensation awards contain provisions that enable the Bank to reduce or cancel the awards of employees whose individual performance has had a materially detrimental impact on the Bank during the concerned performance year.

Any decision to take back an individual's award can only be made by the Bank's Board of Directors.

The Bank's malus and clawback provisions allow the Bank's Board to determine that, if appropriate, vested/unvested elements under the deferred bonus plan can be adjusted/cancelled in certain situations. These events include the following:

• Reasonable evidence of willful misbehaviour, material error, negligence or incompetence of the employee causing the Bank/the employee's business unit to suffer material loss in its financial performance, material misstatement of the Bank's financial statements, material risk management failure or reputational loss or risk due to such employee's actions, negligence, misbehaviour or incompetence during the concerned performance year.

• The employee deliberately misleads the market and/or shareholders in relation to the financial performance of the Bank during the concerned performance year.

Clawback can be used if the malus adjustment on the unvested portion is insufficient given the nature and magnitude of the issue.

Components of variable remuneration

Variable remuneration has the following main components:

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over of three years
Upfront short-term share awards	The portion of variable compensation that is awarded and issued in the form of shares on conclusion of the performance evaluation process for each year.
Deferred short-term share awards	The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over of three years
Long-term performance share awards	Share-based reward schemes, under which the Bank allocates certain numbers of shares every year to executive management and senior employees based on performance, potential, and job criticality level. There are two forms of the employee long-term incentive plans: *1 Employee Stock Options Plan* This plan was introduced in 1999 and options were granted yearly until 2009. The plan will end once all options granted till 2009 expire or vest. *2 Employee Performance Shares Plan* The scheme was introduced effective 2010. The plan operates on a yearly basis of shares being allocated and held in a trust in the name of the individual employee over the vesting period. Following the assessment of the performance of the Bank against the target performance conditions stipulated for the period, the ownership of the vested shares is transferred to the individual employee.
Subsidiaries Board remuneration	The portion of variable compensation that is awarded and paid out at the end of the financial year to an employee representing the bank as director on the board of any of its wholly-owned subsidiaries and/or associated companies of BBK, excluding the sitting fees.

All deferred and long-term awards are subject to malus provisions. All share awards are released to the benefit of the employee after a six-month retention period from the date of vesting. The number of equity share awards is linked to the Bank's share price as per the rules of the Bank's Share Incentive Scheme. Any dividend on these shares is released to the employee along with the shares (ie, after the retention period).

Deferred compensation

All employees at Grade 24 and above are subject to the following rules of deferral:

1 The CEO, his deputies and business line General Managers:

Element of variable remuneration	Payout percentages	Vesting period	Retention	Malus*	Clawback*
Upfront cash	40%	immediate	-	-	Yes
Deferred cash	10%	3 years	-	Yes	Yes
Deferred share awards	50%	3 years	6 months	Yes	Yes

2 All other covered staff:

Element of variable remuneration	Payout percentages	Vesting period	Retention	Malus*	Clawback*
Upfront cash	50%	immediate	-	-	Yes
Upfront share awards	10%	immediate	6 months	Yes	Yes
Deferred share awards	40%	3 years	6 months	Yes	Yes

The NRCG, based on its assessment of role profile and risk taken by an employee could increase the coverage of employees that will be subject to deferral arrangements.

Details of remuneration paid

(a) Board of Directors

	2014	2013
Sitting fees and travel allowance	74,009	96,563
Remuneration	577,500*	577,500
Others	117,961**	38,005
BBK subsidiaries' Board remuneration, sitting fees and other related expenses	168,684	227,980

*Accrued expenses

** Note that the other expenses includes BD 52,000 which was agreed by the Board in 2013, however was not accrued in the same year

(Total remuneration, sitting fees and all related expenses for BBK and its subsidiaries, for 2013: BD 940,048)

(b) Employees

1 Employee remuneration

BD 000's	2014											
		Fixed remuneration		Sign on bonuses	Guaranteed bonuses	Variable remuneration						
						Upfront		Deferred				
	Number of staff	Cash	Others	(Cash / shares)	(Cash / shares)	Cash	Shares	Cash	Shares	Others	Total
Approved Persons Business lines	16	2,847	-	-	-	1,035	24	206	1,103	-	5,215
Approved Persons Control & support	11	1,396	-	-	-	469	69	19	389	-	2,341
Other material risk takers	24	2,115	-	-	-	435	75	9	344	-	2,978
Other Staff Bahrain Operations	551	11,563	-	-	-	1,877	-	-	-	-	13,440
Other Staff Branches & Subsdiaries	423	5,772	-	-	-	552	-	-	-	-	6,324
TOTAL	1025	23,693	-	-	-	4,367	167	235	1,836	-	30,298

Other staff costs amounting BD 208.297 relate to indirect staff expenses such as training, recruitment, levy and other costs have not been considered in the table above.

The above table has been updated on March 11th, 2015, after the printing of the 2014 annual report, to include the Board Remuneration and Sitting Fees received by members of the Executive Management for representing the Bank in the boards of wholly owned subsdiaries and / or associate companies of BBK amounting BD 230,247.

BD 000's	2013										
		Fixed remuneration	Sign on bonuses	Guaranteed bonuses	Variable remuneration					
					Upfront		Deferred			
	Number of staff	Cash	(Cash/ shares)	(Cash/ shares)	Cash	Shares	Cash	Shares	Others	Total
Approved Persons Business lines	17	2,359	-	-	1,302	-	-	381	-	4,042
Approved Persons Control & support	15	1,488	-	-	696	-	-	174	-	2,358
Other material risk takers	24	2,089	-	-	591	-	-	177	-	2,857
Other Employees: Bahrain Operations	526	16,937	-	-	1,532	-	-	-	-	18,469
Other Employees: Overseas Branches & Subsdiaries	414	7,233	-	-	488	-	-	-	-	7,721
Total	996	30,106	-	-	4,608	-	-	732	-	35,446

Other staff costs amounting BD 283,885 relate to indirect staff expenses such as training, recruitment, levy and other costs, and have not been considered in the table above.

The total amount of remuneration includes severance payments during the year amounted to BD 3,839,000 , of which the highest paid to a single person amounted to BD 138,360

2 Deferred awards

	2014			
	Cash	Shares		Total
	BD '000	Number	BD '000	BD '000
Opening balance	-	4,270,501	1,599	1,599
Awarded during the period	209	4,130,184	1,859	2,068
Paid out/released during the period	-	(1,198,345)	(453)	(453)
Service, performance and risk adjustments	-	(771,642)	(288)	(288)
Bonus share adjustment	-	162,229	-	-
Closing balance	-	6,592,926	2,717	2,717

	2013			
	Cash	Shares		Total
	BD '000	Number	BD '000	BD '000
Opening balance	-	4,505,536	1,694	1,694
Awarded during the period	-	2,757,932	1,046	1,046
Paid out/released during the period	-	(1,849,497)	(587)	(587)
Service, performance and risk adjustments	-	(1,415,009)	(554)	(554)
Bonus share adjustment	-	271,539	-	-
Closing balance	-	4,270,501	1,599	1,599

Number of shares for the 2014 deferred short term share awards has been calculated using estimated year end share prices as the award price will be determined after the date of the AGM.

The amounts included in the tables are based on gross awards made and may not necessarily match the accounting charge which factors vesting conditions and service conditions.

3 Subsidiaries Board remuneration

Members of Executive Management who represent the Bank as directors on the boards of wholly owned subsidiaries and / or associate companies of BBK, received a total amount of BD 254,397 as remuneration and sitting fees for their contribution in the respective subsidiary and / or associate company in 2013.

"Improved efficiency stems from continuous investment in developing employees' personal skills and abilities, enabling them to create fulfilling lifelong careers with our Bank."

Development matters

Financial review

Disciplined management of costs and prudent risk management have resulted in BBK achieving solid and consistent results attributable to the loyalty of our customers, our well-diversified range of activities and the quality of implementation of our corporate strategy.

Overview

Faced with rapidly evolving regulatory requirements and a challenging economic environment, BBK managed to achieve significant progress and registered record profitability for the year, remaining true to its core business model.

Steady and consistent performance, proactive risk management, and prudent diversified growth in line with the Bank's corporate strategy has resulted in the delivery of another record performance of BD 50.1 million for the year ended 31 December 2014.

This section provides a review of our enterprise financial performance for 2014 that focuses on the consolidated operating results and the consolidated statement of financial position of BBK including its overseas branches, its principal subsidiaries, joint ventures, associated companies and the indirect investment in associates through subsidiaries.

The consolidated financial statements have been prepared and are presented in accordance with International Financial Reporting Standards, Bahrain Commercial Companies Law, Central Bank of Bahrain (CBB), and Financial Institutions law.

Disciplined management of costs and prudent risk management have resulted in BBK achieving solid and consistent results attributable to the loyalty of our customers, our well-diversified range of activities and the quality of implementation of our corporate strategy.

Operating results

The year 2014 was the second of BBK's three-year business cycle in which the Bank made notable progress in many areas and was able to achieve remarkable results. Among these significant accomplishments was our involvement in intensifying our expansion and diversification activities, which included the opening of our fourth branch in India New Delhi, which is a crucial factor to sustain continuous future growth. Continuous investment and improvement of our technological platforms resulted in the Bank winning the prestigious award of 'Best Customer Experience Overall Website', in line with the Bank's customer-led strategy. Improving operational efficiency, through investments in human resources and capital structure, is one of our key priorities and therefore the Bank re-launched its Management Trainee Development program to contribute to the economy and prosperity of the Kingdom of Bahrain.

Our foundations are solid, our financial position remains healthy, and we have a sound level of liquidity along with a comfortable level of capitalisation.

BBK achieved a net profit, attributable to the owners of the Bank, of BD 50.1 million for the year ended 31 December 2014, being 11.2 percent higher than last year. The net result for the year was largely impacted by the boost in the Bank's core business activities, primarily driven by the growth in net interest income and commercial services fees and commission income.

In continuation of BBK's prudent approach to risk management and provisioning, the Bank has conservatively provided for adequate provisioning levels in 2014 to cater for unexpected losses caused by market turbulence, including the changes in the fair market value for investments as a way of protecting the Bank's overall asset exposure.

Operating income

Total operating income for the year registered a growth of BD 5.2 million or 4.6 percent and stood at BD 117.5 million reflecting solid and diversified income streams. Net interest income at BD 72.3 million reflects a steady growth of 5.0 percent over 2013 as a reflection of robust growth in the Bank's core business activities. Total other income stood at BD 40.9 million, increasing by BD 3.2 million or 8.6 percent from BD 37.7 million recorded in the previous year.

Summary statement of profit or loss

BD millions	2014	2013	Variance BD millions	Change percent
Net interest income	**72.3**	68.9	3.4	4.98%
Other income	**45.2**	43.5	1.7	3.97%
Total income	**117.5**	112.4	5.1	4.59%
Operating expenses	**46.2**	54.4	(8.2)	-15.03%
Provisions	**20.8**	12.1	8.7	71.28%
Profit before taxation	**50.5**	45.9	4.6	10.23%
Taxation/non-controlling interest	**(0.4)**	(0.8)	0.4	-44.87%
Net profit	**50.1**	45.1	5.0	11.20%

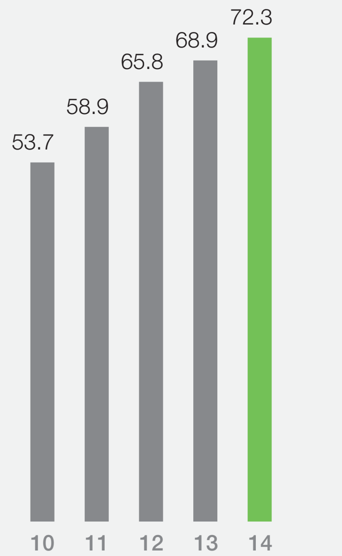
Net interest income

Though the year marked tight and stressed margins due to global market's low interest rates, net interest income for the year reported a boost of 5.0 percent and stood at BD 72.3 million at year-end. The growth was mainly attributable to an increase in the loans and advances portfolio by BD 228 million or 14.1 percent from BD 1,619 million in 2013. The increase of 14.8 percent in interest on the non-trading investment securities (available for sale) from BD 22.7 million reported in 2013 also contributed largely to the overall growth in the net interest income. Growth in the earning assets supported by a significant increase in customer deposits was prudently utilised and invested largely on treasury bills which positively contributed to an increase of 14.8 percent in the net interest income.

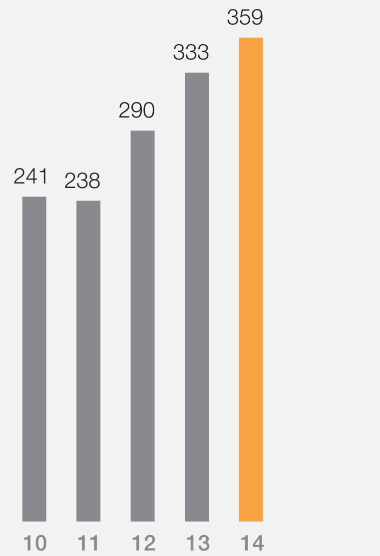
Interest expense for the year includes amortisation of the previously realised non-recurring income of BD 9.2 million that arose from exchanging subordinated debt notes into senior debt notes, which has suppressed the net interest income for the year by around BD 1.4 million. While asset margins have continued to see some pressure, net interest income has benefited from strong financial position momentum and wider liability margins.

As a reflection of lower interest rates and depressed margins, the net interest yield ratio for 2014 showed a modest decrease to 2.32 percent compared to 2.39 percent reported last year.

Asset and liability management (ALM) was up year on year. The build-up of lower-yielding higher quality assets to support more stringent regulatory requirements was well offset by the growth in money market income on the back of improved spreads and a broadening of the depositor base driven by an enhanced product offering.



Net interest income
BD millions



Total equity
BD millions

Other income

Other operating income consists of non-interest income, which is earned from business activities such as dealing in foreign currencies, investment in funds, other than fixed-income funds, the sale of corporate banking and retail banking services, investment trading and share of profit/loss in associated companies and joint ventures.

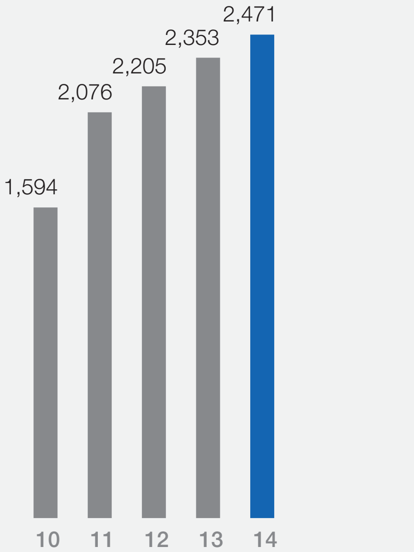
Total other income generated during the year reached BD 40.9 million; an increase of 8.6 percent over last year's reported figure. This was mainly a reflection of net fees and commission for the year which recorded a significant growth of 9.1 percent compared to BD 24.2 million reported in 2013 on account of higher commission income on loans and advances due to high business volumes. Other income includes foreign exchange and investment income of BD 16.3 million which represents a decline of 6.3 percent over last year (2013: BD 17.4 million), on account of the decline in associates' income and net foreign exchange income.

Operating expenses

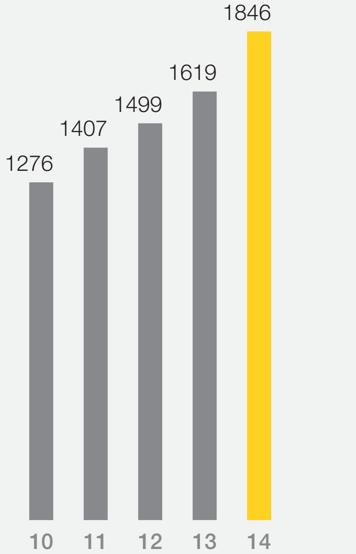
The bank's 2012-13 cost optimisation initiative is now bearing fruit as operating costs remarkably decreased by 15.0 percent to reach BD 46.2 million as at December 2014 when compared to BD 54.4 million reported in the corresponding period of last year. Staff expenses reduced from BD 35.7 million in 2013 to BD 30.3 million in 2014 due to more efficient utilisation of existing human resources. BBK's cost to income ratio has improved substantially from 48.4 percent as of December 2013 to 39.3 percent as of December 2014.

Net provisions

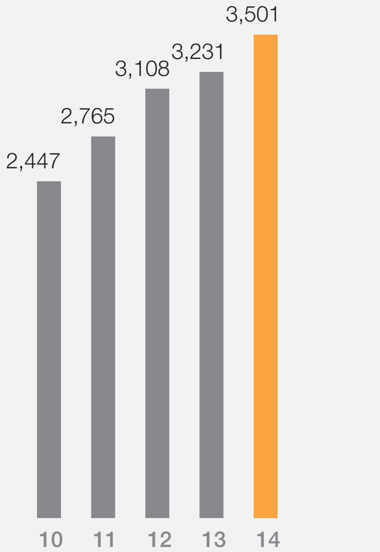
The Bank follows the International Accounting Standard (IAS 39) with regard to accounting for impairment of financial assets. The provisions for impairment of the Bank's loans and advances and assets carried at cost or amortised cost are arrived at after calculating the net present value of the anticipated future cash flows from these financial assets, discounted at original effective interest rates.



Customer deposits
BD millions



Loans and advances
BD millions



Total assets
BD millions

For assets carried at fair value, impairment is the difference between the carrying cost and the fair value. This approach of provisioning for impairment of the Bank's financial assets is aimed at providing more realistic estimates of the impairment in the values of the assets.

In continuation of the Bank's efforts to strengthen its prudent risk management practices, the Bank has amended its general loss reserves criteria to include total risk weighted exposure which shall encompass all potential future eventualities of its gross exposure. Hence, the Bank increased its provisions reserve during 2014, to reach BD 20.8 million (December 2013: BD 12.1 million), and will continue to build up that caution to be able to face any unexpected turbulence in the markets smoothly.

On the other hand, the bank had intensified its remedial and collection efforts during the year, which resulted in significantly reducing the level of non-performing loans from BD 105 million in 2013 to BD 90 million in 2014. The non-trading investment portfolio has performed well this year as evidenced from the portfolio's positive fair market valuation. This has resulted in realising a net provision write-back of BD 0.8 million compared to BD 0.3 million last year.

Comprehensive income

Comprehensive income stood at BD 39.9 million as of end December 2014, compared to BD 52.0 million reported in the corresponding period of 2013. This was driven partially by the volatility in the market prices of bond and equity investments, and also partially due to realisation of some of the gain on investments sold during the year.

Financial position

The Group delivered a resilient performance and our financial position continues to remain strong and healthy, highly liquid, and conservatively funded. Financial position footings grew by BD 270.3 million or 8.4 percent and reached BD 3,501 million at the end of 2014. The growth was primarily driven by an increase in customer lending and the non-trading investment portfolio which was supported by a significant increase in customer deposits. The surplus liquidity was prudently utilised and invested in highly-liquid assets, including but not limited to, treasury bills and placements with the Central Bank of Bahrain.

Growth across both the retail and corporate segments has been robust with the Bank achieving a good balance between both advances and deposits. We remain a strong net lender in the inter-bank market, particularly in the GCC and MENA region. As at 31 December 2014, our net loans and advances-to-deposits ratio stands at 74.7 percent (2013: 68.8 percent). This is a strong indicator of the confidence customers have in us as a financial institution in the Kingdom of Bahrain, while growing and optimising the use of surplus liquidity in the market. The profile of our financial position remains stable as the majority of our financial assets are loans and advances that are held on an amortised cost basis, which reduces the risk of short-term distress shocks.

The Group is strongly capitalised, and generated good levels of organic equity during the year, with Core Tier 1 ratio slightly increased to 12.6 percent from 12.5 percent in 2013, and primarily impacted by the increase in the risk-weighted exposure stemming from the growth in the loan and advance portfolio.

Assets

Total assets showed a sustainable growth of 8.4 percent and stood at BD 3,500.9 million as at 31 December 2014 compared to BD 3,230.7 million in 2013. This was primarily a reflection of strong growth in net loans and advances by 14.1 percent to reach BD 1,846.5 million as part of the Bank's strategy of broadening business relationships and focusing attention on active sectors in the local and MENA region.

The investment portfolio of the Bank is classified into the following three categories: "Financial assets at fair value through profit or loss" (FVTPL), "Available-for-sale", and "Investments stated at amortised costs". The FVTPL category consists of investments held for trading and structured notes having embedded derivatives. The other two categories consist of quoted bonds and equities and unquoted securities that are mainly acquired with the intention of being retained for the long term. At the end of 2014, the quoted bonds and equities constitute 81 percent of the gross investments (2013: 71.4 percent). Fixed income portfolio is substantially hedged against exposure to interest rate risk or highly dominated by regional governments' bonds and sukuk.

Consolidated statement of financial position

BD millions	2014	2013	Variance BD millions	Change percent
Assets				
Cash and balances with central banks	**278.2**	224.4	53.8	24.00%
Treasury bills	**292.7**	315.1	(22.4)	-7.12%
Deposits and amounts due from banks and other financial institutions	**175.9**	202.4	(26.5)	-13.09%
Loans and advances to customers	**1,846.4**	1,618.6	227.8	14.08%
Non-trading investment securities	**787.2**	744.0	43.2	5.80%
Investment in associated companies and joint ventures	**36.5**	57.9	(21.4)	-36.86%
Interest receivable and other assets	**59.0**	42.2	16.8	39.53%
Premises and equipment	**25.0**	26.1	(1.1)	-4.29%
Total assets	**3,500.9**	3,230.7	270.2	8.37%
Liabilities and equity				
Liabilities				
Deposits and amounts due to banks and other financial institutions	**181.5**	255.1	(73.6)	-28.83%
Borrowings under repurchase agreement	**56.3**	47.9	8.4	17.52%
Term borrowings	**239.5**	238.1	1.4	0.60%
Clients' current, savings and other deposits	**2,352.9**	2,204.8	148.1	6.72%
Interest payable and other liabilities	**67.6**	72.0	(4.5)	-6.32%
Total liabilities	**2,897.8**	2,817.9	79.9	2.83%
Equity attributable to owners of the Bank	**332.2**	289.2	43.0	14.89%
Non-controlling interest	**0.7**	0.5	0.2	43.03%
Total equity	**332.9**	289.7	43.2	14.93%
Total liabilities and equity	**3,230.7**	3,107.6	123.1	3.96%

The Bank's total non-trading investment securities grew by BD 43.2 million or 5.8 percent and reached BD 787.2 million at the end of 2014 mainly due to increased investment activities in the regional and selective international markets.

Investment in associated companies and joint venture represents the Bank's interest in a number of associates and joint ventures as outlined in later sections of this report. The carrying value of these investments represents the Bank's share of the net assets of these companies.

BBK managed to keep its liquidity and funding positions at very comfortable levels with liquid assets, consisting of cash and balances with central banks, treasury bills, and placements with banks and other financial institutions, to total assets standing at 21.3 percent (December 2013: 23.0 percent), and loan to total deposit ratio at 66.3 percent (December 2013: 63.9 percent).

Liabilities

Current, savings, and other deposits include the balances of interest-bearing and non-interest-bearing accounts due to customers on demand, and term deposits taken with different maturity dates, in various currencies and at varying rates of interest. Customer deposits continued with its upward positive trend and grew by 5.0 percent to reach BD 2,471.1 million at year end. The continuous growth is a reflection of the Bank's success in portraying itself as a dependable and solid financial institution and leveraging its presence as a dominant player in the domestic market.

Deposits and amounts due to banks and other financial institutions showed an increase of BD 131.5 million or 72.4 percent over 2013 and stood at BD 313.0 million at end of 2014. However, borrowings under repurchase agreements declined by BD 18.6 million and stood at BD 37.7 million as at year end.

Interest payable and other liabilities consist of accrued interest payable on interest-bearing deposits, accrued expenses, and provisions.

Capital adequacy

The Bank has implemented the Basel II framework for the calculation of capital adequacy since January 2008, in accordance with Central Bank of Bahrain guidelines.

Equity before appropriations stood at BD 359.4 million at the end of 2014 (2013: BD 332.9 million). While there was a growth in risk-weighted assets, the Bank continued to maintain a comfortable capital adequacy ratio of 15.63 percent (2013: 15.33 percent), well above the CBB's minimum regulatory requirement of 12 percent.

To further strengthen the Bank's capital base, the Board of Directors approved the appropriation of BD 4.7 million (2013: BD 3.1 million) from the current year's profit to the general reserve. This would make the general reserve reach BD 51.5 million (to be reflected in 2015 financial results); representing an increase of 7.2 percent increase over the previous general reserve balance and 50 percent of the share capital of the bank.

The Bank has also conducted an impact assessment of Basel III requirements in line with the guidelines provided by the Central Bank of Bahrain where the outcome showed that the Bank has sufficient capital to accommodate the requirements of Basel III Accord, and is comfortably ready for its implementation effective January 2015 as mandated by the CBB.

The future is very bright for BBK and to face any potential challenges from domestic or global markets, we will continue to build strong relationships with our clients and customers, maintain our capital and liquidity strength, and invest strategically to meet targeted opportunities for growth and expansion.

Financial information

Independent auditors' report to the shareholders

Building a better
working world

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of BBK B.S.C. ("the Bank") and its subsidiaries (together "the Group") which comprise the consolidated statement of financial position as at 31 December 2014 and the consolidated statements of profit and loss, other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

REPORT ON OTHER REGULATORY REQUIREMENTS

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 1), we report that:

a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; and

b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements.

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and 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 during the year ended 31 December 2014 that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests.

Ernst + Young

Partner's registration no: 117
9 February 2015
Manama, Kingdom of Bahrain

Consolidated statement of financial position

As at 31 December 2014

	Note	2014 BD '000	2013 BD '000
ASSETS			
Cash and balances with central banks	4	**278,193**	224,352
Treasury bills	5	**292,683**	315,125
Deposits and amounts due from banks and other financial institutions	6	**175,896**	202,385
Loans and advances to customers	7	**1,846,462**	1,618,535
Non-trading investment securities	8	**787,153**	743,979
Investments in associated companies and joint ventures	9	**36,537**	57,869
Interest receivable and other assets	10	**58,999**	42,283
Premises and equipment	11	**25,014**	26,136
TOTAL ASSETS		**3,500,937**	3,230,664
LIABILITIES AND EQUITY			
Liabilities			
Deposits and amounts due to banks and other financial institutions		**313,024**	181,529
Borrowings under repurchase agreement		**37,704**	56,307
Term borrowings	12	**240,938**	239,498
Customers' current, savings and other deposits	13	**2,471,077**	2,352,907
Interest payable and other liabilities	14	**78,842**	67,496
Total liabilities		**3,141,585**	2,897,737
Equity			
Share capital	15	**103,014**	93,649
Treasury stock	15	**(6,951)**	(3,014)
Share premium	15	**39,919**	39,919
Statutory reserve	16	**51,507**	46,825
General reserve	16	**46,825**	43,700
Cumulative changes in fair values	17	**17,420**	24,902
Foreign currency translation adjustments		**(7,259)**	(4,508)
Retained earnings		**82,017**	67,747
Appropriations	18	**31,402**	22,989
ATTRIBUTABLE TO THE OWNERS OF THE BANK		**357,894**	332,209
Non-controlling interest		**1,458**	718
Total equity		**359,352**	332,927
TOTAL LIABILITIES AND EQUITY		**3,500,937**	3,230,664

Murad Ali Murad
Chairman

Aref Saleh Khamis
Deputy Chairman

Abdul Karim Ahmed Bucheery
Chief Executive

The attached notes 1 to 45 form part of these consolidated financial statements

Consolidated statement of profit or loss

Year ended 31 December 2014

	Note	2014 BD '000	2013 BD '000
Interest and similar income	19	**117,896**	110,667
Interest and similar expense		**(45,606)**	(41,809)
Net interest income		**72,290**	68,858
Share of profit of associated companies and joint ventures	9	**4,377**	5,869
Other income	20	**40,879**	37,658
Total operating income		**117,546**	112,385
Staff costs		**30,255**	35,730
Other expenses		**12,640**	15,278
Depreciation	11	**3,333**	3,400
Net provision for impairment on loans and advances to customers	7	**21,572**	12,400
Net write back for impairment on investments	8	**(784)**	(263)
Total operating expenses		**67,016**	66,545
PROFIT BEFORE TAXATION		**50,530**	45,840
Net tax provision		**(224)**	(573)
PROFIT FOR THE YEAR		**50,306**	45,267
Attributable to:			
Owners of the Bank		**50,095**	45,051
Non-controlling interest		**211**	216
		50,306	45,267
Basic and diluted earnings per share (BD)	21	**0.050**	0.044

Murad Ali Murad
Chairman

Aref Saleh Khamis
Deputy Chairman

Abdul Karim Ahmed Bucheery
Chief Executive

The attached notes 1 to 45 form part of these consolidated financial statements

Consolidated statement of comprehensive income

Year ended 31 December 2014

	Note	2014 BD '000	2013 BD '000
Profit for the year		**50,306**	45,267
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods;			
Foreign currency translation adjustments		**(2,751)**	(2,396)
Net movement in cumulative changes in fair values	17	**(7,388)**	8,590
Fair value changes in cash flow hedges	17	**(94)**	797
Other comprehensive income for the year		**(10,233)**	6,991
Total comprehensive income for the year		**40,073**	52,258
Attributable to:			
Owners of the Bank		**39,862**	52,042
Non-controlling interest		**211**	216
		40,073	52,258

The attached notes 1 to 45 form part of these consolidated financial statements

Consolidated statement of changes in equity

Year ended 31 December 2014

	Note	Attributable to the owners of the Bank											
		Share capital BD '000	Treasury stock BD '000	Share premium BD '000	Statutory reserve BD '000	General reserve BD '000	Cumulative changes in fair values BD '000	Foreign currency translation adjustments BD '000	Retained earnings BD '000	Proposed appropriations BD '000	Total BD '000	Non-controlling interest BD '000	Total equity BD '000
Balance at 1 January 2013		85,135	(3,561)	39,919	42,568	39,500	15,515	(2,112)	49,840	22,361	289,165	502	289,667
Profit for the year		–	–	–	–	–	–	–	45,051	–	45,051	216	45,267
Other comprehensive income		–	–	–	–	–	9,387	(2,396)	–	–	6,991	–	6,991
Total comprehensive income		–	–	–	–	–	9,387	(2,396)	45,051	–	52,042	216	52,258
Share – based payments	40	–	–	–	–	–	–	–	102	–	102	–	102
Dividends paid	18	–	–	–	–	–	–	–	–	(8,397)	(8,397)	–	(8,397)
Stock dividends	18	8,514	–	–	–	–	–	–	–	(8,514)	–	–	–
Donations		–	–	–	–	–	–	–	–	(1,250)	(1,250)	–	(1,250)
Movement in treasury stock	15	–	547	–	–	–	–	–	–	–	547	–	547
Transfer to statutory reserve	16	–	–	–	4,257	–	–	–	(4,257)	–	–	–	–
Proposed appropriations	18	–	–	–	–	–	–	–	(22,989)	22,989	–	–	–
Transfer to general reserve 2012		–	–	–	–	4,200	–	–	–	(4,200)	–	–	–
Balance at 31 December 2013		**93,649**	**(3,014)**	**39,919**	**46,825**	**43,700**	**24,902**	**(4,508)**	**67,747**	**22,989**	**332,209**	**718**	**332,927**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**50,095**	**–**	**50,095**	**211**	**50,306**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**(7,482)**	**(2,751)**	**–**	**–**	**(10,233)**	**–**	**(10,233)**
Total comprehensive income		**–**	**–**	**–**	**–**	**–**	**(7,482)**	**(2,751)**	**50,095**	**–**	**39,862**	**211**	**40,073**
Share – based payments	40	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**259**	**–**	**259**	**–**	**259**
Dividends paid	18	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(9,249)**	**(9,249)**	**–**	**(9,249)**
Stock dividends	18	**9,365**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(9,365)**	**–**	**–**	**–**
Donations		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,250)**	**(1,250)**	**–**	**(1,250)**
Movement in treasury stock	15	**–**	**(3,937)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3,937)**	**–**	**(3,937)**
Movement in non-controlling interest		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**529**	**529**
Transfer to statutory reserve	16	**–**	**–**	**–**	**4,682**	**–**	**–**	**–**	**(4,682)**	**–**	**–**	**–**	**–**
Proposed appropriations	18	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(31,402)**	**31,402**	**–**	**–**	**–**
Transfer to general reserve 2013		**–**	**–**	**–**	**–**	**3,125**	**–**	**–**	**–**	**(3,125)**	**–**	**–**	**–**
Balance at 31 December 2014		**103,014**	**(6,951)**	**39,919**	**51,507**	**46,825**	**17,420**	**(7,259)**	**82,017**	**31,402**	**357,894**	**1,458**	**359,352**

The attached notes 1 to 45 form part of these consolidated financial statements

Consolidated statement of cash flows

Year ended 31 December 2014

	Note	2014 BD '000	2013 BD '000
OPERATING ACTIVITIES			
Profit for the year before taxation		**50,530**	45,840
Adjustments for:			
Net provisions (write back) relating to:			
Loans and advances to customers	7	**21,572**	12,400
Non-trading investment securities	8	**(784)**	(263)
Share of profit of associated companies and joint ventures	9	**(4,377)**	(5,869)
Depreciation	11	**3,333**	3,400
Realised gains on sale of non-trading investment securities	20	**(3,826)**	(3,871)
Accrual on term borrowings		**1,440**	1,439
		67,888	53,076
(Increase) decrease in operating assets			
Mandatory reserve deposits with central banks		**(10,170)**	(5,435)
Treasury bills maturing after 90 days		**20,524**	(142,989)
Net change in financial assets at fair value through statement of income		**–**	346
Deposits and amounts due from banks and other financial institutions		**(12,160)**	27,718
Loans and advances to customers		**(249,499)**	(132,190)
Interest receivable and other assets		**(16,810)**	(10,539)
Increase (decrease) in operating liabilities			
Deposits and amounts due to banks and other financial institutions		**131,495**	(73,550)
Borrowings under repurchase agreements		**(18,603)**	8,394
Customers' current, savings and other deposits		**118,170**	148,114
Interest payable and other liabilities		**11,346**	(4,554)
Income tax paid		**(659)**	(535)
Net cash from (used in) operating activities		**41,522**	(132,144)
INVESTING ACTIVITIES			
Purchase of non-trading investment securities		**(265,615)**	(478,821)
Sale of non-trading investment securities		**220,140**	464,675
Sale/Partial repayment of capital of investment in associates	9	**22,890**	–
Dividends received from associated companies	9	**1,636**	2,700
Movement in investment in associates		**1,399**	145
Movement in non-controlling interest		**529**	–
Purchase of premises and equipment		**(2,211)**	(1,663)
Net cash used in investing activities		**(21,232)**	(12,964)
FINANCING ACTIVITIES			
Payment of dividend and donations	18	**(10,499)**	(9,647)
Movement in treasury stock		**(3,937)**	547
Net cash used in financing activities		**(14,436)**	(9,100)
Foreign currency translation adjustments		**(2,751)**	(2,396)
NET CHANGE IN CASH AND CASH EQUIVALENTS		**3,103**	(156,604)
Cash and cash equivalents at beginning of the year		**349,536**	506,140
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	23	**352,639**	349,536

The attached notes 1 to 45 form part of these consolidated financial statements

1 ACTIVITIES

BBK B.S.C. (the "Bank"), a public shareholding company, was incorporated in the Kingdom of Bahrain by an Amiri Decree in March 1971 and registered with the Ministry of Industry and Commerce under Commercial Registration number 1234 dated 16 March 1971. The Bank operates in Bahrain under a commercial banking license issued by the Central Bank of Bahrain and its shares are listed on the Bahrain Bourse.

The Bank is engaged in commercial banking activities through its branches in Bahrain, Kuwait and India and credit card operations and business process outsourcing services through its subsidiaries. The Bank's registered office is at 43 Government Avenue, P O Box 597, Manama, Kingdom of Bahrain.

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 9 February 2015.

2 BASIS OF PREPARATION

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and in conformity with the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and 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.

Accounting convention

The consolidated financial statements are prepared on a historical cost basis, except for derivative financial instruments, available-for-sale investment securities, trading investments and financial assets held at fair value through statement of profit or loss, that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in fair values attributable to risks that are being hedged.

The consolidated financial statements are prepared in Bahraini Dinars which is the functional currency of the Bank.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries (the "Group"), all of which have 31 December as their year end. The Bank has the following principal subsidiaries:

Name	Ownership	Country of incorporation	Activity
CrediMax B.S.C. (c)	100%	Kingdom of Bahrain	Credit card operations
Invita B.S.C. (c)	100%	Kingdom of Bahrain	Business process outsourcing services

CrediMax B.S.C. (c) owns 55% (2013 : 55%) of the share capital of Global Payment Services W.L.L., which is established in Bahrain and engaged in processing and backup services relating to credit, debit and charge cards.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 New and amended standards and interpretations issued and effective

Annual Improvements 2010-2012 Cycle

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Group.

Annual Improvements 2011-2013 Cycle

In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 is effective immediately for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Group, since the Group is an existing IFRS preparer.

Other amendments resulting from Improvements to IFRSs did not have any impact on the accounting policies, financial position or performance of the Bank.

3.2 New standards and amendments issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing is of relevant standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards (where applicable) when they become effective:

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.2 New standards and amendments issued but not yet effective continued

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement, and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The Group is currently assessing the impact of IFRS 9 and plans to adopt the new standard on the effective date.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the effective date.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

- IFRS 2 Share-based Payment
- IFRS 3 Business Combinations
- IFRS 8 Operating Segments
- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
- IAS 24 Related Party Disclosures

Annual improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

- IFRS 3 Business Combinations
- IFRS 13 Fair Value Measurement
- IAS 40 Investment Property

Financial instruments

All financial instruments are initially recognised at the fair value of consideration given, including acquisition costs associated with the investment, except in case of trading investments, where the acquisition costs are expensed in the consolidated statement of profit or loss.

Trading investments

Trading investments are subsequently measured at fair value with any gain or loss arising from a change in fair value being included in the consolidated statement of profit or loss in the period in which it arises. Interest earned or dividends received are included in net trading income.

Financial assets designated at fair value through statement of profit or loss

Financial assets classified in this category are designated by management on initial recognition when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows, that would not be separately recorded.

Financial assets at fair value through statement of profit or loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in 'net gain or loss on financial assets designated at fair value through statement of profit or loss. Interest earned is accrued in interest income, while dividend income is recorded in other income. The Group has not designated any financial assets at fair value through profit or loss.

Deposits and due from banks and other financial institutions

These are stated at cost, adjusted for effective fair value hedges, less any amounts written off and provision for impairment.

Loans and advances to customers

Loans and advances to customers are stated at amortised cost, adjusted for effective fair value hedges, net of interest suspended, provision for impairment and any amounts written off.

Non-trading investment securities

These include bonds, equities, managed funds and other investments. Investments in managed funds comprise investments in mutual funds, private equity, real estate and credit structured products.

These are classified as follows:

- Investments carried at amortised cost
- Available-for-sale

Investments carried at amortised cost

Debt instruments which could be classified as loans and advances and which have fixed or determinable payments but are not quoted in an active market are treated as investments and carried at amortised cost, adjusted for effective fair value hedges, less provision for impairment. Premiums and discounts on non-trading investments with fixed or determinable repayments are amortised, using the effective interest rate method, and taken to interest income.

Available-for-sale

All other investments are classified as "available-for-sale". After initial recognition, available-for-sale investments are subsequently measured at fair value, unless fair value cannot be reliably measured in which case they are measured at cost less impairment. Fair value changes which are not part of an effective hedging relationship, are reported as a separate component of equity as cumulative changes in fair value until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported as "cumulative changes in fair value" within equity, is included in the consolidated statement of income for the year.

That portion of any fair value changes relating from an effective hedging relationship is recognised directly in the consolidated statement of profit or loss.

Fair value measurement

The Group measures financial instruments, such as, derivatives at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 39.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability The principal or the most advantageous market must be accessible to by the Group.

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

The fair value of financial instruments that are quoted in an active market is determined by reference to market bid priced respectively at the close of business on the statement of position date.

In case of unquoted investments, the Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group's Risk Management determines the policies and procedures for fair value measurement. For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Impairment and uncollectability of financial assets

The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of the financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'interest income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to provision for impairment.

The present value of estimated future cash flows is discounted at the financial asset's original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics such as asset type, industry, geographical location, collateral type, past due status and other relevant factors.

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

(ii) Available-for-sale financial assets

For available-for-sale investments, the Group assesses at each statement of financial position date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Group assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss on the investment previously recognised in the consolidated statement of profit or loss. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of interest. If in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income is removed from equity and recognised in the consolidated statement of profit or loss. Impairment losses on equity investments are not reversed through the consolidated statement of profit or loss. Increases in fair value after impairment are recognised directly in equity.

(iii) Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Term borrowings

Financial instruments or their components issued by the Group, which are not designated at fair value through statement of profit or loss, are classified as liabilities under 'term borrowings', where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, term borrowings are subsequently measured at amortised cost using the effective interest rate. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (in whole or in part) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of ownership or (b) when it has neither transferred or retained substantially all the risks and rewards and when it no longer has control over the financial asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Investment in associated companies and joint ventures

The Group's investments in its associates and joint ventures are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost.

The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement 'have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The statement of profit or loss reflects the Group's share of the results of operations of the associates or joint ventures. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of associates and joint ventures is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the 'Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as 'Share of profit of an associate and a joint venture' in the statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Premises and equipment

All items of premises and equipment are initially recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of all premises and equipment, other than freehold land which is deemed to have an indefinite life.

Collateral pending sale

The Group occasionally acquires real estate in settlement of certain loans and advances to customers. Such real estate is stated at the lower of the carrying value of the related facility and the current fair value of the collateral acquired, assessed on an individual basis. If the current fair value for any individual asset is lower, a provision is created. Gains or losses on disposal, and unrealised losses on revaluation, are recognised in the consolidated statement of profit or loss.

Deposits

All money market and customer deposits are carried at the fair value of consideration received, adjusted for effective hedges, less amounts repaid.

Repurchase and resale agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability, reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate. When the counterparty has the right to sell or repledge the securities, the Group reclassifies those securities in its consolidated statement of financial position, as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the consolidated statement of financial position. The consideration paid, including accrued interest, is recorded in the consolidated statement of financial position, reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in interest income and is accrued over the life of the agreement using the effective interest rate. If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale and measured at fair value with any gains or losses included in 'net interest income'.

Taxation

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on foreign operations is provided in accordance with the fiscal regulations of the respective countries in which the Group operates.

Employees' end of service benefits

Costs relating to employees' end of service benefits are accrued in accordance with actuarial and other valuations as required by regulations applicable in each location.

Share-based payment transactions
For equity-settled shared-based payment transactions the Group measures the services received, and the corresponding increase in equity at the fair value of the services received by reference to the fair value of the equity instruments granted. The fair value of those equity instruments is measured at grant date. The fair value so calculated at the grant date is recognised as an expense in the consolidated statement of profit or loss over the vesting period, with a corresponding credit to retained earnings. When an employee leaves the Group during the vesting period the shares granted stand forfeited and any amount recognised in respect of these forfeited shares is reversed through the consolidated statement of profit or loss.

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) and the costs to settle the obligation are both probable and able to be reliably measured.

Treasury stock
Treasury stock is deducted from equity and is stated at cost. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of own equity instruments.

Proposed dividends
Proposed dividends are included as part of equity and only recognised as liabilities when approved by the shareholders. The payment of a dividend also requires the prior approval of the Central Bank of Bahrain.

Financial guarantees
In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. All such guarantees are treated as memorandum liabilities and are disclosed as part of contingent liabilities. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is taken to the consolidated statement of profit or loss in 'net provision for impairment'. The premium received is recognised in the consolidated statement of profit or loss in 'fee and commission income' on a straight line basis over the life of the guarantee.

Derivatives
The Group enters into derivative instruments including futures, forwards, swaps, and options in the foreign exchange and capital markets. Derivatives are stated at fair value. Derivatives with positive market values are included in 'other assets' and derivatives with negative market values are included in 'other liabilities' in the consolidated statement of financial position.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through the consolidated statement of profit or loss. These embedded derivatives are measured at fair value with the changes in fair value recognised in the consolidated statement of profit or loss.

Hedge accounting
The Group makes use of derivative instruments to manage exposures to interest rate and foreign currency risks. In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

A formal assessment is also undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%. Hedges are formally assessed each quarter to reconfirm their effectiveness.

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

Fair value hedges
In relation to fair value hedges, which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value is recognised immediately in the consolidated statement of income. The hedged item is adjusted for fair value changes and the difference relating to the risk being hedged is recognised in the consolidated statement of profit or loss.

Cash flow value hedges
In relation to cash flow hedges which meet the conditions for hedge accounting the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised initially in equity and the ineffective portion is recognised in the consolidated statement of profit or loss. The gains or losses on effective cash flow hedges recognised initially in equity are either transferred to the consolidated statement of profit or loss in the period in which the hedged transaction impacts the consolidated statement of profit or loss or included in the initial measurement of the cost of the related asset or liability.

For hedges which do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the consolidated statement of profit or loss for the year.

Discontinuation of hedges
Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. For effective fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For effective cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the consolidated statement of profit or loss.

Fiduciary assets
Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and are, accordingly, not included in the consolidated statement of financial position.

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 legally enforceable right to set off the recognised amounts and the Group intends to settle on a net basis.

Recognition of income and expenses
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest income and loan commitment fees, which are considered an integral part of the effective yield of a financial asset, are recognised using the effective yield method unless collectability is in doubt. The recognition of interest income is suspended when loans become impaired, such as when overdue by more than ninety days. Notional interest is recognised on impaired loans and other financial assets based on the rate used to discount future cash flows to their net present value based on the original effective interest rate.

Interest expense is recognised using the effective yield method.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Other fees receivable are recognised when earned. Dividend income is recognised when the right to receive payment is established.

Where the Group enters into an interest rate swap to change interest from fixed to floating (or vice versa) the amount of interest income or expense is adjusted by the net interest on the swap until the hedges are effective.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Foreign currencies

(i) Transactions and balances

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. All differences arising on non-trading activities are taken to 'other income' in the consolidated statement of profit and loss, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity. These differences are taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

(ii) Group companies

As at the reporting date, the assets and liabilities of subsidiaries and overseas branches are translated into the Group's presentation currency at the rate of exchange as at the statement of financial position date, and their statements of income are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity through the consolidated statement of comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated statement of profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with central banks (excluding mandatory reserve deposits), treasury bills, deposits and due from banks and other financial institutions with original maturities of ninety days or less.

Trade date accounting and settlement 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. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Significant accounting judgments and estimates

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

Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

Classification of investments

Management decides on acquisition of an investment whether it should be classified as held for trading, held to maturity, available-for-sale, fair value through statement of profit or loss or investments carried at amortised cost.

The Group classifies investments as trading if they are acquired primarily for the purpose of making a short term profit.

The Group classifies debt instruments as carried at amortised cost if the debt instruments are not quoted in an active market.

The Group classifies investments which it intends and has the ability to hold to maturity as held-to-maturity.

The Group classifies financial instruments which contain embedded derivatives which cannot be separated from the host instrument as carried at fair value through statement of profit or loss.

All other investments are classified as available-for-sale.

Impairment losses on loans and advances and investments

The Group reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the consolidated statement of profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgments about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio, concentrations of risks and economic data.

Collective impairment provisions on loans and advances

In addition to specific provisions against individually significant loans and advances, the Group also makes a collective impairment provision against groups of loans and advances which have not been identified for allocating specific provision but carry higher risk of default than originally perceived when the assets were booked.

Impairment of non-trading investment securities

The Group reviews its debt securities classified as available-for-sale investments at each statement of financial position date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances. The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and duration and the extent to which the fair value of an investment is less than its cost.

4 CASH AND BALANCES WITH CENTRAL BANKS

	2014 BD '000	2013 BD '000
Cash	**17,685**	15,833
Current accounts and placements with central banks	**184,387**	142,568
Mandatory reserve deposits with central banks	**76,121**	65,951
	278,193	224,352

Mandatory reserve deposits are not available for use in the Group's day to day operations.

5 TREASURY BILLS

These are short term treasury bills issued by the Government of the Kingdom of Bahrain and Republic of India, carried at amortised cost.

6 DEPOSITS AND AMOUNTS DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2014 BD '000	2013 BD '000
Deposits with banks and other financial institutions	**150,921**	170,051
Other amounts due from banks	**24,975**	32,334
	175,896	202,385

7 LOANS AND ADVANCES TO CUSTOMERS

	2014 BD '000	2013 BD '000
Commercial loans and overdrafts	**1,620,629**	1,412,955
Consumer loans	**312,586**	282,454
	1,933,215	1,695,409
Less: Allowance for impairment	**(86,753)**	(76,874)
	1,846,462	1,618,535

Movements in allowance for impairment are as follows:

	2014		
	Commercial loans and overdrafts BD '000	Consumer loans BD '000	Total BD '000
Balance at 1 January	**66,564**	**10,310**	**76,874**
Charge for the year	**22,671**	**1,412**	**24,083**
Recoveries/write-backs	**(1,718)**	**(793)**	**(2,511)**
Amounts written off during the year	**(9,786)**	**(972)**	**(10,758)**
Interest recovered on impaired loans	**(661)**	**–**	**(661)**
Exchange and other movements	**(274)**	**–**	**(274)**
Balance at 31 December	**76,796**	**9,957**	**86,753**
Individual impairment	**42,591**	**9,957**	**52,548**
Collective impairment	**31,179**	**3,026**	**34,205**
Gross amount of loans, individually determined to be impaired	**76,708**	**13,214**	**89,922**

	2013		
	Commercial loans and overdrafts BD '000	Consumer loans BD '000	Total BD '000
Balance at 1 January	74,799	10,154	84,953
Charge for the year	13,227	2,500	15,727
Recoveries/write-backs	(2,626)	(701)	(3,327)
Amounts written off during the year	(16,259)	(1,639)	(17,898)
Interest recovered on impaired loans	(1,914)	(4)	(1,918)
Exchange and other movements	(663)	–	(663)
Balance at 31 December	66,564	10,310	76,874
Individual impairment	42,446	10,310	52,756
Collective impairment	21,393	2,725	24,118
Gross amount of loans, individually determined to be impaired	92,634	12,506	105,140

At 31 December 2014, interest in suspense on past due loans that are fully provided amounts to BD 15,394 thousand (31 December 2013: BD 24,040 thousand), effective 31 January 2014 the Bank has treated this as a memorandum account.

During the year loans of BD 10,758 thousand were written off (31 December 2013: BD 17,898 thousand).

The fair value of the collateral consisting of cash, securities and real estate that the Group holds relating to loans individually determined to be impaired at 31 December 2014 amounts to BD 77,820 thousand (2013: BD 107,921 thousand).

8 NON-TRADING INVESTMENT SECURITIES

	Available-for-sale BD '000	Carried at amortised cost BD '000	Total 2014 BD '000	Total 2013 BD '000
Quoted investments				
Government bonds	**332,753**	**2,075**	**334,828**	257,969
Other bonds	**257,625**	**–**	**257,625**	238,497
Equities	**80,532**	**–**	**80,532**	69,729
	670,910	**2,075**	**672,985**	566,195
Unquoted investments				
Government bonds	**67,847**	**19,560**	**87,407**	143,327
Other bonds	**28,659**	**165**	**28,824**	40,859
Equities	**37,373**	**–**	**37,373**	37,681
Managed funds	**4,347**	**–**	**4,347**	5,199
	138,226	**19,725**	**157,951**	227,066
	809,136	**21,800**	**830,936**	793,261
Allowance for impairment	**(43,783)**	**–**	**(43,783)**	(49,282)
Balance at 31 December 2014	**765,353**	**21,800**	**787,153**	
Balance at 31 December 2013	711,801	32,178	–	743,979

Included under available-for-sale investments are unquoted equities and managed funds investments amounting to BD 26,995 thousand (2013: BD 27,276 thousand), which are recorded at cost less impairment since their fair value cannot be reliably estimated. There is no market for these investments and the Group intends to hold them for the long term.

8 NON-TRADING INVESTMENT SECURITIES continued

The movements in allowance for impairment of non-trading investment securities are as follows:

	2014 BD '000	2013 BD '000
Balance at 1 January	**49,282**	52,228
Charge for the year	**132**	2,059
Recoveries	**(2,156)**	(2,322)
Amounts written off	**(2,966)**	(2,716)
Exchange and other movements	**(509)**	33
Balance at 31 December	**43,783**	49,282

9 INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES

The Group has a 23.03% (2013: 23%) shareholding in Bahrain Commercial Facilities Company B.S.C. ("BCFC"), incorporated in the Kingdom of Bahrain, which is engaged in consumer financing, insurance, dealing in real estate and automobiles.

The Group has a 50% (2013: 50%) stake in Sakana Holistic Housing Solutions B.S.C. (c) ("Sakana"), a jointly controlled company incorporated in the Kingdom of Bahrain which is engaged in Islamic real estate financing.

The Group has a 22% (2013: 22%) shareholding in The Benefit Company B.S.C. (c) incorporated in the Kingdom of Bahrain which is engaged in ancillary services to provide payment systems and other related financial services for the benefit of commercial banks and their customers in the Kingdom of Bahrain.

During the year the Group sold its shareholding in EBLA Computer Consultancy K.S.C.C. and Saudi MAIS Company (2013: 36.36% and 24% shareholding respectively).

The Group has a 35% (2013: 35%) equity stake in Diyar Al Harameen Al Ola Limited (Diyar), a company incorporated in the Cayman Islands. Diyar holds 100% beneficial interest in a hotel in Makkah.

The Group has a 40% (2013:40%) stake in BBK Geojit securities K.S.C., a jointly controlled company incorporated in Kuwait.

The following tables illustrate the summarised financial information of the Group's interest in its associated companies and joint ventures:

	2014 BD '000	2013 BD '000
Carrying amount of investment in associated companies and joint ventures		
At 1 January	**57,869**	54,566
Share of profit	**4,377**	5,869
Dividends received from associated companies	**(1,636)**	(2,700)
Change in unrealised fair values – associated companies (note 17)	**216**	279
Change in Foreign exchange translation adjustments	**(159)**	(145)
Sold during the year	**(22,890)**	–
Provision charges during the year	**(1,240)**	–
At 31 December	**36,537**	57,869

	2014 BD '000	2013 BD '000
Share of associated companies and joint ventures statements of financial position		
Current and non-current assets	**72,703**	99,322
Current and non-current liabilities	**(36,166)**	(41,453)
Net assets	**36,537**	57,869
Share of associated companies and joint ventures revenues		
Revenue	**7,881**	16,173

Below is the summarised financial information of BCFC which is considered to be a material associate by the Group, based on its IFRS financial statements, and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

	2014 BD '000	2013 BD '000
Net interest income	**14,401**	16,104
Gross profit on automotive sales	**10,815**	10,472
Other operating income	**8,208**	1,426
Total operating income	**33,424**	28,002
Operating expense	**(16,577)**	(14,172)
Other expense	**(1,445)**	(1,203)
Profit for the year	**15,402**	12,627
Group's share of profit for the year	**3,547**	2,904

	2014 BD '000	2013 BD '000
Assets		
Cash and balances with banks	**1,185**	2,991
Loans and advances to customers	**195,524**	171,919
Inventories	**24,621**	20,940
Other assets	**34,889**	30,159
Total Assets	**256,219**	226,009
Liabilities		
Bank overdrafts	**1,512**	1,135
Trade and other payables	**12,816**	19,092
Bank term loans	**120,261**	106,951
Bonds issued	**19,790**	6,690
Total Liabilities	**154,379**	133,868
Donation Reserve	**(998)**	(935)
Equity	**100,842**	91,206
Proportion of the group's ownership	**23.03%**	23.00%
	23,224	20,977

The numbers for BCFC are based on 30 September reveiwed financial statements adjusted for expected performance in the last quarter.

The market value of investments in BCFC is BD 26,333 thousand (2013: BD25,581 thousand) compared to the carrying value of BD 23,224 thousand (2013: BD 20,977 thousand).

10 INTEREST RECEIVABLE AND OTHER ASSETS

	2014 BD '000	2013 BD '000
Interest receivable	**14,236**	11,595
Accounts receivable	**19,674**	9,716
Positive fair value of derivatives (note 26)	**2,987**	10,127
Prepaid expenses	**1,228**	1,598
Deferred tax	**806**	514
Collateral pending sale	**1,534**	1,534
Other	**18,534**	7,199
	58,999	42,283

11 PREMISES AND EQUIPMENT

	Freehold land BD '000	Properties and buildings BD '000	Furniture and equipment BD '000	Capital work in progress BD '000	Total BD '000
Net book value at 31 December 2014	**8,376**	**11,934**	**4,462**	**242**	**25,014**
Net book value at 31 December 2013	8,431	12,797	4,848	60	26,136

The depreciation charge for the year amounted to BD 3,333 thousand (2013: BD 3,400 thousand).

12 TERM BORROWINGS

The term borrowings were obtained for general financing purposes and comprise:

Amount of facility US$ '000	Rate of interest	Maturity year	2014 BD '000	2013 BD '000
145,140	Libor + 0.75%	2017	**8,509**	8,509
129,860	Libor + 1.75%	2018	**43,929**	42,489
500,000	4.50%	2015	**188,500**	188,500
			240,938	239,498

13 CUSTOMERS' CURRENT, SAVINGS AND OTHER DEPOSITS

	2014 BD '000	2013 BD '000
Term deposits	**1,525,346**	1,486,911
Current accounts	**491,796**	484,086
Savings accounts	**376,705**	325,416
Other accounts	**77,230**	56,494
	2,471,077	2,352,907

14 INTEREST PAYABLE AND OTHER LIABILITIES

	2014 BD '000	2013 BD '000
Accrued expenses	**35,409**	31,810
Interest payable	**10,949**	8,986
Accounts payable	**14,346**	13,087
Negative fair value of derivatives (note 26)	**12,368**	7,943
Other	**5,770**	5,670
	78,842	67,496

15 EQUITY

Share capital	2014 BD '000	2013 BD '000
Authorised		
1,500,000,000 shares of BD 0.100 each	**150,000**	100,000
Issued and fully paid		
1,030,140,907 shares (2013: 936,491,734 shares) of BD 0.100 each	**103,014**	93,649
Treasury stock (see below)	**(6,951)**	(3,014)

Treasury stock represents the purchase by the Bank of its own shares. At the end of the year, the Bank held 21,206,125 (2013: 11,596,295) of its own shares, inclusive of bonus shares issued during 2014.

Share premium

The share premium arising on issue of ordinary shares is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

Employee Performance Share Plan

The Group has an Employee Performance Share Plan under which shares are granted to certain eligible employees (note 40).

16 RESERVES

Statutory reserve

The statutory reserve has been created in accordance with the Bahrain Commercial Companies Law. The Bank transfers 10% of its annual profits to its statutory reserve till such time as the reserve equals 50% of the issued share capital of the Bank. During the year the Bank transferred only BD 4,682 thousand (2013: 4,257 thousand) as the statutory reserve reached 50% of the issued share capital. The reserve is not available for distribution, except in circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

General reserve

The general reserve has been built up in accordance with the provisions of the Bank's articles of association and underlines the shareholders' commitment to enhance the strong equity base of the Bank. The general reserve is distributable subject to the approval of the Central Bank of Bahrain.

17 CUMULATIVE CHANGES IN FAIR VALUES

	2014 BD '000	2013 BD '000
Available-for-sale investments		
At 1 January	**24,738**	16,148
Realised gains on sale of non-trading investment securities	**(3,519)**	(2,079)
Transferred to consolidated statement of profit and loss on impairment	**11**	2,028
Change in unrealised fair values during the year	**(3,880)**	8,641
At 31 December	**17,350**	24,738
Cash flow hedges		
At 1 January	**164**	(633)
Change in unrealised fair values	**(310)**	518
Change in unrealised fair values – associated companies (note 9)	**216**	279
At 31 December	**70**	164
	17,420	24,902

18 PROPOSED APPROPRIATIONS

	2014 BD '000	2013 BD '000
Cash dividend	**20,179**	9,249
Stock dividend	**5,151**	9,365
Transfer to general reserve	**4,682**	3,125
Donations	**1,390**	1,250
	31,402	22,989

The Board of Directors has proposed cash dividend of BD 0.020 per share (2013: BD 0.010 per share), net of treasury stock and stock dividend of BD 0.005 per share (2013: BD 0.010 per share) as of 31 December 2014. The Bank paid dividend of BD 0.025 per share (2013: BD 0.020 per share).

The above appropriations will be submitted for approval at the Annual General Assembly of the Shareholders to be held on 11 March 2015. The payment of dividend is also subject to the approval of the Central Bank of Bahrain.

19 INTEREST AND SIMILAR INCOME

	2014 BD '000	2013 BD '000
Loans and advances to customers	**84,738**	79,864
Non-trading investment securities – available-for-sale	**26,032**	22,677
Deposits and amounts due from banks and other financial institutions	**2,154**	1,829
Non-trading investment securities – amortised cost	**960**	1,457
Interest recovered on impaired financial assets – loans and advances to customers (note 7)	**661**	1,918
Treasury bills	**3,351**	2,922
	117,896	110,667

20 OTHER INCOME

	2014 BD '000	2013 BD '000
Fee and commission income	**36,663**	33,160
Dividend income	**3,214**	2,275
Realised gains on sale of non-trading investment securities	**3,826**	3,871
Gain on foreign exchange	**4,746**	5,430
Others	**2,716**	1,906
	51,165	46,642
Fee and commission expense	**(10,286)**	(8,984)
	40,879	37,658

Included in fee and commission income is BD 563 thousand (2013: BD 76 thousand) relating to trust and other fiduciary activities.

21 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share for the year are calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

	2014	2013
Profit for the year attributable to the owners of the Bank (BD '000)	**50,095**	45,051
Weighted average number of shares, net of treasury stock, outstanding during the year	**1,008,934,782**	1,018,544,612
Basic and diluted earnings per share (BD)	**0.050**	0.044

22 OPERATING SEGMENTS

Segment information

For management purposes the Group is organised into four major business segments:

Retail banking

Principally handling individual customers' deposits and providing consumer finance type loans, overdrafts, credit facilities and funds transfer facilities, credit cards and foreign exchange.

Corporate banking

Principally handling loans and other credit facilities, deposit and current accounts for corporate and institutional customers in Bahrain.

International banking

Principally handling loans and other credit facilities, deposit and current accounts for international corporate and institutional customers. This also covers the operations of the overseas units.

Investment, treasury and other activities

Principally providing money market, trading and treasury services as well as the management of the Group's funding operations. Investment activities involve handling investments in local and international markets, investment advisory services and funds management. Other activities also include business process outsourcing services.

These segments are the basis on which the Group reports its information to the chief operating decision maker. Transactions between segments are generally recorded at estimated market rates on an arm's length basis. Interest is charged/credited to business segments based on a transfer pricing rate which approximates the marginal cost of funds on a matched funded basis.

Segment information for the year ended 31 December 2014 was as follows:

	Retail banking BD '000	Corporate banking BD '000	International banking BD '000	Investment, treasury and other activities BD '000	Total BD '000
Interest income	**22,275**	**36,364**	**30,485**	**28,772**	**117,896**
Interest expense	**(2,614)**	**(7,474)**	**(6,687)**	**(28,831)**	**(45,606)**
Internal fund transfer price	**(6,156)**	**(4,230)**	**(5,483)**	**15,869**	**–**
Net Interest Income	**13,505**	**24,660**	**18,315**	**15,810**	**72,290**
Other Operating Income	**18,001**	**3,716**	**5,459**	**13,703**	**40,879**
Operating income before share of profit of associated companies and joint ventures	**31,506**	**28,376**	**23,774**	**29,513**	**113,169**
Net provision for impairment on loans and advances to customers	**(3,312)**	**(6,761)**	**(11,499)**	**–**	**(21,572)**
Net write back of impairment of non-trading investment securities	**–**	**–**	**–**	**784**	**784**
Segment result	**9,156**	**9,487**	**557**	**26,729**	**45,929**
Share of profit of associated companies and joint ventures	**4,235**	**–**	**–**	**142**	**4,377**
Profit for the year					**50,306**
Profit attributable to non-controlling interest					**(211)**
Profit for the year attributable to the owners of the Bank					**50,095**
Segment assets	**421,557**	**663,166**	**1,469,240**	**877,583**	**3,431,546**
Investment in associated companies and joint ventures	**26,223**	**–**	**–**	**10,314**	**36,537**
Common assets					**32,853**
Total assets					**3,500,937**
Segment liabilities	**593,366**	**911,177**	**895,740**	**692,277**	**3,092,560**
Common liabilities					**49,025**
Total liabilities					**3,141,585**

Segment information for the year ended 31 December 2013 was as follows:

	Retail banking BD '000	Corporate banking BD '000	International banking BD '000	Investment, treasury and other activities BD '000	Total BD '000
Interest income	20,748	37,385	28,425	24,109	110,667
Interest expense	(2,371)	(7,443)	(5,774)	(26,221)	(41,809)
Internal fund transfer price	(5,614)	(4,045)	(4,740)	14,399	–
Net Interest Income	12,763	25,897	17,911	12,287	68,858
Other Operating Income	15,984	3,282	7,087	11,305	37,658
Operating income before share of profit of associated companies and joint ventures	28,747	29,179	24,998	23,592	106,516
Net provision for impairment on loans and advances to customers	(4,148)	(5,714)	(2,538)	–	(12,400)
Net provision for impairment of non-trading investment securities	–	–	–	263	263
Segment result	3,919	8,169	10,058	17,252	39,398
Share of profit of associated companies and joint ventures	3,589	–	–	2,280	5,869
Profit for the year					45,267
Profit attributable to non-controlling interest					(216)
Profit for the year attributable to the owners of the Bank					45,051
Segment assets	376,415	675,724	1,254,064	837,289	3,143,492
Investment in associated companies and joint ventures	23,408	–	–	34,461	57,869
Common assets					29,303
Total assets					3,230,664
Segment liabilities	499,961	883,053	816,421	655,639	2,855,074
Common liabilities					42,663
Total liabilities					2,897,737

During the year the Group has changed its internal funds transfer pricing methodology as well as its operating cost allocations among its business segments. Further, following the recent internal restructuring of certain business lines, credit facilities granted to priority customers have been transferred from Retail Banking to Corporate Banking segment. Therefore the comparative figures have been restated using the new methodology adopted and reflects the current internal organizational structure.

22 OPERATING SEGMENTS continued

Geographic information

The Group operates in two geographic markets: Domestic (Bahrain), Others (Middle East/Africa, Europe, North America and Asia). The following tables show the distribution of the Group's revenue and non-current assets by geographical segment, allocated based on the location in which the assets and liabilities are located, for the years ended 31 December 2014 and 31 December 2013:

	Domestic BD '000	Others BD '000	Total BD '000
31 December 2014			
Net interest income	**61,087**	**11,203**	**72,290**
Share of profit in associated companies and joint ventures	**4,235**	**142**	**4,377**
Other income	**37,890**	**2,989**	**40,879**
	103,212	**14,334**	**117,546**
Non-current assets	**20,581**	**4,433**	**25,014**

	Domestic BD '000	Others BD '000	Total BD '000
31 December 2013			
Net interest income	59,851	9,007	68,858
Share of profit in associated companies and joint ventures	3,589	2,280	5,869
Other income	33,850	3,808	37,658
	97,290	15,095	112,385
Non-current assets	21,380	4,756	26,136

Non-current assets represents premises and equipment.

23 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows include the following consolidated statement of financial position amounts:

	2014 BD '000	2013 BD '000
Cash (note 4)	**17,685**	15,833
Current accounts and placements with central banks (note 4)	**184,387**	142,568
Treasury bills	**5,049**	6,968
Financial assets at fair value through statement of income	**–**	–
Deposits and amounts and due from banks and other financial institutions with an original maturities of ninety days or less	**145,518**	184,167
	352,639	349,536

24 RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, associates and the joint ventures, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

Amounts outstanding as of the statement of financial position date in respect of transactions entered into with related parties were as follows:

	Major shareholders BD '000	Associated companies and joint ventures BD '000	Directors and key management personnel BD '000	Total BD '000
2014				
Loans and advances to customers	**–**	**7,248**	**1,201**	**8,449**
Customers' current, savings and other deposits	**392,071**	**7,084**	**7,120**	**406,275**
2013				
Loans and advances to customers	–	9,322	1,191	10,513
Customers' current, savings and other deposits	351,551	5,033	5,160	361,744

For the years ended 31 December 2014 and 31 December 2013 the Group has not recorded any impairment provision on the amounts due from related parties.

The income and expense in respect of related parties included in the consolidated statement of income are as follows:

	Major shareholders BD '000	Associated companies and joint ventures BD '000	Directors and key management personnel BD '000	Total BD '000
2014				
Interest income	**–**	**354**	**16**	**370**
Interest expense	**3,694**	**93**	**99**	**3,886**
2013				
Interest income	–	457	24	481
Interest expense	3,946	70	61	4,077

Compensation of the key management personnel is as follows:

	2014 BD '000	2013 BD '000
Short term employee benefits	**6,968**	6,806
Others	**259**	699
	7,227	7,505

Key management interest in an employee share incentive scheme

The Bank has introduced effective 2010, a new share-based payment scheme (refer to note 40 for details).

25 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The maturity profile of the assets and liabilities at 31 December 2014 and as at 31 December 2013 given below reflects management's best estimates of the maturities of assets and liabilities. These have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date, except in the case of customer deposits. The liquidity profile of customer deposits has been determined on the basis of the effective maturities indicated by the Group's deposit retention history.

31 December 2014	**Within 1 month BD '000**	**1 to 3 months BD '000**	**3 to 6 months BD '000**	**6 to 12 months BD '000**	**Subtotal BD '000**	**1 to 5 years BD '000**	**5 to 10 years BD '000**	**10 to 20 years BD '000**	**More than 20 years BD '000**	**Total BD '000**
Assets										
Cash and balances with central banks	202,072	–	–	–	202,072	–	–	–	76,121	278,193
Treasury bills	48,273	119,057	55,919	69,434	292,683	–	–	–	–	292,683
Deposits and amounts due from banks and other financial institutions	89,858	60,287	25,751	–	175,896	–	–	–	–	175,896
Loans and advances to customers	89,618	189,894	126,079	127,752	533,343	849,441	222,553	52,837	188,288	1,846,462
Non-trading investment securities	373,241	11,928	22,187	53,801	461,157	131,921	140,416	1,891	51,768	787,153
Investments in associated companies and joint ventures	–	–	–	–	–	–	–	–	36,537	36,537
Interest receivable and other assets	55,500	45	43	54	55,642	3,357	–	–	–	58,999
Premises and equipment	–	–	–	–	–	19,881	1,400	417	3,316	25,014
Total assets	**858,562**	**381,211**	**229,979**	**251,041**	**1,720,793**	**1,004,600**	**364,369**	**55,145**	**356,030**	**3,500,937**
Liabilities										
Deposits and amounts due to banks and other financial institutions	248,813	53,516	10,595	100	313,024	–	–	–	–	313,024
Borrowings under repurchase agreement	–	–	–	18,857	18,857	18,847	–	–	–	37,704
Term borrowings	–	–	–	188,500	188,500	52,438	–	–	–	240,938
Customers' current, savings and other deposits	281,416	269,390	92,530	65,048	708,384	61,625	–	–	1,701,068	2,471,077
Interest payable and other liabilities	41,691	2,184	1,535	29,012	74,422	4,420	–	–	–	78,842
Total liabilities	**571,920**	**325,090**	**104,660**	**301,517**	**1,303,187**	**137,330**	**–**	**–**	**1,701,068**	**3,141,585**
Net	286,642	56,121	125,319	(50,476)	417,606	867,270	364,369	55,145	(1,345,038)	359,352
Cumulative	**286,642**	**342,763**	**468,082**	**417,606**		**1,284,876**	**1,649,245**	**1,704,390**	**359,352**	

31 December 2013	Within 1 month BD '000	1 to 3 months BD '000	3 to 6 months BD '000	6 to 12 months BD '000	Subtotal BD '000	1 to 5 years BD '000	5 to 10 years BD '000	10 to 20 years BD '000	More than 20 years BD '000	Total BD '000
Assets										
Cash and balances with central banks	158,401	–	–	–	158,401	–	–	–	65,951	224,352
Treasury bills	24,075	182,450	67,793	40,807	315,125	–	–	–	–	315,125
Deposits and amounts due from banks and other financial institutions	185,345	17,040	–	–	202,385	–	–	–	–	202,385
Loans and advances to customers	77,571	120,885	97,208	125,789	421,453	682,198	262,206	41,787	210,891	1,618,535
Non-trading investment securities	296,298	34,706	39,928	41,300	412,232	155,742	124,995	1,721	49,289	743,979
Investments in associated companies and joint ventures	–	–	–	–	–	10,095	–	–	47,774	57,869
Interest receivable and other assets	38,992	103	22	13	39,130	3,153	–	–	–	42,283
Premises and equipment	–	–	–	–	–	–	–	–	26,136	26,136
Total assets	780,682	355,184	204,951	207,909	1,548,726	851,188	387,201	43,508	400,041	3,230,664
Liabilities										
Deposits and amounts due to banks and other financial institutions	168,324	10,721	2,397	87	181,529	–	–	–	–	181,529
Borrowings under repurchase agreement	–	–	–	18,624	18,624	37,683	–	–	–	56,307
Term borrowings	–	–	–	–	–	239,498	–	–	–	239,498
Customers' current, savings and other deposits	314,674	214,651	71,141	39,521	639,987	61,358	–	–	1,651,562	2,352,907
Interest payable and other liabilities	42,042	2,226	1,177	1,245	46,690	20,806	–	–	–	67,496
Total liabilities	525,040	227,598	74,715	59,477	886,830	359,345	–	–	1,651,562	2,897,737
Net	255,642	127,586	130,236	148,432	661,896	491,843	387,201	43,508	(1,251,521)	332,927
Cumulative	255,642	383,228	513,464	661,896		1,153,739	1,540,940	1,584,448	332,927	

26 DERIVATIVES

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price in one or more underlying financial instrument, reference rate or index. In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. The use of derivatives is governed by the Group's policies approved by the Board of Directors. The Group enters into derivative contracts for the purpose of reducing risks from potential movements in foreign exchange rates and interest rates inherent in the Group's non-trading assets and liabilities. The Group also enters into derivative contracts for the purpose of trading.

The table below shows the positive and negative fair values of derivative financial instruments together with their notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end but are neither indicative of the market risk nor credit risk.

31 December 2014	Positive fair value BD '000	Negative fair value BD '000	Notional amount BD '000
Derivatives held for trading			
Forward foreign exchange contracts	**118**	**20**	**21,476**
Interest rate swaps	**–**	**–**	**339**
Derivatives held as fair value hedges			
Interest rate swaps	**2,131**	**12,330**	**533,489**
Forward foreign exchange contracts	**529**	**18**	**195,562**
Derivatives held as cash flow hedges			
Interest rate swaps	**209**	**–**	**57,519**
	2,987	**12,368**	**808,385**

31 December 2013	Positive fair value BD '000	Negative fair value BD '000	Notional amount BD '000
Derivatives held for trading			
Forward foreign exchange contracts	424	30	14,808
Derivatives held as fair value hedges			
Interest rate swaps	8,268	7,298	456,163
Forward foreign exchange contracts	917	615	231,938
Derivatives held as cash flow hedges			
Interest rate swaps	518	–	57,519
	10,127	7,943	760,428

Derivative product types

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. Forward rate agreements are effectively tailor-made interest rate futures which fix a forward rate of interest on a notional amount, for an agreed period of time starting on a specified future date.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For currency swaps, fixed or floating interest payments and notional amounts are exchanged in different currencies.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Group does not engage in the writing of options.

Derivatives held or issued for trading purposes

Most of the Group's derivative trading activities relate to back to back customer deals. In addition, the Group takes certain foreign exchange positions with the expectation of profiting from favorable movements in prices, rates or indices. Also included under this heading are derivatives which do not meet IAS 39 hedging requirements.

Derivatives held or issued for hedging purposes

The Group has put in place systems for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange rates (currency risk) and interest rates through asset and liability management activities. It is the Group's policy to reduce its exposure to currency and interest rate risks to acceptable levels as determined by the Board of Directors. For strategies adopted to manage interest rate and currency risk, please refer notes 35 and 36 respectively.

As part of its asset and liability management the Group uses derivatives for hedging currency and interest rate movements. This is achieved by hedging specific financial instruments, forecasted transactions as well as strategic hedging against consolidated statement of financial position sheet exposures. In all such cases the objective of the hedging relationship, details of the hedged item and hedging instrument are documented and the transactions are accounted for as fair value or cash flow hedges, as the case may be.

Fair value hedges

Fair value hedges are used by the Group to protect it against changes in the fair value of financial assets and financial liabilities due to movements in exchange rates and interest rates. The financial instruments hedged for interest rate risk include loans, available-for-sale debt securities, debt issued and other borrowed funds. The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks, and interest rate swaps to hedge interest rate risk.

For the year ended 31 December 2014, the Group recognised a net loss of BD 20 thousand (2013: net gain of BD 18 thousand), representing the loss on the hedging instruments. The total gain on hedged items attributable to the hedged risk amounted to BD 172 thousand (2013: loss of BD 102 thousand).

27 COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments

Credit-related commitments include commitments to extend credit, standby letters of credit, guarantees and acceptances which are designed to meet the requirements of the Group's customers.

Commitments to extend credit represent the unused portions of contractual commitments to make loans and revolving credits, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most of the commitments to extend credit are contingent upon the customer maintaining specific credit standards. Commitments generally have fixed expiration dates of less than one year or other termination clauses. Since commitments may expire without being drawn upon, the total contracted amounts do not necessarily represent future cash requirements.

Letters of credit, guarantees (including standby letters of credit) and acceptances commit the Group to make payments on behalf of customers contingent upon certain conditions. Standby letters of credit, which are included under guarantees, would have market risk if issued or extended at a fixed rate of interest. However, these contracts are primarily made at a floating rate.

The Group has the following credit related commitments:

31 December 2014	On demand BD '000	Less than 3 months BD '000	3 to 12 months BD '000	1 to 5 years BD '000	Over 5 years BD '000	Total BD '000
Contingencies						
Letters of credit	**8,933**	**12,166**	**17,989**	**94**	**–**	**39,182**
Guarantees	**20,537**	**35,088**	**136,261**	**57,525**	**86**	**249,497**
						288,679
Commitments						
Undrawn loan commitments	**18,083**	**46,636**	**67,917**	**61,906**	**–**	**194,542**
						194,542
						483,221

31 December 2013	On demand BD '000	Less than 3 months BD '000	3 to 12 months BD '000	1 to 5 years BD '000	Over 5 years BD '000	Total BD '000
Contingencies						
Letters of credit	9,062	22,204	36,285	–	–	67,551
Guarantees	16,711	27,589	149,174	16,596	335	210,405
						277,956
Commitments						
Undrawn loan commitments	39,288	49,012	127,973	2,361	–	218,634
Commitments in respect of investments	–	–	–	–	396	396
						219,030
						496,986

The Group does not expect all its commitments to be drawn before the expiry of the commitment.

Lease commitments

Operating lease commitments – Group as lessee

The Group has entered into commercial leases on premises. Future minimum lease payments under non-cancelable operating leases as at 31 December are as follows:

	2014 BD '000	2013 BD '000
Within one year	**505**	437
After one year but not more than five years	**1,236**	1,322
More than five years	**2,024**	2,259
	3,765	4,018

28 RISK MANAGEMENT

Efficient and timely management of risks involved in the Group's activities is critical for the financial soundness and profitability of the Group. Risk management involves the identifying, measuring, monitoring and managing of risks on a regular basis. The objective of risk management is to increase shareholders' value and achieve a return on equity that is commensurate with the risks assumed. To achieve this objective, the Group employs leading risk management practices and recruits skilled and experienced people.

As with other financial institutions, the Group faces a range of risks in its business and operations including (i) credit risk; (ii) market risk (comprising of interest rate risk, currency risk and equity price risk); (iii) liquidity risk, (iv) legal risk and (v) operational risk, as detailed below.

The Board of Directors of the Bank has overall responsibility for managing risks. Whilst the Board approves and periodically reviews risk management policies and strategies, upon recommendations of the Board Risk Committee, the management establishes procedures to implement the policies and strategies. The Risk Management Committee (RMC) and Asset and Liability Management Committee (ALMC), comprising Executive and Senior Management, are high level management committees responsible for the overall management of the risk profile of the Group. RMC discusses important risk related issues, policies, procedures and reviews implementation of its decisions. ALMC reviews issues relating to the statement of financial position at a micro level and also reviews issues relating to Asset Liability mismatches and liquidity. The Country Risk Committee (CRC) reviews country risk and business strategies and macro economic conditions with reference to the countries idenfied for doing business. The Operational Risk Management Committee manages the overall operational risk for the Bank by instituting CBB guidelines and Basel standards and carrying out required oversight.

The Risk and Credit Management Division (RCMD) is responsible for oversight of risk characteristics inherent in new and existing products, activities, countries, regions, industries and making necessary recommendations to the appropriate authorities. It is also responsible for introducing or amending risk policies, procedures and exposure limits to mitigate these risks with approval from Board Risk Committee and Board or the Risk Management Committee, as applicable. The RCMD also establishes systems and processes for monitoring market and operational risks. The RCMD processes credit applications and ensures that the provisions of credit risk policies are complied with. The RCMD generates regular reports on credit risk exposures, performs credit rating reviews and monitors credit limits. The Designated Credit Officer/Designated Investment Officer in RCMD is one of the signatories in the credit/investment approval chain and provides independent view on credit and investment proposals. The Chief Risk Officer is the head of RCMD and reports directly to the Chief Executive of the Bank, thereby ensuring the independence of the risk management process. In addition to the above, RCMD, in collaboration with Financial Control and Planning Division, prepares the Risk Appetite and the ICAAP document for the Bank. The ICAAP document assesses the Pillar 2 risks at length and prescribes the required level of capital buffer for the Bank.

The internal audit department assess whether the policies and procedures are complied with and, if necessary, suggest ways of further improving internal guidelines and procedures.

The various risks to which the Group is exposed to and how the Group manages them is discussed in the following paragraphs.

29 CREDIT RISK AND CONCENTRATION OF CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and thereby cause the other party to incur a financial loss. Concentration of credit risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features, fail to meet contractual obligations, due to them being affected by changes in economic, political or other conditions.

Credit risk in derivative financial instruments arises from potential counterparty default on contractual obligations and it is limited to the positive fair value in favor of the Group.

The Group attempts to control credit risk by monitoring credit exposures continuously, limiting transactions with specific counterparties, assessing the creditworthiness of counterparties, diversifying lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses, and by obtaining security wherever necessary and appropriate. In addition to monitoring credit limits, the Group manages credit exposures by entering into netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposures.

The Group has well defined policies and procedures for identifying, measuring, monitoring and controlling credit risk in all of the Group's activities, at the level of individual credit and at portfolio level. Credit limits are approved after a thorough assessment of the creditworthiness of the borrower or counterparty, including the purpose and structure of the credit, and its source of repayment. Credit proposals are reviewed by the RCMD, which is independent of business units, before approval by the appropriate approving authority is obtained. All policies relating to credit are reviewed by the Board Risk Committee and approved by the Board of Directors. An Executive Committee, consisting of six senior members of the Board of Directors, reviews and approves larger credits. In addition, all larger credits in excess of the approval authority of the Executive Committee are approved by the Board of Directors.

The Group devises specific business and risk strategies relating to corporate, retail, investments and treasury areas, within the ambit of the Group's risk policies and procedures. Any additional risks associated with such strategies are discussed in the RMC meetings and necessary risk control measures are applied through amendments to policies, procedures and circulars. The Group also draws up a comprehensive Risk Management Strategy every year and monitors the progress of that strategy.

Day-to-day monitoring of individual borrower or counterparty exposure is the responsibility of the respective business unit. The Group's Credit Administration Unit, a part of the RCMD, ensures that credit facilities are released after appropriate approval and against proper documentation. It also monitors excesses over limits, past dues, expired credits and escalates exceptions if any, for corrective action.

Counterparty credit limits are established for all customers after careful assessment of their creditworthiness and approval (as per the levels of authority prescribed in the policy). These are also subject to large credit exposure limit criteria of the Central Bank of Bahrain and the local regulators in overseas locations. Standard procedures, outlined in the Group's Credit Procedures Manual, require that all credit proposals be subjected to a detailed screening by a Designated Credit Officer/Designated Investment Officer who is part of a three signature approval process and functions independent of the business units.

The credit growth, quality and portfolio composition are monitored continuously to maximize the risk adjusted return and reduce the level of incidence of impairment and accretion of marginal credits. The Group monitors concentration risk by establishing limits for maximum exposure to individual borrower or counterparty, country, bank and industry. Such limits are also stipulated for certain products. These limits are approved after detailed analysis and are reviewed and monitored regularly.

The Group has a risk asset rating policy which defines criteria for rating risk assets. All credits are assigned a rating in accordance with the defined criteria. All lending relationships are reviewed at least once in a year and more frequently in case of high risk and non-performing assets (NPAs). The Internal Audit Department conducts an independent review of risk assets periodically and submits its report to Senior Management/Audit Committee. The Group endeavors continuously to improve upon the internal credit risk rating methodologies and credit risk management policies and practices, to reflect the true credit risk of the portfolio and the credit culture in the Group.

It is the Group's policy to ensure that provisions for credit loss are maintained at an adequate level. For loans and advances considered by the management as individually significant, specific provision is made for the impairment loss calculated on the basis of estimated discounted value of future cash flows in line with IAS 39 guidelines. For the remaining accounts, which are individually not significant, specific provision is made based on historic trends and the current economic environment. All provisions are approved by the Provision Committee, which comprises members of senior management.

Details of the composition of the loans, advances and overdraft portfolio are set out in note 7 to the consolidated financial statements.

The portfolio of non-performing assets is managed by skilled and experienced staff in the Remedial Department which is responsible for recovery of dues and restructuring of stressed assets.

Details of the industry sector analysis and the geographical distribution of assets, liabilities and off statement of financial position items are set out in note 31.

30 MAXIMUM EXPOSURE TO CREDIT RISK WITHOUT TAKING INTO ACCOUNT OF ANY COLLATERAL AND OTHER CREDIT ENHANCEMENTS

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

	2014 BD '000	2013 BD '000
Balances with central banks	**260,508**	208,519
Treasury bills	**292,683**	315,125
Deposits and amounts due from banks and other financial institutions	**175,896**	202,385
Loans and advances to customers	**1,846,462**	1,618,535
Non-trading investment securities	**681,131**	648,142
Interest receivable and other assets	**55,431**	38,637
	3,312,111	3,031,343
Contingent liabilities	**288,679**	277,956
Commitments	**194,542**	219,030
	483,221	496,986
	3,795,332	3,528,329

31 CONCENTRATION OF ASSETS, LIABILITIES AND OFF STATEMENT OF FINANCIAL POSITION ITEMS

The distribution of assets, liabilities and credit commitments and contingencies by geographic region and industry sector is as follows:

	2014			2013		
	Assets BD '000	**Liabilities BD '000**	**Credit commitments and contingencies BD '000**	Assets BD '000	Liabilities BD '000	Credit commitments and contingencies BD '000
Gulf Co-operation Council countries	**2,832,366**	**2,747,034**	**393,286**	2,701,498	2,717,387	431,604
North America	**46,471**	**8,680**	**1,038**	60,012	4,401	1,799
European Union countries	**222,504**	**286,679**	**35,273**	225,092	83,431	9,599
Asia	**339,399**	**85,319**	**42,519**	205,905	82,057	33,121
Others	**60,197**	**13,873**	**11,105**	38,157	10,461	20,863
	3,500,937	**3,141,585**	**483,221**	3,230,664	2,897,737	496,986
Trading and manufacturing	**634,057**	**124,414**	**182,480**	507,204	155,469	192,109
Banks and other financial institutions	**787,143**	**1,191,640**	**107,362**	792,965	1,125,029	73,372
Construction and real estate	**451,712**	**63,302**	**86,246**	421,771	48,347	142,662
Government and public sector	**1,031,975**	**823,798**	**3,016**	988,822	751,217	3,209
Individuals	**288,483**	**671,361**	**1,104**	251,222	602,046	5,291
Others	**307,567**	**267,070**	**103,013**	268,680	215,629	80,343
	3,500,937	**3,141,585**	**483,221**	3,230,664	2,897,737	496,986

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

- For commercial lending, charges over real estate properties, inventory and trade receivables, and bank guarantees
- For retail lending, mortgages over residential properties
- Cash collaterals such as bank deposits
- Marketable securities

The Group also obtains guarantees from parent companies for loans to their subsidiaries.

The Group monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

32 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS

The credit quality of financial assets is managed by the Group using internal and external credit risk ratings.

The table below shows the credit quality by class of asset for gross loan-related statement of financial position lines, based on the Group's credit rating system.

	Neither past due nor impaired				
31 December 2014	**High grade BD '000**	**Standard grade BD '000**	**Sub-standard grade BD '000**	**Past due or individually impaired BD '000**	**Total BD '000**
Loans and advances to customers					
Commercial loans	**293,157**	**1,074,520**	**132,465**	**120,487**	**1,620,629**
Consumer loans	**278,482**	**1,103**	**3,322**	**29,679**	**312,586**
Total	**571,639**	**1,075,623**	**135,787**	**150,166**	**1,933,215**

	Neither past due nor impaired				
31 December 2013	High grade BD '000	Standard grade BD '000	Sub-standard grade BD '000	Past due or individually impaired BD '000	Total BD '000
Loans and advances to customers					
Commercial loans	296,545	721,736	227,941	166,733	1,412,955
Consumer loans	249,219	(1,588)	4,765	30,058	282,454
Total	545,764	720,148	232,706	196,791	1,695,409

32 CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS continued

Internal credit risk ratings

The Group follows an internal rating mechanism for grading relationships under loans and advances.

The Group utilises a scale ranging from 1 to 10 for credit relationships, with 1 to 8 denoting performing grades, 9 and 10 non-performing, in line with Basel II guidelines. Grades 1 to 3 represents high grade, 4 to 6 represents standard grade and 7 to 8 represents sub-standard grade.

All credits are assigned a rating in accordance with the defined criteria.

The Group endeavors continuously to improve upon the internal credit risk rating methodologies and credit risk management policies and practices to reflect the true underlying credit risk of the portfolio and the credit culture in the Group.

All lending relationships are reviewed at least once in a year and more frequently in the case of non-performing assets.

Past due loans and advances include those that are only past due by a few days. An analysis of past due loans, by age, is provided below.

Ageing analysis of past due but not impaired loans

31 December 2014	Less than 30 days BD '000	31 to 60 days BD '000	61 to 89 days BD '000	Total BD '000
Loans and advances to customers				
Commercial loans	**31,880**	**8,199**	**3,700**	**43,779**
Consumer loans	**10,509**	**2,689**	**3,267**	**16,465**
Total	**42,389**	**10,888**	**6,967**	**60,244**

31 December 2013	Less than 30 days BD '000	31 to 60 days BD '000	61 to 89 days BD '000	Total BD '000
Loans and advances to customers				
Commercial loans	59,840	9,198	5,061	74,099
Consumer loans	10,784	2,682	3,301	16,767
Total	70,624	11,880	8,362	90,866

The credit quality of other financial assets is managed by the Group using external credit ratings. The table below shows the credit quality by class of the financial assets.

	Neither past due nor impaired				
31 December 2014	**High grade BD '000**	**Standard grade BD '000**	**Sub-standard grade BD '000**	**Past due or individually impaired BD '000**	**Total BD '000**
Balances with central banks	**327**	**260,181**	**–**	**–**	**260,508**
Deposits and amounts due from banks and other financial institutions	**127,777**	**48,119**	**–**	**–**	**175,896**
Treasury bills	**–**	**292,683**	**–**	**–**	**292,683**
Bonds	**291,797**	**389,349**	**–**	**27,538**	**708,684**
Total	**419,901**	**990,332**	**–**	**27,538**	**1,437,771**

The Bank has considered a provision of BD 27,538 thousand towards the impaired bonds amounting to BD 27,538 thousand.

	Neither past due nor impaired				
31 December 2013	High grade BD '000	Standard grade BD '000	Sub-standard grade BD '000	Past due or individually impaired BD '000	Total BD '000
Deposits and amounts due from banks and other financial institutions	130,044	72,341	–	–	202,385
Balances with central banks	1,577	206,942	–	–	208,519
Treasury bills	–	315,125	–	–	315,125
Bonds	326,102	316,547	5,429	32,573	680,651
Total	457,723	910,955	5,429	32,573	1,406,680

The Bank has considered a provision of BD 32,492 thousand towards the impaired bonds amounting to BD 32,573 thousand.

The following table shows the parameters used for classification of investments:

	S&P/Fitch			Moody's		
High grade	Range from	AAA to	A-	Range from	Aaa to	A3
Standard grade	Range from	BBB+ to	B-	Range from	Baa1 to	B3
Sub-standard grade	Range from	CCC+ to	CCC-	Range from	Caa1 to	Caa3

High grade includes unrated investments amounting to BD 6,147 thousand (2013: BD 11,745 thousand). These mainly comprise of sukuks issued by GCC governments and corporates.

33 CARRYING AMOUNT OF FINANCIAL ASSETS WHOSE TERMS HAVE BEEN RENEGOTIATED

The table below shows the carrying amount for financial assets by class, renegotiated during the year.

	2014 BD '000	2013 BD '000
Loans and advances to customers		
Commercial loans	**41,177**	45,487
Consumer loans	**7,068**	5,809
	48,245	51,296

34 MARKET RISK

Market risk is defined as the risk of potential loss that may arise from adverse changes in the value of a financial instrument or portfolio of financial instruments due to movements in interest rates, foreign exchange rates, equity, commodity prices and derivatives. This risk arises from asset – liability mismatches, changes that occur in the yield curve, foreign exchange rates and changes in volatilities/implied volatilities in the market value of derivatives.

The Group has clearly defined policies for conducting investment (including trading investments) and foreign exchange business which stipulates limits for these activities. Investments are made strictly in accordance with investment acceptance criteria. The Group does not undertake any commodity trading activities. For management of market risk arising from movement in interest rates, refer to note 35.

The Group uses an internal Value-at-Risk (VaR) model for measuring general market risk in the trading book of the Group and all foreign exchange positions. The internal model was approved by the Central Bank of Bahrain. VaR is calculated using a 99% confidence level for a 10 day holding period. This implies a 1% possibility of the loss exceeding the VaR amount calculated by the model. As at 31 December, VaR calculated based on the above parameters was as follows:

	2014 BD '000	2013 BD '000
Foreign exchange	**41**	66
Interest Rate	**1**	–
	42	66

The Bank's Risk Management Department conducts backtesting in accordance with the Market Risk Capital Adequacy Regulations issued by the Central Bank of Bahrain to ensure that the VaR model and assumptions used for computing VaR numbers are reliable. Backtesting of 1 day VaR as per actual profit and loss (comparing 1 day VaR with the average actual daily profit and loss) and also hypothetical back testing (comparing 1 day VaR with derived profit and loss of static positions) is carried out on a daily basis as stipulated in the Central Bank of Bahrain Rule book. The objective is to ensure that the assumptions used for computing VaR are reasonable and provide a VaR number that is a good indicator of possible losses in trading positions. During the year, the backtesting produced satisfactory results.

The Group also conducts stress testing to identify events or influences that could greatly impact material trading positions taken by the Group. As per the Central Bank of Bahrain requirements, validation of the internal model is conducted by the Internal Audit Department of the Bank as well as by an external consultant.

35 INTEREST RATE RISK MANAGEMENT

Interest rate risk is the exposure of the Group's financial condition to adverse movements of interest rates. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off statement of financial position instruments that mature or re-price in a given period. Excessive interest rate risk can pose a significant threat to the Group's earnings and capital base. Accordingly, an effective risk management process that maintains interest rate risk within prudent levels is essential to the safety and soundness of the Group.

It is the Group's policy to keep its assets and liabilities mismatches at stable and acceptable levels to maintain a steady net interest income. The Group monitors interest rate risk based on gap/duration limits. The Group also uses 'what if' scenarios for projecting net interest income and economic value of equity of the Group. The Group uses derivative instruments such as interest rate swaps, floating rate agreements and bond futures to manage interest rate risk. Whilst day to day management of interest rate risk is responsibility of the Global Treasurer, ALMC also reviews the interest rate risk reports periodically.

Based on the consolidated statement of financial position as at 31 December 2014 an increase of 100 basis point in interest rates, with all variables held constant, will result in an increase in the net interest income, for the following next 12 months, by approximately BD 6,957 thousand (2013: increase by BD 6,460 thousand). However, further downward movement of interest rates by 100 basis points might not be practical assumption in the current environment, given the current low levels of interest rates, and hence capping the downward movement of interest rates at 0%, the negative impact on the net interest income as at 31 December 2014 estimated at BD 2,813 thousands (2013: BD 3,315 thousands). On the other hand, the scope for interest rates increase from its current levels is most probable which the Bank shall benefit.

	Rate Shock Forecasting (+100 bps)		Rate Shock Forecasting (-100 bps)	
	2014 BD '000	2013 BD '000	2014 BD '000	2013 BD '000
Bahraini Dinar	**2,472**	3,119	**1,160**	2,062
US Dollar	**3,299**	2,296	**346**	419
Kuwaiti Dinar	**528**	590	**532**	343
Others	**659**	455	**775**	490
Total	**6,957**	6,460	**2,813**	3,315

An increase of 100 basis point in interest rates, with all other variables held constant, will result in a negative impact on equity of approximately 3.9% amounting to BD 11,532 thousand (2013:2.7%, BD 8,066 thousand). Similarly, a decrease of 100 basis point in interest rates, with all other variables held constant, will result in a positive impact on equity of approximately 3.9% amounting to BD 11,532 thousand (2013: 2.7%, BD 8,066 thousand).

36 CURRENCY RISK

The functional currency of the Group is the Bahraini Dinar.

The Group had the following significant non-strategic net exposures denominated in foreign currencies as of the consolidated statement of financial position date:

	2014 BD '000 equivalent long (short)	2013 BD '000 equivalent long (short)
US dollar	**57,320**	(20,725)
Euro	**52**	45
GCC currencies (excluding Kuwaiti dinar)	**16,396**	21,137
Kuwaiti dinar	**495**	(1,119)
Others	**537**	250

As the Bahraini dinar and other GCC currencies (except the Kuwaiti dinar) are pegged to the US dollar (US$), positions in US$ and other GCC currencies are not considered to represent a significant currency risk. For currency sensitivity impact refer to VaR (note 34).

The Board of Directors has established levels of currency risk by setting limits on currency position exposures. Positions are monitored on a daily basis to ensure that they are maintained within established limits. The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks.

37 EQUITY PRICE RISK

Equity price risk is the risk that the fair values of equities or managed funds decrease as a result of changes in the corresponding value of equity indices or the value of individual equity stocks. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

The effect on equity (as a result of a change in the fair value of equity instruments held as available-for-sale) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Effect on equity		
	% change in Index	Total 2014 BD '000	Total 2013 BD '000
Bahrain Bourse	± 15%	**2,399**	2,057
Other GCC and other stock exchanges	± 15%	**8,207**	6,923
		10,606	8,980

38 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. To guard against this risk, the Group has diversified funding sources, assets are managed with liquidity in mind and liquidity positions are monitored, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities. In addition, the Group maintains various statutory deposits with central banks and has taken lines of credit from various banks and financial institutions.

The Bank has in place a liquidity risk policy, which describes the roles and responsibilities of ALMC and Treasury, and stipulates the broad guidelines with regard to minimum liquid assets to be maintained by the Bank, gap limits under each time bucket of the maturity ladder, cumulative outflow of cash limits for each time bucket and various liquidity ratios to be maintained which are approved by the ALMC based on the Annual Liquidity Strategy.

It is the Bank's policy to keep its assets in high-quality liquid assets such as inter-bank placements, treasury bills and government bonds, to ensure that funds are available to meet maturing liabilities, undrawn facilities and deposit withdrawals as they fall due for payment. A substantial proportion of the Bank's deposits is made up of retail current, savings and fixed deposit accounts which, though payable on demand or at short notice, have traditionally formed part of a stable deposit base and a source of core funding.

The day to day management of liquidity risk is the responsibility of the Global Treasurer, who monitors the sources and maturities of assets and liabilities closely and ensures that limits stipulated by the ALMC are complied with, and that funding is not concentrated from any one source.

The Bank also draws up contingency plans to deal with extraordinary conditions of liquidity risk after comprehensive scenario analysis.

The table below summarizes the maturity profile of the Group's financial liabilities (including interest) based on contractual undiscounted repayment obligations.

31 December 2014	**Within 1 month BD '000**	**1 to 3 months BD '000**	**3 to 6 months BD '000**	**6 to 12 months BD '000**	**1 to 5 years BD '000**	**5 to 10 years BD '000**	**10 to 20 years BD '000**	**More than 20 years BD '000**	**Total BD '000**
Deposits and due to banks and other financial institutions	**248,846**	**53,543**	**10,627**	**84**	**–**	**–**	**–**	**–**	**313,100**
Borrowings under repurchase agreement	**–**	**–**	**–**	**19,739**	**20,764**	**–**	**–**	**–**	**40,503**
Term borrowings	**–**	**15**	**672**	**193,305**	**55,087**	**–**	**–**	**–**	**249,079**
Customers' current, savings and other deposits	**1,266,548**	**560,530**	**306,500**	**283,457**	**68,238**	**14,847**	**–**	**–**	**2,500,120**
Total undiscounted financial liabilities	**1,515,394**	**614,088**	**317,799**	**496,585**	**144,089**	**14,847**	**–**	**–**	**3,102,802**
Derivative financial instruments									
Contractual amounts payable	**(46,715)**	**(10,465)**	**(20,119)**	**(39,774)**	**(306,866)**	**(282,282)**	**(55,683)**	**–**	**(761,904)**
Contractual amounts receivable	**47,687**	**10,860**	**18,044**	**34,956**	**275,064**	**264,600**	**41,579**	**–**	**692,790**
	972	**395**	**(2,075)**	**(4,818)**	**(31,802)**	**(17,682)**	**(14,104)**	**–**	**(69,114)**

31 December 2013	Within 1 month BD '000	1 to 3 months BD '000	3 to 6 months BD '000	6 to 12 months BD '000	1 to 5 years BD '000	5 to 10 years BD '000	10 to 20 years BD '000	More than 20 years BD '000	Total BD '000
Deposits and due to banks and other financial institutions	168,339	10,723	2,397	87	–	–	–	–	181,546
Borrowings under repurchase agreement	–	–	–	19,133	40,517	–	–	–	59,650
Term borrowings	–	22	830	4,801	251,758	–	–	–	257,411
Customers' current, savings and other deposits	1,291,435	598,524	238,862	167,307	70,325	13,004	–	–	2,379,457
Total undiscounted financial liabilities	1,459,774	609,269	242,089	191,328	362,600	13,004	–	–	2,878,064
Derivative financial instruments									
Contractual amounts payable	(164)	(1,381)	(45,228)	(27,474)	(317,336)	(246,060)	–	–	(637,643)
Contractual amounts receivable	760	2,003	43,292	23,208	291,551	231,956	–	–	592,770
	596	622	(1,936)	(4,266)	(25,785)	(14,104)	–	–	(44,873)

39 FAIR VALUES OF FINANCIAL INSTRUMENTS

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 and 31 December 2013.

31 December 2014	Level 1 BD'000	Level 2 BD'000	Total BD'000
Financial assets			
Bonds	**587,740**	**2,637**	**590,377**
Equities	**70,701**	**6,118**	**76,819**
Managed funds	**–**	**2,210**	**2,210**
Derivatives held for trading	**–**	**118**	**118**
Derivatives held as fair value hedges	**–**	**2,660**	**2,660**
Derivatives held as cash flow hedges	**–**	**209**	**209**
	1,316,882	**13,952**	**1,341,799**
Financial liabilities			
Derivatives held for trading	**–**	**20**	**20**
Derivatives held as fair value hedges	**–**	**12,348**	**12,348**
	–	**12,368**	**12,368**

31 December 2013	Level 1 BD'000	Level 2 BD'000	Total BD'000
Financial assets			
Bonds	477,911	16,780	494,691
Equities	59,711	6,427	66,138
Managed funds	–	2,422	2,422
Derivatives held for trading	–	424	424
Derivatives held as fair value hedges	–	9,185	9,185
Derivatives held as cash flow hedges	–	518	518
	537,622	35,756	573,378
Financial liabilities			
Derivatives held for trading	–	30	30
Derivatives held as fair value hedges	–	7,913	7,913
	–	7,943	7,943

Included under available-for-sale investments are unquoted equity and managed funds investments amounting to BD 26,995 thousand (2013: BD 27,276 thousand) which are recorded at cost.

Transfers between level 1, level 2 and level 3

During the reporting year ended 31 December 2014 and 31 December 2013, there were no transfers into and out of Level 3 fair value measurements.

The table below sets out the estimated carrying values and fair values of those on and off statement of financial position financial instruments carried at amortised cost where fair values are different from the carrying amounts shown in the consolidated financial statements:

2014	Carrying value BD '000	Fair value BD '000	Difference BD '000
Financial liabilities			
Term borrowings	**240,938**	**243,332**	(2,394)
Financial assets			
Non-trading investment securities	**90,752**	**87,090**	(3,662)

2013	Carrying value BD '000	Fair value BD '000	Difference BD '000
Financial liabilities			
Term borrowings	239,498	241,599	(2,101)
Financial assets			
Non-trading investment securities	153,452	153,437	(15)

The above financial liabilities and assets are level 1 fair value.

The fair value of financial assets and financial liabilities approximate their carrying values, other than those disclosed in the table above.

40 SHARE – BASED PAYMENTS

The expense recognised for employee services received during the year is shown in the following table:

	2014 BD '000	2013 BD '000
Expense arising from equity-settled share-based payment transactions	**695**	667
Shares vested during the year	**(436)**	(565)

During 2010, the Nomination and Remuneration Committee of the Bank modified the employees stock option plans for the previously granted stock options. The existing plan was discontinued with effect from 31 March 2010. The Bank moved to a new long-term incentive plan, which is referred to as the Employee Performance Share Plan (EPSP), which will award shares (rather than options) to executives. The details of the modifications to stock option plan and EPSP are described below:

Employee Performance Share Plan (EPSP)

Shares are granted to Senior Managers and above, with more than 12 months service at the date of grant and meeting certain performance criteria. The shares granted are subject to the satisfaction of conditions relating to the Bank's net profit over a three year period and the employee being in employment at the end of the 3 year period (vesting period).

The Bank utilises its existing treasury shares for the EPSP and may also choose to issue new shares to settle the EPSP in the future. The price of the shares granted was equal to the market price of the Bank's shares on the grant date. Up to 31 December 2014, 7,621,427 shares (2013: 6,135,127 shares) have been transferred from treasury stock to the independent trustee in line with the Employee Performance Share Plan.

40 SHARE – BASED PAYMENTS continued

The following table illustrates the number and cost per share of the shares granted during the year under the new scheme.

	2014		2013	
	Number of shares	Cost per share BD	Number of shares	Cost per share BD
Opening balance of shares granted but not vested	**4,744,135**	**0.406**	4,421,422	0.404
Equity shares granted during the year	**2,123,285**	**0.432**	2,783,900	0.380
Equity shares transferred to trust	**1,486,300**	**0.436**	1,713,705	0.414
Shares transferred to active employees	**(1,075,038)**	**0.406**	(1,390,992)	0.406

The market price of BBK B.S.C. shares at 31 December 2014 was BD 0.470 (2013: BD 0.426).

41 CAPITAL ADEQUACY

The risk asset ratio calculated in accordance with the capital adequacy guidelines approved by the Central Bank of Bahrain, for the Group is as follows:

	2014 BD '000	2013 BD '000
Capital base:		
Tier 1 capital	**303,648**	278,150
Tier 2 capital	**73,718**	63,935
Total capital base (a)	**377,366**	342,085
Credit risk weighted exposure	**2,213,713**	2,042,061
Operational risk weighted exposure	**192,722**	179,728
Market risk weighted exposure:	**7,625**	9,625
Total risk weighted exposure (b)	**2,414,060**	2,231,414
Capital adequacy (a/b * 100)	**15.63%**	15.33%
Minimum requirement	**12.00%**	12.00%

Capital management

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

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

Basel II and Capital management

The Bank has adopted the new Basel II Capital Adequacy Framework (Basel II) with effect from 1 January 2008 as per the guidelines issued by the Central Bank of Bahrain which is enhancing the Bank's risk management process, supervisory review, disclosure standards and capital management.

The Bank has adopted the Standardized Approach in case of Credit Risk, the Internal Model Approach for Market Risk and the Basic Indicator Approach for Operational Risk.

The Bank has established its Internal Capital Adequacy Assessment Process (ICAAP) to provide policy guidance in Capital Planning and Capital Management. The Bank also uses Risk Adjusted Return on Capital (RAROC) model in its decision making process.

42 LEGAL AND OPERATIONAL RISK

Legal risk

Legal risk is the risk relating to losses due to legal or regulatory action that invalidates or otherwise precludes performance by the end user or its counterparty under the terms of the contract or related netting agreements.

The Group has developed preventive controls and formalised procedures to identify legal risks so that potential losses arising from non-adherence to laws and regulations, negative publicity, etc. are significantly reduced. The Group also has well established legal procedures to scrutinise product offerings and manage risks arising out of its transactions.

As at 31 December 2014, there were legal cases pending against the Group aggregating BD 824 thousand (2013: BD 824 thousand). Based on the opinion of the Group's legal advisors, the management believes that no liability is likely to arise from these cases.

Operational risk

Operational risk is the exposure to loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Group has clearly defined operations procedures for each of its products and services. It also has advanced computer systems that enable it to run operations with speed and accuracy.

The operational risk department operates independently from other units of the Bank and reports directly to the Audit Committee, which consists of members of the Board. It conducts regular reviews of all business areas of the Bank and reports control deficiencies and exceptions to the Bank's policies and procedures. It also recommends measures to mitigate operational risk, which are implemented by management immediately.

The Bank also has a contingency plan to take care of any failure of its computer systems. Regular back-ups are made for all important datasets, and stored outside the Bank's premises. This ensures that in case of any system failure, the Bank will be able to continue its operations without losing critical data or business transactions. As part of its disaster recovery plan, the Bank has established a back-up site which would and operate during an emergency.

The Bank has a specific Business Continuity Plan ("BCP") unit. The main objective of the BCP is to ensure that in the event of full or partial disaster, the Bank should be able to continue providing essential services to customers, minimizing any adverse effects on the Bank's business, through business impact analysis, business restoration plans and procedures, for the identified critical functions.

The Bank is using an operational risk management solution for monitoring operational risk, conducting risk and control self assessments and capturing operational loss data in accordance with Basel II/Central Bank of Bahrain guidelines.

The Bank's subsidiaries have similar contingency plans for their operations.

43 DEPOSIT PROTECTION SCHEME

Deposits held with the Bahrain operations of the Bank are covered by the Deposit Protection Scheme (the Scheme) established by the Central Bank of Bahrain regulation concerning the establishment of the Deposit Protection Scheme and Deposit Protection Board.

44 STAFF SAVING SCHEME

The scheme is a contribution saving fund between the Bank and the employee of the Bank. It was introduced in January 1996 with the objective of providing the employees with a cash benefit upon resignation, retirement or death. Participation in the scheme is discretionary and the employee may contribute any amount. The Bank guarantees a corresponding contribution of an amount that is 3% higher provided that total Bank contribution is not in excess of 10% of the employees' salary. The employee becomes eligible for the full amount of the Bank contribution once the employee has completed 5 years of service, otherwise the entitlement is proportionately calculated. The scheme is managed by a committee, consisting of members from management and representatives nominated and selected by staff.

As at 31 December 2014 the total contribution fund including the earned income stands at BD 12,902 thousand (2013: BD 13,115 thousand). Out of the total fund amount, payment of the principal amount equal to BD 12,338 thousand (2013: BD 12,893 thousand) consisting of the respective staff and Bank's contribution is guaranteed by the Bank to employees participating in the scheme within the applicable law. Out of the principal amount, BD 2,343,397 (2013: BD 1,401 thousand) is invested in Islamic Sukuk (booked off-balance sheet as investments on behalf of customers) issued by Central Bank of Bahrain on behalf of government of the Kingdom of Bahrain.

45 TRANSFER OF ASSETS FROM SUBSIDIARY

Capinnova

The shareholders of the Bank, in an extraordinary general meeting held on 8 May 2013, passed a resolution approving the amalgamation of the Bank with the Parent subject to approvals of the Central Bank of Bahrain and the Ministry of Industry and Commerce which were subsequently obtained. As of the date of issuance of these financial statements the plan and process of amalgamation and consultation with all its stakeholders has been completed as per the internal assignment agreement between Capinnova and BBK dated 17 September 2013 that became effective on 25 September 2013 which was approved by Capinnova and BBK's management.

Sakana

The Bank has 50% (31 December 2013: 50%) equity stake in Sakana Holistic Housing Solutions B.S.C. (c) (Sakana). Sakana is a jointly controlled company incorporated in the Kingdom of Bahrain and engaged in Islamic real estate financing.

The Board of Directors of Sakana has resolved on 7 January 2013 to voluntarily liquidate its operations, subject to shareholders approval. During the year 50% of the Bank share has been received and the remaining is expected to be received during the year 2015 as the liquidation is still in progress.

Basel II Pillar III disclosures

31 December 2014

1 EXECUTIVE SUMMARY

This report has been prepared in accordance with Pillar III disclosure requirements prescribed by the Central Bank of Bahrain, herein refered to as "CBB".

CBB Basel II guidelines became effective on 1st January 2008 as the common framework for the implementation of the Basel Committee on Banking Supervision's (Basel Committee) Basel II capital adequacy framework for banks incorporated in the Kingdom of Bahrain.

The disclosures in this report are in addition to the disclosures set out in the consolidated financial statements for the year ended 31 December 2014 presented in accordance with the International Financial Reporting Standards (IFRS).

2 INTRODUCTION TO THE BASEL II FRAMEWORK

The CBB's Basel II framework is based on three pillars, consistent with the Basel II framework developed by the Basel Committee, as follows:-

- Pillar I: calculation of the Risk Weighted Assets (RWAs) and capital requirement. The capital requirment has to be covered by own regulatory framework.
- Pillar II: the supervisory review process, including the Internal Capital Adequacy Assessment Process (ICAAP).
- Pillar III: rules for the disclosure of risk management and capital adequacy information.

Pillar I

Pillar I prescribes the basis for the calculation of the regulatory capital adequacy ratio. Pillar I sets out the definition and calculations of the RWAs, and the derivation of the regulatory capital base. The capital adequacy ratio is calculated by dividing the regulatory capital base by the total RWAs.

The resultant ratio is to be maintained above a predetermined and communicated level. Under the previously applied Basel I Capital Accord, the minimum capital adequacy ratio for banks incorporated in Bahrain was 12 per cent compared to the Basel Committee's minimum ratio of 8 per cent.

The CBB also requires banks incorporated in Bahrain to maintain a buffer of 0.5 per cent above the minimum capital adequacy ratio. In the event that the capital adequacy ratio falls below 12.5 per cent, additional prudential reporting requirements apply, and a formal action plan setting out the measures to be taken to restore the ratio above the target level is to be formulated and submitted to the CBB. Consequently, the CBB requires BBK to maintain an effective minimum capital adequacy ratio of 12.5 per cent. No separate minimum tier 1 ratio is required to be maintained under the CBB's Basel II capital adequacy framework.

Under the CBB's Basel II capital adequacy framework, the RWAs are calculated using more sophisticated and risk sensitive methods than under the previous Basel I regulations. Credit risk and market risk are two essential risk types that were included under Basel I, while operational risk has been introduced as a new risk type in the CBB's Basel II capital adequacy framework. The table below summarises the approaches available for calculating RWAs for each risk type in accordance with the CBB's Basel II capital adequacy framework:-

Approaches for determining regulatory capital requirements as per CBB guidelines

Credit Risk	Market Risk	Operational Risk
Standardised Approach	Standardised Approach	Basic Indicator Approach
Foundation Internal Ratings Based Approach (FIRB)	Internal Models Approach	Standardised Approach

The approach applied by BBK for each risk type is as follows:-

i) Credit Risk

For regulatory reporting purposes, BBK is using the Standardised Approach for credit risk. The standardised approach is similar to the basis under the previous Basel I capital adequacy regulations, except for the use of external ratings to derive the RWAs and the ability to use a wider range of financial collaterals. The RWAs are determined by multiplying the credit exposure by a risk weight factor dependent on the type of counterparty and the counterparty's external rating, where available.

ii) Market Risk

For the regulatory market risk capital requirement, BBK is using the Internal Model Approach based on Value-at-Risk (VaR) model. The use of the Internal Model Approach for the calculation of regulatory market risk capital has been approved by the CBB.

iii) Operational Risk

Under the CBB's Basel II capital adequacy framework, all banks incorporated in Bahrain are required to apply the Basic Indicator Approach for operational risk unless approval is granted by the CBB to use the Standardised Approach. The CBB's Basel II guidelines do not currently permit the use of the Advanced Measurement Approach (AMA) for operational risk. For regulatory reporting purposes, BBK is currently using the Basic Indicator Approach. Under the Basic Indicator Approach, the regulatory capital requirement is calculated by applying an alpha co-efficient of 15 per cent to the average gross income for the preceding three financial years.

Pillar II

Pillar II defines the process of supervisory review of an institution's risk management framework and, ultimately, its capital adequacy. Under the CBB's Pillar II guidelines, all banks incorporated in Bahrain are required to maintain a 12 per cent minimum capital adequacy ratio.

Pillar II comprises two processes:

- an Internal Capital Adequacy Assessment Process (ICAAP), and
- a supervisory review and evaluation process.

The ICAAP incorporates a review and evaluation of risk management and capital relative to the risks to which the bank is exposed. BBK has developed ICAAP document and it addresses all components of BBK's risk management, from the daily management of more material risks to the strategic capital management of the Group.

The supervisory review and evaluation process represents the CBB's review of the Group's capital management and an assessment of internal controls and corporate governance. The supervisory review and evaluation process is designed to ensure that institutions identify their material risks, allocate adequate capital, and employ sufficient management processes to support such risks.

The supervisory review and evaluation process also encourages institutions to develop and apply enhanced risk management techniques for the measurement and monitoring of risks in addition to the credit, market and operational risks addressed in the core Pillar I framework. Other risk types which are not covered by the minimum capital requirements in Pillar I include liquidity risk, interest rate risk in the banking book, business risk and concentration risk. These are covered either by capital, or risk management and mitigation processes under Pillar II.

Pillar III

In the CBB's Basel II framework, the third pillar prescribes how, when, and at what level information should be disclosed about an institution's risk management and capital adequacy practices.

The disclosures comprise detailed qualitative and quantitative information. The purpose of the Pillar III disclosure requirements is to complement the first two pillars and the associated supervisory review process. The disclosures are designed to enable stakeholders and market participants to assess an institution's risk appetite and risk exposures and to encourage all banks, via market pressures, to move toward more advanced forms of risk management.

Under the current regulations, partial disclosure consisting mainly of quantitative analysis is required during half year reporting, whereas full disclosure is required to coincide with the financial year end reporting.

3 GROUP STRUCTURE

The Group's financial statements are prepared and published on a full consolidation basis, with all subsidiaries being consolidated in accordance with IFRS. For capital adequacy purposes, all subsidiaries are included within the Group structure. However, the CBB's capital adequacy methodology accommodates both normal and aggregation forms of consolidation.

The principal subsidiaries, Associates and Joint Ventures and basis of consolidation for capital adequacy purposes are as follows:-

	Domicile	Ownership	Consolidation basis
Subsidiaries			
CrediMax B.S.C. (c)	Kingdom of Bahrain	100%	Full Consolidation
Invita B.S.C. (c)	Kingdom of Bahrain	100%	Full Consolidation
Invita – Kuwait*	State of Kuwait	60%	Full Consolidation
Global Payment Serivces W.L.L. (GPS)**	Kingdom of Bahrain	55%	Full Consolidation
Associates			
Diyar Al Harameen AL Ola Limited	Cayman Island	35%	Risk Weighted
Bahrain Commercial Facilities Company B.S.C. (c)	Kingdom of Bahrain	23%	Aggregation
The Benefit Company B.S.C (c)	Kingdom of Bahrain	22%	Risk Weighted
Joint Venture			
Sakana Holistic Housing Solutions B.S.C. (c)	Kingdom of Bahrain	50%	Aggregation
BBK Geojit Securities KSC	State of Kuwait	40%	Aggregation

* Shareholding through Invita Subsidiary
** Shareholding through CrediMax Subsidiary

There are no restrictions on the transfer of funds or regulatory capital within the Group.

4 CAPITAL COMPONENTS – CONSOLIDATED

Tier one capital is defined as capital of the same or close to the character of paid-up capital and comprises share capital, share premium, retained earnings and eligible reserves. Eligible reserves include general reserve, statutory reserve, and unrealized losses arising from revaluation of equities classified as available-for-sale, and exclude unrealised losses arising from revaluation of debt securities classified as available-for-sale.

Tier two capital comprises interim profits, qualifying subordinated term finance, collective impairment provisions, and unrealized gains arising from revaluation of equities classified as available-for-sale, though limited to 45%. It excludes unrealized gains arising from valuing debt securities classified as available-for-sale.

The subordinated term financing facilities, amounting to US$ 9.028 million discounted out of the total amount outstanding US$ 22.570 million (initital amount raised US$145 million), are part of its US$ 1 billion Euro Medium Term Deposits Notes Programme. These are issued for 10 years with a call option which can only be exercised starting 2014. The subordinated financing facilities have been approved for inclusion in tier two capital for regulatory capital adequacy purposes by the CBB.

The CBB applies various limits to elements of the regulatory capital base. The amount of innovative tier one securities cannot exceed 15 per cent of total tier one capital; qualifying tier two capital cannot exceed tier one capital; and qualifying subordinated term finance cannot exceed 50 per cent of tier one capital. There are also restrictions on the amount of collective impairment provisions that may be included as part of tier two capital, which should be maximum of 1.25% of the risk weight.

In accordance with the CBB's Basel II capital adequacy framework, certain assets are required to be deducted from regulatory capital rather than included in RWAs. At 31st December 2014, no amount was deducted from regulatory capital. In accordance with the CBB's Basel II capital adequacy framework, the deductions are applied 50 per cent from tier one and 50 per cent from tier two capital.

There are no impediments on the transfer of funds or regulatory capital within the Group other than restrictions over transfers to ensure minimum regulatory capital requirements are met for subsidiary companies.

	BD'000
Tier 1 capital	
Share capital	96,063
General reserves	46,825
Statutory reserves	46,825
Share premium	39,919
Retained earnings and others	60,747
Non-controlling interest	1,458
Unrealized losses arising from fair valuing equities	(2,478)
Deductions from tier 1 capital	(14,288)
Total tier 1 capital	**275,071**
Tier 2 capital	
Current year profit	50,095
45% of unrealized gains arising from fair valuing equities	7,538
Collective impairment provisions	26,969
Subordinated term debt	3,404
Deductions from tier 2 capital	(14,288)
Total tier 2 capital	**73,718**
Total available capital (tier 1 + tier 2)	**348,789**
Aggregation	28,577
Total eligible capital	**377,366**

5 CAPITAL ADEQUACY

The Group's policy is to maintain a strong capital base so as to preserve investor, creditor and market confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' return is also recognized, as well as the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Group manages its capital structure and makes adjustments to the structure taking account of changes in economic conditions and strategic business plans. The capital structure may be adjusted through the dividend payout, and the issue of new shares, and subordinated term finance.

BBK aims to maintain a minimum total capital adequacy ratio in excess of 13.73 per cent. The CBB's current minimum total capital adequacy ratio for banks incorporated in Bahrain is set at 12 per cent. The Capital Adequacy ratio of the Group at 31 December 2014 was 15.63 per cent.

Strategies and methods for maintaining a strong capital adequacy ratio

BBK prepares multi-year strategic projections on a rolling annual basis which include an evaluation of short term capital requirements and a forecast of longer-term capital resources.

Capital ratios – consolidated and subsidiaries above 5% of group capital

	Total capital ratio	Tier 1 capital ratio
BBK – GROUP	15.63%	12.58%
CrediMax	60.82%	43.85%

6 CREDIT RISK – PILLAR III DISCLOSURES

This section describes the BBK's exposure to credit risk, and provides detailed disclosures on credit risk in accordance with the CBB's Basel II framework, in relation to Pillar III disclosure requirements.

Definition of exposure classes

BBK has a diversified on and off statement of financial position credit portfolio, the exposures of which are divided into the counterparty exposure classes defined by the CBB's Basel II capital adequacy framework for the standardised approach for credit risk. A high-level description of the counterparty exposure classes, referred to as standard portfolios in the CBB's Basel II capital adequacy framework, and the generic treatments, i.e. the risk weights to be used to derive the RWAs, are as follows:-

Sovereigns portfolio

The sovereigns portfolio comprises exposures to governments and their respective central banks. The risk weights are zero per cent for exposures in the relevant domestic currency, or in any currency for exposures to GCC sovereigns. Foreign currency claims on other sovereigns are risk weighted based on their external credit ratings.

Certain multilateral development banks as determined by the CBB may be included in the sovereigns portfolio and treated as exposures with a zero per cent risk weighting.

Public Sector Entities (PSE) portfolio

Claims on Bahraini PSEs, and claims on PSEs on domestic currency – which are assigned a zero per cent risk weight by their respective country regulator, can be assigned a zero per cent risk weight. All other PSEs are risk weighted according to their external ratings.

Banks portfolio

Claims on banks are risk weighted based on their external credit ratings. A preferential risk weight treatment is available for qualifying short term exposures. Short term exposures are defined as exposures with an original tenor of three months or less. The Bank's portfolio also includes claims on investment firms, which are risk weighted based on their external credit ratings, though without any option for preferential treatment for short term exposures.

Corporates portfolio

Claims on corporates are risk weighted based on their external credit ratings. A 100 per cent risk weight is assigned to exposures to unrated corporates. A preferential risk weight treatment is available for certain corporates owned by the Government of Bahrain, as determined by the CBB, which are assigned a zero per cent risk weight.

Regulatory retail portfolio

Claims on retail portfolio are risk weighted at 75%, except for past due portfolio.

Mortgage portfolio

Claims which are fully secured by first mortgages on residential property that is or will be occupied by the borrower, or that is leased, must carry a risk weighting of 75 per cent. Claims secured mortgages on commercial real estate are subject to a minimum of 100 per cent risk weight. If the borrower is rated below BB-, the risk-weight corresponding to the rating of the borrower must be applied.

Equities portfolio

The equities portfolio comprises equity investments in the banking book, i.e. the available-for-sale securities portfolio. A 100 per cent risk weight is assigned to listed equities while unlisted equities are weighted at 150 per cent

In addition to the standard portfolios, other exposures are assigned to the following exposure classes:

Investments in funds portfolio

The risk weight for claims on corporate will be used to determine the risk weight for investments in rated funds. Unrated funds will be assigned a risk weight of 100% if listed, and 150% if not listed.

Past due exposures

This includes claims, for which the repayment is overdue for more than nintey days. The risk weighting applied for such loans is either 100 per cent or 150 per cent, depending on the level of provisions maintained against the loan.

Holding of real estate

All holding of real estate by banks (owned directly or by the way of investments in real estate companies, subsidiaries or associated companies or other arrangements such as trusts, funds or REITS) must be risk weighted at 200 per cent. Premises occupied by the bank are weighted at 100 per cent.

Other assets and holdings of securitisation tranches

Other assets are risk weighted at 100 per cent. Securitisation tranches are risk weighted based on their external credit ratings. Risk weightings range from 20 per cent to 350 per cent. Exposures to securitisation tranches that are rated below BB- or are unrated are deducted from regulatory capital rather than subject to a risk weight.

All BBK's holding of securitizations is part of the bank's investment portfolio.

External rating agencies

BBK uses ratings issued by Standard & Poor's, Moody's and Fitch to derive the risk weightings under the CBB's Basel II capital adequacy framework. Where ratings vary between rating agencies, the highest rating from the lowest two ratings is used to represent the rating for regulatory capital adequacy purposes.

Credit risk presentation under Basel II

The credit risk exposures presented in most of this report differ from the credit risk exposures reported in the consolidated financial statements. Differences arise due to the application of different methodologies, as illustrated below:-

- Under the CBB's Basel II framework, off statement of financial position exposures are converted into credit exposure equivalents by applying a credit conversion factor (CCF). The off statement of financial position exposure is multiplied by the relevant CCF applicable to the off statement of financial exposure position category. Subsequently, the exposure is treated in accordance with the standard portfolios as referred to above in this report, in the same manner as on statement of financial position exposures.
- Credit risk exposure reporting under Pillar III is frequently reported by standard portfolios based on the type of counterparty. The financial statement presentation is based on asset class rather than the relevant counterparty. For example, a loan to a bank would be classified in the Bank's standard portfolio under the capital adequacy framework although is classified in loans and advances in the consolidated financial statements.
- Certain eligible collateral is applied to reduce exposure under the Basel II capital adequacy framework, whereas no such collateral netting is applicable in the consolidated financial statements.
- Based on the CBB's Basel II guidelines, certain exposures are either included in, or deducted from, regulatory capital rather than treated as an asset as in the consolidated financial statements, e.g. unrated securitisation tranches.

7 CAPITAL REQUIREMENT FOR RISK WEIGHTED EXPOSURE

	Gross credit exposures (before risk mitigation) BD '000	Eligible financial collateral BD '000	Credit risk after risk mitigation BD '000	Risk weighted asset BD '000	Regulatory capital required 12% BD '000
Sovereign	883,445	–	50,391	27,738	3,329
Public Sector Entities	240,869	–	111,308	44,939	5,393
Banks	615,445	–	615,445	273,988	32,879
Corporates	1,345,751	22,490	1,263,135	1,258,919	151,070
Regulatory retail	246,718	286	246,432	184,824	22,179
Mortgage	87,589	81	87,508	65,631	7,876
Equity *	90,374	–	–	95,082	11,410
Investment in funds	1,944	–	1,944	2,916	350
Past due	59,145	2,849	56,296	73,959	8,875
Real estate	38,870	–	–	62,180	7,462
Other assets	66,916	–	66,916	66,916	8,030
Cash Items	19,688	–	–	401	48
Total	**3,696,754**	**25,706**	**2,499,375**	**2,157,493**	**258,901**
Aggregation	28,576	–	28,576	56,220	6,746
Total Credit Risk	**3,725,330**	**25,706**	**2,527,951**	**2,213,713**	**265,647**
Market Risk				7,625	915
Operational Risk				192,722	23,127
Total Risk Weighted Exposure	**3,725,330**	**25,706**	**2,527,951**	**2,414,060**	**289,689**

* Included in the equity category investment in insurance entity that is risk weighted rather than deducted from eligible capital, this if deducted will reduce the eligible capital to BD 373,201 thousands:

Entity	Country of domecile	Ownership %	Risk weighted asset BD'000	Impact on regulatory capital BD'000
Bahrain and Kuwait Insurance Company B.S.C.	Bahrain	6.82%	3,221	386

Collateral valuation policy

The Bank has detailed policies and procedures for valuing collateral/ securities offered for various credit facilities. The collateral is valued, at minimum, quarterly or annually, based on the type of security.

More frequent valuations are also considered if waranted by market volatility and declining trend in valuations are observed. The basis of valuation for different types of securities such as equity, debt, and real estate is also clearly defined in the policies.

8 FUNDED AND UNFUNDED TOTAL CREDIT EXPOSURE

Total gross credit exposures	Total funded credit exposure BD '000	Total un-funded credit exposure BD '000
Sovereign	874,755	8,690
Public sector entities	240,869	–
Banks	544,529	70,916
Corporates	1,200,966	144,785
Regulatory retail	246,716	2
Mortgage	87,589	–
Equity	90,374	–
Investment in funds	1,944	–
Past due	59,145	–
Real estate	38,870	–
Other assets	66,916	–
Cash items	19,688	–
Total	**3,472,361**	**224,393**
Aggregation	28,576	
Total credit risk	**3,500,937**	**224,393**

9 AVERAGE CREDIT EXPOSURE

The following represents the average quarterly balances for the year ended 31 December 2014:

	BD'000
Sovereign	806,628
Public sector entities	226,304
Banks	639,606
Corporates	1,292,819
Regulatory retail	235,840
Mortgage	86,098
Equity	100,240
Investment in funds	2,290
Past due	73,158
Real estate	38,948
Other assets	60,592
Cash items	17,920
Total	**3,580,443**
Aggregation	30,557
Total credit risk	**3,611,000**

10 CONCENTRATION OF CREDIT RISK BY REGION

	GCC BD'000	North America BD'000	Europe BD'000	Asia BD'000	Others BD'000	Total BD'000
Cash and balances with central banks	276,024	–	–	2,169	–	**278,193**
Treasury bills	280,892	–	–	11,791	–	**292,683**
Deposits in banks and other financial institutions	147,429	8,351	15,675	4,197	244	**175,896**
Loans and advances to customers	1,524,176	9,539	73,392	226,963	12,392	**1,846,462**
Investments in associated companies	2,999	–	–	–	4,962	**7,961**
Investment securities	490,685	28,581	133,437	91,850	42,600	**787,153**
Other assets	81,583	–	–	2,430	–	**84,013**
Total funded exposure	**2,803,788**	**46,471**	**222,504**	**339,400**	**60,198**	**3,472,361**
Unfunded commitments and contingencies	179,425	538	15,550	18,779	10,101	**224,393**
Aggregation	28,576	–	–	–	–	**28,576**
Total credit risk	**3,011,789**	**47,009**	**238,054**	**358,179**	**70,299**	**3,725,330**

11 CONCENTRATION OF CREDIT RISK BY INDUSTRY

	Trading and manufacturing BD'000	Banks and other financial institutions BD'000	Construction and real estate BD'000	Government and public sector BD'000	Individuals BD'000	Others BD'000	Total BD'000
Cash and balances with central banks	–	17,685	–	260,508	–	–	**278,193**
Treasury bills	–	–	–	292,683	–	–	**292,683**
Deposits in banks and other financial institutions	–	175,896	–	–	–	–	**175,896**
Loans and advances to customers	610,042	267,406	429,936	28,524	288,483	222,071	**1,846,462**
Investments in associated companies	–	–	4,962	–	–	2,999	**7,961**
Investment securities	24,015	294,579	16,814	450,260	–	1,485	**787,153**
Other assets	–	–	–	–	–	84,013	**84,013**
Total funded exposure	**634,057**	**755,566**	**451,712**	**1,031,975**	**288,483**	**310,568**	**3,472,361**
Unfunded commitments and contingencies	89,016	83,635	32,509	351	774	18,108	**224,393**
Aggregation	–	28,576	–	–	–	–	**28,576**
Total credit risk	**723,073**	**867,777**	**484,221**	**1,032,326**	**289,257**	**328,676**	**3,725,330**

12 CONCENTRATION OF CREDIT RISK BY MATURITY

	Within 1 month BD'000	1 to 3 months BD'000	3 to 6 months BD'000	6 to 12 months BD'000	1 to 5 years BD'000	5 to 10 years BD'000	10 to 20 years BD'000	Above 20 years BD'000	Total BD'000
Cash and balances with central banks	202,072	–	–	–	–	–	–	76,121	**278,193**
Treasury bills	48,273	119,057	55,919	69,434	–	–	–	–	**292,683**
Deposits in banks and other financial institutions	89,858	60,287	25,751	–	–	–	–	–	**175,896**
Loans and advances to customers	89,618	189,894	126,079	127,752	849,441	222,553	52,837	188,288	**1,846,462**
Investments in associated companies	–	–	–	–	–	–	–	7,961	**7,961**
Investment securities*	12,075	15,338	53,223	85,984	221,426	368,017	2,502	28,588	**787,153**
Other assets	55,500	45	43	54	23,238	1,400	417	3,316	**84,013**
Total funded exposure	**497,396**	**384,621**	**261,015**	**283,224**	**1,094,105**	**591,970**	**55,756**	**304,274**	**3,472,361**
Unfunded commitments and contingencies	29,689	15,202	21,814	72,771	82,192	2,412	–	313	**224,393**
Aggregation	–	–	–	–	–	–	–	28,576	**28,576**
Total credit risk	**527,085**	**399,823**	**282,829**	**355,995**	**1,176,297**	**594,382**	**55,756**	**333,163**	**3,725,330**

* Investments have been classified as per their actual maturities.

13 IMPAIRED LOANS AND PROVISIONS

	Principle outstanding BD '000	Impaired loans BD '000	Specific Provisions against losses and anticipated losses BD '000
Manufacturing	351,093	6,184	6,205
Mining and quarrying	26,461	–	–
Agriculture, fishing and forestry	4,190	10	10
Construction	180,093	9,422	3,725
Financial	287,718	17,022	14,257
Trade	248,743	6,014	1,019
Personal/Consumer finance	260,589	8,289	8,706
Credit cards	41,188	1,162	1,450
Commercial real estate financing	175,990	26,175	9,354
Residential mortgage	96,572	5,752	1,128
Government	28,864	–	–
Technology, media and telecommunications	135,364	8,580	5,964
Transport	16,732	–	–
Other sectors	79,618	1,312	730
Total	**1,933,215**	**89,922**	**52,548**

14 RECONCILIATION OF CHANGES IN IMPAIRED LOANS AND PROVISIONS

	Specific impairment provisions BD'000	Collective impairment provisions BD'000
At beginning of the year	52,757	24,118
Amounts written off	(10,758)	–
Write backs/cancellation due to improvement	(2,511)	–
Additional provisions made	12,970	11,113
Exchange adjustment and other movements	751	(1,026)
Notional interest on impaired loans	(661)	–
Balance at reporting date	**52,548**	**34,205**

15 IMPAIRED AND PAST DUE LOANS BY REGION

	GCC BD '000	North America BD '000	Europe BD '000	Asia BD '000	Others BD '000	Total BD '000
Past due loans	50,396	–	–	9,848	–	**60,244**
Impaired loans	81,784	–	–	4,693	–	**86,477**
Specific impairment provisions	45,343	–	–	4,621	–	**49,964**
Collective impairment provisions	34,205	–	–	–	–	**34,205**

16 AGEING OF IMPAIRED PAST DUE LOANS

	3 months up to 1 year BD '000	1 to 3 years BD '000	Over 3 years BD '000	Total BD '000
Impaired past due loans	16,886	29,659	43,377	89,922
Less: specific provisions	8,347	9,620	34,581	52,548
Net outstanding	**8,539**	**20,039**	**8,796**	**37,374**
Market value of collateral	2,957	24,740	50,123	77,820

17 RESTRUCTURED LOANS

	BD'000
Loans restructured during the period	48,245
Impact of restructured facilities and loans on provisions	3,087

The above restructuring did not have any significant impact on present and future earnings and were primarily extentions of the loan tenor, revisions in interest rate, and additional collateral received.

18 MARKET RISK DISCLOSURES FOR BANKS USING THE INTERNAL MODELS APPROACH (IMA) FOR TRADING PORTFOLIOS

The "Market Risk Internal Model" is being used to measure Value-at-Risk (VaR) for calculating Capital Charge arising from Market Risk exposures (mainly Foreign Exchange and Interest Rate Risk positions) of the Trading book. The VaR model quantifies the maximum potential loss that could occur in the Trading book risk positions under normal market conditions, at 99% confidence level, on a 10-day horizon.

BBK maintains a prudent approach to handle Market Risk exposures guided by Market Risk Policy and Procedure. The Position, Stoploss and VaR limits are monitored by Treasury Middle Office (reporting to Risk and Credit Management Department and Independent of Business unit) and a daily risk report is circulated to the Senior Management.

In addition to the above, the Treasury Middle Office also carries out valuation of the Investment Portfolio independently as per the internal policies and procedures. Furthermore BBK also conducts Stress Testing and Back Testing of Market Risk positions.

The summary of VaR of the trading book for the period January 2014 to December 2014 is as follows:

VaR Results for 2014 (10 day 99%)

Global (Bahrain and kuwait)

1 January 2014 to 31 December 2014

Asset class	Limit BD '000	VaR 31 December 2014 BD '000	High VaR BD '000	Low VaR BD '000	Average VaR BD '000
Foreign exchange	641	41	174	13	40
Interest rate	151	1	1	0	0
	792	**42**	**174**	**13**	**41**

The Bank conducts Backtesting of VaR on a daily basis in compliance with CBB regulations to validate the internal VaR model and to check whether or not the model can predict potential losses with a fair degree of accuracy. Under Backtesting, the daily VaR numbers are compared with the mark-to-market profit or loss figures (on actual average Profit and Loss basis and also hypothetical Profit and Loss basis). If this comparison is close enough, the Backtest raises no issues regarding quality of the risk measurement model.

The Backtesting results for the period January-December 2014 confirmed that there was no occasion on which a daily trading loss exceeded VaR figure.

18 MARKET RISK DISCLOSURES FOR BANKS USING THE INTERNAL MODELS APPROACH (IMA) FOR TRADING PORTFOLIOS continued

Month end VaR (10 day 99%)

Month	VaR in BD'000
January 2014	34
February 2014	28
March 2014	75
April 2014	39
May 2014	25
June 2014	41
July 2014	39
August 2014	40
September 2014	31
October 2014	37
November 2014	41
December 2014	42

The following graph shows that the daily average Profit and Loss (Actual Average P & L basis) vis-à-vis one day VaR, for the review period.

19 CONCENTRATION RISK TO INDIVIDUALS WHERE THE TOTAL EXPOSURE IS IN EXCESS OF SINGLE OBLIGOR LIMIT OF 15%

	BD '000
Sovereign*	660,569
Total	**660,569**

* The above exposures are exempted from deductions as per the CBB guidelines.

20 CREDIT DERIVATIVES EXPOSURE

BBK is not exposed to any credit derivatives as at 31 December 2014.

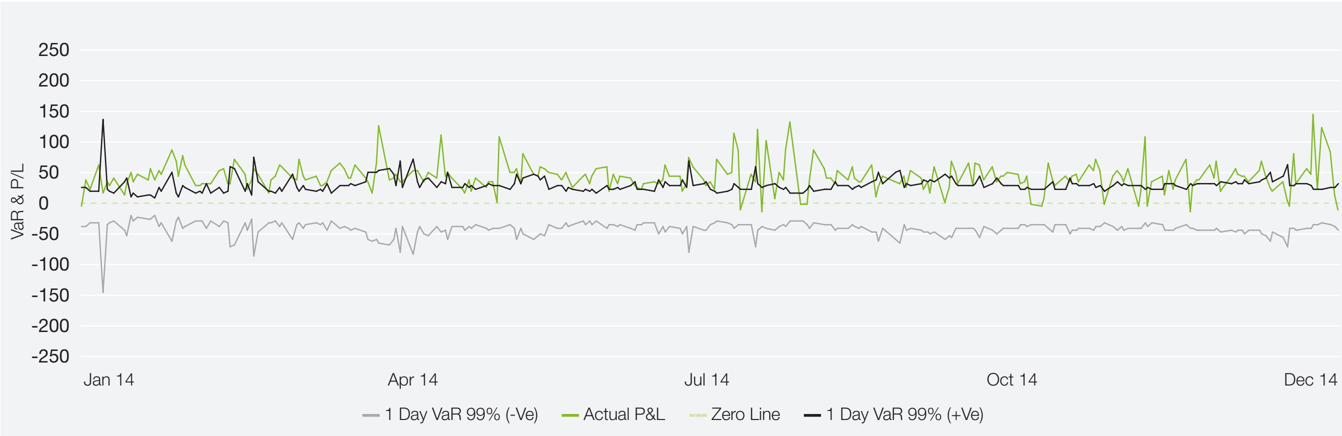
21 EQUITY POSITIONS IN THE BANKING BOOK

	BD '000
Publicly traded equity shares	81,013
Privately held equity shares	22,782
Total	103,795
Capital required	**12,455**

22 GAINS ON EQUITY INSTRUMENTS

	BD '000
Realised Gains/Losses in statement of profit or loss	2,579
Unrealised Gains/Losses in tier 1 Capital (eligible portion)	(2,478)
Unrealised Gains/Losses in tier 2 Capital (eligible portion)	7,538

Value-at-Risk Backtesting January – December 2014



Minutes of the Annual General Ordinary and Extraordinary Meetings

محضر اجتماع الجمعية العامة العادية
لبنك البحرين والكويت

الوقـت : ١١:٣٠ صباحـــــــــا

التاريخ: الأربعاء ١٢ مارس ٢٠١٤

المكان: فندق الخليـج – قاعـة الدانــة

مملكـــــــــــة البحريـــــــــــن

إنه في التاريخ والوقت والمكان المشار إليهم أعلاه، أعلن السيد مراد علي مراد بصفته رئيسا لمجلس الإدارة افتتاح الجمعية العامة العادية للمساهمين.

وينعقد هذا الاجتماع بالاستناد إلى المواد ١٩٨، ١٩٩، ٢٠٠، ٢٠١ من قانون الشركات التجارية الصادر بمرسوم بقانون رقم (٢١) لسنة ٢٠٠١ والمواد من ٤٦ إلى ٥٠ من النظام الأساسي للبنك، إذ تمت الدعوة له بالإعلان في صحيـفتي الأيام والوسط الصادرتين في ١٩ فبراير ٢٠١٤، وشمل الإعلان الدعوة وجدول أعمال الاجتماع. وبتاريخ ٣ فبراير ٢٠١٤ تم إخطار الجهات المعنية المتضمنة كل من إدارة شئون الشركات بوزارة الصناعة والتجارة ومصرف البحرين المركزي وشركة بورصة البحرين والمدقق الخارجي أرنست ويونغ (محاسبون قانونيون).

وحضر الاجتماع كل من:

- أعضاء مجلس إدارة التالية أسماءهم:
  - السيد مـــراد علـــي مـــراد
  - السيد عــارف صالـــح خميـــس
  - السيد محمــد عبدالرحمــن حسيــن
  - السيد جاســم حســن زينـــل
  - الشيخ عبـدالله بـن خليفـة آل خليفــة
  - السيد حســـن محمـــد محمـــود
  - السيد مطلـق مبـــارك الصـــانع
  - السيدة إلهـــام إبراهيـــم حســـن
  - السيد يوســف صالـــح خلـــف
  - الدكتور زكريـا سلطـــان العبــاسي
- الرئيس التنفيذي للبنك
- سكرتير مجلس الإدارة بالبنك
- المستشار القانوني بالبنك
- مندوب وزارة الصناعة والتجارة
- مندوب مصرف البحرين المركزي
- ممثل المدقق الخارجي ارنست ويونغ (محاسبون قانونيون)
- ممثل مسجل الأسهم شركة فخرو كارفي كمبيوتر شير
- مساهمون يبلغ مجموع أسهمهم الحاضرة أصالة ووكالة ٧٧٨,١١٨,٨٧٢ سهما من جملة أسهم البنك البالغ عددها ٩٣٦,٤٩١,٧٣٤ سهم أي ما تقارب نسبته ٨٤.١٣٪ (بعد استقطاع أسهم الخزينة من مجموع الأسهم)، وقد ثبت ذلك في سجل الحضور واعتمده كل من رئيس الجلسة وممثل المدقق الخارجي ومندوب وزارة الصناعة والتجارة وممثل مسجل الأسهم.

استهل السيد الرئيس الاجتماع بالترحيب بالأصالة عن نفسه ونيابة عن السادة أعضاء مجلس الإدارة بالحضور من مساهمين ومندوبي الجهات الرسمية المختصة والصحافة، ثم عرض على السادة الحضور جدول الأعمال.

وأقرت الجمعية العامة العادية في اجتماعها الموضوعات التالية المدرجة على جدول أعمالها، كما أقرت سحب بند (١١) "ما يستجد من أعمال" من جدول أعمالها بعد الحصول على رأي المساهمين في ذلك تلبية لطلب مندوب وزارة الصناعة والتجارة بناء على المادة رقم ٢٠٧ من قانون الشركات التجارية.

١. اعتماد محضر الاجتماع السنوي السابق الذي انعقد بتاريخ ٢٠١٣/٣/٤م.

بين السيد الرئيس بأن التقرير السنوي للبنك يتضمن المحضر المذكور أعلاه، بما يلغي الحاجة لتلاوته.

٢. مناقشة وإقرار تقرير مجلس الإدارة عن أعمال البنك للسنة المنتهية في ٢٠١٣/١٢/٣١م وعرض موجز من الرئيس التنفيذي لأهم الأعمـال والإنجازات للبنـك خلال العام.

قام الرئيس التنفيذي بتقديم عرض موجز تناول فيه أهم انجازات البنك خلال عام ٢٠١٣، وأهم مؤشرات الأعمال بالنسبة للبنك والشركات التابعة له بالكامل، بالإضافة إلى نبذة عن ممارسات حوكمة الشركات بالبنك، والدور الهام الذي يقوم به البنك لتعزيز التزامه بالمسئولية الاجتماعية.

٣. الاستماع لتقرير مدققي الحسابات عن أعمال البنك للسنة المنتهية في ٢٠١٣/١٢/٣١م.

٤. اعتماد القوائم المالية الختامية كما هي في ٢٠١٣/١٢/٣١م والتصديق عليها.

٥. الموافقة على توصية مجلس الإدارة بإقرار التخصيصات التالية:

- توزيع مبلغ ٩,٢٤٨,٩٥٤ دينار بحريني أرباحا نقدية عن عام ٢٠١٣م بواقع ١٠ فلوس بحرينية للسهم الواحد أي ما يعادل ١٠ ٪ من رأس المال المدفوع
- توزيع أسهم منحة مجانية على المساهمين بنسبة ١٠٪ من رأس المال المدفوع وبمعدل سهم واحد لكل عشرة أسهم مملوكة ليصبح رأس مال البنك الصادر والمدفوع بعد الزيادة ١٠٣,٠١٤,٠٩١ دينار بحريني مقسم إلى ١,٠٣٠,١٤٠,٩٠٧ سهم
- تحويل مبلغ ٤,٢٥٦,٥٨٧ دينار بحريني للاحتياطي القانوني
- تحويل مبلغ ٣,١٢٤,٥٨٧ دينار بحريني إلى الاحتياطي العام
- اعتماد مبلغ ١,٢٥٠,٠٠٠ دينار بحريني للتبرعات فيما يخص البنك وشركاته التابعة
- تدوير مبلغ ١٧,٨٠٥,٧٦٨ دينار بحريني كأرباح مستبقاة ترحل إلى العام القادم

٦. اعتماد تقرير حوكمة الشركات للبنك عن عام ٢٠١٣م.

شرح السيد الرئيس بايجاز التزام البنك بأرقى معايير حوكمة الشركات والتي تتماشى مع متطلبات الجهة الرقابية وميثاق حوكمة الشركات الصادر عن وزارة الصناعة والتجارة، بما يتضمن تطوير عملية تقييم أعضاء مجلس الإدارة والمجلس واللجان التابعة له وتطبيقها في عام ٢٠١٣. وأوضح بأن التقرير السنوي للبنك يشتمل على قسم خاص يتناول الموضوع أعلاه بالتفصيل.

٧. الموافقة على توصية مجلس الإدارة بإقرار ٥٧٧,٥٠٠ دينار بحريني مكافأة عضوية لمجلس الإدارة لعام ٢٠١٣م.

٨. انتخاب سبعة أعضاء يكملون المعينين في مجلس الإدارة للدورة القادمة للمجلس (٢٠١٤–٢٠١٧) ونظرا لعدم التقدم بالترشيح لأكثر من سبعة أشخاص، فقد فاز جميع الأعضاء المتقدمين بترشيح أنفسهم بالتزكية لعضوية المجلس.

٩. إبراء ذمة السادة أعضاء مجلس الإدارة من كل ما يتعلق بتصرفاتهم عن السنة المنتهية في ٢٠١٣/١٢/٣١م.

١٠. تعيين مدققين لحسابات البنك للسنة المالية ٢٠١٤م بعد أخذ موافقة مصرف البحرين المركزي وتفويض مجلس الإدارة بتحديد أتعابهم. وقد أعادت الجمعية العامة العادية تعيين السادة ارنست ويونغ مدققي البنك الخارجيين الحاليين للقيام بالمهمة، شريطة موافقة مصرف البحرين المركزي على ذلك.

وبعد المناقشة وافقت الجمعية العامة العادية على جميع المواضيع المذكورة أعلاه.

مناقشات السادة المساهمين:

بدأ أحد السادة المساهمين بالاستفسار عن عمليات البنك بجمهورية الهند، وأجاب السيد الرئيس بأن مجلس الإدارة قد تدارس موضوع توسع أعمال البنك بالهند في السابق وبعد الدراسة قرر ضخ رأس مال جديد لدعم هذه الأعمال، وافتتح فرعا جديدا في ولاية كيرالا في العام الماضي. كما حصل البنك على ترخيص من البنك الاحتياطي الهندي لافتتاح فرع جديد في مدينة نيودلهي، حيث سيكون بنك البحرين والكويت المصرف العربي الوحيد الذي يتملك فرعا في هذه المدينة. ومع أن الدخل والأرباح الصافية المتحققة من هذه الفروع ليست بمقدار تطلعات البنك، ولكنها تعتبر جيدة وفي تحسن مستمر. كما أفاد الرئيس التنفيذي للبنك بأن البنك يستفيد من تواجده بالهند بالحصول على أعمال أخرى بشكل غير مباشر في الفرع الرئيسي للبنك في مملكة البحرين وفرعه بدولة الكويت. كما سأل أحد السادة المساهمين عن رغبة البنك في توسعة أعماله من قطاع الصيرفية الإسلامية وعن ملاءة رأس مال البنك، فأجاب السيد الرئيس بأن البنك يتابع احتياجات السوق ومنها الحاجة إلى منتجات متوافقة مع الشريعة الإسلامية ويلتزم بتلبية هذه الاحتياجات قدر الإمكان، أما بالنسبة لملاءة رأس المال فقد رفع المجلس توصيته إلى الجمعية العامة العادية بالاحتفاظ بقدر أكبر من الأرباح المتحققة بهدف زيادة نسبة ملاءة رأس المال وبأنه من المؤمل أن يتحسن ذلك في الفترة القادمة.

كما استفسر أحد الحضور عن سبب زيادة المخصصات في البنك، فأجاب الرئيس التنفيذي بأن معظم هذه المخصصات هي مخصصات احترازية عامة وهي في البنك تفوق نسبة ١٪ من الديون الصافية حسب متطلبات مصرف البحرين المركزي لتصل إلى ١,٥٪ منها. أما بالنسبة للديون المتعثرة فإن نسبتها تعتبر معقولة خاصة فيما يتعلق بالخدمات المصرفية للأفراد. وبالنسبة لمحفظة الاستثمارات اتخذ البنك مخصصات صغيرة جدا. كما أضاف السيد الرئيس بأن مجلس الإدارة مهتم جدا بالموضوع ويتابعه باستمرار مع الإدارة لخفض نسب مخصصات الديون المتعثرة إلى ادنى حد ممكن.

وسأل احد السادة المساهمين عن الزيادة في مكافأة عضوية مجلس الإدارة لعام ٢٠١٣، واعتبر المبلغ كبيرا خاصة في ظل عدم توزيع أرباح إضافية عن العام الماضي، وكذلك مقارنة مع مبلغ المكافأة الإجمالي لأحدى البنوك المنافسة الرئيسية للبنك. فأجاب السيد الرئيس بأنه منذ العام ٢٠٠٩ إلى عام ٢٠١٢ ظل مبلغ المكافأة كما هو، وبالنظر إلى المسئوليات الإضافية التي أنيط بها المجلس في الأعوام الماضية والزيادة المستمرة في عدد الاجتماعات فإن الزيادة مقبولة. وبالنسبة للمقارنة مع المنافس الرئيسي للبنك فإنها غير عادلة حيث أن عدد أعضاء مجلس الإدارة في ذلك البنك عشرة أعضاء وفي بنك البحرين والكويت ١٢ عضوا ولم يتغير عدد الأعضاء منذ تأسيس البنك.

وفيما يخص توزيعات الأرباح سأل أحد السادة المساهمين عن سبب توزيع أرباح نقدية بنسبة ١٠٪ فقط في ظل تحقيق الأرباح الجيدة جدا للبنك، وقد استمر هذا الأمر لمدة عاميين متتاليين. فرد السيد الرئيس بأن السبب الرئيسي هو الاحتفاظ بالأرباح لزيادة نسبة ملاءة رأس المال حسب متطلبات بازل ٣ المتوقع صدورها لاحقا. وأوضح بأن الخيار الآخر لزيادة ملاءة رأس المال هو الطلب من المساهمين ضخ رأس مال إضافي، الأمر الذي لم يطرح من قبل المساهمين الرئيسيين للبنك. أما بالنسبة للتوزيعات فإنها تشمل توزيع أسهم منحة مجانية، ولو أضفيت القيمة السوقية للأسهم الممنوحة للمساهمين فإن نسبة توزيع الأرباح سوف تصل إلى ما يفوق ٣٠٪.

وفى الختام شكر السيد الرئيس الجميع على تشريفهم الحضور. وتمنى أن تكلل مساعي وجهود مجلس الإدارة والإدارة التنفيذية وموظفي البنك بالنجاح بتكاتفهم جميعا للسير بالبنك نحو آفاق التقدم.

وبهذا اختتمت الجمعية العامة العادية اجتماعها في تمام الساعة ١٢:١٥ من ظهر نفس اليوم الموضح تاريخه بصدر هذا المحضر.

والله ولى التوفيق ، ، ،

أحمد عبدالقدوس أحمد	**مراد علي مراد**
سكرتير مجلس الإدارة	رئيس مجلس الإدارة
ومسئول حوكمة الشركات	رئيس الجلسة

محضر اجتماع الجمعية العامة غير العادية
لبنك البحرين والكويت

الوقت : ١٢:١٥ صباحا	المكان: فندق الخليج – قاعة الدانة
التاريخ: الأربعاء ١٢ مارس ٢٠١٤	مملكة البحرين

إنه في التاريخ والوقت والمكان المشار إليهم أعلاه، أعلن السيد مراد علي مراد بصفته رئيسا لمجلس الإدارة افتتاح الجمعية العامة غير العادية للمساهمين.

وينعقد هذا الاجتماع بالاستناد إلى المواد ١٩٨، ١٩٩، ٢٠٠، ٢٠١ من قانون الشركات التجارية الصادر بمرسوم بقانون رقم (٢١) لسنة ٢٠٠١ والمواد من ٤٦ إلى ٥٠ من النظام الأساسي للبنك، إذ تمت الدعوة له بالإعلان في صحيفتي الأيام والوسط الصادرتين في ١٩ فبراير ٢٠١٤، وشمل الإعلان الدعوة وجدول أعمال الاجتماع. وبتاريخ ٣ فبراير ٢٠١٤ تم إخطار الجهات المعنية المتضمنة كل من إدارة شئون الشركات بوزارة الصناعة والتجارة ومصرف البحرين المركزي وشركة بورصة البحرين والمدقق الخارجي أرنست ويونغ (محاسبون قانونيون).

وحضر الاجتماع كل من:

- أعضاء مجلس إدارة التالية أسماءهم:
  - السيد مراد علي مراد
  - السيد عارف صالح خميس
  - السيد محمد عبدالرحمن حسين
  - السيد جاسم حسن زينل
  - الشيخ عبدالله بن خليفة آل خليفة
  - السيد حسن محمد محمود
  - السيد مطلق مبارك الصانع
  - السيدة إلهام إبراهيم حسن
  - السيد يوسف صالح خلف
  - الدكتور زكريا سلطان العباسي
- الرئيس التنفيذي للبنك
- سكرتير مجلس الإدارة بالبنك
- المستشار القانوني بالبنك
- مندوب وزارة الصناعة والتجارة
- مندوب مصرف البحرين المركزي
- ممثل المدقق الخارجي ارنست ويونغ (محاسبون قانونيون)
- ممثل مسجل الأسهم شركة فخرو كارفي كمبيوتر شير
- مساهمون يبلغ مجموع أسهمهم الحاضرة أصالة ووكالة ٧٧٨,١١٨,٨٧٢ سهما من جملة أسهم البنك البالغ عددها ٩٣٦,٤٩١,٧٣٤ سهم أي ما تقارب نسبته ٨٤,١٣ ٪ (بعد استقطاع أسهم الخزينة من مجموع الأسهم)، وقد ثبت ذلك في سجل الحضور واعتمده كل من رئيس الجلسة وممثل المدقق الخارجي وممثل وزارة الصناعة والتجارة وممثل مسجل الأسهم.

وأوضح السيد الرئيس للسادة المساهمين والحضور بأن هذا الاجتماع انعقد لتعديلات مقترحه على عقد التأسيس والنظام الأساسي.

هذا وقد أقرت الجمعية العامة غير العادية الموضوعات المدرجة على جدول الأعمال كما يلي:

١. اعتماد محضر الاجتماع السابق الذي انعقد بتاريخ ٤ مارس ٢٠١٣م.

٢. إعتماد توصية مجلس الإدارة بزيادة رأس المال المصرح به من مبلغ ١٠٠ مليون دينار بحريني إلى ١٥٠ مليون دينار بحريني

٣. الموافقة على توصية مجلس الإدارة بزيادة رأس المال الصادر والمدفوع من مبلغ لا يتجاوز ٩٣,٦٤٩,١٧٣ دينار بحريني إلى مبلغ لا يتجاوز ١٠٣,٠١٤,٠٩١ دينار بحريني وذلك لتوزيع أسهم المنحة.

٤. تعديل المادة (٦) من عقد التأسيس "رأس المال المصرح به" والمادة (٦) من النظام الأساسي "رأس المال المصرح به" وفقا لزيادة رأس المال المصرح به إلى مبلغ ١٥٠ مليون دينار بحريني.

٥. تعديل المادة (٧) من عقد التأسيس "رأس المال الصادر والمدفوع" والمادة (٧) من النظام الأساسي "رأس المال الصادر والمدفوع" وفقا لزيادة رأس المال الصادر والمدفوع إلى مبلغ لا يتجاوز ١٠٣,٠١٤,٠٩١ دينار بحريني.

٤. تفويض مجلس الإدارة أو من يعينه المجلس بالقيام بكافة الخطوات اللازمة مع الجهات المختصة في مملكة البحرين من أجل الحصول على الموافقات الرسمية اللازمة.

ووافقت الجمعية العامة غير العادية على جميع المواضيع المذكورة أعلاه.

وبهذا اختتمت الجمعية العامة غير العادية اجتماعها في تمام الساعة ١٢:٣٠ من ظهر نفس اليوم الموضح تاريخه بصدر هذا المحضر.

والله ولى التوفيق ، ، ،

أحمد عبدالقـدوس أحمـد	**مـــراد علي مـــراد**
سكرتيـر مجلـس الإدارة	رئيــس مجلــس الإدارة
ومسئول حوكمة الشركات	رئيـــس الجلســـــة