



AL SALAM BANK  
البحرين Bahrain

Annual Report 2014

Your doorway to internationally recognised  
Islamic financial services.

**DYNAMIC  
DIVERSIFIED  
DIFFERENTIATED**





His Royal Highness  
Prince Khalifa  
bin Salman Al Khalifa

The Prime Minister  
of the Kingdom of Bahrain



His Majesty  
King Hamad  
bin Isa Al Khalifa

The King  
of the Kingdom of Bahrain



His Royal Highness  
Prince Salman  
bin Hamad Al Khalifa

The Crown Prince,  
Deputy Supreme Commander  
and First Deputy Prime Minister

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**OUR VISION** To become a regional force in the Islamic financial services industry by providing differentiated Shari'a compliant products to focused segments.

- OUR MISSION**
- Become a "one-stop-shop" for Islamic financial services.
  - Create a strong onshore presence in select countries.
  - Develop a premier brand image as an Islamic financial shaper.
  - Achieve high returns for stakeholders commensurate with the risks undertaken

**DYNAMIC  
DIVERSIFIED  
DIFFERENTIATED**

## Corporate Overview

Headquartered in the Kingdom of Bahrain, Al Salam Bank- Bahrain (B.S.C.) is a dynamic, diversified and differentiated Islamic bank.

Key factors that contribute to the Bank's distinct market differentiation include:

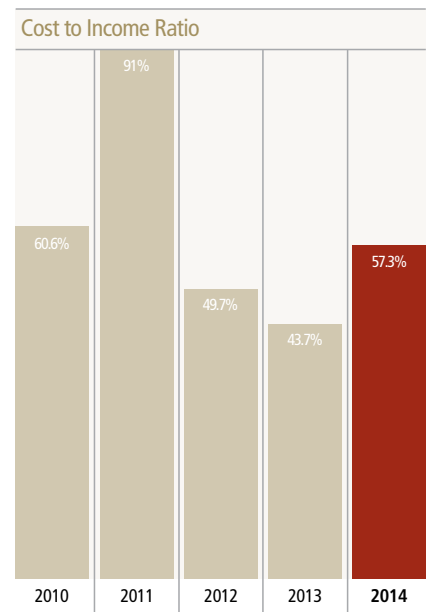
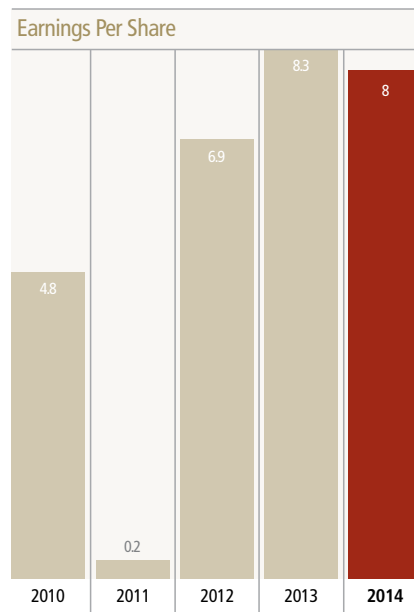
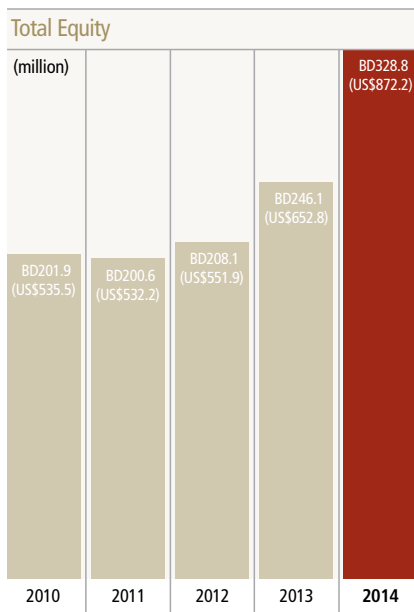
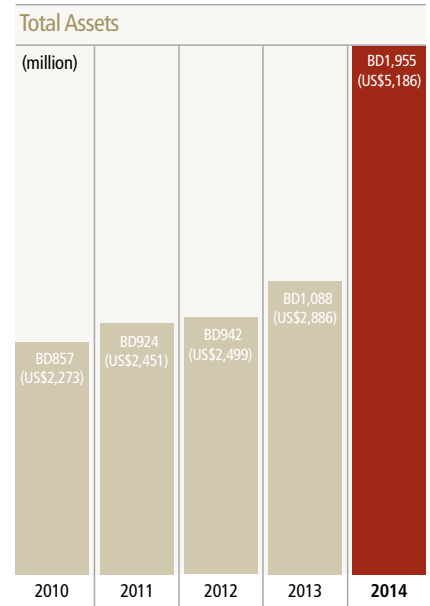
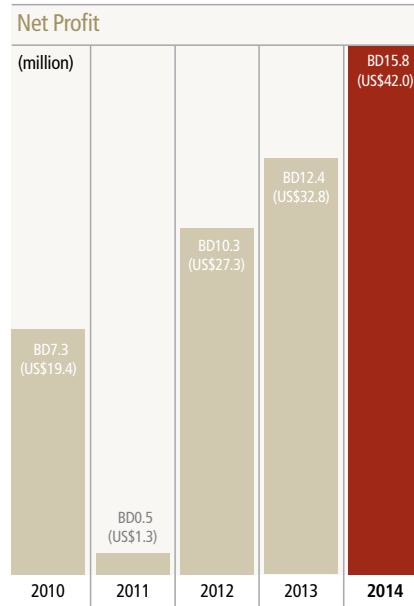
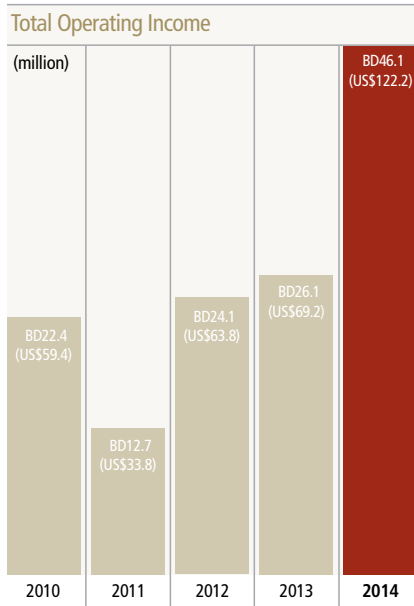
- Strong paid-up capital base;
- Pre-eminent founding shareholders;
- High-caliber management team;
- State-of-the-Art IT infrastructure;
- Universal business model covering deposits, financing and investment services;
- Innovative, tailor-made Shari'a-compliant solutions;
- Firm commitment to corporate and social responsibility;

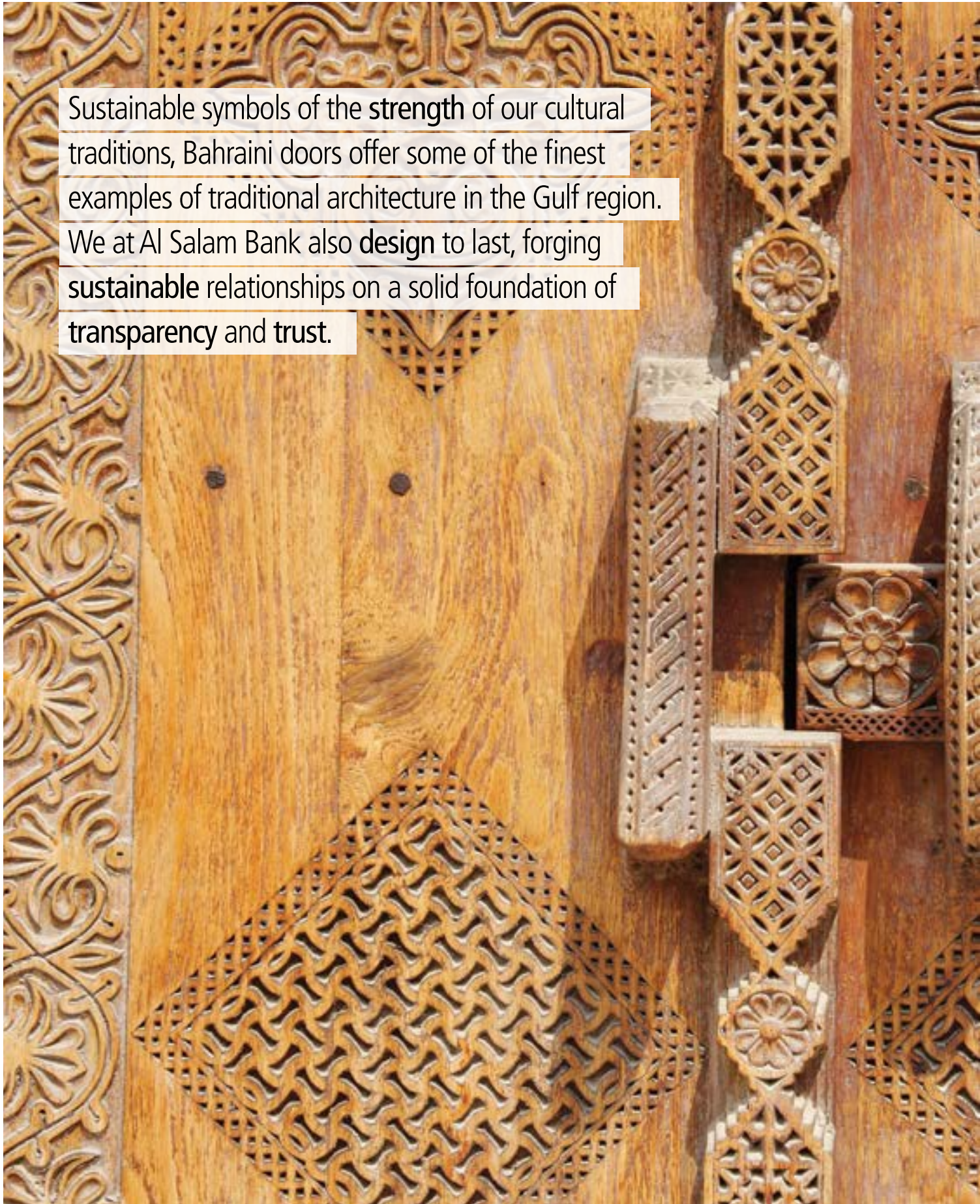
Incorporated on 19 January 2006 in the Kingdom of Bahrain and commenced commercial operations on 17 April 2006, the Bank operates under Shari'a principles in accordance with regulatory requirements for Islamic banks set by the Central Bank of Bahrain.

Al Salam Bank-Bahrain B.S.C. was listed on the Bahrain Bourse on 27 April 2006, and subsequently on the Dubai Financial Market on 26 March 2008. The Bank's high-caliber management team comprises highly qualified and internationally-experienced professionals with proven investment expertise in key areas of banking, finance and related fields; all supported by a world-class Information Technology (IT) infrastructure and the latest 'smart' working environment. In 2009, the Bank acquired a 90.31% stake in Bahraini Saudi Bank BSC, and in 2014 became the third largest domestic bank by assets through a business combination with BMI Bank B.S.C. (c). Established with a paid-up capital of BD120 million, the Group's total equity is over BD 328 million (US\$870 million) with total assets of BD1,955.3 (US\$5.2 billion).

Al Salam Bank-Bahrain B.S.C. is committed to adopting internationally recognized standards and best practices in Corporate Governance and operates with highest levels of integrity, transparency and trust. The Bank is committed to its role as a concerned corporate citizen, actively seeking ways to contribute and add value to the social and economic well-being of the local communities in which it invests and operates.

# Annual Highlights





Sustainable symbols of the **strength** of our cultural traditions, Bahraini doors offer some of the finest examples of traditional architecture in the Gulf region. We at Al Salam Bank also **design** to last, forging **sustainable** relationships on a solid foundation of **transparency** and **trust**.





## Board of Directors



### **H.H. Shaikha Hessa bint Khalifa bin Hamad Al Khalifa**

Chairperson

*Independent and non-executive*

*Director since: 18 April 2009*

*Term started: 20 March 2012*

*Experience: over 16 years*

An active member of the royal family of the Kingdom of Bahrain, H.H. Shaikha Hessa gained her Bachelor's degree in Management (1998), and her Master degree in Social Policy and Planning (2002) both from the London School of Economics and Political Science. Gained a MSc Development Finance 2010 from University of London. She joined the Supreme Council for Women in 2001 as a member of the Social Committee. Since 2004 she has been a Permanent Member of the Council's Board. In 2005, she founded "INJAZ Bahrain" which is an international organization to inspire and prepare young Bahrainis to succeed in a global economy and is presently its Executive Director. With her experience and active role in enterprise education and developing skills of young women, she has been invited as speaker and panellist at various occasions including the UN, and the World Economic Forum.



### **Mr. Hamad Tarek Alhomaizi**

Vice-Chairman

*Independent and non-executive*

*Director since: 18 April 2009*

*Term started: 20 March 2012*

*Experience: over 10 years*

Mr. Hamad Alhomaizi is a businessman with experience in a number of areas including direct investments, funds, real estate and start-up businesses. He has worked in various capacities in a number of companies and is a founding board member in companies including Zaleej Real Estate Company (Kuwait), Ishraq Real Estate Company (Bahrain / UAE) and AlShaab Holding Company (Kuwait). He is also a board member with Global Investment House (Kuwait). He has a BS in Computer Science and Business Administration from The George Washington University.



### **H.E. Shaikh Khalid bin Mustahail Al Mashani**

Director

*Non-independent and non-executive*

*Term started: 5 May 2014*

*Experience: over 20 years*

H.E. Shaikh Khalid bin Mustahail Al Mashani holds a BSc. in Economics and a Masters Degree in International Boundary Studies from the School of Oriental and African Studies (SOAS), University of London. Khalid is the Chairman of the Board of Directors of Bank Muscat S.A.O.G.; Deputy Chairman of Al Omaniya Financial Services Company and Chairman of Dhofar International Development & Investment Holding Company S.A.O.G.



### **H.E. Mohamed Ali Rashid Alabbar**

Director

*Non-independent and non-executive*

*Director since: 14 March 2013*

*Term started: 14 March 2013*

*Experience: over 30 years*

H.E. Mohamed Alabbar is the founder and Chairman of Emaar Properties PJSC, the Dubai-based global property developer. He is also the founder and Chairman of Africa Middle East Resources (AMER), a private company operating to unlock the value of natural resource opportunities in Africa and link them with large consumer markets in Asia. He also chairs Tradewinds Corporation, a premier leisure and hospitality owner-operator in Malaysia, developing world-class real estate developments in the country and Southeast Asia.

Mr. Alabbar is the founder and major shareholder of RSH, the leading Singapore-based pan-Asian marketer, distributor and retailer of some 60 international fashion and lifestyle brands through more than 70 outlets in over 20 countries.

He is also a board member of Eagle Hills, a UAE-based real estate development company focused on large-scale projects in high-growth international markets. He serves on the board of Manara Developments in Bahrain and Noor Investment Group, an affiliate of Dubai Group, the leading diversified financial company of Dubai Holding.

A member of the Dubai World Expo 2020 Preparatory Committee, Mr. Alabbar is actively involved in the developmental work being undertaken in preparation to host the event.

Mr. Alabbar is a graduate in Finance and Business Administration from the Seattle University in the US, and holds an Honorary Doctorate from the University in addition to serving on its Board of Trustees. A keen sportsman, Mr. Alabbar is an active member of the UAE's endurance horse racing community.

## Board of Directors (continued)



### **Mr. Hussein Mohammed Al Meeza**

Director

*Chairman of the Executive Committee*

*Independent and non-executive*

*Director Since: 20 March 2012*

*Term started: 20 March 2012*

*Experience: over 40 years*

Hussein Mohammed Al Meeza is considered one of the renowned personalities in the Islamic banking sectors and Islamic finance and insurance. Al Meeza's outstanding career success was crowned in December 2006 when the International Conference of Islamic Bankers chose him as the 2006 Best Islamic Banking Personality. Having graduated from the Beirut Arab University in 1975, Al Meeza started his professional career at the Dubai Islamic Bank (DIB) where he spent 27 years during which he played a pioneering role in enhancing and developing the bank's services. His landmark achievement was the establishment of the Al Salam Banks in Sudan, Bahrain and Algeria. Al Meeza is currently Vice Chairman and Chairman of the Executive Committee of Al Salam Bank- Algeria, Board member of the General Council of Islamic Banks and Financial Institutions, Chairman of the founding committee of Islamic Insurance and Re-Insurance Companies, Vice Chairman of Emirates Cooperative Society – Dubai. He is also a Board Member of Emirates Society for Insurance. He was a founder member of Emaar properties, Amlak finance. Emaar Industries & Investments, Emaar Financial services, Dubai Islamic Insurance & Reinsurance Company (AMAN). Al Meeza occupied the positions of which - the CEO and Managing Director of Dubai Islamic Insurance and Reinsurance Company (AMAN), Vice Chairman and Chairman of the Executive Committee of Al Salam Bank-Sudan, Chairman of LMC Bahrain, Chairman of the executive committee of Islamic Trading company in Bahrain, Board member and chairman of the Executive committee in Amlak Finance – Dubai and chairman of Emaar financial services – Dubai.



### **Mr. Essam bin Abdulkadir Al Muhaidib**

Director

*Independent and non-executive*

*Director since: 17 April 2006*

*Term started: 20 March 2012*

*Experience: over 30 years*

Mr. Essam A. Al Muhaidib is the Board Member and CEO of Al Muhaidib Group. In addition, he sits in the Board of Directors of multiple FMCG, Banking, Financial, Real Estate, Industrial and Contracting companies. Savola Group, ACWA Power, Nestle Waters, Bawan, Al Salam Bank, Rafal Real Estate, Emmar Middle East, Al Balad Al Ameen Development Co., are few of them. He is also the Chairman of Panda Retail Company and Herfy Foods Services Co. He holds a Bachelor of Science in Statistics from King Saud University and is a Board Member in Eastern Province Governance Council and member of the Board of various charity, benevolence and educational institutions like Educational Services Company of Prince Mohamed bin Fahad University, King Fahad University for Petroleum and Minerals Endowment Fund, Board Member of Saudi Food Bank and Husan Al Jawar Society, Bahrain.



**Mr. Habib Ahmed Kassim**

Director

*Chairman of the Remuneration and Nomination Committee*

*Independent and non-executive*

*Director since: 17 April 2006*

*Term started: 20 March 2012*

*Experience: over 35 years*

Mr. Habib Ahmed Kassim is the Chairman of Almahd Investment Company, Bahrain Ferro Alloys, Bahrain Electricity Supply & Transmission Company, Capital Growth Management and Quality Wire Products Company. He is also the Chairman of Almahd Day Boarding School. Mr. Habib Ahmed Kassim was Minister of Commerce and Agriculture, Kingdom of Bahrain from 1976 to 1995, and Member of the GCC Consultative Council for the Supreme Council from 1997-2007.



**Mr. Salman Saleh Al Mahmeed**

Director

*Chairman of Audit and Risk Committee*

*Independent and non-executive*

*Director since: 15 February 2010*

*Term started: 20 March 2012*

*Experience: over 30 years*

Mr. Salman Al Mahmeed is the Deputy Chief Executive Officer of Bahrain Airport Services, the Deputy Chairman of Dar Albilad, the Managing Director and Owner's Representative of Global Hotels, Global Express and Movenpick Hotel in Bahrain. He was a Board Member of the Bahraini Saudi Bank as well as being a member of its Investment, Executive and Strategic Options Committees. He was also the Investment Director of Magna Holdings. Mr. Al Mahmeed holds an MBA in Business Administration, Master in Hotel Management and Management BSc. Degree and he is currently a Board member of Al Salam Bank and Chairman of the Audit and Risk Committee.

## Board of Directors (continued)



### **Sulaiman bin Mohamed Al Yahyai**

Director

*Non-independent and non-executive*

*Term started: 5 May 2014*

*Experience: over 20 years*

Sulaiman bin Mohamed Al Yahyai holds a certificate on Assets Management from Lausanne University, Switzerland; an MBA from the Institute of Financial Management from University of Wales, UK; and a certificate on Financial Crisis – Harvard University, USA. Sulaiman is the Deputy Chairman of the Board of Directors and a member of the Audit Committee and Board Nomination & Compensation Committee of Bank Muscat S.A.O.G.. He is an Investment Advisor to the Royal Court Affairs; Chairman of Oman Chlorine Company S.A.O.G.; Director of Al Madina Real Estate Company S.A.O.C.; Director of Falcon Insurance S.A.O.C.; Chairman of the Oman Fixed Income Fund; Chairman of the Integrated Tourism Projects Fund.



### **Mr. Hisham Saleh Al Saie**

Director

*Non-independent and non-executive*

*Term started: 5 May 2014*

*Experience: over 20 years*

Hisham Saleh Al Saie holds an MBA from London Business School, a BA in Accounting from the University of Texas at Arlington and has attended a number of executive education courses at INSEAD and other reputable institutions. Hisham is a Board Member and a Member of the Audit & Remuneration Committees of Nass Corporation B.S.C.. He is also a Board Member of Al-Khaleej Commercial Bank (Qatar), Diyar Al Muharraq B.S.C. (c). Hisham is a representative of Overseas Investment Company S.P.C. Hisham was head of Corporate Finance at SICO Investment Bank, where he was responsible for structuring key local and regional equity and debt capital market transactions. He also held previous positions at BDO Jawad Habib, Price Waterhouse Coopers and Arthur Andersen.



### **Mr. Adnan Abdulla Al Bassam**

Director

*Independent and non-executive*

*Director since: 20 March 2012*

*Term started: 20 March 2012*

*Experience: over 20 years*

Mr. Adnan Al Bassam is a Certified Public Accountant (CPA) and holds B.S. in Business Administration with specialization in Accounting from Oregon State Board of Accountancy. His years of experience in the financial and investment sector go back to 1994. Currently he holds the positions of Vice Chairman and Managing Director of Al Bassam Investment Company W.L.L., Board member in each of Jordan Islamic Bank, Al Baraka Bank - Sudan, Esterad Investment Company B.S.C., Al Salam Bank - Algeria, Vice Chairman of Muharraq Mall Company W.L.L. Prior to joining the Board Adnan worked for Messrs Ernst & Young and Bahrain Islamic Bank in various capacities.



**Mr. Fahad Sami Al Ebrahim**

Director

*Independent and non-executive*

*Director since: 18 April 2009*

*Term started: 20 March 2012*

*Experience: over 12 years*

Mr. Fahad Sami Al Ebrahim Received his Bachelors of Arts in Journalism and Communication Studies from the University of Oregon-Eugene, Oregon, USA. He also has an MBA degree from the Maastricht School of Management and he has successfully completed the 10th session of the "General Management Program" at Harvard Business School.

He has over 12 years of professional experience. Mr. Al Ebrahim heads the International Wealth Management Group of Global Investment House, Kuwait as Senior Vice President, where he had played a major role in increasing assets under management and had been an active participant to establish one of the leading wealth management groups in the region.

He was mandated in early 2010 as Acting CEO of Global Investment House – Saudi for the first half of the year were he was able to downstream the operation in the Kingdom and position the company in the Saudi market and played a major role in increasing AUM and revenue of the Saudi operations.

Mr. Al Ebrahim began his career with Global in the Marketing Department. Later on, he pursued Business Development positions in the Investment Funds Department focused on Alternative Investments including Hedge Funds, Real Estate Funds and Private Equity. Prior to joining Global, Mr. Al Ebrahim worked in a semi-government institution for approximately two years. In addition, he is a member of numerous boards of directors in the financial and real estate arenas. His board memberships include Al Mazaya Holding Company, Kuwait as Vice Chairman; First Securities Brokerage Company S.A.K., Kuwait; Investment House, Qatar and Global Investment House – Saudi, and Investment Committee member in Macro Fund.



**Mr. Yousif Abdulla Taqi**

Director and Chief Executive Officer

*Executive and non-independent*

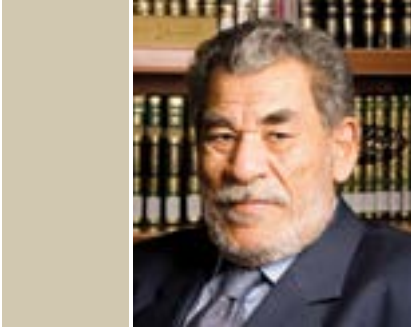
*Director since: 5 May 2008*

*Term started: 20 March 2012*

*Experience: over 30 years*

A Certified Public Accountant (CPA), Mr. Taqi has been active in the banking and financial services industry since 1983. During his career, Mr. Taqi worked in leading positions for a number of institutions in the Kingdom of Bahrain. Prior to joining Al Salam Bank-Bahrain B.S.C., he was Deputy General Manager of Kuwait Finance House (Bahrain), where he was responsible for establishing Kuwait Finance House Malaysia. Prior to this, Mr. Taqi spent 20 years with Ernst & Young, during which time he provided professional services for many regional and international financial institutions. During his career with Ernst & Young, Mr. Taqi was promoted to Partner, responsible for providing auditing and consultancy services to the Islamic financial firms. He is currently the Chairman of Manara Developments Company B.S.C. (c), Amar Holding Company B.S.C. (c), affiliates of ASBB, board member of the Housing Bank (Bahrain), Aluminium Bahrain (ALBA) and Tadhamon Capital, and the Deputy Chairman of King Faisal Corniche Development Co.

## Fatwa and Shari'a Supervisory Board



### **Dr. Hussein Hamid Hassan**

Chairman

Dr. Hassan holds a PhD from the Faculty of Shari'a, Al Azhar University, Cairo, Egypt; and a Master's in Comparative Jurisprudence and Diploma in Comparative Law (both of which are the equivalent of a PhD) from the International Institute of Comparative Law, University of New York, USA. He also holds a Masters in Comparative Juris, and Diplomas in Shari'a and Private Law, from the University of Cairo; and an LL B in Shari'a from Al Azhar University. He is the Chairman and member of the Shari'a Supervisory Board in many of the Islamic Financial Institutions. In addition, Dr. Hassan is Chairman of the Assembly of Muslim Jurists, Washington, USA; a member of the European Islamic Board for Research & Consultation, Dublin, Ireland; and an Expert at the Union of Islamic Banks, Jeddah, Kingdom of Saudi Arabia.



### **Dr. Ali Mohuddin Al'Qurra Daghi**

Member

Shaikh Adnan Al Qattan holds Master's degree in the Quran and Hadith from the University of Um Al-Qura, Makka, Kingdom of Saudi Arabia; and Bachelor's degree in Islamic Shari'a from the Islamic University, Madeena, Saudi Arabia. Shaikh Al Qattan is also a Judge in the Shari'a Supreme Court, Ministry of Justice – Kingdom of Bahrain. Shaikh Al Qattan is a Member of Shari'a Supervisory Boards for several Islamic banks and he is also Chairman of Al Sanabil Orphans Protection Society, Chairman of the Board of Trustees of the Royal Charity Establishment under the Royal Court - Kingdom of Bahrain, and President of the Kingdom of Bahrain Hajj Mission. In addition, he is a Friday sermon orator at Al-Fatih Grand Mosque. Shaikh Al Qattan contributed to drafting the Personal Status Law for the Ministry of Justice and is a regular participant in Islamic committees, courses, seminars and conferences.



### **Shaikh Adnan Abdulla Al Qattan**

Member

Shaikh Adnan Al Qattan holds Master's degree in the Quran and Hadith from the University of Um Al-Qura, Makka, Kingdom of Saudi Arabia; and Bachelor's degree in Islamic Shari'a from the Islamic University, Madeena, Saudi Arabia. Shaikh Al Qattan is also a Judge in the Shari'a Supreme Court, Ministry of Justice – Kingdom of Bahrain. Shaikh Al Qattan is a Member of Shari'a Supervisory Boards for several Islamic banks and he is also Chairman of Al Sanabil Orphans Protection Society, Chairman of the Board of Trustees of the Royal Charity Establishment under the Royal Court - Kingdom of Bahrain, and President of the Kingdom of Bahrain Hajj Mission. In addition, he is a Friday sermon orator at Al-Fatih Grand Mosque. Shaikh Al Qattan contributed to drafting the Personal Status Law for the Ministry of Justice and is a regular participant in Islamic committees, courses, seminars and conferences.





**Dr. Mohamed Abdulhakim Zoeir**

Member & Secretary to the Board

Dr. Zoeir holds PhD in Islamic Economy; Master's degree in Islamic Shari'a (Economy); Bachelor's degree in Management Sciences; and a Higher Diploma in Islamic Studies. He is Member of the Fatwa Board in a number of Islamic financial institutions and has 18 years of experience with Egypt Central Bank. Dr. Zoeir was also the Head of Shari'a compliance in Dubai Islamic Bank.



**Dr. Mohammed Burhan Arbouna**

Member

Dr. Mohammed Burhan Arbouna holds a PhD in laws with specialization in Islamic banking and finance from International Islamic University Malaysia, and Master's in Comparative Laws. He also holds BA degree in Shari'a and Higher Diploma in Education from Islamic University, Medina. He is an expert in Islamic banking and finance since 1997. Before joining Al Salam Bank-Bahrain B.S.C., Dr. Arbouna was the Shari'a Head and Shari'a Board member in the Seera Investment Bank B.S.C Bahrain. Prior to that, he worked as the Head of Shari'a department in the Kuwait Finance House-Bahrain. Also, Dr. Arbouna worked as Shari'a researcher and consultant for the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) – Bahrain. Dr. Arbouna lectures on Islamic banking and finance and gives consultancy on orientation and professional programs for a number of professional and educational institutions. Dr. Arbouna is a member of Islamic Money Market Framework (IMMF) steering committee initiated by Central Bank of Bahrain for management of liquidity among Islamic banks.

## Executive Management Team



### **Mr. Yousif Abdulla Taqi**

Director and Group Chief Executive Officer

*Experience: over 30 years*

A Certified Public Accountant (CPA), Mr. Taqi has been active in the banking and financial services industry since 1983. During his career, Mr. Taqi worked in leading positions for a number of institutions in the Kingdom of Bahrain. Prior to joining Al Salam Bank-Bahrain B.S.C., he was Deputy General Manager of Kuwait Finance House (Bahrain), where he was responsible for establishing Kuwait Finance House Malaysia. Prior to this, Mr. Taqi spent 20 years with Ernst & Young, during which time he provided professional services for many regional and international financial institutions. During his career with Ernst & Young, Mr. Taqi was promoted to Partner, responsible for providing auditing and consultancy services to the Islamic financial firms. He is currently the Chairman of Manara Developments Company B.S.C. (c), Amar Holding Company B.S.C. (c), affiliates of ASBB, board member of the Housing Bank (Bahrain), Aluminium Bahrain (ALBA) and Tadhamon Capital, and the Deputy Chairman of King Faisal Corniche Development Co.



### **Dr. Anwar Khalifa Al Sadah**

Deputy Group CEO - Business

*Experience: over 25 years*

Dr. Anwar Al Sadah has over 20 years of distinguished central banking career. Before joining Al Salam Bank-Bahrain B.S.C., he was The Deputy Governor of Central Bank of Bahrain (CBB). Along with his current position at Al Salam Bank-Bahrain B.S.C., Dr. Al Sadah was also Chairman of Bahraini Saudi Bank and Vice Chairman of Eskan Bank. He served in a number of national, regional and international committees. His previous posts held were Chairman of Investment Committee at CBB, Vice Chairman of Bahrain Stock Exchange, Chairman of Bahrain's Policy Committee for Prohibition and Combating of Money Laundering and Terrorist Financing, Member of the Future Generation Fund and Member of Promotion Board. Dr. Al Sadah has attended the Harvard Management Development course, also received his Master degree and the PhD degree both in Philosophy from University of Surrey, UK.



### **Mr. Janaka Mendis**

Chief Operating Officer

*Experience: over 15 years*

Janaka Mendis joined Al Salam Bank-Bahrain B.S.C. in October 2008 with 15 years of experience in the financial services industry. He spent 2 years focusing on deal structuring and transaction due diligence before assuming the current role. Prior to joining Al Salam, he has held various senior management positions at Investcorp's finance group and with the audit and business advisory practice of Ernst & Young in Bahrain and in Sri Lanka. Janaka is a MBA from TRIUM jointly offered by NYU Stern, LSE and HEC Paris. He is also a member of the Chartered Institute of Management Accountants (UK) and the Institute of Chartered Accountants of Sri Lanka.



**Dr. Mohammed Burhan Arbouna**

Group Head of Shari'a Compliance

*Experience: over 15 years*

Dr. Mohammed Burhan Arbouna holds a PhD in laws with specialization in Islamic banking and finance from International Islamic University Malaysia, and Masters in Comparative Laws. He also holds BA degree in Shari'a and Higher Diploma in Education from Islamic University, Medina. He is an expert in Islamic banking and finance since 1997. Before joining Al Salam Bank-Bahrain B.S.C., Dr. Arbouna was the Shari'a Head and Shari'a Board member in the Seera Investment Bank B.S.C Bahrain. Prior to that, he worked as the Head of Shari'a department in the Kuwait Finance House-Bahrain. Also, Dr. Arbouna worked as Shari'a researcher and consultant for the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) – Bahrain. Dr. Arbouna lectures on Islamic banking and finance and gives consultancy on orientation and professional programs for a number of professional and educational institutions. Dr. Arbouna is a member of Islamic Money Market Framework (IMMF) steering committee initiated by Central Bank of Bahrain for management of liquidity among Islamic banks.

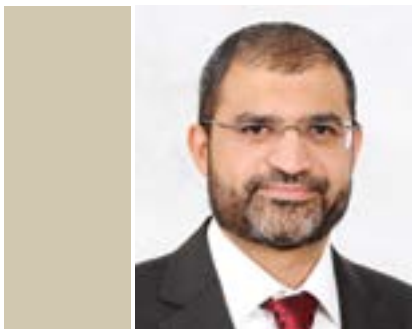


**Mr. Essa Abdulla Bohijji**

Group Head of Audit & Board Secretary

*Experience: over 14 years*

Mr. Bohijji has over 14 years of consulting and industry experience in the financial services, commercial entities, governmental bodies, and internal audit. During his employment with Al Salam Bank, Mr. Bohijji served from year 2009 as a Board and Audit Committee Member for Bahraini Saudi Bank prior to the full merger with Al Salam Bank in late 2012. Prior to joining Al Salam Bank, Mr. Bohijji was the Chief Auditor and Board Secretary of an Islamic investment Bank in Bahrain. Mr. Bohijji had also spent seven years with Ernst & Young where he worked in the Audit and Assurance Services Group before shifting to the Business Advisory Services that was responsible for Internal Audit and Risk Management assignments and left as a Senior Manager. Mr. Bohijji is a qualified Certified Public Accountant, licensed from the state of New Hampshire and is a member of the American Institute of Certified Public Accountants. He also holds a B.Sc. in Accounting from University of Bahrain. Mr. Bohijji is also a non-executive Audit Committee member in Manara Developments B.S.C. (c).



**Mr. Talal Abdul Aziz Al Mulla**

Head of Investment

*Experience: over 15 years*

A Certified Public Accountant (CPA), Mr. Talal Al Mulla has been active in the banking and financial services industry since 1999. Mr. Al Mulla worked with Ernst & Young Bahrain being responsible for audit and consulting assignments for major financial institutions in the region. He joined Al Salam Bank setting up the Internal Audit function in 2006. In 2009, Mr. Al Mulla moved to the Investment Department where he has been sourcing and managing investment opportunities to the Bank. He also sits on the board of Directors of a number affiliates and subsidiary companies in which the bank has invested.

## Executive Management Team (continued)



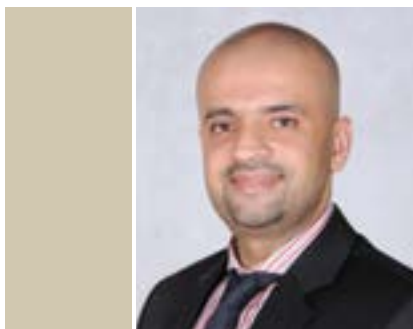
### **Mr. Anwar Mohammed Murad**

Head of Private Banking

*Experience: over 20 years*

Mr. Murad has 21 years of experience in the areas of Private Banking, Treasury, Market Risk Management and Retail Banking. Mr. Murad has served as Senior Vice President, Head of Private Banking at Al Salam Bank - Bahrain since May 2006. His responsibilities were to establish the Private Banking and Retail Banking divisions for Al Salam Bank. In addition to the standard banking products, he managed to structure and launch many Shari'a-compliant products.

Prior to joining Al Salam Bank, he was the Head of Private Banking at BMI Bank Bahrain. Earlier, Mr. Murad was the Regional Market Risk Manager for the MENA region at ABN AMRO Bank and also headed the Treasury Operations in Bahrain. From 1994 to 1998 he had various positions with Citibank in Bahrain as Authorized Signer, Money Market and Debt Derivatives followed by Assistant Manager, Global Consumer Banking. Mr. Murad has extensive knowledge and experience in Treasury and Investment products starting from Money Market, Foreign Exchange, Debt Derivatives and Structured Products.

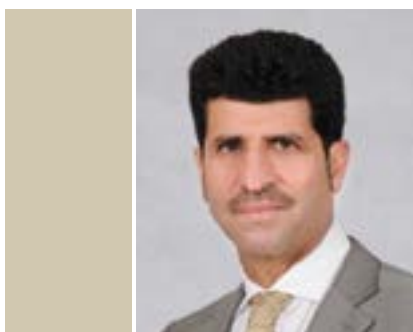


### **Dr. Arif Mohammed Janahi**

Head of Corporate Banking

*Experience: 20 years*

Mr. Arif Janahi is a well-nurtured commercial banker with 20 years of experience in Operations and Corporate Banking. He started his career with a well-known conventional bank before expanding his exposure with another conventional commercial bank where he was responsible to promote Corporate Banking products and services in the local market and the GCC. In 2006, Mr. Janahi joined Al Salam Bank – Bahrain as Head of Corporate Banking where he was responsible to establish the Department in liaison with the concerned committees and other departments in Al Salam Bank. Throughout the last 20 years of banking, Mr. Janahi gained a good experience in both conventional and Islamic banking backed by strong market network, knowledge of banking products, and credit assessment. Mr. Janahi holds an MBA from the University of Hull, UK.



### **Mr. Abdulhakim Turki**

Head of Retail Banking

*Experience: over 30 years*

Mr. Turki is a well-rounded banker with more than 30 years' experience in Treasury, Operations, Audit, Internal Controls and Risk Management. He joined Al Salam Bank-Bahrain B.S.C. in 2006 as Senior Vice President, Head of operations. He was heavily involved in the incorporation and structuring of the Bank and the Operation Department. He was appointed as a key member in the Selection and Implementation Committee of the Bank's core banking system in addition to being a member in other Bank's committees such as Basel II, Bank Asset Liability Committee (ALCO) and the Public Relations Committee (PRC). Prior to joining the Bank, he held the position of Vice President - Head of Treasury Support Operations at Citibank Bahrain, where he gained his experience through the occupation of several managerial positions heading different departments and units. He was also involved in the launch of Citi Islamic Investment Banking as he was responsible for formulating all operational procedures, devising the chart of accounts and products accounting. Mr. Turki holds an MBA in Investment & Finance from University of Hull, UK.



**Mr. Hussain Abdulhaq**

Head of Treasury and Financial Markets

*Experience: 13 years*

Mr. Abdulhaq is an experienced Treasurer in the area of Islamic banking and Capital markets. He spent most of his 13 years career as treasury specialist where he was involved in different areas, like Islamic liquidity management, Islamic capital markets instruments, development of Islamic compliant investment products and hedging instruments. He joined Al Salam Bank in 2007 as a senior member in the treasury team and he was involved in establishing the different functions and business lines of the unit as well as in charge for the ALCO function. Hussain lead the treasury integration process of Al Salam Bank and Bahrain Saudi Bank in 2010 and handling the same responsibility with BMI Bank. Prior joining Al Salam Bank, He worked for Kuwait Finance House (Bahrain), a leading Islamic Financial institution in the region, for more than 5 years where he was in charge of the dealing room activities. Hussain as a holder of MBA degree in Banking & Finance with a first honor from University of Bahrain and CFA chartered holder as well.

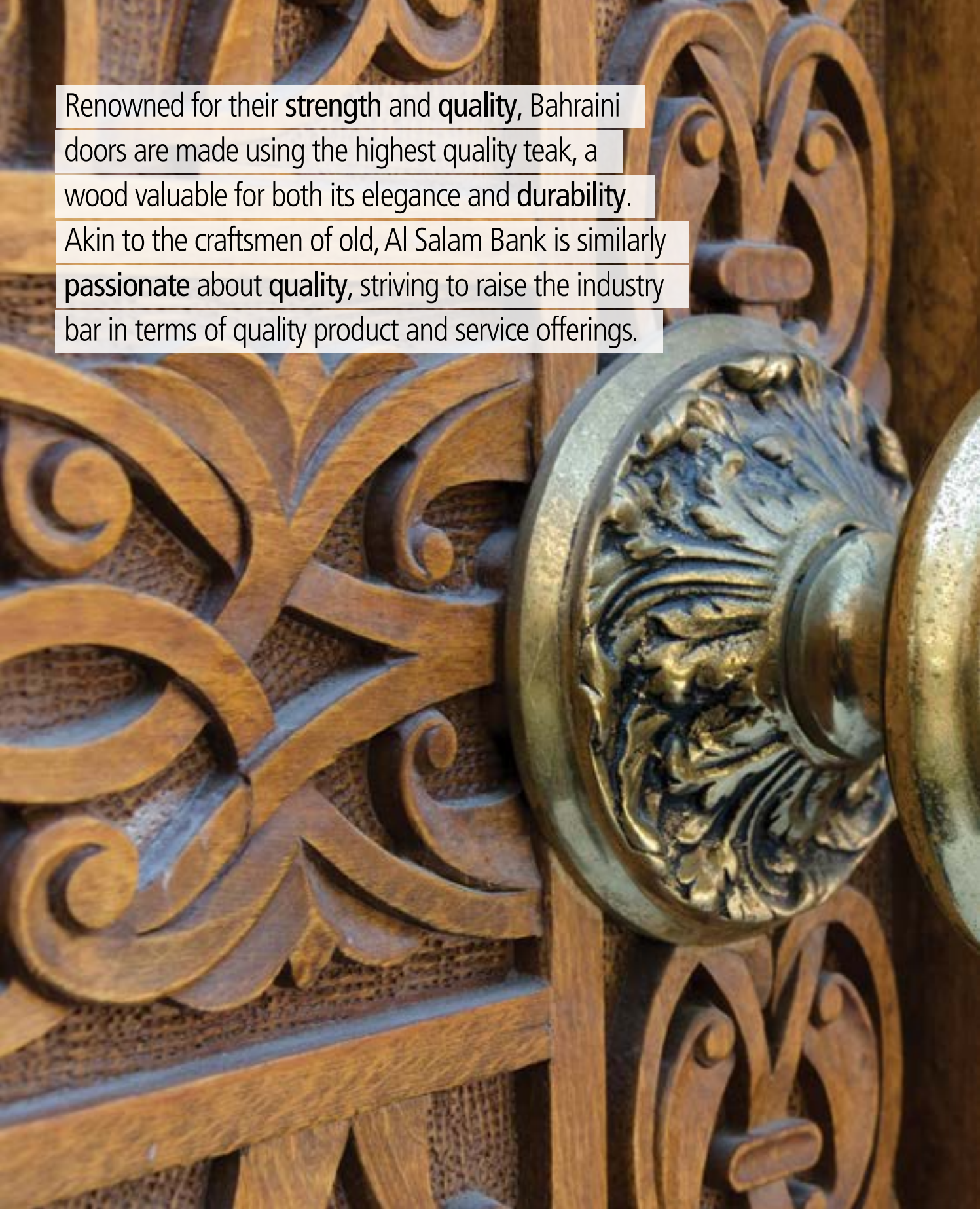


**Mrs. Muna Al Balooshi**

Group Head of Human Resources

Mrs. Al Balooshi Joined Al Salam Bank, Bahrain since 2006 as Group Head of Human Resources. She had a major role in the Bank's two acquisitions of the Bahraini Saudi Banka and BMI Bank in regard to the merger of the Bank's resources with those two banks. Mrs. Al Balooshi has an excellent knowledge of HR policies and Labor Law regulations due to her long experience as she was the Head of Human Resources at the Court of HRH the Crown Prince from 2001 till 2006 and prior to that she was working in HR department at KPMG. She has full responsibility of the Human Resources division and forming the division strategy as well as assisting directors in top confidential tasks.

Mrs. Muna holds an MBA degree from DePaul University – Chicago and she's a CIPD Associate.



Renowned for their **strength** and **quality**, Bahraini doors are made using the highest quality teak, a wood valuable for both its elegance and **durability**.

Akin to the craftsmen of old, Al Salam Bank is similarly **passionate** about **quality**, striving to raise the industry bar in terms of quality product and service offerings.



## Board of Directors' Report to the Shareholders

The Directors of Al Salam Bank-Bahrain B.S.C. ("the Bank") have the pleasure in submitting their report to the shareholders accompanied by the consolidated financial statements for the year ended 31 December 2014.

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary, BMI Bank B.S.C. (c) (together known as "the Group"). Although 2014 witnessed weaker-than-expected global business activity, the world economy is still in recovery mode with weaker demand and manufacturing activity. Growth in the United States and Britain gained momentum while the Euro-zone and Japan showed significant signs of weakness associated with a negative interest rate environment. China's manufacturing data and factory orders also witnessed contraction. Generally, improvement remains sluggish due to geopolitical tensions and the reversal of recent risk spread and volatility compression in financial markets. Stagnation and lower growth remains a concern for major economies while emerging markets risk a decline in growth potential and significant structural problems. This has been reflected in the October 2014 IMF World Economic Outlook report where the growth rate has been revised downward to 3.3% for 2014, 0.4% lower than in the April 2014 World Economic Outlook (WEO). The global growth projection for 2015 was lowered to 3.8%.

Even as the GCC markets felt the impact of declining oil prices and regional stock exchanges and bourses have been pressurized by a selling trend associated with sharp decline in trading volumes and values, the dynamics of the non-oil sectors continues to be strong across the region. The resilience of the non-oil economy is further supported by healthy financial sectors and a firm commitment from the GCC governments to support economic activity and priority projects.

In Bahrain, the launch of a number of important infrastructure projects together with strengthening domestic demand drivers have supported a pronounced pick up in the economy's growth. However, the recent decline in oil prices is a major setback to further advancement as country funding requirement is set to surge. The Kingdom's banking sector remains financially sound with the Islamic banking sector posting profits after substantial consolidation in 2013.

Although the business environment remained challenging throughout 2014, the Group posted a record growth of 80% in total assets from BD1,088.2 million (US\$ 2.9 billion) at 31 December 2013 to BD1,955.3 million (US\$5.2 billion) at 31 December 2014 following the business combination with BMI Bank B.S.C. (c) ("BMI"). The financing portfolio grew by 107% to BD826.7 million in 2014 while customer deposits increased from BD 680.7 million at end of 2013 to BD1,427.6 million, an increase of 110% over the previous year with inorganic growth playing a major part. The gross operating income also increased substantially from BD26.1 million in 2013 to BD46.1 million in 2014, an increase of 77% due to the surge in income from core banking activities comprising corporate, commercial and retail banking facilities.

The net profit for the year was BD15.6 million after taking into consideration asset provisions of BD4.2 million and a write-down of BD6.2 million on account of investments.

The above positive results are largely due to the Bank concluding its business combination with BMI in addition to an improved customer base, enhanced product portfolio and substantial increase in financing.

The Bank and BMI concluded the business combination during 2014 by issuing 643,866,927 new ordinary shares. This share issue was based on the agreed exchange ratio of 11 ASBB shares for every BMI share as approved by the shareholders of both entities. Post business combination, your Bank is now the third largest domestic bank in Bahrain, benefiting from a stronger capital base, expanded customer portfolio, unique products and services and an expanded branch and ATM network.



The Directors wish to inform shareholders that potential synergies and benefits arising out of the business combination is expected to be achieved in the short to medium term.

The Directors of the Bank are pleased to note that this business combination is yet another milestone in the history of your Bank. We thank you for your continued support to the Board of Directors and senior management in concluding the business combination. We are committed to further consolidating your Bank's position in the Bahrain market and are well positioned to achieve our vision of becoming a regional force in the Islamic financial services industry.

Through our expanded network of branches and ATMs, along with enhanced service delivery capabilities, the Group will effectively service all customers throughout its network irrespective of where the customers initially established their relationship. The Directors of the Bank remain focused on further consolidation in order to expand core-banking initiatives in retail, corporate and commercial banking activities.



The Bank's participation in a mid-rise residential development involving 142 residential units in a prime location in Jeddah, Saudi Arabia continues to progress in line with sales and development expectations.



In terms of investments, the Bank successfully exited its investment in one of its Boeing 777-300ER aircraft that was leased to the Emirates Airlines in line with the Bank's commitment to providing its investors with timely exits at attractive returns.

The year also saw the Bank launching Asia focused REIT Fund ("REIT Fund") as seed investor. The Fund provides investors with an ideal platform to invest in listed real estate investment trusts ("REIT") in the Asian region. The Fund aims to maximize investors' returns through a combination of strong dividend yields and long term capital appreciation by investing in REIT across the Asian region. The Directors are pleased to inform that the REIT Fund has evoked a strong interest from individual and institutional investors since its launch.

The Bank's participation in a luxury residential development in Mayfair, London also generated excellent response with all units under development sold during 2014. The development is expected to be completed in 2015.

The Bank's participation in a mid-rise residential development involving 142 residential units in a prime location in Jeddah, Saudi Arabia continues to progress in line with sales and development expectations and is forecast to be completely exited during the first half of 2015.

The Bank continued to source transactions in 2014 in line with its investment strategy and taking into consideration the prevailing market conditions. During the year the Bank acquired a strategic stake in a food & beverage company in the Kingdom of Saudi Arabia, along with a renowned regional conglomerate. The company is a well-known

## Board of Directors' Report to the Shareholders (continued)

chain that offers Arabian cuisine with a current geographical concentration in Riyadh thus providing substantial expansion potential.

The year 2014 witnessed further recovery of Bahrain's real estate sector enhanced by strong Governmental support. The group maximised on this positive development, exited real estate investment valued at about BD32 million and in the process also complemented the retail-banking arm in terms of additional housing finance opportunities.

The Bank recorded a growth of 107% in its financing portfolio compared to 2013 despite the challenging credit and market environment. The growth in financing portfolio underscores our commitment to continually enhancing our retail and corporate banking initiatives. The Bank also continues to support the growth of private sector businesses in Bahrain and works in tandem with Tamkeen to provide Shari'a compliant facilities to private sector business.

The Bank continued to expand its financial institutions network with a net lending position of BD353 million as of 31 December 2014 in addition to holding a large portfolio of the Central Bank of Bahrain issued Sukuk which are eligible for resale. The Bank maintains a comfortable liquidity position with a healthy liquidity ratio of 25% as of 31 December 2014. This is net of due to banks and interbank deposits and excludes Sukuk issued by Central Bank of Bahrain (CBB).

During 2014 the Group also took note of CBB's requirements to meet Foreign Account Tax Compliance Act ("FATCA") legislation issued by Inland Revenue Service ("IRS"), including registration with IRS by participating in the FATCA programme. The legislation aims to address tax evasion by US citizens and US residents who invest abroad using offshore accounts. FATCA requires Foreign Financial Institutions (FFIs) to decide whether or not to participate in the FATCA programme. After careful consideration, the Group has participated in FATCA programme and registered itself as an FFI.

In addition, the Bank has taken steps to address the challenges arising out of implementation of Basel III regulations from January 2015 as per CBB regulations.

Going forward, the Directors and management of Al Salam Bank-Bahrain B.S.C. will leverage the Bank's enhanced infrastructure, resources and improved strength across core businesses in order to achieve even better results in 2015.

Financially, fiscal year 2014 saw the Group earning a net profit of BD15.6 million, as compared to a net profit of BD12.4 million in 2013. The gross operating income amounted to BD46.1 million (2013: BD26.1 million). The earnings per share (EPS) for the year amounted to 8 fils (2013: 8.3 fils). The total operating expenses of the Group increased from BD11.4 million in 2013 to BD26.4 million in 2014 mainly due to business combination with BMI.

### Retained earnings and appropriation of net income:

	<b>BD'000</b>
Balance at 1 January 2014	43,272
Net profit for the year – 2014	15,550
Transfer to statutory reserve	(1,555)
Proposed dividends	(10,705)
Charitable contributions	(100)
Transfer	39
Net movement in NCI	(4)
<b>Balance at 31 December 2014</b>	<b>46,597</b>

**Directors' and senior management interest:**

As required by the Central Bank of Bahrain rulebook set out below are the interests of directors and senior managers in the shares of Al Salam Bank-Bahrain B.S.C. and the distribution of the shareholdings as of 31 December 2014.

	<b>31/12/2014</b>
Directors' shares	4,285,308
Senior managers shares	99,488
	<b>4,384,796</b>

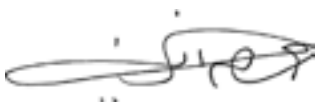
Directors' remuneration for 2014 amounted to BD329,000.

		<b>2014</b>	
<b>Percentage of shares held</b>	<b>No. of shares</b>	<b>No. of Shareholders</b>	<b>% of total Outstanding shares</b>
Less than 1%	971,791,854	23,131	45.39
1% up to less than 5%	724,870,722	17	33.86
Over 5%	444,268,176	2	20.75
<b>Total</b>	<b>2,140,930,752</b>	<b>23,150</b>	<b>100.00</b>

<b>Shareholders holding over 5%</b>	<b>Nationality</b>	<b>Holding</b>
Bank Muscat S.A.O.G.	Oman	14.74%
Overseas Investment S.P.C.	Bahrain	6.01%

The directors would like to express their appreciation to the leadership led by HM King Hamad bin Isa Al Khalifa, HRH the Prime Minister Prince Khalifa bin Salman Al Khalifa and HRH the Crown Prince and Deputy Supreme Commander Prince Salman bin Hamad Al Khalifa, the Ministry of Finance, the Ministry of Industry and Commerce, the Central Bank of Bahrain, the Bahrain Bourse, correspondents, customers, shareholders and employees of the Bank for their support and collective contribution since the establishment of the Bank and we look forward to their continued support in the fiscal year 2015.



**Shaikha Hessa bint Khalifa  
bin Hamad Al-Khalifa**  
Chairperson

4 February 2015  
Manama, Kingdom of Bahrain

## Message from the CEO



Al Salam Bank-Bahrain B.S.C. (ASBB) performed extremely well in 2014. The fiscal year heralded further consolidation, integration and growth, and aligned with the vision of the leadership and regulators, the Bank concluded its business combination with BMI Bank BSC (c) (BMI), and has emerged as an even stronger financial entity and regional industry force. Post business combination, your Bank is now the third largest domestic bank by assets in the Kingdom of Bahrain.

Notwithstanding a continuously challenging business environment, we remained steadfast in our focus to diversify income streams, build the balance sheet and enhance stakeholder and shareholder value, and as a result I am pleased to report that the Group achieved a net profit of BD15.6 million for fiscal year 2014 (2013: 12.4 million), a significant increase on the previous year. As a result of the amalgamation with BMI Bank, the Group also achieved a record growth in total assets from BD1,088.2 million (US\$ 2.9 billion) at 31 December 2013 to BD1,955.3 million (US\$5.2 billion) at 31 December 2014, an increase of 80%. The financing portfolio grew by 107% to BD826.7 million in 2014 while customer deposits increased 110% to BD1,427.6 million, from BD 680.7 million at end of 2013. The gross operating income also increased from BD26.1 million in 2013 to BD46.1 million in 2014, an increase of 77% due to the surge in income from core banking activities.

Post business combination, Al Salam Bank now has a markedly increased customer base, expanded bouquet of innovative product and service offerings, and greatly enhanced delivery channels. Further synergies and benefits of the combination with BMI are expected to come to fruition in the short to medium term.

During 2014 we continued to focus on building the retail banking business and achieved huge strides on this front. The Bank branch and ATM network now comprise of 12 branches and 36 ATMs all strategically positioned throughout Bahrain. Our enhanced offerings of innovative Shari'a compliant products and services include an improved net banking platform with enhanced security features, a superior integrated interactive voice response (IVR) phone banking platform, enhanced credit card payment channels, fresh loyalty offerings, and new Shari'a compliant financial solutions.

In terms of the investment banking business, and taking into consideration a global market volatility that has been further exasperated by the recent substantial drop in oil prices, the Bank maintained its cautious and rigorous approach towards selection and analysis of new investments during 2014. The Bank also continued its focus on risk mitigation, capital protection and capital charge pursuant to Basel III requirements applicable from 1 January 2015.

With a concentration on income generating opportunities that offer periodic net cash flows distributed to its investors, the year saw the Bank's sector-wide focus include aviation, alternate energy, hospitality, food and beverage, real estate, and other service oriented opportunities in developed markets and selected developing markets.

The year saw the Bank acquire a strategic stake in a well-known food and beverage chain in Riyadh, Saudi Arabia, together with a renowned regional conglomerate.

In addition the Bank launched the Asia focused REIT Fund ("REIT Fund") as seed investor. The well received Fund, which aims to maximise investor return through a combination of strong dividend yields and long term capital appreciation, provides investors with the ideal platform to invest in listed real estate investment trusts ("REIT") in the Asian region.

The year also witnessed the Bank's various regional and international real estate investments perform well. All units under development in a luxury residential development in Mayfair, London were sold, whilst the sale of 142 residential units in Jeddah, Saudi Arabia remained on track and forecast for early exit in the first half of 2015.

In Bahrain the real estate sector, facilitated by continued fiscal support, witnessed further recovery. The Group maximised on this positive movement and exited real estate investments valued at around BD32 million, and in doing so complemented the Bank's retail-banking arm in terms of additional housing finance opportunities.

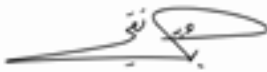
Our investments in aviation also remain lucrative and, underscoring our commitment to providing timely exits at attractive returns, the Bank successfully exited from its investment in a Boeing 777-300ER aircraft leased to the Emirates Airlines while Malaysian Airlines renewed the lease on our remaining aircraft for a further period.

Overall, your Bank continued to adopt a moderate approach to banking practices and relied on its core competencies in lending activities. We adhered to prudent risk management practices in granting new financing facilities and acquiring investments.

The Bank maintains a healthy Capital Adequacy Ratio of 18.7% (2013: 21.4%) as of the end of the fiscal year against a mandatory Central Bank of Bahrain requirement of 12%. Our strong liquidity position of 24.7% coupled with our capital base positions the Bank well for continued steady growth and the ability to seek acquisition opportunities both locally and regionally.

Driven by a deep commitment to our shareholders, the regional financial services industry, and the communities in which we operate, the Management reiterates their dedication to the future success and prosperity of your Bank. We are confident that Al Salam Bank-Bahrain B.S.C., with continued guidance from the Board and support from the Central Bank of Bahrain (CBB), is on track to achieve its vision of becoming the leading Islamic financial institution in the Kingdom of Bahrain and a leading regional industry player.

As we move forward into 2015, and on behalf of all the shareholders and the Board of Directors, I would like to take this opportunity to express my heartfelt appreciation to the wise leadership of the Kingdom of Bahrain led by His Majesty King Hamad bin Isa Al Khalifa, HRH the Prime Minister Prince Khalifa bin Salman Al Khalifa and HRH the Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister Prince Salman bin Hamad Al Khalifa for their firm support. Many thanks is also due to our valued shareholders and loyal customers; your unwavering support is vital as we continue into our next phase of growth. I am grateful for the support and guidance of the Board of Directors, the Central Bank of Bahrain, the Ministry of Industry and Commerce and the Bahrain Bourse. I would also like to express my sincere gratitude to the dedicated team at Al Salam Bank-Bahrain B.S.C. Your collaboration and dedication has been key to our success thus far.



**Yousif Abdulla Taqi**  
Director & CEO

## Management Review of Operations and Activities

### Operating Environment

The world economy remained in recovery mode during 2014 with improvement slow moving. The United States and Britain are leading the revival of the advanced economies while the Euro-zone and Japan remained weak due to the negative interest rate environment. China's manufacturing data and factory orders also witnessed a reduction. The October 2014 IMF World Economic Outlook report revised the global growth rate downward to 3.3% for 2014, 0.4% lower than in the April 2014 World Economic Outlook (WEO) with global growth projection for 2015 lowered to 3.8%.

### Business Environment

The GCC markets witnessed substantial activity during the first two quarters of 2014, however sentiment dipped with the impact of declining oil prices felt during the second half of the fiscal year. Notwithstanding volatility in the global crude oil sector, the region has emerged as one of the most vigorous in the global economy with robust non-oil growth and unmatched levels of Government-led project spending. As well as a firm commitment from the GCC governments to support economic activity and priority projects, the resilience of the non-oil economy is further supported by healthy financial sectors.

In Bahrain, the launch of a number of important infrastructure projects together with strengthening domestic demand drivers supported a pronounced pick up in the economy's growth, however, the recent decline in oil prices has impacted sentiment and is a major setback for the economy's advancement. Bahrain's banking sector remains financially sound with the Islamic banking sector posting profits after substantial consolidation in 2013. The Kingdom's Gross Domestic Product (GDP) expanded to 5.10 percent in the third quarter of 2014 up from 4.9% in 2013.

Despite this less than ideal business environment, the Bank maintained its focus on building the business in 2014 and forged ahead with an inorganic growth strategy that witnessed the Bank emerging as a stronger entity, well placed to realise its vision of becoming a regional industry force.

### Financial Performance

Consequent to the business combination with BMI, the Bank's income from core banking activities as well as the assets and customer deposits recorded significant growth. The total assets of the Bank grew by 80% (2013: 15.5%) to BD1,955.3 million (2013: BD1,088.2million) over the last fiscal year. The financing portfolio grew by BD 427million (2013: BD400 million) to BD BD827 million. The investment portfolio saw an increase of BD 90 million (2013: BD 61.3 million) to BD 357 million during the fiscal year. Customer deposits increased considerably from BD 680.7 million in 2013 to BD1,427.6 million in 2014, reflecting a 110% growth (2013: 9.1%); the result of a larger customer base, enhanced product portfolio and increased delivery channels.

The gross operating income of the Bank also grew by a remarkable 77% from BD26.1 million in 2013 to BD 46.1 million in 2014 as a result of the surge in income from core banking activities, comprising corporate, commercial and retail banking facilities.

Income from financing contracts and Sukuk grew by 64.7% (2013: 20.8%) underscoring the Bank's continued commitment to positioning itself as a lead player in the Islamic banking market.

Although the Bank maintained a sustained cost management campaign throughout the year, the operating expenses increased in 2014 due to increase in all operating expense categories which was attributable to the business combination with BMI Bank. Additional provisions were taken against non-performing financing contracts and investment portfolio amounting to a net of BD 4.2 million (2013: BD 3.2 million) and a write-down of BD6.2 million on account of investments.

The Bank recorded an impressive net profit of BD 15.6 million for the fiscal year 2014 (2013: BD 12.4 million).

### Capital Adequacy

Al Salam Bank-Bahrain B.S.C. continues to enjoy strong financial solvency and abundance of liquidity. In accordance with the Basel II capital adequacy guidelines, the Bank's capital adequacy continued to reflect a healthy ratio of 18.7 % (2013: 21.4%) as of the end of the fiscal year against a mandatory Central Bank of Bahrain requirement of 12%.

### Asset Quality

The Bank maintains a conservative approach in selecting new assets for financing and investments. As a result more than 86.9% (2013: 90.2%) of the financing asset portfolio has been classified under the "satisfactory" category. Total provisions for financing portfolio was BD18.3 million (2013: BD14.3 million). The Bank maintains adequate collateral against all the past due but not impaired facilities.

### BANKING ACTIVITIES Corporate Banking

The Corporate Banking business witnessed strong growth in 2014 with higher quality customer services and structuring solutions offered to clients.

The division continued to apply a calculated risk approach during the year in selecting new asset booking. Financing was extended to government, semi-government and private sector entities leading to substantial growth in the Bank's financing portfolio.

The improved financial position and performance of the Bank also facilitated the Corporate Banking teams' efforts to attract substantial deposits, effectively growing the Bank's customer liabilities.

Underscoring the Bank's commitment to support private sector business and encourage entrepreneurship among the business community, the Bank continued to work closely with Tamkeen in order to support the SME business segment and provide Shari'a compliant facilities to private sector businesses.

### Retail Banking

Retail Banking activity received a major boost from the business combination between Al Salam Bank- Bahrain and BMI. The amalgamation has resulted in a larger customer base, enhanced range of innovative Shari'a compliant products and services, improved delivery capabilities, and a superior human resource infrastructure that will support the retail banking business in its mission to exceed customer expectation and deliver on its customer centric promise.

Immediate enhancements included the expansion of our branch and ATM network, which now stands at 12 branches and 36 ATMs that are strategically located throughout the Kingdom. The Group now effectively provides services to all customers throughout its network irrespective of where the customers initially established their relationship. Other benefits included improved asset pricing and enhanced integrated Takaful insurance coverage linked to financing facilities.

A number of projects aimed at improving the retail banking business and enhancing the customer experience were initiated during 2014. These included the cross utilisation of e-channels which will translate into an enhanced net banking platform for customers. The improved net banking platform will feature enhanced security, a superior phone banking platform with authenticated integrated interactive voice response (IVR), a prepaid card offering, e-statement options and more choices for credit card payment, fresh loyalty offerings, in addition to new Shari'a compliant solutions.

### Private Banking

2014 was an exceptional year for the Private Banking team in terms of profitability and contribution to the Bank's bottom line. The Private Banking team successfully sold down all investments sourced by the Bank and managed to book strong financing assets as well as new deposits. This substantial success was due to superior client servicing and the provision of alternative investment solutions that offered steady income and minimum volatility. Private Banking also facilitated successful investment exits in two real estate projects located in London and Bahrain through the introduction of strategic investors.

## Management Review of Operations and Activities (continued)

**Private Banking (continued)** The year also witnessed the launch of a new dedicated Private Banking branch in the Seef District aligned with the Bank's efforts to provide increased customer convenience and accessibility.

The business combination with BMI Bank has had a positive impact on the Private Banking Business in relation to client acquisition, product range including brokerage platforms and combined Assets & Liabilities. The enhanced offering of Shari'a compliant Private Banking products and services present an attractive value proposition to both Al Salam Bank and BMI Bank clients.

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### Investments

Global market volatility, exasperated by the recent dive in worldwide crude oil prices, ensured that the Bank's approach towards investment opportunities during 2014 remained vigilant. Risk mitigation, investment preservation and capital charge, pursuant to the new Basel III requirements that are applicable from 1 January 2015, continued to be the focus. All investment transactions continue to undergo a rigorous internal analysis in addition to a third party analysis, in order to confirm, among numerous factors, each potential transaction's merits, risks, threats and expected returns.

Throughout the year, the Bank focused on income generating opportunities with periodic net cash flows, and built a portfolio based on a sector wide focus that included aviation, alternate energy, hospitality, food and beverage, real estate and other service oriented opportunities in both developed as well as selected developing markets.

The year witnessed a number of successful new investments. These included the acquisition of a strategic stake in a food and beverage company in the Kingdom of Saudi Arabia along with a renowned regional conglomerate. The company is a well-known restaurant chain that offers Arabian cuisine with a geographical concentration in Riyadh, thus providing substantial expansion potential.

In addition the Bank launched the Asia focused listed REIT Fund ("REIT Fund") as seed investor. The Fund provides investors with an ideal platform to invest in listed real estate investment trusts ("REIT") in the Asian region that comply with Shari'a principles. The Fund aims to maximize investors' returns through a combination of strong dividend yields and long term capital appreciation and consists of 15 to 35 positions diversified through active country and sub-sector allocations within the Asian REIT asset class. The REIT Fund has evoked a strong interest from individual and institutional investors since its launch.

Underscoring its commitment to provide timely exits to its investors at acceptable net returns, the Bank successfully exited one of its Boeing 777-300ER aircrafts on long-term lease with Emirates Airlines and generated attractive returns to its investors that exceeded targeted returns. The current portfolio consists of one remaining Boeing 777-300ER aircraft leased to Emirates Airlines and a further Boeing 777-200ER leased to Malaysian airlines.

The Bank's investment in a mid-rise residential development project consisting of 142 residential units including villas and apartments in a prime location in Jeddah, KSA continue to progress well both in terms of development and pre-sales, and is forecast for completion in the first half of 2015.

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### Information Technology

The Information Technology team continued to support the Bank's business strategy by leveraging cutting edge technology to enhance the customer experience. .

In 2014 the Bank upgraded its core-banking system in order to provide a better service to customers as well as internal users. Successful completion of the upgrade enabled the Bank to achieve process efficiencies as well improve the overall system controls within the operating environment.



Consequent to the business combination with BMI Bank, the Information Technology team has worked tirelessly to facilitate customers of both banks to have seamless access to a wider ATM and branch network at no extra transaction cost.

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#### Corporate Governance and Risk Management

The Bank's management continued to support initiatives to improve the knowledge and practice of Corporate Governance within the Bank. Compliance with the Central Bank of Bahrain guidelines and other regulatory guidelines is a fundamental element of the Bank's operating environment.

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#### Know Your Customer

The Bank complies with Financial Crimes Module of Central Bank of Bahrain's rulebook. The module contains Bahrain's current anti-money laundering legislation, developed under the directives of the Financial Action Task Force, which is the international organization responsible for developing global anti-money laundering policies.

During the year, in line with the Central Bank of Bahrain guidelines, the Bank and its subsidiaries successfully completed its registration under Foreign Account Tax Compliant Act ("FATCA"). New customer onboarding process of the Bank has been updated to identify US persons.

The Bank places significant emphasis in understanding its customers and their financial activities. The Bank has implemented world-class systems to support the monitoring activities. Proper due diligence is conducted to ensure that financial activities of its customers are performed in accordance with the guidelines issued by the regulatory authorities.

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#### Human Capital

Attracting, retaining and developing the best local talent is a key focus for the Bank's Human Resource team. Testament to the Bank's commitment to enhancing the pool of local talent is the fact that the Bank achieved an impressive Bahrainisation rate of 90% as of 31 December 2014.

During the year the Bank continued to focus on training and development, dedicating almost 4,000 hours to staff training programs.

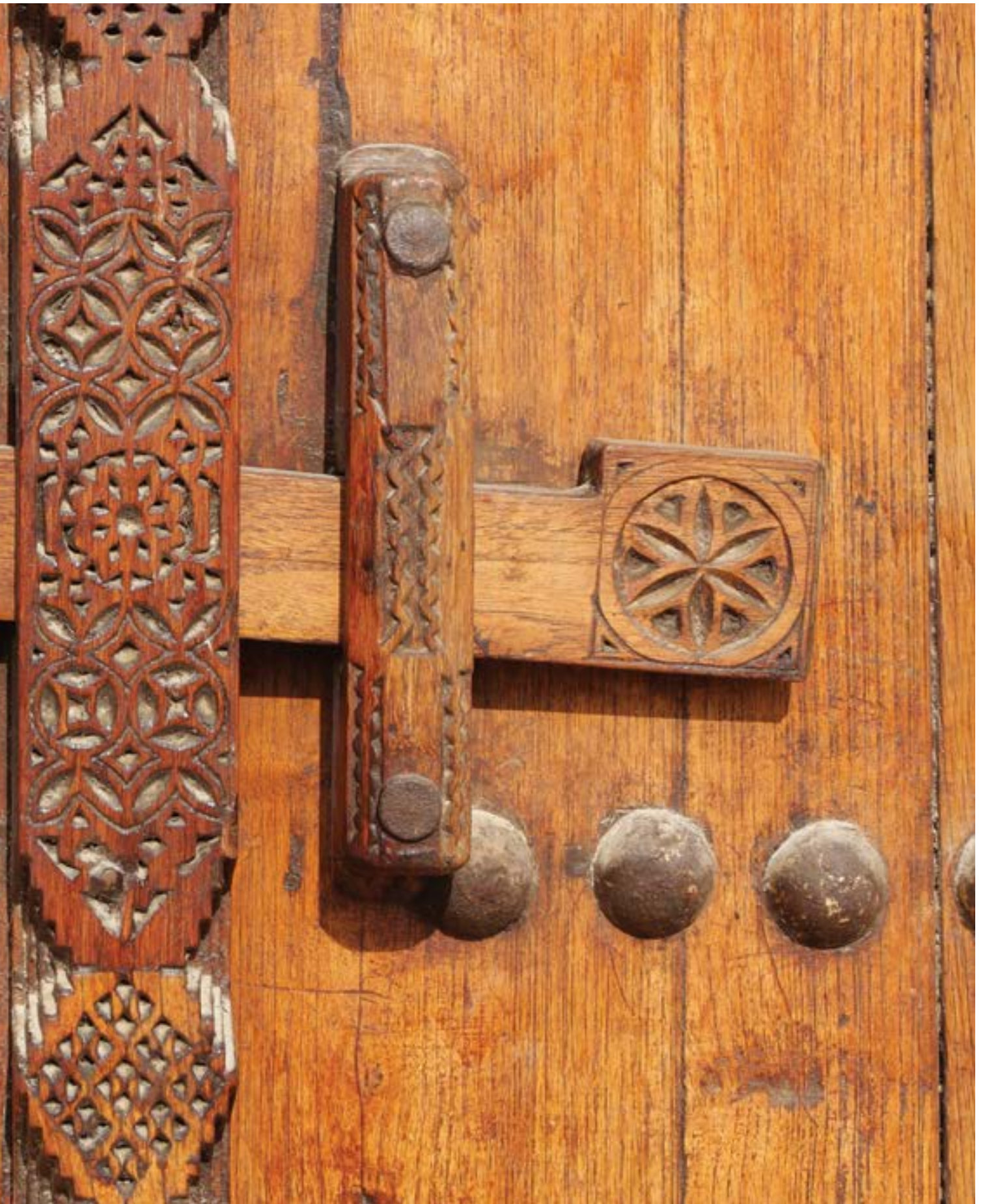
While providing the necessary training and skills to employees, the Bank continues its commitment to developing the Kingdom's future generation. During the year the Bank worked in collaboration with leading educational institutions and youth leadership programs in order to prepare the youth of Bahrain for the workforce.

Aligned with this endeavor, Al Salam Bank Bahrain lent its support to INJAZ Bahrain, a prominent Bahraini Youth Leadership program, with 14 of the Bank's staff volunteering their time and energies to various INJAZ programs. As well as providing staff volunteers, ASBB also hosted a number of INJAZ students including 21 students from the University of Bahrain and Omaira Bint Al Noman Secondary School as part of 'The Company' program, and 15 students as part of 'The Shadow' program. These programs add immense value to the youth of Bahrain and the Bank is committed to their ongoing support.

The annual summer trainee program was a great success again in 2014. As part of the program, the Bank hosted 39 graduate students from various universities across the Kingdom for two-months. The program included workshops as well as graduate placements in various departments throughout the Bank and was highly commended by the participating graduates who gained invaluable preparation for their future careers. In addition, the Bank hosted 20 students under the Ithra program, a program sponsored by Al Mobarah Al Khalifia.

The **traditional** dome-headed nail heads, or 'bosses', are an integral part of the Bahraini door design that was used by the ancient Assyrians in the fifth century BC. At Al Salam Bank we too **protect** tradition, embracing **values** of Islamic Banking, while translating **compliance** into **pioneering** financial solutions.





## Corporate Governance Report

2014

### CORPORATE GOVERNANCE COMPLIANCE

The Bank aspires to the highest standards of ethical conduct: doing what it says; reporting results with accuracy and transparency and maintaining full compliance with the laws, rules and regulations that govern the Bank's business. Since 2010 when the new Corporate Governance Code was introduced by the Central Bank of Bahrain, the Bank has been implementing several measures to enhance its compliance with the corporate governance rules. A separate section on the status of compliance with the corporate governance rules and High Level Controls Module is included in this report.

### SHAREHOLDERS

#### Major Shareholders as on 31 December 2014

	Name	Country of origin	No. of shares	% Holding
1	Bank Muscat ( S.A.O.G. )	Oman	315,494,795	14.74
2	Overseas Investment S.P.C.	Bahrain	128,773,381	6.01
3	Royal Court Affairs, Sultanate of Oman	Oman	70,825,359	3.30
4	Gimbal Holding Company S.P.C.	Bahrain	65,553,633	3.06
5	First Energy Bank B.S.C. (c)	Bahrain	62,949,341	2.94
6	Securities and Investment Company B.S.C. (c)	Bahrain	62,615,798	2.92
7	Leader Capital (L.L.C)	UAE	57,976,149	2.70
8	Al Rushd Investments W.L.L.	UAE	52,500,000	2.45
9	Falcon Private Bank	UAE	46,199,882	2.15
10	Global Express Company W.L.L.	Bahrain	40,000,000	1.86
11	Abu Dhabi National Bank	UAE	38,300,000	1.78
12	Torbelon Investments W.L.L.	UAE	35,000,000	1.63
13	Tasameem Real Estate Company L.L.C.	UAE	35,000,000	1.63
14	The International Petroleum Investment Company	UAE	35,000,000	1.63

#### Shareholding - 31 December 2014

Category	No. of shares	No. of shareholders	% of outstanding shares
Less than 1%	971,791,854	23,131	45.39
1% to less than 5%	724,870,722	17	33.86
5% to less than 10%	128,773,381	1	6.01
10% to less than 20%	315,494,795	1	14.74
20% up to less than 50%	-	-	-
50% and above	-	-	-
<b>Total</b>	<b>2,140,930,752</b>	<b>23,150</b>	<b>100.00</b>

**CORPORATE GOVERNANCE  
COMPLIANCE** (continued)

The outstanding ordinary share ownership of the Bank is distributed as follows:

Nationality	No. of shares	Ownership percentage
Bahraini		
Government	-	-
Institutions	208,133,963	9.72
Individuals	115,056,808	5.37
GCC		
Government	76,005,223	3.55
Institutions	1,082,103,618	50.54
Individuals	559,751,735	26.15
Other		
Institutions	74,031,827	3.46
Individuals	25,847,578	1.21
<b>Total</b>	<b>2,140,930,752</b>	<b>100.00</b>

**BOARD OF DIRECTORS**

The Board of Directors shall provide central leadership to the Bank, establish its objectives and develop the strategies that direct the ongoing activities of the Bank to achieve these objectives. Directors shall determine the future of the Bank through the protection of its assets and reputation. They will consider how their decisions relate to "stakeholders" and the regulatory framework. Directors shall apply skill and care in exercising their duties to the Bank and are subject to fiduciary duties. Directors shall be accountable to the shareholders of the Bank for the Bank's performance and can be removed from office by them.

The primary responsibility of the Board is to provide effective governance over the Bank's affairs for the benefit of its shareholders, and to balance the interests of its diverse constituencies including its customers, correspondents, employees, suppliers and local community. In all actions taken by the Board, the directors are expected to exercise their business judgment in what they reasonably believe to be in the best interests of the Bank. In discharging that obligation, directors may rely on the honesty and professional integrity of the Bank's senior executives and external advisors and auditors.

**Changes during the year**

The following directors joined the Board of Directors and attended their first Board meeting on 5 May 2014 following the completion of the business combination of BMI Bank, and based on the approval of the Al Salam Bank-Bahrain's B.S.C. Shareholders in the Extraordinary General Assembly dated 8 October 2013 to appoint three directors nominated by BMI Bank B.S.C. (c):

1. H.E. Shaikh Khalid bin Mustahil Al Mashani
2. Mr. Sulaiman Mohamed Al Yahyai
3. Mr. Hisham Saleh Al Saie

Also, Mr. Mohammed Omeir Yussef Al Muhairi resigned from the Board on 11 December 2014.

## Corporate Governance Report (continued)

2014

### BOARD OF DIRECTORS

(continued)

#### Board Composition

The Board consists of members of high-level professional skills and expertise. Furthermore, in compliance with the corporate governance requirements, the Board Committees consist of Members with adequate professional background and experience. The Board periodically reviews its composition and the contribution of Directors and Committees.

The appointment of Directors is subject to prior screening by Remuneration and Nomination Committee and the Board of Directors as well as approval by the Shareholders and the Central Bank of Bahrain. The classification of "executive", "non-executive" and "independent non-executive" directors is as per definitions Stipulated by the Central Bank of Bahrain.

#### Mandate of the Board of Directors and Directors' Roles and Responsibilities

The principal role of the Board of Directors (the Board), is to oversee 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 is also responsible for the consolidated financial statements of the Group. 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 has delegated responsibility for overall management of the Bank to the Chief Executive Officer.

The Board reserves a formal schedule of matters for its decision to ensure that the direction and control of the Bank rests with the Board. This includes strategic 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. All policies pertaining to the Bank's operations and functioning are to be approved by the Board.

Each Director holds the position for three years, after which he must present himself to the Annual General Meeting of shareholders for re-appointment. The majority of ASBB Directors (including the Chairperson and/or Deputy Chairman) are required to attend the Board meetings in order to ensure a quorum.

#### Board Elections System

Article 26 of the Bank's Articles of Association provides the following:

1. The Bank shall be administered by a Board of Directors consisting of not more than fourteen members and not less than five members. The Board's term shall be three years which may be renewed.
2. Each shareholder owning 10% or more of the capital may appoint whoever represents him on the Board to the same percentage of the number of the Board members. His right to vote shall be forfeited for the percentage he has exercised to appoint his representative. If a percentage is left after exercising his right to nominate, he may use such percentage to vote.
3. Other members of the Board shall be elected by the General Assembly by secret ballot.

The Board of Directors shall elect, by secret ballot, a Chairman and one or more Vice Chairman every three years. The Vice Chairman shall act for the Chairman during his absence or if there is any barrier preventing him.

Article 29 of the Article of Association covered the "Termination of Membership in the Board of Directors". It provided the following:

**BOARD OF DIRECTORS**

(continued)

A Director shall lose his office on the Board in the event that he:

- a. Fails to attend four consecutive meetings of the Board in one year without an acceptable excuse, and the Board of Directors decides to terminate his membership;
- b. Resigns his office by virtue of a written request;
- c. Forfeits any of the provisions set forth in Article 26 of the Articles of Association;
- d. Is elected or appointed contrary to the provisions of the Law; and
- e. Has abused his membership by performing acts that may constitute a competition with the Company or caused actual harm to the Company.

**Independence of Directors**

An independent director is a director whom the Board has specifically determined, has no material relationship which could affect his independence of judgment, taking into account all known facts. The Directors have disclosed their independence by signing the Directors Annual Declaration whereby they have declared that during 2014 that they have met all the conditions stipulated under Appendix A of the Corporate Governance Code.

In 2014, the members of the Board were:

**Independent Non-executive Directors**

1. H.H. Shaikha Hessa bint Khalifa Al Khalifa – Chairperson
2. Mr. Hamad Tarek Alhomaizi – Vice Chairman
3. Mr. Hussein Mohammed Al Meeza
4. Mr. Habib Ahmed Kassim
5. Mr. Essam bin Abdulkadir Al Muhaidib
6. Mr. Salman Saleh Al Mahmeed
7. Mr. Fahad Sami Al Ebrahim
8. Mr. Adnan Abdulla Al Bassam
9. Mr. Mohammed Omeir Yussef Al Muhairi (Resigned on 11 December 2014)

**Non-independent and Non-executive Directors**

1. H.E. Mohamed Ali Rashid Alabbar
2. H.E. Shaikh Khalid bin Mustahail Al Mashani
3. Mr. Sulaiman bin Mohamed Al Yahyai
4. Mr. Hisham Saleh Al Saie

**Executive Directors**

1. Mr. Yousif Abdulla Taqi

## Corporate Governance Report (continued)

2014

### BOARD OF DIRECTORS

(continued)

All current Directors were elected for a three-year term on 20 March 2012, except for the following:

1. H.E. Mohamed Alabbar who joined the Board of Directors on 18 March 2013 being the first substitute member after Mr. Salem Rashed Saeed Al Mohammadi resigned from the Board on 15 October 2012.
2. H.E. Shaikh Khalid bin Mustahail Al Mashani, Mr. Sulaiman bin Mohamed Al Yahyai and Mr. Hisham Saleh Al Saie joined on 5 May 2014 as part of the business combination with BMI Bank B.S.C. (c).

#### Induction and Orientation for New Directors

In March 2012, when the new Board was elected, all Board members were requested to attend a comprehensive course in relation to the implementation of the new Corporate Governance Code (with the Bank bearing the expenses of such training). The new directors have also been provided with a binder containing, Board charter, Bank's code of ethics and policies and other documents.

#### Evaluation of Board Performance

Members of the Board of Directors have been requested to assess their self-performance, how the Board of Directors' operate, evaluate the performance of each committee in light of the purposes and responsibilities delegated to it, their attendance and their involvement in the decision making process. Below is a summary of the evaluation results:

- The directors self-assessment results were either above expectation or satisfactory in most areas, including directors' skills and experience, understanding of the Bank's business and Board operations.
- Board members have identified certain objectives moving forward such as enhancing the organic growth of the Bank, building a strong succession plan, emphasize on diversified revenue stream, sourcing quality investments in addition to the focusing on the strategic plans of the Bank.
- The performance results of the Chairperson, Committee chairs and the performance of different Board committees were mostly above expectation.
- Committee chairs and members have identified different objectives moving forward; including but not limited to:
  1. Guide Management to accomplish the Board's objectives and adhere to policies and long term goals.
  2. Avoiding troublesome potential investments.
  3. Assist Management in focusing on profitable investments.
  4. Resolving long outstanding and legacy matters

#### Remuneration of Directors

Remuneration of the Directors as provided by Article 36 of the Articles of Association states the following:

"The General Assembly shall specify the remuneration of the members of the Board of Directors. However, such remunerations must not exceed in total 10% of the net profits after deducting statutory reserve and the distribution of dividends of not less than 5% of the paid capital among the shareholders. The General Assembly may decide to pay annual bonuses to the Chairman and members of the Board of Directors in the years when the Company does not make profits or in the years when it does not distribute profits to the shareholders, subject to the approval of the Minister of Industry and Commerce."



## BOARD OF DIRECTORS (continued)

“The Board, based upon the recommendation of the Remuneration and Nomination Committee and subject to the laws and regulations, determines the form and amount of director compensation subject to final approval of the shareholders’ at the Annual General Assembly meeting. The Remuneration and Nomination Committee shall conduct an annual review of directors’ compensation.”

Per the Directors’ Appointment Agreement, the structure and level for the compensation for the Board of Directors consist of the following:

1. Annual remuneration subject to the annual financial performance of the Bank and as per the statutory limitation of the law.
2. The total amount payable to each Board member with respect to Board and Committee meetings attendance shall be taken into consideration when determining each member’s annual remuneration.
3. The remuneration of the Board of Directors will be approved by the shareholders at the Annual General Assembly.

In addition to the above, Directors who are employees of the Bank shall not receive any compensation for their services as directors. Directors who are not employees of the Bank may not enter into any consulting arrangements with the Bank without the prior approval of the Board. Directors who serve on the Audit Committee shall not directly or indirectly provide or receive compensation for providing accounting, consulting, legal, investment banking or financial advisory services to the Bank.

### The Board Charter

The Board has adopted a Charter which provides the authority and practices for governance of the Bank. The Charter was approved by the Board with the beginning of its term in 2012 and includes general information on the composition of the Board of Directors’, classification of Directors’, Board related Committees, Board of Directors’ roles and responsibilities, Board of Directors’ code of conduct, Board remuneration and evaluation process, insider dealing, conflict of interest and other Board related information.

### Conflict of Interest

The Bank has a documented procedure for dealing with situations involving “conflict of interest” of Directors. In the event of 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 abstains from the discussion/ voting process. These events are recorded in Board/Committees proceedings. The Directors are required to inform the entire Board of (potential) conflicts of interest 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.

### Code of Conduct

The Board has an approved Code of Conduct for ASBB Directors. The Board has also approved a Code of Ethics for the Executive Management and staff that include “whistle-blowing” procedures. The responsibility for monitoring these codes lies with the Board of Directors. The Directors’ “Code of Conduct” is published on the Bank’s website. The directors’ adherence to this Code of Conduct is periodically reviewed.

## Corporate Governance Report (continued)

2014

### BOARD OF DIRECTORS

(continued)

#### Board meetings and attendances

The Board of Directors meets at the summons of its Chairperson or her Deputy (in event of his absence or disability) or if requested to do so by at least two Directors. According to the Bahrain Commercial Companies Law and the Bank's Articles of Associations, the Board meets at least four times a year. A meeting of the Board of Directors shall be valid if attended by half of the members in person. During 2014, four Board meetings were held at the Bank's premises as follows:

#### Board Meetings in 2014 - Minimum Four Meetings Per Annum

Members	30 January	5 May	5 November	11 December
H.H. Shaikha Hessa bint Khalifa Al Khalifa	✓	✓	✓	✓
Mr. Hamad Tarek Alhomaizi	✓	✓	✓	✓
Mr. Hussein Mohammed Al Meeza	✓	✓	✓	-
Mr. Habib Ahmed Kassim	✓	✓	✓	✓
Mr. Essam bin Abdulkadir Al Muhaidib	✓	✓	✓	✓
Mr. Salman Saleh Al Mahmeed	-	✓	-	✓
Mr. Fahad Sami Al Ebrahim	✓	✓	-	✓
Mr. Mohammed Omeir Yussef	-	-	-	N/A
Mr. Adnan Abdulla Al Bassam	✓	✓	-	✓
H.E. Mohamed Ali Alabbar	-	✓	✓	✓
Mr. Sulaiman Mohamed Al Yahyai	N/A	✓	✓	-
H.E. Shaikh Khalid bin Mustahil Al Mashani	N/A	✓	✓	✓
Mr. Hisham Saleh Al Saie	N/A	✓	✓	✓
Mr. Yousif Abdulla Taqi	✓	✓	✓	✓

#### Directors' interests

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

Members	No. of Shares
H.H. Shaikha Hessa bint Khalifa Al Khalifa	100,000
Mr. Hamad Tarek Alhomaizi	100,000
Mr. Hussein Mohammed Al Meeza	462,819
Mr. Habib Ahmed Kassim	2,702,489
Mr. Essam Bin Abdulkadir Al Muhaidib	100,000
Mr. Salman Saleh Al Mahmeed	100,000
Mr. Fahad Sami Al Ebrahim	100,000
H.E. Mohamed Ali Rashid Alabbar	100,000
Mr. Adnan Abdulla Al Bassam	100,000
Mr. Yousif Abdulla Taqi	520,000

*There were no trading activities in the shareholdings of directors during the year except for the selling of 500,000 shares by Mr. Habib Ahmed Kassim and transfer of 420,000 shares by Mr. Yousif Abdullah Taqi from his related party Capital Services House Co. to his own shareholding account at the Bahrain Bourse.*

## BOARD OF DIRECTORS (continued)

### Related entities

The following shareholders are related to Mr. Habib Kassim:

- *Al Mahd Investment Company owns 959,742 shares*

The following shareholder is related to Mr. Essam Al Muhaidib:

- *Al Muhaidib Holding Company owns 4,314,522 shares*

The following shareholder is related to H.E. Mohamed Ali Rashid Alabbar:

- *Leader Capital (L.L.C) owns 57,976,149 shares*
- *Al Rushed Investments (W.L.L.) owns 52,500,000 shares*

### Approval process for related parties' transactions:

The Bank has a due process for dealing with transactions involving related parties. Any such transaction will require the approval of the Board of Directors. The nature and extent of transactions with related parties are disclosed in the consolidated financial statements.

### Material Transactions that require Board Approval

While any transaction above BD 5 million and up to BD 10 million requires the approval of the Executive Committee of the Board of Directors, any transaction above BD 10 million requires the approval of the Board of Directors of the Bank. In addition, when acquiring 20% of a company Board approval is required regardless of the amount.

### Material contracts and financing involving Directors:

A financing facility has been provided to Mr. Fahad Sami Al Ebrahim. The details of the facility are as follows:

- Principal amount of financing : BD 99,900
- Nature of facility : Mudaraba financing
- Profit rate : 7% p.a
- Security : Nil
- Principal outstanding : BD 39,960

A financing facility has been provided to Zaleej Real Estate Company (Partly owned by Mr. Hamad Tarek Alhomaizi). The details of the facility are as follows:

- Principal amount of financing : US\$2,484,273
- Nature of facility : Ijarah Financing
- Profit rate : 6.0% p.a.
- Security : Building in Abu Dhabi
- Principal outstanding : US\$2,318,216

### Directorships held by Directors on other boards

The High Level Controls Module provides that no director should hold more than three directorships in Bahrain public companies. All members of the Board of Directors meet this requirement.

## Corporate Governance Report (continued)

2014

### BOARD OF DIRECTORS

(continued)

#### Board committees:

The Board level committees are formed, and the Board of Directors appoints their members, at the beginning of each Board term. 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 operations of the Bank. The Committee reviews issues that are submitted by the management to the Board and makes recommendations to the Board for their final review.

Below are certain information relating to the work of certain Board Committees during the year 2014, summary of the dates of Committee meetings held, Directors' attendance and a summary of the main responsibilities of each Committee.

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

#### Executive Committee

Committee meetings in 2014 - Minimum four meetings per annum.

Five Committee meetings were held during 2014 as follows:

Members	22 January	30 April	15 June	19 October	10 December
Mr. Hussein Mohammed					
Al Meeza (Chairman)	✓	✓	✓	✓	-
Mr. Hamad Tarek Alhomaizi	✓	✓	✓	-	✓
Mr. Adnan Abdulla Al Bassam	✓	✓	✓	✓	✓
Mr. Essam bin Abdulkadir Al Muhaidib	✓	✓	✓	✓	✓
Mr. Sulaiman Mohamed Al Yahyai	N/A	N/A	✓	✓	-
Mr. Yousif Abdulla Taqi	✓	✓	✓	✓	✓

**Summary of responsibilities:** Deputizing the Board on matters pending decisions between Board meetings, considering and reviewing management's operational reports and regulatory and strategic developments, reviewing and approving credit and market risk proposals in excess of the authority limits of the relevant committees, reviewing management's recovery procedures for problem loans and requirements for provisioning.

Note: Mr. Sulaiman Mohamed Al Yahyai joined the Executive Committee as a member on 15 June 2014.

#### Audit and Risk Committee

Committee meetings in 2014 - Minimum four meetings per annum.

Four Committee meetings were held during 2014 as follows:

Members	29 January	4 May	26 June	20 November
Mr. Salman Saleh Al Mahmeed (Chairman)	✓	✓	✓	✓
Mr. Fahad Sami Al Ebrahim	✓	✓	✓	✓
H.E. Mohamed Ali Rashid Alabbar	-	✓	N/A	N/A
H.E. Shaikh Khalid bin Mustahil Al Mashani	N/A	N/A	✓	✓
Mr. Hisham Saleh Al Saie	N/A	N/A	✓	N/A
Mr. Abdul Rahman Al Sayed	✓	✓	✓	✓
(Committee Expert – Non-Voting)				

## BOARD OF DIRECTORS (continued)

**Summary of responsibilities:** Reviews the internal audit program and internal control system, considers major findings of internal audit review, 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 and reviews the periodic risk reports.

Note: H.E. Shaikh Khalid bin Mustahil Al Mashani joined the Audit and Risk Committee as a member on 26 June 2014 replacing H.E. Mohamed Alabbar.

### Remuneration and Nomination Committee

Committee meetings in 2014 - Minimum two meetings per annum.

Three meetings were convened during 2014

Members	4 May	26 June	5 November
Mr. Habib Ahmed Kassim (Chairman)	✓	✓	✓
Mr. Fahad Sami Al Ebrahim	✓	✓	-
Mr. Hisham Saleh Al Saie	N/A	✓	✓
Mr. Adnan Abdulla Al Bassam	✓	N/A	N/A

**Summary of responsibilities:** Make specific recommendations to the Board of Directors' on both remuneration policy and individual remuneration packages for the Chief Executive Officer and other senior managers. Evaluate senior management's performance in light of the Bank's corporate goals. Make recommendations to the Board from time to time as to the changes the committee believes to be desirable to the size of the Board or any committee of the Board.

Note: Mr. Hisham Al Saie joined the Remuneration and Nomination Committee as a member on 26 June 2014 replacing Mr. Adnan Al Bassam.

### Corporate Governance Committee

Committee meetings in 2014 - Minimum one meeting per annum.

One meeting was convened during 2014

Members	3 December
H.H. Shaikha Hessa bint Khalifa Al Khalifa (Chairperson)	✓
Mr. Adnan Abdulla Al Bassam	✓
Dr. Mohammed Burhan Arbouna	✓

**Summary of responsibilities:** Oversees and monitors the implementation of the governance policy framework. Reviews on an annual basis the Bank's compliance with the respective Corporate Governance rules and regulations as well as the Board's and subcommittees' charters. Reviews on an annual basis the Shari'a Supervisory Board's compliance with its approved charter.

## Corporate Governance Report (continued)

2014

### SHARI'A SUPERVISORY BOARD

Al Salam Bank-Bahrain B.S.C. is guided by a Shari'a Supervisory Board consisting of five distinguished scholars. The Board reviews the Bank's activities to ensure that all products and investment transactions comply fully with the rules and principles of Islamic Shari'a.

The Board meets at least 4 times a year. Its members are remunerated by annual retainer fee and sitting fees per meeting attended, with travel expenses reimbursed as appropriate. Its members are not paid any performance-related remuneration.

### EXECUTIVE MANAGEMENT

The Board delegates the authority for management of the Bank to the Chief Executive Officer. The CEO and Executive Management are responsible for implementation of decisions and strategies approved by the Board of Directors and the Shari'a Fatwa and Supervisory Board.

#### *Senior managers' interests*

The number of shares held by the senior managers, in two-year comparison, as on 31 December is as follows:

<b>Staff name</b>	<b>2013</b>	<b>2014</b>
	<b>No. of shares</b>	
Mr. Abdulkarim Mohammed Turki	168	168
Mr. Ali Habib Kassim	2,489	2,489
Mr. Khalid Mustafa Jalili	43,000	-
Dr. Mohammed Burhan Arbouna	336	336
Mr. Essa Abdulla Bohijji	96,495	96,495
Mr. Harish Venkatakrishnan	52,500	-

There were no trading activities in the share holdings of the senior managers during the year except for the selling of 43,000 shares by Mr. Khalid Jalili and 52,500 shares by Mr. Harish Venkatakrishnan.

The Board delegates the authority for management of the Bank to the Chief Executive Officer. The CEO and Executive Management are responsible for implementation of decisions and strategies approved by the Board of Directors and the Shari'a Fatwa and Supervisory Board.

## EXECUTIVE MANAGEMENT (continued)

### Management Committees

The Chief Executive Officer is supported by a number of management committees each having a specific mandate to give focus to areas of business, risk and strategy. The various committees and their roles and responsibilities are:

Committee	Roles and responsibilities
<b>Credit/Risk Committee</b>	Recommending the risk policy and framework to the Board. Its Primary role is the selection and implementation of risk management systems, portfolio monitoring, stress testing, risk reporting to Board, Board Committees, Regulators and Executive Management. In addition to these responsibilities, individual credit transaction approval and monitoring is an integral part of the responsibilities.
<b>Asset Liability Committee</b>	This Committee's primary responsibility is to review the trading and liquidity policy for the overall management of the balance sheet and its associated risks.
<b>Investment Committee</b>	The role of the Committee is to review and approve all transactions related to corporate and real estate investments and monitoring their performance on an ongoing basis. In addition, the Committee is responsible to oversee the performance of the fund managers and recommend exit strategies to maximize return to its investors.
<b>Technology Steering Committee</b>	TSC oversees the information technology function of the Bank. It recommends the annual IT budget and plans, drawn up in accordance with the approved strategy for the Bank, to the CEO for submission to the Board of Directors for their approval. It supervises the implementation of the approved IT annual plan within set deadlines and budgetary allocations.

### Executive Management Compensation

The performance bonus of the Chief Executive Officer is recommended by the Remuneration and Nomination Committee and approved by the Board. The performance bonus of senior management is recommended by the Chief Executive Officer for review and endorsement by the Remuneration and Nomination Committee subject to Board approval.

## COMPLIANCE

The Bank has in place comprehensive policies and procedures to ensure full compliance with the relevant rules and regulations of the Central Bank of Bahrain and the Bahrain Bourse, the Dubai Financial Market, the Emirates Securities & Commodities Authority, including anti-money laundering, prudential and insider trading reporting. The Bank is in compliance with High Level Control Module issued by the Central Bank of Bahrain.

## INTERNAL CONTROL

Internal control is an active process that is continually operating at all levels within the Bank. The Bank has established an appropriate culture to facilitate an effective internal control process and for monitoring its effectiveness on a periodic basis. Every employee of the Bank participate in the internal control process and contribute effectively by identifying risk at an earlier stage and implementing mitigating controls at optimum cost. Residual risk is properly communicated to the senior management and corrective actions are taken.

## Corporate Governance Report (continued)

2014

### KEY PERSONS 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 the Bank's 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.

### COMMUNICATION POLICY

The Bank recognizes that active communication with different stakeholders and the general public is an integral part of good business and administration. In order to reach its overall goals for communication, the Bank follows a set of guiding principles such as efficiency, transparency, clarity and cultural awareness.

The Bank uses modern communication technologies in a timely manner to convey messages to its target groups. The Bank shall reply without unnecessary delay, to information requests by the media and the public. The Bank strives in its communication to be as transparent and open as possible while taking into account bank confidentiality. This contributes to maintaining a high level of accountability. The Bank also proactively develops contacts with its target groups and identifies topics of possible mutual interest. The Bank reinforces clarity by adhering to a well-defined visual identity in its external communications.

The Bank's formal communication material is provided in both Arabic and English languages. The Bank maintains a Legal Policy published on its website: [www.alsalambahrain.com](http://www.alsalambahrain.com) that includes terms and conditions on the use of information published on the site.

The annual reports and quarterly financial statements, Board Charter and Corporate Governance report are published on the Bank's website. Shareholders have easy access to various types of forms including proxies used for the Annual General Meeting. In addition, forms are also available online to file complaints or make inquiries which are duly dealt with. The Bank regularly communicates with its staff through internal communications to provide updates of the Bank's various activities.

#### Consumer/ Investor Awareness Programmes and Tools

To fulfil its goals for external communications, promoting its products and communicating with its stakeholders, ASBB employs a variety of communications tools. The most important of them are listed below.

Customers	Seminars, bilateral contacts, website, newsletter, media campaigns, corporate presentations, speeches, publications, brochures, leaflets, Radio and TV advertising, banners, unipols, SMS etc.
Investors	Publications, road shows (mostly bilateral contacts), Internet, media, investor presentations, wire services, brochures, leaflets, advertising etc.
Regulatory & Governmental Authorities	Institutional contacts, seminars, visits, bilateral contacts, Internet, newsletter, media, publications (in particular the Annual Report), brochures, leaflets, etc.
Media Communications	Press releases, interviews, speeches, background seminars, etc.
General Public Communications	Media, other key target groups as multipliers



**WHISTLE BLOWER POLICY**

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

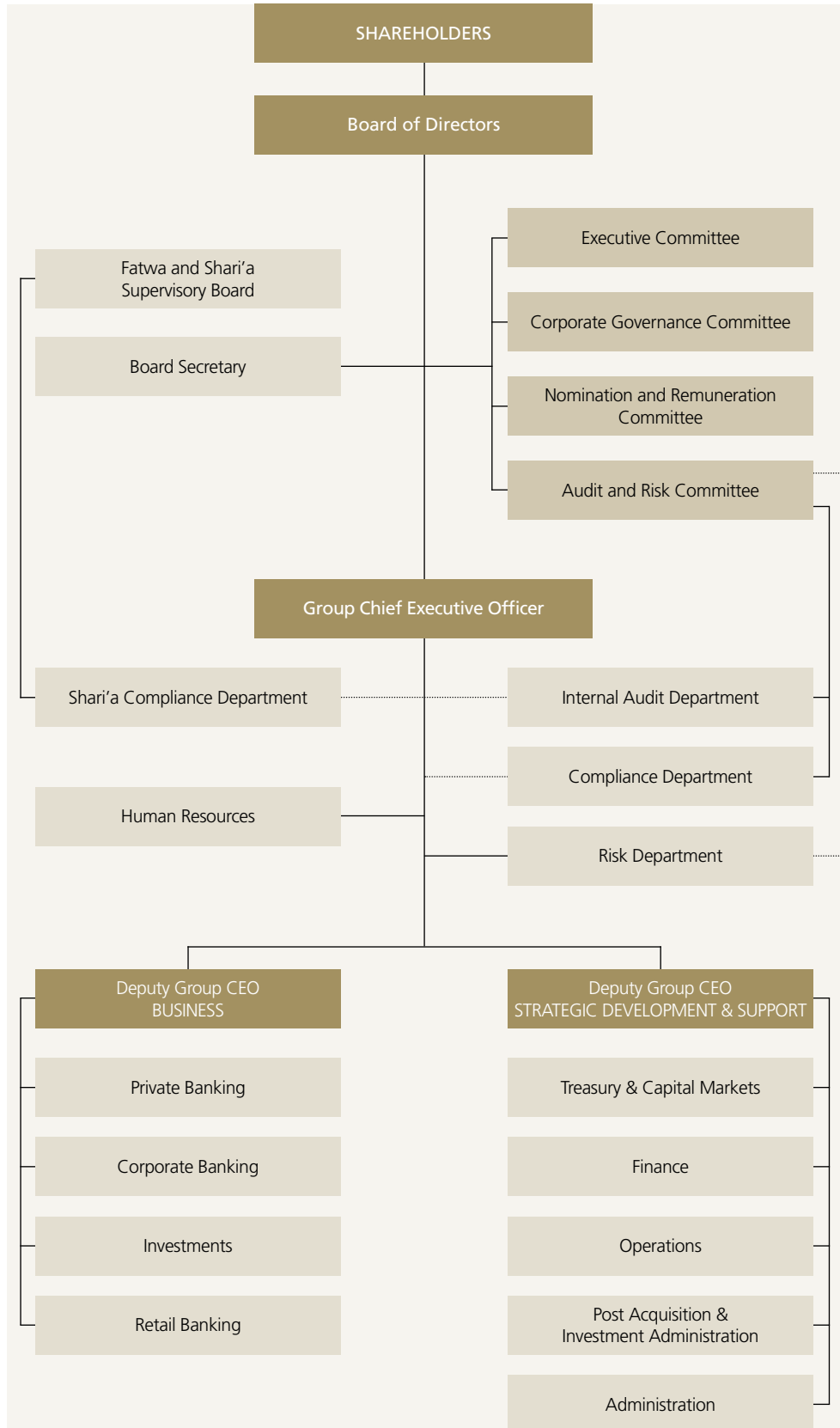
The directors have adopted the following code of conduct in respect of their behavior:

- To act with honesty, integrity and in good faith, with due diligence and care, in the best interest of the Bank and its stakeholders;
- To act only within the scope of their responsibilities;
- To have a proper understanding of the affairs of the Bank and to devote sufficient time to their responsibilities;
- To keep confidential Board discussions and deliberations;
- Not to make improper use of information gained through the position as a director;
- Not to take undue advantage of the position of director;
- To ensure his/her personal financial affairs will never cause reputational loss to the Bank;
- To maintain sufficient/detailed knowledge of the Bank's business and performance to make informed decisions;
- To be independent in judgment and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions of the Board;
- Not to agree to the Bank incurring an obligation unless he/she believes at the time, on reasonable grounds, that the Bank will be able to discharge the obligations when it is required to do so;
- Not to agree to the business of the Bank being carried out, or cause or allow the business to be carried out, in a manner likely to create a substantial risk of serious loss to the Bank's creditors;
- To treat fairly and with respect all of the Bank's employees and customers with whom they interact;
- Not enter into competition with the Bank;
- Not demand or accept substantial gifts from the Bank for himself/herself or his/her associates;
- Not take advantage of business opportunities to which the Bank is entitled for himself/herself or his/her associates;
- Report to the Board any potential conflict of interest, and
- Absent themselves from any discussions or decision-making that involves a subject in which they are incapable of providing objective advice or which involves a subject of proposed conflict of interest.

# Corporate Governance Report (continued)

2014

## ORGANIZATION STRUCTURE



**CHANGES IN MANAGEMENT AND REPORTING LINES DURING 2014**

**Direct Reports to the Group CEO**

- Dr. Anwar Al Sada – Deputy Group CEO - Business
- Mukundan Raghavachari – Deputy Group CEO - Strategic Development & Support
- Essa Bohijji – Group Head of Audit & Board Secretary (Administratively)
- Dr Mohammed Arbouna – Group Head of Shari’a (Administratively)
- Isa Maseeh – Chief Risk Officer
- Muna Al-Balooshi – Group Head of Human Resources
- Bader Al-Shetti – Group Compliance Officer & MLRO (Administratively)

**Direct Reports to Dr Anwar Al Sada - Deputy Group CEO - Business**

- Anwar Murad – Head of Private Banking
- Talal Al Mulla – Head of Investments
- Arif Janahi – Head of Corporate Banking
- Karim Turki – Head of Retail Banking

**Direct Reports to Mukundan Raghavachari, Deputy Group CEO Strategic Development & Support**

- Eyad Sater – Chief Administrative Officer
- Janaka Mendis – Chief Operating Officer
- Hussain Abdulhaq – Head of Treasury & Financial Institutions
- Krishnan Shyam – Head of Finance
- Harish Venkatakrisnan – Head of Investment Administration
- Ahmed Saif – Head of Investment Management

## Remuneration Policy

### INTRODUCTION

This document has been prepared in accordance with CBB new remuneration disclosure requirements for Islamic Banks under High Level Controls Module. These requirements are in addition to the disclosures published in the Annual Report.

#### Core remuneration Policy

The fundamental principles underlying our remuneration policy which has been approved by the Board of Directors and the shareholders of the bank are:

- The composition of salary, benefits and incentives is designed to align employee and shareholder interests;
- Remuneration determination takes into account both financial and non-financial factors over both the short and longer-term;
- Emphasis is on performance evaluations that reflect individual performance, including adherence to the Bank's risk and compliance policies in determining the total remuneration for a position;
- The Bank has set a fixed remuneration of the employees at such a level to reward the employees for an agreed level of performance and the variable pay or bonus will be awarded purely at the discretion of the Board's Remuneration and Nomination Committee (RNC) in recognition of the employees exceptional effort in any given performance period;
- The Bank shall have a well-defined variable pay scheme in place, to support the RNC, should they decide to pay variable pay or bonus in any performance period;
- Variable pay will be determined based on achievement of targets at the Bank level, unit level and individual level;
- Variable pay scheme is designed in a manner that supports sound risk and compliance management. In order to achieve that goal:
  - o Performance metrics for applicable business units are risk-adjusted where appropriate;
  - o Individual award determinations include consideration of adherence to compliance-related goals.
- The remuneration package of employees in Control and Support functions are designed in such a way that they can function independent of the business units they support. Independence from the business for these employees is assured through:
  - o Setting total remuneration to ensure that variable pay is not significant enough to encourage inappropriate behaviours while remaining competitive with the market;
  - o Remuneration decisions are based on their respective functions and not the business units they support;
  - o Performance measures and targets are aligned to the Bank and individual objectives that are specific to the function;
  - o Respective function's performance as opposed to other business unit's performance is a key component for calculating individual incentive payments.
- Both qualitative and quantitative measures will be used to evaluate an individual's performance across the Bank

The Bank will review the salaries and benefits periodically, with an objective of maintaining competitive advantage in the market, based on salary surveys and market information gathered through secondary sources.

The Bank does not provide for any form of severance pay, other than as required by the Labour Law for the Private Sector (Law No.36 of 2012 of the Kingdom of Bahrain) , to its employees. Under exceptional circumstances and subject to RNC approval the Bank may offer Sign on bonus or minimum variable pay for any new recruit limited to first year of employment only.

The Bank would not allow any of its employees identified as approved persons as per CBB guidelines, to take any benefits from any projects or investments which are managed by the Bank or promoted to its customers or potential customers except for Board related remuneration linked to their fiduciary duties to the investors of the project/investment including those appointed as members of the board of special purpose vehicles or other operating companies set up by the Bank for projects or investments.

#### Regulatory alignment

The Bank has reviewed and revised the Bank's remuneration policy and especially its variable pay policy to meet the requirements of the CBB Guidelines on remuneration with the help of external consultants. Key regulatory areas and the Bank's response are summarised below:

Regulatory Area	Bank's practice
Governance	The composition of RNC is as required by the CBB remuneration guidelines and is chaired by an Independent Director. The RNC charter has been revised in line with the requirements of the CBB guidelines and the Committee will be responsible for the design, implementation and supervision of the remuneration policy. The aggregate fees / compensation paid to RNC members for 2014 amounted to BD 6,000. The Committee utilised the services of an external consultant to re-design and implement the revised remuneration policy aligned to the CBB guidelines on remuneration.
Risk focussed remuneration policy	The Bank has set the Fixed Remuneration of the employees at such a level to reward the employees for an agreed level of performance and the variable pay or bonus will be paid purely at the discretion of the RNC in recognition of the employees exceptional effort in any given performance period. Should the RNC decide to award, the Variable Pay, it will be determined based on risk adjusted targets set at the Business unit level aggregated to the Bank level. The variable pay for the CEO, senior management in Business units and the Material Risk takers would be higher as compared to the fixed pay subject to achieving the risk adjusted targets both at the business unit and the bank level. For staff in Control and Support functions, the pay mix is structured as more fixed and lesser variable. Further the variable pay, for staff in Control and Support Functions, is based on their units target and individual performance and not linked to bank's performance.

## Remuneration Policy (continued)

Regulatory Area	Bank's practice
Capital and Liquidity	<p>The bonus or variable pay computation process is designed in such a way to ensure that it does not impact the Capital and Liquidity as there are validation checks prior to approval of the RNC. The validation checks are the bonus pool as compared to the realised profit, impact on capital adequacy computed as per Basle III guidelines and as compared to the total fixed pay.</p>
Deferral and share linked instruments	<p>The Bonus for the CEO, his deputies and Material Risk Takers and Approved Persons as per CBB and those whose total remuneration exceeds the regulatory threshold has a deferral element and share - linked payment. Phantom or Shadow shares may offered to such staff.</p> <p>The deferral arrangements are as follows:</p> <p>CEO, his deputies and top 5 Executive Management members (in terms of total remuneration) in Business units:</p> <ul style="list-style-type: none"> <li>• 40% of the variable pay will be paid in cash at the end of the performance period; and</li> <li>• The balance 60% will be deferred over a period of 3 years with 10% being cash deferral and 50% being phantom or shadow shares or in some other non – cash form and the entire deferred variable pay will vest equally over a 3 - year period and the phantom or shadow shares can be encashed after 6 months from the vesting date.</li> <li>• For all other employees in Business units and Approved Persons in Control and Support Functions and whose total remuneration exceeds the regulatory threshold:</li> <li>• 50% of the variable pay will be paid in cash at the end of the performance period; and</li> <li>• 10% in the form of phantom or shadow shares at the end of the performance period which can be encashed by the employee after 6 months.</li> <li>• The balance 40% will be deferred over a period of 3 years and paid in the form of phantom or shadow shares and vests equally over the 3 year period and can be encashed after 6 months from the vesting date.</li> </ul>
Claw back and Malus	<p>The bank has introduced claw - back and malus clauses whereby the RNC has the right to invoke these clauses under certain pre-defined circumstances wherein the bank can claw - back the vested as well as the unvested bonus paid or payable to a staff.</p>

## REMUNERATION COMPONENTS

It is the Bank's intent to have a transparent, structured and comprehensive remuneration policy that covers all types of compensation and benefits provided to employees.

The remuneration policy provides a standardised framework for remuneration covering employees at all levels of the Bank.

Remuneration offered by the Bank shall reflect the Bank's objective of attracting and retaining the desired level of talent from the industry

Remuneration will be at a level, which will be commensurate with other Banks of similar activity in Bahrain, and will allow for changes in the cost of living index. The compensation package shall comprise of basic salary and benefits and discretionary variable pay. The following table summarises the total remuneration:

Element of Pay	Rationale	Summary						
Salary and Benefits	To attract and retain the desired level of talent	<p>Reviewed annually</p> <p>Benchmarked to the local market and the compensation package offered to employee is based on the job content and complexity.</p> <p>The Bank offers a composite fixed pay i.e. it is not split as Basic and Allowances but is paid as one lumpsum. The benefits are aligned to the local market practice.</p>						
Variable Pay/ Bonus	<p>To incentivise the achievement of annual targets set at the bank level and at the Business unit levels and thereby also make sure that senior management get substantial portion as variable pay which is linked to performance.</p> <p>The Variable pay is deferred to ensure that the management's interests are aligned to the shareholder value and to align time horizon of risk</p>	<p>The Bonus pool is determined based on the bottom up approach i.e. by setting base multiples of monthly salary per level and aggregating the multiples per unit and then on to the bank level.</p> <p>The basis of payment of bonus would be as follows:</p> <table border="1"> <tbody> <tr> <td>CEO and Senior Management</td> <td>Base multiple * Bank score * Individual score</td> </tr> <tr> <td>Business units</td> <td>Base multiple * Bank score * Unit score * Individual score</td> </tr> <tr> <td>Control &amp; Support units</td> <td>Base multiple * Unit score * Individual score</td> </tr> </tbody> </table> <p><b>Computation of Variable Pay – Business Units</b></p> <p><b>Beginning of the financial year:</b></p> <p>Targets are set for the Business units and is aggregated to the Bank level target. In setting targets certain bank wide risk parameters which includes capital, liquidity, profit and qualitative measure such as reputation risk and the bank and unit specific KPIs shall be considered.</p> <p>For achieving this target, total Bonus pool is set based on monthly multiples of salary across the bank. The Key feature is that bonus is self-funding and the different levels of targets are not just % increase in profits but profits adjusted for additional bonus.</p>	CEO and Senior Management	Base multiple * Bank score * Individual score	Business units	Base multiple * Bank score * Unit score * Individual score	Control & Support units	Base multiple * Unit score * Individual score
CEO and Senior Management	Base multiple * Bank score * Individual score							
Business units	Base multiple * Bank score * Unit score * Individual score							
Control & Support units	Base multiple * Unit score * Individual score							

## Remuneration Policy (continued)

Element of Pay	Rationale	Summary
		<p>This Bonus Pool is subject to additional checks for its impact on the capital adequacy, as a proportion of net profit and realised profit and as a proportion of the total fixed pay in any given financial year;</p> <p><b>At the end of the financial year:</b></p> <p>The actual results are evaluated against targets, considering the risk parameters matrix and adjustments if any to the unit score or the banks score as appropriate are made and the bonus pool is revised accordingly.</p> <p>The actual bonus pool is approved by the RNC and the individual Bonus payments are as per the scoring matrix.</p> <p><b>Computation of Variable Pay – Control and Support Units</b></p> <p>The Unit targets as set out and agreed with the RNC in the beginning of each evaluation period will be the base for Variable pay to be paid.</p> <p>Except in the case of bank making a loss, the variable pay for the staff in the Control and Support unit, would be payable based on the Unit targets and the individual performance.</p> <p>Base Multiples are set for each employee level in each Control and Support unit.</p> <p>The achievement of unit target is assigned a weight of 1 and scored based on the level of actual results achieved.</p> <p>The individual performance score is based on the individual rating and the score is set to vary between 0 up to a maximum of 1</p> <p>The Summary of the Variable pay process is:</p> <p>Links reward to bank, business unit and individual performance</p> <p>Target setting process considers risk parameters which are both quantitative and qualitative such as reputation</p> <p>Aligned to time horizon of risk the bonus has a deferral element and a share linkage to align the employees interest with that of the sharholders</p> <p>Bonus can be lesser or nil if the bank or business units do not achieve the risk adjusted targets or make losses</p> <p>Post risk assessment is carried out to ensure that in case of material losses or realisation of less than expected income which can be attributed to employees actions the claw back or malus as appropriate is invoked</p>



**DEFERRED  
COMPENSATION**

All employees listed below are subject to the following rules of deferral:

**1 CEO, CEO's direct reports and business unit heads:**

Elements of Variable Remuneration	Pay-out 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:**

Elements of Variable Remuneration	Pay-out Percentages	Vesting Period	Retention	Malus	Clawback
Upfront Cash	50%	immediate	-	-	Yes
Deferred Cash	10%	immediate	6 months	Yes	Yes
Deferred Share Awards	40%	3 years	6 months	Yes	Yes

**Details of Remuneration Paid**

(a) Board of Directors

Amounts in BD	2014	2013
Sitting fees and travel allowance	135,482	100,631
Remuneration	329,000	364,948
ASBB subsidiaries' Board remuneration, attendance fees and expenses	70,202	-

## Remuneration Policy (continued)

(b) Employees

### 1 Employee Remuneration

Amounts in BD	2014								Total*
	No. of Staff (31 December 2014)	Fixed remuneration	Sign on bonuses	Guaranteed bonuses	Variable remuneration				
					Upfront		Deferred		
		Cash	Cash/shares	Cash/shares	Cash	Shares	Shares	Cash	
Approved Persons Business Lines	10	1,417,066	-	-	590,518	-	-	320,276	2,327,860
Approved Persons Control & Support	11	717,968	-	-	45,350	-	-	45,350	808,668
Other Material Risk Takers	7	341,481	-	-	2,625	-	-	2,625	346,731
Other Employees: Bahrain Operations	403	9,673,012	-	-	748,729	-	-	-	10,421,741
Other Employees: Overseas Branches & Subsidiaries	2	71,500	-	-	14,500	-	-	-	86,000
<b>Total</b>	<b>433</b>	<b>12,221,027</b>	<b>-</b>	<b>-</b>	<b>1,401,722</b>	<b>-</b>	<b>-</b>	<b>368,251</b>	<b>13,991,000</b>

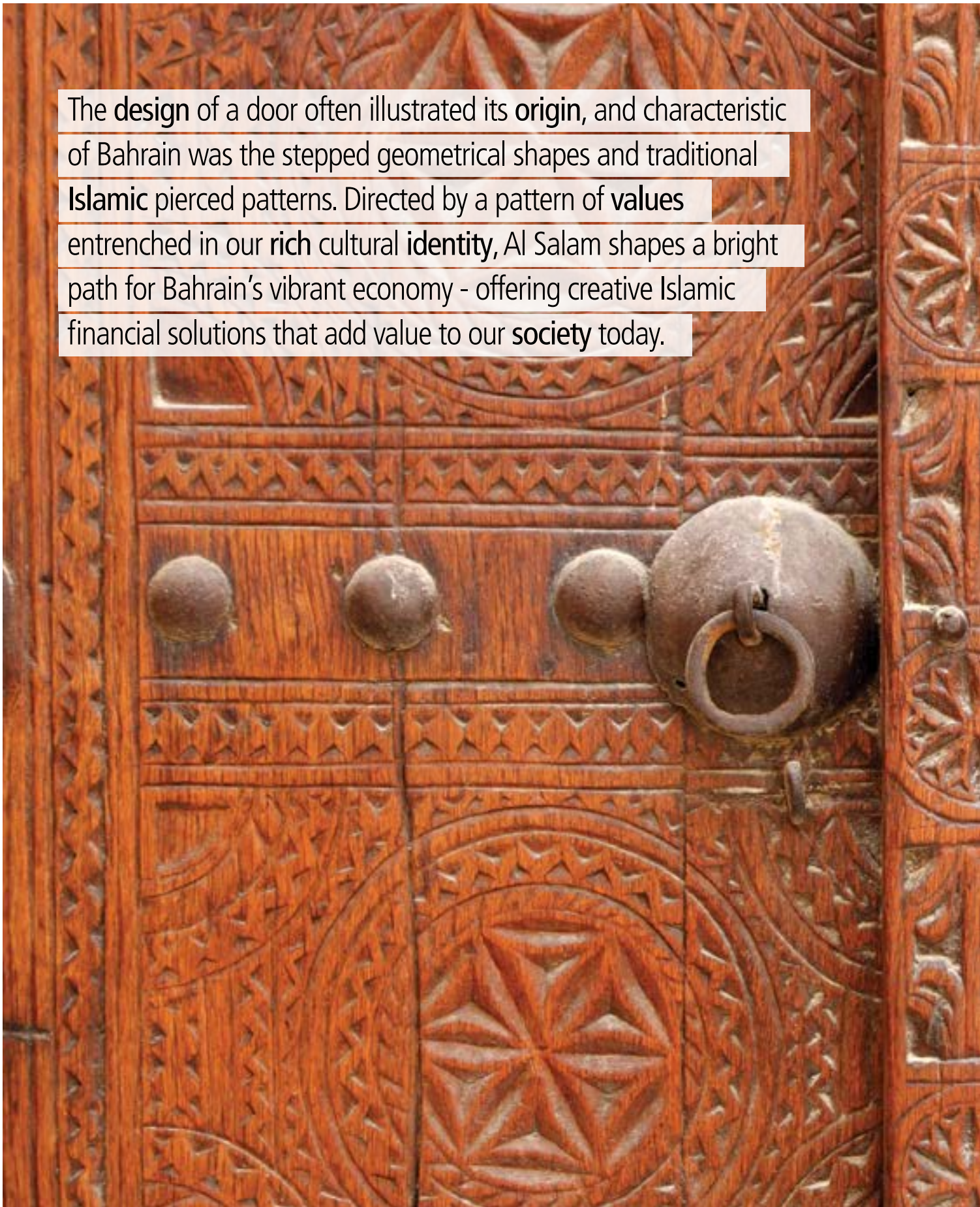
\* includes staff compensation of BMI Bank B.S.C. (c) from the 30 March 2014, date of acquisition.

In addition to the above, the remuneration received by approved persons business line from SPVs / project companies managed by the Bank amounted to BD 32,811 (2013: BD 36,000).

Severance payments made during the year amounted to BD 1,073,834.

Amounts in BD	2013								Total
	No. of Staff (31 December 2013)	Fixed remuneration	Sign on bonuses	Guaranteed bonuses	Variable remuneration				
					Upfront		Deferred		
		Cash	Cash/shares	Cash/shares	Cash	Shares	Shares	Cash	
Approved Persons Business Lines	9	1,205,624	-	-	475,544	-	-	-	1,681,168
Approved Persons Control & Support	10	624,610	-	-	147,200	-	-	-	771,810
Other Material Risk Takers	10	408,884	-	-	209,175	-	-	-	618,059
Other Employees: Bahrain Operations	162	3,100,067	-	-	213,887	-	-	-	3,313,953
Other Employees: Overseas Branches & Subsidiaries	2	67,210	-	-	16,800	-	-	-	84,010
<b>Total</b>	<b>193</b>	<b>5,406,395</b>	<b>-</b>	<b>-</b>	<b>1,062,606</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,469,000</b>

The **design** of a door often illustrated its **origin**, and characteristic of Bahrain was the stepped geometrical shapes and traditional **Islamic** pierced patterns. Directed by a pattern of **values** entrenched in our **rich** cultural **identity**, Al Salam shapes a bright path for Bahrain's vibrant economy - offering creative Islamic financial solutions that add value to our **society** today.





## Risk Management and Compliance

### Executive Management Compensation

At Al Salam Bank-Bahrain B.S.C. we appreciate the fact that we are in the business of taking risks and our success is largely dependent on how efficiently we identify, measure, control and manage these risks. Hence, we view risk management as a core competency from a strategic point of view and the Basel II Accord as a catalyst to the successful implementation of the pillars of risk management.

The fundamental principle underlying our risk management framework is ensuring that accepted risks are within Board approved risk appetite and the returns are commensurate with the risks taken. The objective is creating shareholder value through protecting the Group against unforeseen losses, ensuring maximization of earnings potential and opportunities vis-à-vis the Group's risk appetite and ensuring earnings stability.

With this in mind, the Bank's establishment plan gave priority to the development of an effective and practical risk management framework and independent risk management and compliance function in line with best risk management practice locally and internationally, the requirements of the Central Bank of Bahrain and the Basel II Accord.

### Risk Management Framework

The risk management framework defines the risk culture of Al Salam Bank-Bahrain and sets the tone throughout the Group to practice the right risk behavior consistently to ensure that there is always a balance between business profits and risk appetite.

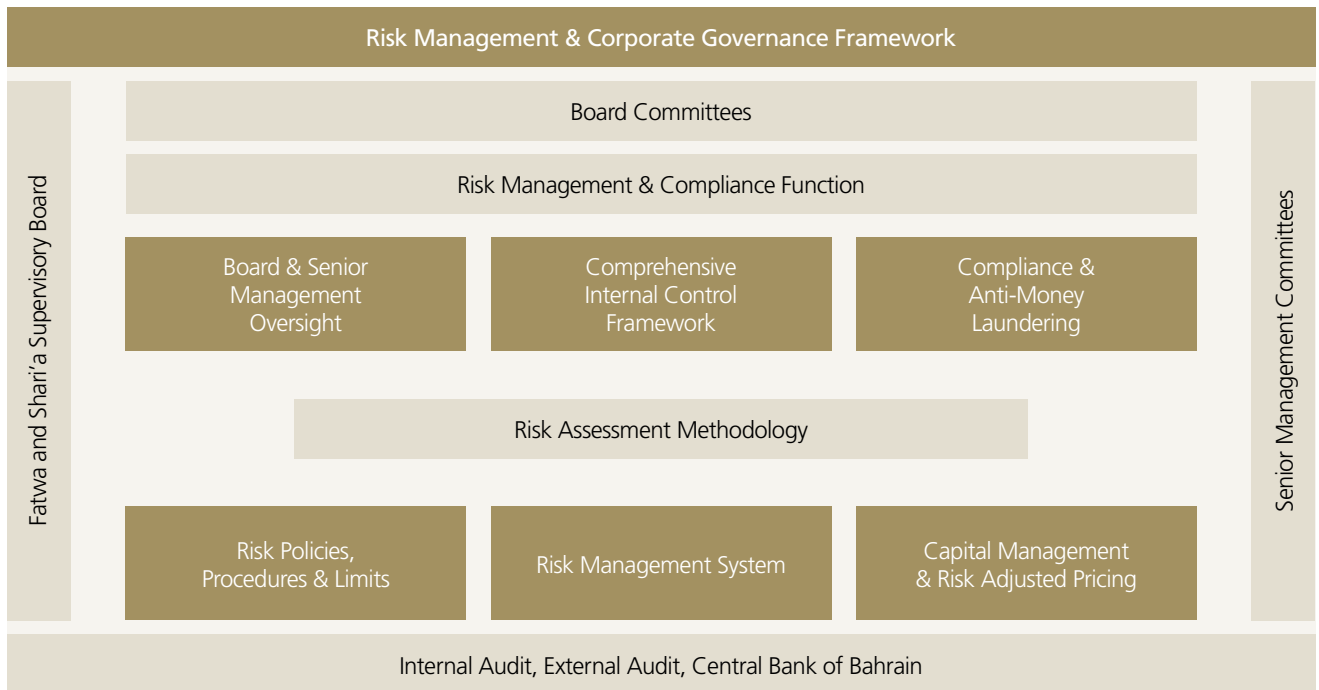
The risk management framework achieves this through the definition of the Group's key risk management principles covering credit, market, operational, strategic and reputation risks, the role and responsibilities of the Board, Risk Management group and Senior Management towards risk management, the risk assessment methodology based on likelihood and consequences, the major risk policies, procedures and risk limits, the risk management information systems and reports, the internal control framework and the Group's approach to capital management.

The effectiveness of the risk management framework is independently assessed and reviewed through internal audits, external audits and Central Bank of Bahrain supervision. In addition, business and support groups carry out periodic control risk self assessments.

As a result, the risk management framework creates an alignment between business and risk management objectives.

**Capital Management**

The cornerstone of risk management framework is the optimization of risk-reward relationship against the capital available through a focused and well monitored capital management process involving Risk Management, Finance and Business groups.



**Corporate Governance**

The risk management framework is supported by an efficient Corporate Governance Framework discussed on pages 34 to 49.

**Risks Ownership**

The implementation of the risk management framework Group-wide is the responsibility of the Risk Management & Compliance Departments. Ownership of the various risks across the Group lies with the business and support Heads and it is their responsibility to ensure that these risks are managed in accordance with the risk management framework.

Risk Management assists business and support heads in identifying concerns and risks, identifying risk owners, evaluating risks as to likelihood and consequences, assessing options for mitigating the risks, prioritizing risk management efforts, developing risk management plans, authorizing implementation of risk management plans and tracking risk management efforts.

## Risk Management and Compliance (continued)

The Bank has the following Policies, Procedures and Limits relating to the Risk Management Framework:

Credit Risk Management	Market Risk Management	Operational Risk Management	Capital Management	Compliance & Anti-Money Laundering
<ul style="list-style-type: none"> <li>Exposures and Limits Monitoring</li> </ul>	<ul style="list-style-type: none"> <li>Positioning and Limits Monitoring</li> </ul>	<ul style="list-style-type: none"> <li>Control Self Assessments</li> </ul>	<ul style="list-style-type: none"> <li>Basel II Compliance</li> </ul>	<ul style="list-style-type: none"> <li>Compliance Monitoring</li> </ul>
<ul style="list-style-type: none"> <li>Portfolio Management</li> </ul>	<ul style="list-style-type: none"> <li>Risk Measurement Methodology</li> </ul>	<ul style="list-style-type: none"> <li>Key Risk Indicators Monitoring</li> </ul>	<ul style="list-style-type: none"> <li>Risk Adjusted Pricing</li> </ul>	<ul style="list-style-type: none"> <li>Anti-Money Laundering Control</li> </ul>
<ul style="list-style-type: none"> <li>Timely Reporting to Risk Committee</li> </ul>	<ul style="list-style-type: none"> <li>Timely Reporting to ALCO</li> </ul>	<ul style="list-style-type: none"> <li>Risk &amp; Loss Events Database</li> </ul>	<ul style="list-style-type: none"> <li>Reporting to Board Executive Committee</li> </ul>	<ul style="list-style-type: none"> <li>Training and Awareness</li> </ul>
<ul style="list-style-type: none"> <li>Internal Rating Methodology</li> </ul>		<ul style="list-style-type: none"> <li>IT Security Managements</li> </ul>	<ul style="list-style-type: none"> <li>Scenario Analysis</li> </ul>	<ul style="list-style-type: none"> <li>AML System Controls</li> </ul>
<ul style="list-style-type: none"> <li>Periodic Stress Testing and Scenario Analysis</li> </ul>		<ul style="list-style-type: none"> <li>Business Continuity Planning</li> </ul>		
		<ul style="list-style-type: none"> <li>Outsourcing Risk Management</li> </ul>		

### Compliance & Anti-Money Laundering Department

The Bank has established an independent and dedicated unit to coordinate the implementation of compliance and Anti-Money Laundering and Anti-Terrorist Financing program. The program covers policies and procedures for managing compliance with regulations, anti-money laundering, disclosure standards on material and sensitive information and insider trading. In line with its commitment to combat money laundering and terrorist financing, Al Salam Bank - Bahrain through its Anti-Money Laundering policies ensures that adequate preventive and detective internal controls and systems operate effectively. The policies govern the guidelines and procedures for client acceptance, maintenance and monitoring in line with the Central Bank of Bahrain and International standards such as FATF recommendations and Basel Committee papers.

All inward and outward electronic transfers are screened against identified sanction lists issued by certain regulatory bodies including the UN Security Council Sanctions Committees and US Department of the Treasury - OFAC, in addition to those designated by the Central Bank of Bahrain.

The compliance program also ensures that all applicable Central Bank of Bahrain regulations are complied with and/or non-compliance is detected and addressed in a timely manner. The program includes compliance with regulations set by Ministry of Industry & Commerce and Bahrain Bourse.

The Bank has initiated steps to comply with Foreign Account Tax Compliance Act (FATCA) requirements as and when required by the regulators.



## Corporate Social Responsibility

The Bank is committed to fulfilling its obligations as a good corporate citizen in the communities in which it operates. We endeavor to support the Bahrain Government in its efforts to enhance the quality of life of the people of the Kingdom of Bahrain.

ASBB underscore this commitment to our community by supporting initiatives that add value to the Island's housing, education and health infrastructure, as well as encouraging future economic growth and prosperity through supporting entrepreneurship and the development of our youth.

During the year, charitable donations were made to medical facilities and other charities that care for the less fortunate and supported cultural initiatives in order to preserve the traditions of the Kingdom for generations.

## The Fatwa and Shari'a Supervisory Board Report for Al Salam Bank-Bahrain B.S.C. presented to the AGM for the financial year 2014

The Shari'a Fatwa and Supervisory Board ("the Board") has reviewed the Bank's transactions during the year, as well as the Financial Position, Income, Cash Flows and Changes in Equity statements. The Board met with the Bank's management and submitted its annual report as follows:

### Firstly:

1. The Board has supervised the Banks' activities and transactions during the year, and carried out its role by advising the various departments to adhere to the Shari'a principles and the Board's legal opinions in respect to those activities and transactions. The Board held, for this purpose, several meetings with the Banks' management. The Board hereby confirms the Bank's management keenness to adhere to the Shari'a principles and the Board's legal opinions.
2. The Board has studied the transactions presented to it during the year, and approved the contracts and documents relating to those transactions. The Board responded to questions and queries and issued appropriate decisions and legal opinions relevant to the transactions. The decisions and legal opinions were circulated to the pertinent departments for execution.

### Secondly:

The Bank has acquired the conventional bank "BMI Bank" with the intention to convert it into a Shari'a-compliant bank, which in fact happened as of 1st January 2015 according to a quick and successful plan, and some assets which did not convert at this date will be kept in a separate portfolio under the shareholders' account, which will be settled within six months.

### Thirdly:

The Board has reviewed samples of contracts and agreements that were presented and requested the Management to adhere to them.

### Fourthly: Financial Statements:

The Board has reviewed the financial statements and notes and made its observations on them.

In line with the available information and disclosures that are presented by the banks' management, the financial statements reviewed by the Board represents the Banks' assets, liabilities, revenues, equity, customers' accounts and operational expenses. The accuracy of the information and data provided are the responsibility of the Banks' management.

The Board believes that the consolidated balance sheet, profit and loss account and the distribution of profits to depositors and shareholders had been prepared in conformity with the Islamic Shari'a.

### Fifthly: Zakah:


Since the articles of association of the Bank did not require the Bank to pay Zakah on behalf of the Shareholders, the Board has calculated the Zakah due on shareholders in order to inform them, and which should be disclosed in the notes to the financial statements.

### Sixthly: Prohibited Income:

The Shari'a Board has set aside the Shari'a non-compliant income and directed it to the Charity Account.

The Board hereby emphasizes that management has the primary responsibility to comply with the Rules and Principles of Shari'a in all activities and transactions of the Bank. The Board confirms that the executed transactions that are submitted by management of the Bank for the Board's review during the year were generally in compliance with Rules and Principles of Shari'a. The management has shown utmost interest and willingness to fully comply with the recommendations of the Board

### Board Members



Dr. Ali Al Qura Daghi  
Board member



Dr. Hussein Hamed Hassan  
Chairman



Shaikh Adnan Al Qattan  
Board Member



Dr. Mohammed Zoair  
Board Member



Dr. Mohammed Arbouna  
Board Member



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## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL SALAM BANK-BAHRAIN B.S.C.

### Report on the consolidated financial statements

We have audited the accompanying consolidated statement of financial position of Al Salam Bank-Bahrain B.S.C. ["the Bank"] and its subsidiaries [together "the Group"] as of 31 December 2014, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

### Opinion

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

### Other Matters

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

- a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; and
- b) the financial information contained in the 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 2 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 consolidated financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests. The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank.

Partner's Registration No. 115  
4 February 2015  
Manama, Kingdom of Bahrain

## Consolidated Statement of Financial Position

31 December 2014

	Note	2014 BD '000	2013 BD '000
<b>ASSETS</b>			
Cash and balances with banks and Central Bank of Bahrain	5	277,751	86,097
Central Bank of Bahrain Sukuk		94,678	102,937
Murabaha and Wakala receivables from banks	6	182,110	118,227
Corporate Sukuk	7	139,304	91,106
Murabaha financing	8	270,428	156,142
Mudaraba financing	8	189,601	114,084
Ijarah Muntahia Bittamleek	10	141,052	110,631
Musharaka		10,851	19,145
Assets under conversion	11	308,659	-
Non-trading investments	12	147,096	125,923
Investments in real estate	13	65,149	66,718
Development properties	14	59,262	65,891
Investment in associates	15	10,492	8,537
Other assets	16	32,893	22,814
Goodwill	3	25,971	-
<b>TOTAL ASSETS</b>		<b>1,955,297</b>	<b>1,088,252</b>
<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY</b>			
<b>LIABILITIES</b>			
Murabaha and Wakala payables to banks		121,266	106,796
Wakala payables to non-banks		1,034,052	584,365
Customers' current accounts		226,648	70,532
Term financing	17	21,337	23,637
Liabilities under conversion	11	149,621	-
Other liabilities	18	45,418	30,979
<b>TOTAL LIABILITIES</b>		<b>1,598,342</b>	<b>816,309</b>
<b>EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>	19	<b>28,152</b>	<b>25,846</b>
<b>OWNERS' EQUITY</b>			
Share capital	20	214,093	149,706
Treasury stock		-	(492)
Reserves and retained earnings		93,777	78,580
Proposed appropriations	20	10,705	7,485
Total equity attributable to shareholders of the Bank		318,575	235,279
Non-controlling interest		10,228	10,818
<b>TOTAL OWNERS' EQUITY</b>		<b>328,803</b>	<b>246,097</b>
<b>TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY</b>		<b>1,955,297</b>	<b>1,088,252</b>

Shaikha Hessa bint Khalifa Al Khalifa  
Chairperson of the Board

Yousif Taqi  
Director & CEO

The attached notes 1 to 42 form part of these consolidated financial statements.

## Consolidated Income Statement

Year Ended 31 December 2014

	Note	2014 BD '000	2013 BD '000
<b>OPERATING INCOME</b>			
Income from financing contracts	22	51,494	26,132
Income from Sukuk		7,120	9,448
Gains on sale of investments and Sukuk	23	12,282	3,833
Income from investments	24	2,863	2,424
Fair value changes on investments		(6,413)	(1,398)
Dividend income		758	570
Foreign exchange gains		1,578	793
Fees, commission and other income - net	25	6,650	2,305
		76,332	44,107
Profit on Murabaha and Wakala payables to banks		(1,035)	(682)
Profit on Wakala payables to non-banks		(28,040)	(17,190)
Profit on term financing		(974)	-
Profit relating to equity of investment accountholders	19	(215)	(148)
Total operating income		46,068	26,087
<b>OPERATING EXPENSES</b>			
Staff cost		13,991	6,469
Premises and equipment cost		2,415	1,147
Depreciation		1,507	280
Other operating expenses		8,505	3,505
Total operating expenses		26,418	11,401
<b>PROFIT BEFORE PROVISIONS AND RESULTS OF ASSOCIATES AND JOINT VENTURES</b>			
		19,650	14,686
Provision for impairment - net	9	(4,198)	(3,208)
Share of profit from associates and joint ventures	15	369	894
<b>NET PROFIT FOR THE YEAR</b>			
		15,821	12,372
<i>Attributable to:</i>			
- Shareholders of the Bank		15,550	12,372
- Non-controlling interest		271	-
		15,821	12,372
<b>WEIGHTED AVERAGE NUMBER OF SHARES (in '000)</b>			
		1,982,531	1,491,372
<b>BASIC AND DILUTED EARNINGS PER SHARE (FILS)</b>			
		8.0	8.3

Shaikha Hessa bint Khalifa Al Khalifa  
Chairperson of the Board

Yousif Taqi  
Director & CEO

The attached notes 1 to 42 form part of these consolidated financial statements.

## Consolidated Statement of Cash Flows

Year Ended 31 December 2014

	Note	2014 BD '000	2013 BD '000
<b>OPERATING ACTIVITIES</b>			
Net profit for the year		15,821	12,372
Adjustments:			
Depreciation		1,507	280
Fair value changes on investments		6,413	1,398
Provision for impairment - net		4,198	3,208
Share of profit from associates and joint ventures		(369)	(894)
Operating income before changes in operating assets and liabilities		27,570	16,364
<b>Changes in operating assets and liabilities:</b>			
Mandatory reserve with Central Bank of Bahrain		(22,400)	115
Central Bank of Bahrain Sukuk		30,434	14,675
Murabaha and Wakala receivables from banks with original maturities of 90 days or more		4,358	(12,279)
Corporate Sukuk		(39,611)	(16,113)
Murabaha financing		(51,622)	(29,962)
Mudaraba financing		(59,890)	(14,512)
Ijarah Muntahia Bittamleek		(2,319)	(27,701)
Musharaka financing		8,294	(1,678)
Assets under conversion		130,707	-
Non-trading investments and investment in associates, net		(13,604)	75,885
Investments in real estate and development properties, net		9,238	(108,450)
Other assets		(2,901)	14,390
Murabaha and Wakala payables to banks		(38,874)	15,944
Wakala from non-banks		91,894	62,436
Customers' current accounts		105,438	(13,389)
Liabilities under conversion		(59,800)	-
Other liabilities		3,216	11,804
Net cash from (used in) operating activities		120,128	(12,471)
<b>INVESTING ACTIVITIES</b>			
Cash flow arising on acquisition of a subsidiary	3	127,670	-
Cash flow arising on sale of treasury stock		1,754	-
Purchase of premises and equipment		(1,015)	(81)
Net cash from (used in) investing activities		128,409	(81)
<b>FINANCING ACTIVITIES</b>			
Term financing		(2,300)	23,637
Equity of investment accountholders		(84)	7,570
Share issue expenses		(125)	-
Dividends paid		(7,446)	(7,446)
Dividends paid to non-controlling interest		(345)	-
Net movements in non-controlling interest		(742)	10,818
Net cash (used in) from financing activities		(11,042)	34,579
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>			
		237,495	22,027
Cash and cash equivalents at 1 January		171,040	149,013
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>			
		408,535	171,040
<b>Cash and cash equivalents comprise of:</b>			
Cash and other balances with Central Bank of Bahrain	5	187,313	58,727
Balances with other banks	5	48,088	7,420
Murabaha and Wakala receivables from banks with original maturities of less than 90 days		173,134	104,893
		408,535	171,040

The attached notes 1 to 42 form part of these consolidated financial statements.

## Consolidated Statement of Changes in Owners' Equity

Year Ended 31 December 2014

Amounts in BD '000	Attributable to shareholders of the Bank												
	Share capital	Treasury stock	Statutory reserve	Retained earnings	Changes in fair value	Real estate fair value reserve	Foreign exchange translation reserve	Share premium reserve	Total reserve appropriations	Total	Non-controlling interest	Total owners' equity	
<b>Balance as of 1 January 2014</b>	149,706	(492)	10,926	43,272	651	21,659	(501)	2,573	78,580	7,485	235,279	10,818	246,097
Net profit for the year	-	-	-	15,550	-	-	-	-	15,550	-	15,550	271	15,821
Net changes in fair value	-	-	-	-	636	1,045	-	-	1,681	-	1,681	-	1,681
Foreign currency re-translation	-	-	-	-	-	-	(900)	-	(900)	-	(900)	81	(819)
Dividend paid	-	-	-	-	-	-	-	-	-	(7,446)	(7,446)	-	(7,446)
Proposed dividend for 2014	-	-	-	(10,705)	-	-	-	-	(10,705)	10,705	-	-	-
Dividend relating to subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(345)	(345)
Shares issued on acquisition	64,387	-	-	-	-	-	-	8,499	8,499	-	72,886	-	72,886
Share issue expenses	-	-	-	-	-	-	-	(125)	(125)	-	(125)	-	(125)
Net movements in non-controlling interest	-	-	-	(4)	-	-	-	-	(4)	-	(4)	(597)	(601)
Sale of treasury stock	-	492	-	-	-	-	-	1,262	1,262	-	1,754	-	1,754
Transfer to statutory reserve	-	-	1,555	(1,555)	-	-	-	-	-	-	-	-	-
Transfer	-	-	-	39	-	-	-	-	39	(39)	-	-	-
Charitable donations	-	-	-	(100)	-	-	-	-	(100)	-	(100)	-	(100)
<b>Balance at 31 December 2014</b>	214,093	(492)	12,481	46,497	1,287	22,704	(1,401)	12,209	93,777	10,705	318,575	10,228	328,803
<b>Balance as of 1 January 2013</b>	149,706	(492)	9,689	39,583	92	-	(571)	2,573	51,366	7,485	208,065	-	208,065
Net profit for the year	-	-	-	12,372	-	-	-	-	12,372	-	12,372	-	12,372
Net changes in fair value	-	-	-	-	559	21,659	-	-	22,218	-	22,218	-	22,218
Non-controlling interest arising on consolidation	-	-	-	-	-	-	-	-	-	-	-	10,818	10,818
Foreign currency re-translation	-	-	-	-	-	-	70	-	70	-	70	-	70
Transfer to statutory reserve	-	-	1,237	(1,237)	-	-	-	-	-	-	-	-	-
Proposed dividend for 2013	-	-	-	(7,485)	-	-	-	-	(7,485)	7,485	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	-	(7,446)	(7,446)	-	(7,446)
Transfer	-	-	-	39	-	-	-	-	39	(39)	-	-	-
<b>Balance at 31 December 2013</b>	149,706	(492)	10,926	43,272	651	21,659	(501)	2,573	78,580	7,485	235,279	10,818	246,097

The attached notes 1 to 42 form part of these consolidated financial statements.

## Notes to the Consolidated Financial Statements

31 December 2014

### 1. INCORPORATION AND PRINCIPAL ACTIVITIES

Al Salam Bank-Bahrain B.S.C. ("the Bank") was incorporated in the Kingdom of Bahrain under the Bahrain Commercial Companies Law No. 21/2001 and is registered with Ministry of Industry and Commerce ("MOIC") under Commercial Registration Number 59308 on 19 January 2006. The Bank is regulated and supervised by the Central Bank of Bahrain ("the CBB") and has an Islamic retail banking license and is operating under Islamic principles, and in accordance with all the relevant regulatory guidelines for Islamic banks issued by the CBB. The Bank's registered office is P.O. Box 18282, Building 22, Avenue 58, Block 436, Al Seef District, Kingdom of Bahrain.

During the year, the Bank acquired 100% stake in BMI Bank B.S.C. (c) ("BMI"), a closed shareholding company in the Kingdom of Bahrain, through exchange of shares as explained in more detail in note 3. BMI operates under a retail conventional banking license issued by the CBB. All the legal formalities in relation to the share issuance have been completed and the process of converting BMI into fully compliant Islamic operations is in progress.

The Bank and its subsidiary BMI operate through twelve branches in the Kingdom of Bahrain and offers a full range of Shari'a-compliant banking services and products. The activities of the Bank include managing profit sharing investment accounts, offering Islamic financing contracts, dealing in Shari'a-compliant financial instruments as principal/agent, managing Shari'a-compliant financial instruments and other activities permitted for under the CBB's Regulated Islamic Banking Services as defined in the licensing framework. The Bank's ordinary shares are listed in the Bahrain Bourse and Dubai Financial Market.

In addition to BMI, the principal subsidiaries are as follows:

<i>Name of entity</i>	<i>Nature of entity</i>	<i>% holding</i>	
		<i>2014</i>	<i>2013</i>
Al Salam Leasing Two Ltd ("ASL II")	Aircraft under lease	76%	76%
Auslog Holding Trust	Investment in real estates	90%	90%
Al Salam Asia REIT Fund	Open-ended mutual fund	44%	-

The Bank together with its subsidiaries is referred to as "the Group".

These consolidated financial statements have been authorised for issue in accordance with a resolution of the Board of Directors dated 4 February 2015.

### 2. ACCOUNTING POLICIES

#### 2.1 BASIS OF PREPARATION

The consolidated financial statements are prepared on a historical cost basis, except for investments held at fair value through profit or loss, available-for-sale equity investments and investments in real estates which are held at fair value. These consolidated financial statements incorporate all assets, liabilities and off balance sheet financial instruments held by the Group.

These consolidated financial statements are presented in Bahraini Dinars, being the functional and presentation currency of the Group, rounded to the nearest thousand [BD '000], except where otherwise indicated.

##### 2.1.a Statement of compliance

The consolidated financial statements of the Group are prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Islamic Sharia' rules and principles as determined by the Sharia' Supervisory Board of the Group and in conformity with the Bahrain Commercial Companies Law and the CBB and Financial Institutions Law. Matters for which no AAOIFI standards exist, the Group uses the relevant International Financial Reporting Standard.

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the consolidated statement of financial position date (current) and more than 12 months after the consolidated statement of financial position date (non-current) is presented in Note 32.



## Notes to the Consolidated Financial Statements

31 December 2014

### 2. ACCOUNTING POLICIES (continued)

#### 2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the consolidated financial statements requires management to make judgements and estimates that affect the reported amount of financial assets and liabilities and disclosure of contingent liabilities. These judgements and estimates also affect the revenues and expenses and the resultant provisions as well as fair value changes reported in equity.

##### *Classification of investments*

Management decides upon acquisition of an investment whether it should be classified as fair value through profit or loss, available for sale or held-to-maturity.

##### **Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimating uncertainty at the date of the consolidated statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

##### *Collective impairment provisions on financial contracts*

In addition to specific provisions against individually significant financial contracts, the Group also considers the need for a collective impairment provision against financial contracts which although not specifically identified as requiring a specific provision, have a greater risk of default than when originally granted. This collective provision is based on any deterioration in the status, as determined by the Group, of the financial contracts since they were granted (acquired). The amount of the provision is based on the historical loss pattern for other contracts within each grade and is adjusted to reflect current economic changes.

##### *Impairment losses on financial contracts*

The Group reviews its financial contracts on a regular basis to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

##### *Impairment of available-for-sale equity investments*

The Group treats available-for-sale equity investments as impaired when there has been a significant or prolonged (judgemental) decline in the fair value below its cost or where other objective evidence of impairment exists which are judgemental in nature. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the present value calculation factors for unquoted equities.

##### *Valuation of unquoted private equity and real estate investments*

Valuation of above investments is normally based on one of the following:

- valuation by independent external valuers;
- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- present value of expected cash flows at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The Group calibrates the valuation techniques periodically and tests these for validity using either prices from observable current market transactions in the same instrument or other available observable market data.

##### **Going concern**

The Group has made an assessment of the Group's ability to continue on 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.

## Notes to the Consolidated Financial Statements

31 December 2014

### 2. ACCOUNTING POLICIES (continued)

#### 2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

##### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2014. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. All intra-group balances, transactions, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

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

Share of minority stakeholder' interest (non-controlling interest) represents the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated statement of income and within owners' equity in the consolidated statement of financial position, separately from the equity attributable to shareholders of the parent.

#### 2.3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements, which are consistent with those of prior year.

##### 2.3.1 Adoption of Financial Accounting Standards

There are no new FAS introduced by AAOIFI during the year 2014.

##### 2.3.2 Summary of significant accounting policies

###### a) Financial contracts

Financial contracts consist of balances with banks and the CBB, CBB Sukuk, Corporate Sukuk, Murabaha financing (net of deferred profit), Mudaraba, Musharaka and Ijarah Muntahia Bittamleek. Balances relating to these contracts are stated net of provisions for impairment.

###### b) Central Bank of Bahrain and corporate sukuk

These are quoted / unquoted securities and classified as investments at amortised cost in accordance with FAS 25 issued by AAOIFI.

###### c) Murabaha receivables

Murabaha is a contract whereby one party ("Seller") sells an asset to the other party ("Purchaser") at cost plus profit and on a deferred payment basis, after the Seller have purchased the asset based on the Purchaser's promise to purchase the same on such Murabaha basis. The sale price comprises the cost of the asset and an agreed profit margin. The sale price (cost plus the profit amount) is paid by the Purchaser to the Seller on installment basis over the agreed finance tenure. Under the Murabaha contract the Group may act either as a Seller or a Purchaser, as the case may be.

The Group considers the promise to purchase made by the Purchaser in a Murabaha transaction in favour of the Seller to be binding.

Murabaha receivables are stated at cost, net of deferred profits, provision for impairment, if any, and amounts settled.

###### d) Mudaraba financing

Mudaraba is a contract between two parties whereby one party is a fund provider (Rab Al Mal) who would provide a certain amount of funds (Mudaraba Capital), to the other party (Mudarib). Mudarib would then invest the Mudaraba Capital in a specific enterprise or activity deploying its experience and expertise for a specific pre-agreed share in the resultant profit. The Rab Al Mal is not involved in the management of the Mudaraba activity. The Mudarib would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Mudaraba contract; otherwise the loss would be borne by the Rab Al Mal. Under the Mudaraba contract the Group may act either as Mudarib or as Rab Al Mal, as the case may be.

## Notes to the Consolidated Financial Statements

31 December 2014

### 2. ACCOUNTING POLICIES (continued)

#### 2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.3.2 Summary of significant accounting policies (continued)

#### d) Mudaraba financing (continued)

Mudaraba financing are recognized at fair value of the Mudaraba assets net of provision for impairment, if any, and Mudaraba capital amounts settled. If the valuation of the Mudaraba assets results in difference between fair value and book value, such difference is recognized as profit or loss to the Group.

#### e) Ijarah Muntahia Bittamleek

Ijara (Muntahia Bittamleek) is an agreement whereby the Group (as lessor) leases an asset to the customer (as lessee) (after purchasing/acquiring the specified asset, either from a third party seller or from the customer itself, according to the customer's request and promise to lease) against certain rental payments for a specific lease term/periods, payable on fixed or variable rental basis.

The Ijara agreement specifies the leased asset, duration of the lease term, as well as, the basis for rental calculation, the timing of rental payment and responsibilities of both parties during the lease term. The customer (lessee) provides the Group (lessor) with an undertaking to renew the lease periods and pay the relevant rental payment amounts as per the agreed schedule and applicable formula throughout the lease term.

The Group (lessor) retains the ownership of the assets throughout the lease term. At the end of the lease term, upon fulfillment of all the obligations by the customer (lessee) under the Ijara agreement, the Group (lessor) will sell the leased asset to the customer (lessee) for a nominal value based on sale undertaking given by the Group (lessor). Leased assets are usually residential properties, commercial real estate or aircrafts.

Depreciation is provided on a systematic basis on all Ijarah Muntahia Bittamleek assets other than land (which is deemed to have an indefinite life), at rates calculated to write off the cost of each asset over the shorter of either the lease term or economic life of the asset.

#### f) Musharaka

Musharaka is used to provide venture capital or project finance. The Group and customer contribute towards the capital of the Musharaka. Usually a special purpose company or a partnership is established as a vehicle to undertake the Musharaka. Profits are shared according to a pre-agreed profit distribution ratio but losses are borne by the partners according to the capital contributions of each partner. Capital contributions may be in cash or in kind, as valued at the time of entering into the Musharaka.

Musharaka is stated at cost, less any impairment.

#### *Assets under conversion:*

##### *Due from Banks and financial institutions*

At amortised cost less any amounts written off and provision for impairment, if any.

##### *Loans and advances*

At amortised cost less any amounts written off and provision for impairment, if any.

##### *Non-trading investments*

These are classified as available-for-sale investments and are fair valued based on criteria set out in Note 2.3.2 h. Any changes in fair values subsequent to acquisition date are recognized in other comprehensive income.

## Notes to the Consolidated Financial Statements

31 December 2014

### 2. ACCOUNTING POLICIES (continued)

#### 2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.3.2 Summary of significant accounting policies (continued)

##### g) Assets and liabilities under conversion

###### *Liabilities under conversion:*

These are remeasured at amortised cost.

##### h) Non-trading investments

These are classified as available-for-sale or fair value through profit or loss.

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs associated with the investment. Acquisition cost relating to investments designated as fair value through profit or loss is charged to consolidated income statement.

Following the initial recognition of investments, the subsequent period-end reporting values are determined as follows:

###### *Investments available-for-sale*

After initial recognition, equity investments which are classified as investments at fair value through equity are disclosed as "available-for-sale investments". These are normally remeasured at fair value, unless the fair value cannot be reliably determined, in which case they are measured at cost less impairment. Fair value changes are reported in equity 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 "changes in fair value" within equity, is included in the consolidated income statement.

Impairment losses on available-for-sale investments are not reversed through the consolidated statement of income and increases in their fair value after impairment are recognised directly in owners' equity.

###### *Investments carried at fair value through profit or loss*

Investments in this category are designated as such on initial recognition if these investments are evaluated on a fair value basis in accordance with the Group's risk management policy and its investment strategy. These include all private equity investments including those in joint ventures and associates which are not strategic in nature.

Investments at fair value through profit or loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded as "Fair value changes on investments" in the consolidated income statement. Gain on sale of these investments is recognized as "Gain on sale of investments and sukuk" in the consolidated income statement. Income earned on these investments is recognized as "Income from investments" in the consolidated income statement.

##### i) Investments in associates

The Group's investments in associates, that are acquired for strategic purposes, are accounted for under the equity method of accounting. Other equity investments in associates are accounted for as fair value through profit or loss by availing the scope exemption under FAS 24, Investments in Associates. An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor a joint venture. An entity is considered as an associate if the Group has more than 20% ownership of the entity or the Group has significant influence through any other mode.

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Losses in excess of the cost of the investment in associates are recognised when the Group has incurred obligations on its behalf. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The consolidated income statement reflects the Group's share of results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

The reporting dates of the associate and the Group are identical and the associates accounting policy conform to those used by the Group for like transactions and events in similar transactions.

## Notes to the Consolidated Financial Statements

31 December 2014

### 2. ACCOUNTING POLICIES (continued)

#### 2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.3.2 Summary of significant accounting policies (continued)

###### i) Investments in associates (continued)

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

Profit and losses resulting from transactions between the Group and the associates are eliminated to the extent of the interest in associates.

Foreign exchange translation gains/losses arising out of the above investment in the associate are included in the consolidated statement of changes in equity.

###### j) Investments in real estates

Properties held for rental, or for capital appreciation purposes, or both, are classified as investments in real estates. Financial Accounting Standard 26 -investments in real estate ("FAS 26") shall apply in the recognition, measurement and disclosure of the entity's direct investments in real estate that is acquired for the purpose of earning periodical income or held for future capital appreciation or both. In accordance with FAS 26, the investments in real estate is initially recognized at cost and subsequently measured based on intention whether the investments in real estate is held-for-use or held for sale. The Group has adopted the fair value model for its investments in real estate. Under the fair value model any unrealized gains are recognized directly in owners' equity. Any unrealized losses are adjusted in equity to the extent of the available credit balance. Where unrealized losses exceed the available balance in owners' equity, these are recognized in the consolidated income statement. In case there are unrealized losses relating to investments in real estate that have been recognized in the consolidated income statement in a previous financial period, the unrealized gains relating to the current financial period is recognized to the extent of crediting back such previous losses in the consolidated income statement. Investments in real estate held-for-sale is carried at lower of its carrying value and expected fair value less costs to sell.

###### k) Development properties

Properties acquired exclusively for development are classified as development properties and are measured at the lower of cost or net realisable value.

###### l) Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is provided on a straight-line basis over the estimated useful lives of all premises and equipment, other than freehold land and capital work-in-progress.

- Computer equipment	3 to 5 years
- Furniture and office equipment	3 to 5 years
- Motor vehicle	4 to 5 years
- Leasehold improvements	Over the lease period
- Computer software	10 years

Capital work-in-progress is not depreciated.

## Notes to the Consolidated Financial Statements

31 December 2014

### 2. ACCOUNTING POLICIES (continued)

#### 2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.3.2 Summary of significant accounting policies (continued)

###### m) Subsidiaries acquired with a view to sell

A subsidiary acquired with a view to subsequent disposal within twelve months is classified as "held-for-sale" when the sale is highly probable. Related assets and liabilities of the subsidiary are shown separately on the consolidated statement of financial position as "Assets held-for-sale" and "Liabilities relating to assets held-for-sale". Assets that are classified as held-for-sale are measured at the lower of carrying amount and fair value less costs to sell. Any resulting impairment loss reduces the carrying amount of the assets. Assets that are classified as held-for-sale are not depreciated.

###### n) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date

In a business combination in which the Bank and the acquiree exchange only equity interests, the acquisition-date fair value of the acquiree's equity interests is used to determine the amount of goodwill.

Investments acquired but do not meet the definition of business combination are recorded as financing assets or investment in properties as appropriate. When such investments are acquired, the Group allocates the cost of acquisition between the individual identifiable assets and liabilities based on their relative fair values at the date of acquisition. Cost of such assets is the sum of all consideration given and any non-controlling interest recognised. If the non-controlling interest has a present ownership interest and is entitled to a proportionate share of net assets upon liquidation, the Group recognises the non-controlling interest at its proportionate share of net assets.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in consolidated income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment at least annually. Any impairment is recognised immediately in the consolidated income statement. Goodwill is allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Impairment exists when carrying value of an asset or cash generating unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of goodwill is determined by assessing the recoverable amount of the cash generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognised immediately in the consolidated statement of income.

## Notes to the Consolidated Financial Statements

31 December 2014

### 2. ACCOUNTING POLICIES (continued)

#### 2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.3.2 Summary of significant accounting policies (continued)

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's geographic segment reporting format.

##### o) Impairment and uncollectability of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss, is recognised in the consolidated income statement.

Impairment is determined as follows:

- (i) for assets carried at amortised cost, impairment is based on estimated cash flows based on the original effective profit rate;
- (ii) for assets carried at fair value, impairment is the difference between cost and fair value; and
- (iii) for assets carried at cost, impairment is based on present value of anticipated cash flows based on the current market rate of return for a similar financial asset.

For available-for-sale equity investments reversal of impairment losses are recorded as increases in cumulative changes in fair value through equity.

##### p) Offsetting

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

##### q) Provisions

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

##### r) Employees' end of service benefits

The Group provides end of service benefits to its expatriate employees. Entitlement to these benefits is based upon the employees' final salary and length of service, subject to completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

For Bahraini employees, the Group makes contributions to Social Insurance Organisation calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

## Notes to the Consolidated Financial Statements

31 December 2014

### 2. ACCOUNTING POLICIES (continued)

#### 2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.3.2 Summary of significant accounting policies (continued)

#### s) Revenue recognition

##### *Murabaha receivables*

As the income is quantifiable and contractually determined at the commencement of the contract, income is recognized on a straight-line basis over the deferred period. Recognition of income is suspended when the Group believes that the recovery of these amounts may be doubtful or normally when the payments of Murabaha installments are overdue by 90 days, whichever is earlier.

##### *Corporate sukuk*

Income on Corporate sukuk is recognized on a time-proportionate basis based on underlying rate of return of the respective type of sukuk. Recognition of income is suspended when the Group believes that the recovery of these amounts may be doubtful or normally when the payments are overdue by 90 days, whichever is earlier.

##### *Mudaraba*

Income on Mudaraba transactions are recognised when the right to receive payment is established or these are declared by the Mudarib, whichever is earlier. In case of losses in Mudaraba, the Group's share of loss is recognised to the extent that such losses are being deducted from its share of the Mudaraba capital.

##### *Dividend*

Dividend income is recognised when the Group's right to receive the payment is established.

##### *Ijarah Muntahia Bittamleek*

Ijarah Muntahia Bittamleek income is recognised on a time-proportionate basis over the lease term. Income related to non-performing Ijarah Muntahia Bittamleek is suspended. Accrual of income is suspended when the Group believes that the recovery of these amounts may be doubtful or normally when the rental payments are overdue by 90 days, whichever is earlier.

##### *Musharaka*

Income on Musharaka is recognized when the right to receive payment is established or on distributions. In case of losses in Musharaka, the Group's share of loss is recognized to the extent that such losses are being deducted from its share of the Musharaka capital.

##### *Fees and commission income*

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following main categories:

**Fee income on financing transactions:** Fee earned on financing transactions including up-front fees and early settlement fees are recognised when earned. To the extent the fees are deemed yield enhancement they are recognised over the period of the financing contracts.

**Fee income from transaction services:** Fee arising from corporate finance, corporate advisory, arranging the sale of assets and wealth management are recognised when earned or on a time proportionate basis when the fee is linked to time. Other fee income is recognised when services are rendered.



## Notes to the Consolidated Financial Statements

31 December 2014

### 2. ACCOUNTING POLICIES (continued)

#### 2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.3.2 Summary of significant accounting policies (continued)

###### t) Fair value of financial assets

For investments that are traded in organised financial markets, fair value is determined by reference to the prevailing market bid price on the reporting date.

For investments where there is no quoted market price, a reasonable estimate of fair value is determined by reference to valuation by independent external valuers or based on recent arm's length market transactions. Alternatively, the estimate would also be based on current market value of another instrument, which is substantially the same, or is based on the assessment of future cash flows. The cash equivalent values are determined by the Group by calculating the present value of future cash flows at current profit rates for contracts with similar terms and risk characteristics.

For investments having fixed or determinable payments, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for instruments with similar terms and risk characteristics.

###### u) Foreign currencies

Foreign currency transactions are recorded at rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies at the consolidated statement of financial position date are retranslated at market rates of exchange prevailing at that date. Gains and losses arising on translation are recognised in the consolidated income statement. Non-monetary assets that are measured in terms of historical cost in foreign currencies are recorded at rates of exchange prevailing at the value dates of the transactions. Translation gains or losses on non-monetary items classified as "available-for-sale" and investment in associates are included in consolidated statement of changes in equity until the related assets are sold or derecognised at which time they are recognised in the consolidated income statement. Translation gains on non-monetary assets classified as "fair value through profit or loss" are directly recognised in the consolidated income statement.

###### v) Translation of foreign operation

Assets and liabilities of foreign subsidiaries whose functional currency is not Bahraini Dinars are translated into Bahraini Dinars at the rates of exchange prevailing at the reporting date. Income and expense items are translated at average exchange rates prevailing for the reporting period. Any exchange differences arising on translation are included in "foreign exchange translation reserve" forming part of other comprehensive income except to the extent that the translation difference is allocated to the non-controlling interest. On disposal of foreign operations, exchange differences relating thereto and previously recognised in other comprehensive income are recognised in the consolidated income statement.

###### w) Repossessed assets

Repossessed assets are assets acquired in settlement of dues. These assets are carried at the lower of carrying amount and fair value less costs to sell and reported within 'other assets'.

###### x) Trade and settlement date accounting

Purchases and sales of financial assets and liabilities are recognised on the trade date, i.e. the date that the Group contracts to purchase or sell the asset or liability.

###### y) Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

## Notes to the Consolidated Financial Statements

31 December 2014

### 2. ACCOUNTING POLICIES (continued)

#### 2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.3.2 Summary of significant accounting policies (continued)

###### z) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same source on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated statement of income.

###### aa) Fiduciary assets

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

###### ab) Dividend on ordinary shares

Dividend on ordinary shares is recognised as a liability and deducted from equity when it is approved by the Group's shareholders. Dividend for the year that is approved after the reporting date is included in the equity and is disclosed as an event after the balance sheet date.

###### ac) Equity of investment account holders

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

Share of income for equity of investment accountholder is calculated based on the income generated by the assets funded by such investment accounts after deducting Mudarib share (as Mudarib and Rabalmal). Operating expenses are charged to shareholders' funds and are not included in the calculation.

The basis applied by the Group in arriving at the equity of investment accountholders' share of income is total investment income less shareholders' income. Portion of the income generated from equity of investment accountholders is transferred to profit equalization reserve, mudarib share and investment risk reserve and the remaining is distributed to the equity of investment accountholders.

###### ad) Treasury Stock

Own equity instruments that are reacquired, are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium.

###### ae) Zakah

In accordance with the Articles of Association of the Group, the responsibility to pay Zakah is on the shareholders of the Bank.

###### af) Cash and cash equivalents

Cash and cash equivalents comprise of cash and balances with the CBB and Murabaha receivables from banks with original maturities of less than 90 days.

## Notes to the Consolidated Financial Statements

31 December 2014

### 2. ACCOUNTING POLICIES (continued)

#### 2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.3.2 Summary of significant accounting policies (continued)

###### ag) Wakala payables

The Group accepts funds from banks and customers under Wakala arrangement in which a return is payable to customers as agreed in the agreement. There is no restriction on the Group for the use of funds received under wakala agreement.

###### ah) Jointly financed and self financed

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

The equity of investment account holders is used to finance the Murabaha and Wakala receivables from banks, and corporate Sukuk.

###### ai) Investment risk reserve

This is the amount appropriated by the Group out of the income of investment account holders, after allocating the Mudarib share, in order to compensate future losses for investment account holders.

###### aj) Earnings prohibited by Shari'a

The Group is committed to contributing to charity any income generated from non-Islamic sources. Accordingly, any earning prohibited by Shari'a is credited to charity funds to be used for social welfare purposes.

###### ak) Profit on Murabaha and Wakala payables to banks non-banks

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

###### al) Special purpose entities

The Group sponsors the formation of special purpose entities (SPEs) primarily for the purpose of allowing clients to hold investments. The Group does not consolidate SPEs that it does not have the power to control. In determining whether the Group has the power to control an SPE, judgements are made about the objectives of the SPEs activities, Group's exposures to the risk and rewards, as well as its ability to make operational decisions of the SPEs.

## Notes to the Consolidated Financial Statements

31 December 2014

### 3. BUSINESS COMBINATION

On 8 October 2013, the shareholders of the Bank resolved to acquire 100% of paid up capital of BMI by issuing 11 shares of the Bank for each share of BMI. On 30 March 2014, the Bank completed the acquisition by issuing 643,866,927 fully paid ordinary shares of the Bank to the previous shareholders of BMI. As the acquisition is completed through a share exchange, the fair value of BMI's equity interest acquired is considered as fair value of consideration transferred.

The provisional fair values of the identifiable assets and liabilities of BMI as of 30 March 2014 and the resulting impact due to the acquisition are as follows:

	<i>BD '000</i>
<b>ASSETS ACQUIRED</b>	
Cash and balances with the Central Bank of Bahrain	100,176
Treasury bills	3,531
Due from banks and financial institutions	131,707
Loans and advances	293,900
Islamic financing assets	62,166
Non-trading investments	124,681
Investment in associates & joint ventures	2,506
Assets held-for-sale	40,897
Other assets	5,885
Premises and equipment	5,418
	<b>770,867</b>
<b>LESS: LIABILITIES ASSUMED</b>	
Due to banks and financial institutions & wholesale Islamic deposits	(98,133)
Customers' deposits	(580,280)
Other liabilities	(19,251)
Liabilities relating to assets held-for-sale	(26,066)
	<b>(723,730)</b>
<b>NET ASSETS</b>	<b>47,137</b>
<b>GOODWILL ARISING ON ACQUISITION</b>	
Fair value of identifiable net assets acquired	47,137
Non-controlling interest measured at fair value	222
Fair value of the consideration given (note 20)	72,886
<b>GOODWILL</b>	<b>25,971</b>
<b>NET CASH FLOW ARISING ON ACQUISITION</b>	<b>127,670</b>

The issue of shares has been treated as non-cash item for the purpose of consolidated statement of cash flows.

The acquisition transaction was closed on 30 March 2014 with the Bank issuing the agreed upon shares to the shareholders of BMI. From the date of acquisition, BMI has contributed BD 7,380 thousands to the net profit of the Group. If the business combination had occurred at the beginning of the year, the operating income and net profit of the combined Group for 2014 would have been BD 51,785 thousands and BD 16,552 thousands respectively.

Goodwill arising on the business combination is associated with banking segment of the Group and is tested for impairment atleast annually based on the cash flows of banking segment of the business.

The costs of BD 125 thousands relating to issuance of shares were charged directly as a reduction in share premium.

## Notes to the Consolidated Financial Statements

31 December 2014

## 4. CLASSIFICATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS

<i>31 December 2014</i>				
	<i>At fair value through profit or loss BD '000</i>	<i>Available for sale / fair value through equity BD '000</i>	<i>At amortised cost / others BD '000</i>	<i>Total BD '000</i>
<b>ASSETS</b>				
Cash and balances with banks and the CBB	-	-	277,751	277,751
CBB Sukuk	-	-	94,678	94,678
Murabaha and Wakala receivables from banks	-	-	182,110	182,110
Corporate Sukuk	-	-	139,304	139,304
Murabaha financing	-	-	270,428	270,428
Mudaraba financing	-	-	189,601	189,601
Ijarah Muntahia Bittamleek	-	-	141,052	141,052
Musharaka	-	-	10,851	10,851
Assets under conversion	-	75,189	233,470	308,659
Non-trading investments	125,779	21,317	-	147,096
Investments in real estates	-	65,149	-	65,149
Development properties	-	-	59,262	59,262
Investment in associates	-	-	10,492	10,492
Other assets	-	2,412	30,481	32,893
Goodwill	-	-	25,971	25,971
	<b>125,779</b>	<b>164,067</b>	<b>1,665,451</b>	<b>1,955,297</b>
<b>LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>				
Murabaha and Wakala payables to banks	-	-	121,266	121,266
Wakala from non-banks	-	-	1,034,052	1,034,052
Customers' current accounts	-	-	226,648	226,648
Term financing	-	-	21,337	21,337
Liabilities under conversion	-	-	149,621	149,621
Other liabilities	-	-	45,418	45,418
Equity of investment accountholders	-	-	28,152	28,152
	-	-	<b>1,626,494</b>	<b>1,626,494</b>

## Notes to the Consolidated Financial Statements

31 December 2014

## 4. CLASSIFICATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS (continued)

	31 December 2013			
	<i>At fair value through profit or loss BD '000</i>	<i>Available for sale / fair value through equity BD '000</i>	<i>At amortised cost / others BD '000</i>	<i>Total BD '000</i>
<b>ASSETS</b>				
Cash and balances with banks and the CBB	-	-	86,097	86,097
CBB Sukuk	-	-	102,937	102,937
Murabaha and Wakala receivables from banks	-	-	118,227	118,227
Corporate Sukuk	-	-	91,106	91,106
Murabaha financing	-	-	156,142	156,142
Mudaraba financing	-	-	114,084	114,084
Ijarah Muntahia Bittamleek	-	-	110,631	110,631
Musharaka	-	-	19,145	19,145
Assets under conversion	-	-	-	-
Non-trading investments	112,205	13,718	-	125,923
Investments in real estates	-	66,718	-	66,718
Development properties	-	-	65,891	65,891
Investment in associates	-	-	8,537	8,537
Other assets	-	2,656	20,158	22,814
Goodwill	-	-	-	-
	112,205	83,092	892,955	1,088,252
<b>LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>				
Murabaha and Wakala payables to banks	-	-	106,796	106,796
Wakala from non-banks	-	-	584,365	584,365
Customers' current accounts	-	-	70,532	70,532
Term financing	-	-	23,637	23,637
Liabilities under conversion	-	-	-	-
Other liabilities	-	-	30,979	30,979
Equity of investment accountholders	-	-	25,846	25,846
	-	-	842,155	842,155

## Notes to the Consolidated Financial Statements

31 December 2014

### 5. CASH AND BALANCES WITH BANKS AND THE CBB

	2014 BD '000	2013 BD '000
Mandatory reserve with the CBB	42,350	19,950
Cash and other balances with the CBB	187,313	58,727
Balances with other banks	48,088	7,420
	<b>277,751</b>	<b>86,097</b>

### 6. MURABAHA AND WAKALA RECEIVABLES FROM BANKS

	2014 BD '000	2013 BD '000
GCC	176,455	112,949
Europe	5,655	5,278
	<b>182,110</b>	<b>118,227</b>

In addition to above amounts, deferred profits on Murabaha receivables from banks amounted to BD 30 thousands (2013: BD 12 thousands).

This consists of BD 24,281 thousands (2013: BD 21,969 thousands) of jointly financed assets and BD 157,829 thousands (2013: BD 96,258 thousands) of self financed assets.

### 7. CORPORATE SUKUK

	2014 BD '000	2013 BD '000
Investment grade	111,160	72,540
Non-investment grade	9,364	984
Un-rated Sukuk	18,780	17,582
	<b>139,304</b>	<b>91,106</b>

This consists of BD 3,871 thousands (2013: BD 3,877 thousands) of jointly financed assets and BD 135,433 thousands (2013: BD 87,229 thousands) of self financed assets.

### 8. MURABAHA AND MUDARABA FINANCING

#### 8.A MURABAHA FINANCING

	2014 BD '000	2013 BD '000
Murabaha financing - gross	275,166	160,898
Less: Specific provision	(4,738)	(4,756)
Murabaha financing - net	<b>270,428</b>	<b>156,142</b>

Murabaha financing is shown net of deferred profits of BD 53,630 thousands (2013: BD 29,845 thousands).

## Notes to the Consolidated Financial Statements

31 December 2014

### 8. MURABAHA AND MUDARABA FINANCING (continued)

#### 8.B MUDARABA FINANCING

	2014 BD '000	2013 BD '000
Mudaraba financing - gross	189,607	114,084
Less: Specific provision	(6)	-
Mudaraba financing - net	189,601	114,084

### 9. MOVEMENTS IN PROVISIONS

	2014		
	<i>Financing facilities &amp; other assets</i> BD '000	<i>Available-for-sale investments</i> BD '000	<i>Total</i> BD '000
<b>Balance at beginning of the year:</b>			
Specific provision	4,580	4,038	8,618
Collective provision	1,294	-	1,294
<b>Transfer</b>			
Specific provision	708	-	708
Collective provision	(708)	-	(708)
<b>Provision for impairment:</b>			
Charge for the year - specific	725	290	1,015
Charge for the year - collective	4,123	-	4,123
Recoveries during the year	(940)	-	(940)
	3,908	290	4,198
<b>Balance at end of the year:</b>			
Specific provision	5,073	4,328	9,401
Collective provision	4,709	-	4,709

	2013		
	<i>Financing facilities &amp; other assets</i> BD '000	<i>Available-for-sale investments</i> BD '000	<i>Total</i> BD '000
<b>Balance at beginning of the year:</b>			
Specific provision	3,721	2,483	6,204
Collective provision	500	-	500
<b>Provision for impairment:</b>			
Charge for the year - specific	940	1,555	2,495
Charge for the year - collective	794	-	794
Recoveries during the year	(81)	-	(81)
	1,653	1,555	3,208
<b>Balance at end of the year:</b>			
Specific provision	4,580	4,038	8,618
Collective provision	1,294	-	1,294

In addition to the provisions held above, the financing portfolio and other assets acquired through Bahraini Saudi Bank (B.S.C.) ("BSB") business combination were subject to write down of BD 8,286 thousands.



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### 10. IJARAH MUNTAHIA BITTAMLEEK

This represents net investments in assets leased for periods which either approximate or cover major parts of the estimated useful lives of such assets. The majority of the lease documentations provide that the lessor undertakes to transfer the leased assets to the lessee at the end of the lease term upon the lessee fulfilling all its obligations under the lease agreement.

	<i>2014</i> <i>BD '000</i>	<i>2013</i> <i>BD '000</i>
Movements in Ijarah Muntahia Bittamleek assets are as follows:		
At 1 January	110,631	82,954
Ijarah assets arising on acquisition of BMI	3,654	-
Additions during the year - net	37,887	35,719
Ijarah assets depreciation	(10,101)	(8,018)
Specific provision	(1,019)	(24)
At 31 December	141,052	110,631

	<i>2014</i> <i>BD '000</i>	<i>2013</i> <i>BD '000</i>
The future minimum lease receivable in aggregate are as follows:		
Due within one year	41,446	13,837
Due in one to five years	59,141	55,831
Due after five years	40,465	40,963
	141,052	110,631

	<i>2014</i> <i>BD '000</i>	<i>2013</i> <i>BD '000</i>
Ijarah Muntahia Bittamleek is divided into the following asset classes:		
Land and buildings	119,836	86,738
Aircraft	19,334	21,352
Machinery	1,882	2,541
	141,052	110,631

The accumulated depreciation on Ijarah Muntahia Bittamleek assets amounted to BD 23,852 thousands (2013: BD 19,294 thousands).

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### 11. ASSETS AND LIABILITIES UNDER CONVERSION

These represent interest bearing non-Shari'a compliant assets and liabilities of BMI. These assets and liabilities have been reported as separate line items on the face of the consolidated statement of financial position. The details of the assets and liabilities under conversion are as follows:

	<i>2014</i> <i>BD '000</i>
<b>Assets</b>	
Due from banks and financial institutions	13,949
Loans and advances	215,438
Non-trading investments	75,189
Other assets	4,083
	<b>308,659</b>
<b>Liabilities</b>	
Customers' deposits	138,793
Other liabilities	10,828
	<b>149,621</b>

Note: In addition to the above, "Cash and balances with banks and Central bank of Bahrain" include an amount of BD 54,000 thousands of conventional balances. These represent short term placements with Central bank of Bahrain which carries a nominal income on conventional assets.

The above non-trading investments include BD 9 thousands of an equity security and BD 75,180 thousands of debt securities classified as available-for-sale investments. Non-trading investments amounting to BD 59,821 thousands and BD 15,368 thousands are categorized under level 1 and level 2 of the fair value hierarchy respectively.

### 12. NON-TRADING INVESTMENTS

Non-trading investments are classified as available-for-sale or fair value through profit or loss.

#### Fair value hierarchy

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 that have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

## Notes to the Consolidated Financial Statements

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### 12. NON-TRADING INVESTMENTS (continued)

#### Fair value hierarchy (continued)

The following table shows an analysis of the financial instruments carried at fair value in the consolidated statement of financial position:

31 December 2014	Level 1 BD '000	Level 2 BD '000	Level 3 BD '000	Total BD '000
Financial assets at fair value through profit or loss	18,476	-	107,303	125,779
Available-for-sale financial assets	6,730	-	14,587	21,317
	25,206	-	121,890	147,096

31 December 2013	Level 1 BD '000	Level 2 BD '000	Level 3 BD '000	Total BD '000
Financial assets at fair value through profit or loss	9,058	-	103,147	112,205
Available-for-sale financial assets	6,455	-	7,263	13,718
	15,513	-	110,410	125,923

During the years ended 31 December 2014 and 2013, there were no transfers between Level 1, Level 2, and Level 3 fair value measurements.

### 13. INVESTMENTS IN REAL ESTATE

	2014 BD '000	2013 BD '000
Buildings	20,759	22,957
Land	44,390	43,761
	65,149	66,718

The above investments are classified under level 3 in fair value hierarchy.

### 14. DEVELOPMENT PROPERTIES

These represent properties acquired and held through investment vehicles exclusively for development in the Kingdom of Bahrain and the United Kingdom. The carrying amounts include land price and related construction costs.

### 15. INVESTMENT IN ASSOCIATES

The Group has a 14.4% (2013: 14.4%) stake in Al Salam Bank Algeria (ASBA), an unlisted bank incorporated in Algeria. The Bank has a representation on the board of ASBA and also one of the Bank's directors has been elected to the board of ASBA, due to above ASBA is significantly influenced by the Bank.

The Group has a 20.9% stake in Gulf African Bank ("GAB"), a private Islamic bank incorporated in Kenya. This investment is denominated in Kenyan Shillings and is held through BMI.

The Group's interest in ASBA and GAB is accounted for using the equity method in the consolidated financial statements.

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### 15. INVESTMENT IN ASSOCIATES (continued)

The following table illustrates summarised financial information of Group's investments in ASBA and GAB:

	2014 BD '000	2013 BD '000
<b>Associates' statement of financial position:</b>		
Total assets	236,788	190,133
Total liabilities	163,546	128,594
Net assets	73,242	61,539
<b>Income Statement:</b>		
Total revenue	22,844	18,076
Total expenses	14,837	11,868
Net profit for the year	8,007	6,208
Group's share of associates' net profit	342	894

In addition to income from associates above, the Group earned BD 27 thousands from its investment in joint venture.

### 16. OTHER ASSETS

	2014 BD '000	2013 BD '000
<b>Assets under conversion *</b>		
Non-trading-investments - debt	3,848	3,835
Non-trading investments - available-for-sale - equity **	2,412	2,656
Loans and advances to customers	-	1,520
	6,260	8,011
Repossessed assets	3,897	3,445
Profit receivable	6,878	5,788
Premises and equipment	5,494	568
Prepayments	1,001	471
Rental receivable on Ijarah Muntahia Bittamleek assets	669	418
Other receivables and advances ***	8,694	4,113
	32,893	22,814

\* These represent non-Shari'a compliant assets resulted from the acquisition of Bahraini Saudi Bank B.S.C ("ex-BSB").

\*\* The above available for sale equity investments are classified as Level 3 in the fair value hierarchy (note 12).

\*\*\* This includes BD 5,687 thousands (2013: nil) relating to receivable from sale of investments and advances to contractors.

## Notes to the Consolidated Financial Statements

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### 17. TERM FINANCING

Term financing is subject to the following key terms:

- a) BD 8,446 (2013: BD 9,606) thousands carries a profit and is repayable on quarterly basis with final maturity on 13 December 2018. The collateral for this facility is an aircraft under lease, with a carrying value of BD 17,728 (2013: BD 19,370) thousands; and
- b) BD 12,891 (2013: BD 14,031) thousands carries profit and matures on 21 August 2016. The collateral for this facility is investments in real estate with a carrying value of BD 20,759 (2013: BD 22,957) thousands.

### 18. OTHER LIABILITIES

	2014 BD '000	2013 BD '000
Advances received from customers	14,558	6,700
Accounts payable and accruals	14,715	15,204
Profit payable	8,119	5,061
Accruals relating to employees benefit plan of BMI	4,130	-
Dividends payable	3,129	3,377
End of service benefits	767	637
	<b>45,418</b>	<b>30,979</b>

### 19. EQUITY OF INVESTMENT ACCOUNTHOLDERS

Equity of investment account holders funds is commingled with the Group's funds and used to fund / invest in Islamic modes of finance and no priority is granted to any party for the purpose of investments and distribution of profits. According to the terms of acceptance of the unrestricted investment accounts, 100% of the funds are invested taking into consideration the relevant weightage, if any. The Mudarib's share of profit ranges between 40% and 50%. Operating expenses are charged to shareholders' funds and not included in the calculation.

The balances consists of savings accounts of BD 17,814 thousands (2013: BD 11,186 thousands) and call accounts of BD 10,338 thousands (2013: BD 14,660 thousands).

The return on jointly invested assets and distribution to investment account holders were as follows:

	2014 BD '000	2013 BD '000
Gross return from commingled assets	391	279
Group's share as Mudarib	(176)	(131)
Distributions to investment account holders	215	148

The average profit rate for the holders is 0.7 % (2013: 0.6%).

## Notes to the Consolidated Financial Statements

31 December 2014

### 20. SHARE CAPITAL

	2014 BD '000	2013 BD '000
<b>Authorised:</b>		
2,500,000,000 ordinary shares (2013: 2,500,000,000 shares) of BD 0.100 each	250,000	250,000
<b>Issued and fully paid:</b>		
Balance at the beginning of the year - 1,497,063,825 shares of BD 0.100 each	149,706	149,706
Issued during the period - 643,866,927 shares of BD 0.100 each (note 3)	64,387	-
	<b>214,093</b>	<b>149,706</b>

Pursuant to a shareholders' resolution, in 2013, the Bank raised its authorised capital from BD 200 million to BD 250 million. During the year ended 31 December 2014, the Bank issued 643,866,927 ordinary shares, as part of an acquisition transaction, to the shareholders of BMI and gained 100% stake (note 3). This resulted in proceeds of BD 72,886 thousands from the new issue, including a share premium of BD 8,499 thousands.

#### 20.1 PROPOSED APPROPRIATION

The Board of Directors in its meeting on 4 Feb 2015 has resolved to recommend a cash dividend of 5 fils per share or 5% (2013: 5 fils or 5%) of the paid-up capital subject to approval at the forthcoming annual general meeting.

### 21. STATUTORY RESERVE

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

### 22. INCOME FROM FINANCING CONTRACTS

	2014 BD '000	2013 BD '000
Murabaha financing	15,192	11,672
Mudaraba financing	7,584	6,673
Ijarah Muntahia Bittamleek*	7,930	6,472
Musharaka	2,807	938
Murabaha and Wakala receivables from banks	725	377
Income from assets under conversion **	17,256	-
	<b>51,494</b>	<b>26,132</b>

\* Depreciation on Ijarah Muntahia Bitamleek amounted to BD 10,101 thousands (2013: BD 8,018 thousands).

\*\* The Bank's shareholders are advised, but not obliged to, to contribute this income to charity at their discretion.

## Notes to the Consolidated Financial Statements

31 December 2014

### 23. GAINS ON SALE OF INVESTMENTS AND SUKUK

	2014 BD '000	2013 BD '000
<b>Gain on sale of:</b>		
FVTPL investments	7,352	906
Sukuk	2,970	17
Development properties (sales: BD 3,934 thousands and cost: BD 2,993 thousands)	941	-
Investment properties	698	-
Other investments	321	-
Available-for-sale investments	-	2,910
	<b>12,282</b>	<b>3,833</b>

### 24. INCOME FROM INVESTMENTS

	2014 BD '000	2013 BD '000
Income from FVTPL investments	997	2,424
Rental income from investments in real estate	1,866	-
	<b>2,863</b>	<b>2,424</b>

### 25. FEES, COMMISSION AND OTHER INCOME - NET

	2014 BD '000	2013 BD '000
Financing and transaction related fees and commissions	3,775	792
Fiduciary and other fees	268	317
Other income	2,607	1,196
	<b>6,650</b>	<b>2,305</b>

### 26. TOTAL COMPREHENSIVE INCOME

	2014 BD '000	2013 BD '000
<b>Net profit for the year</b>	<b>15,821</b>	<b>12,372</b>
<b>Other comprehensive income / (loss):</b>		
<i>Items to be reclassified to profit or loss in subsequent periods:</i>		
Net changes in fair value of available-for-sale investments	636	559
Changes in fair value of investments in real estate	1,045	21,659
Foreign currency re-translation	(819)	70
<b>Other comprehensive income for the year</b>	<b>862</b>	<b>22,288</b>
<b>Total comprehensive income for the year</b>	<b>16,683</b>	<b>34,660</b>
<b>Attributable to:</b>		
Equity holders of the Bank	16,331	34,660
Non-controlling interest	352	-
	<b>16,683</b>	<b>34,660</b>

## Notes to the Consolidated Financial Statements

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### 27. RELATED PARTY TRANSACTIONS

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

The significant balances with related parties at 31 December 2014 were as follows:

	2014				
	<i>Associates, and joint ventures BD '000</i>	<i>Major shareholders BD '000</i>	<i>Directors and related entities BD '000</i>	<i>Senior management BD '000</i>	<i>Total BD '000</i>
<b>Assets:</b>					
Cash and balances with banks and Central Bank of Bahrain	-	28	-	-	28
Murabaha financing	30,160	-	20	49	30,229
Mudaraba financing	14,310	-	56	-	14,366
Ijarah Muntahia Bittamleek	-	-	1,007	207	1,214
Musharaka financing	843	-	65	-	908
Assets under conversion	243	-	404	74	721
Other assets	885	6	3	6	900
<b>Liabilities and equity of investment accountholders:</b>					
Wakala payables to non-banks	9,057	90,015	3,355	946	103,373
Customers' current accounts	941	3,905	1,980	55	6,881
Equity of investment accountholders	-	-	1,400	121	1,521
Liabilities under conversion	1,554	-	805	-	2,359
Other liabilities	129	4	17	4	154
Contingent liabilities and commitments	1,106	-	-	-	1,106
2013					
	<i>Associates, and joint ventures BD '000</i>	<i>Major shareholders BD '000</i>	<i>Directors and related entities BD '000</i>	<i>Senior management BD '000</i>	<i>Total BD '000</i>
<b>Assets:</b>					
Murabaha financing	30,190	-	27	38	30,255
Mudaraba financing	14,310	-	80	-	14,390
Ijarah Muntahia Bittamleek	-	-	1,983	27	2,210
Musharaka financing	1,405	-	-	-	1,405
Assets under conversion	-	-	-	-	-
Other assets	1,346	-	27	7	1,380
<b>Liabilities and equity of investment accountholders:</b>					
Wakala payables to non-banks	2,222	-	1,564	547	4,333
Customers' current accounts	2,202	-	1,075	25	3,302
Equity of investment accountholders	-	-	716	106	822
Liabilities under conversion	-	-	-	-	-
Other liabilities	322	-	443	2	767
Contingent liabilities	1,647	-	-	-	1,647



## Notes to the Consolidated Financial Statements

31 December 2014

### 27. RELATED PARTY TRANSACTIONS (continued)

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

	2014				
	<i>Associates, and joint ventures BD '000</i>	<i>Major shareholders BD '000</i>	<i>Directors and related entities BD '000</i>	<i>Senior management BD '000</i>	<i>Total BD '000</i>
<b>Income:</b>					
Income from financing contracts	397	-	115	14	526
Other income	195	-	-	-	195
<b>Expenses:</b>					
Profit on Wakala payables to non-banks	291	1,612	57	32	1,992
Share of profits on equity of investment account holders	-	-	4	23	27
	2013				
	<i>Associates, and joint ventures BD '000</i>	<i>Major shareholders BD '000</i>	<i>Directors and related entities BD '000</i>	<i>Senior management BD '000</i>	<i>Total BD '000</i>
<b>Income:</b>					
Income from financing contracts	4,702	-	269	3	4,974
<b>Expenses:</b>					
Profit on Wakala payables to non-banks	60	-	44	14	118
Share of profits on equity of investment account holders	-	-	1	-	1
Contingent liabilities	-	-	-	-	-

Directors' remuneration for 2014 amounted to BD 329 thousands (2013: BD 365 thousands).

Compensation of key management personnel, consisting solely of short-term benefits, for the year was BD 3,493 thousands (2013: BD 1,326 thousands).

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### 28. CONTINGENT LIABILITIES AND COMMITMENTS

	2014 BD '000	2013 BD '000
<b>Contingent liabilities on behalf of customers</b>		
Guarantees	37,077	6,881
Letters of credit	9,704	70
Acceptances	3,464	260
	50,245	7,211
<b>Irrevocable unutilised commitments</b>		
Unutilised financing commitments	87,337	4,703
Unutilised non-funded commitments	50,023	6,463
Commitments towards development cost	23,880	2,799
	161,240	13,965
<b>Commitment relating to purchase of investment</b>	4,182	-
<b>Capital expenditure commitments</b>		
Estimated capital expenditure contracted for at the consolidated statement of financial position date but not provided for	45	-
	215,712	21,176
<b>Forward foreign exchange contracts - notional amount</b>	15,781	-

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

Commitments generally have fixed expiration dates, or other termination clauses. Since commitment may expire without being utilized, the total contract amounts do not necessarily represent future cash requirements.

#### Operating lease commitment - Group as lessee

The Group has entered into various operating lease agreements for its premises. Future minimal rentals payable under the non-cancellable leases are as follows:

	2014 BD '000	2013 BD '000
Within 1 year	1,789	659
After one year but not more than five years	3,517	472
	5,306	1,131

## Notes to the Consolidated Financial Statements

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### 29. RISK MANAGEMENT

#### 29.1 INTRODUCTION

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to early settlement risk and operational risks.

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

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

#### *Board of Directors*

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

#### *Executive Committee*

The Executive Committee has the responsibility to monitor the overall risk process within the Bank.

#### *Shari'a Supervisory Board*

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

#### *Credit/ Risk Committee*

Credit/ Risk committee recommends the risk policy and framework to the Board. Its primary role is selection and implementation of risk management systems, portfolio monitoring, stress testing, risk reporting to the Board, Board Committees, Regulators and Executive management. In addition, individual credit transaction approval and monitoring is an integral part of the responsibilities of Credit/Risk Committee.

#### *Asset and Liability Committee*

The Asset and Liability Committee establishes policy and objectives for the asset and liability management of the Group's financial position in terms of structure, distribution, risk and return and its impact on profitability. It also monitors the cash flow, tenor and cost/yield profiles of assets and liabilities and evaluates The Group's financial position both from profit rate sensitivity and liquidity points of view, making corrective adjustments based upon perceived trends and market conditions, monitoring liquidity, monitoring foreign exchange exposures and positions.

#### *Audit Committee*

The Audit Committee is appointed by the Board of Directors who are non-executive directors of the Group. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting, the audit thereof, the soundness of the internal controls of the Group, the measurement system of risk assessment, and the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

The audit committee reviews Group's accounting and financial practices, integrity of the Group's financial and internal controls and consolidated financial statements. It also reviews the Group's compliance with legal requirements, recommends the appointment, compensation and oversight of the Group's external and internal auditors.

#### *Internal Audit*

Risk management processes throughout the Group are audited by the internal audit function, that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board Audit Committee.

## Notes to the Consolidated Financial Statements

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### 29. RISK MANAGEMENT (continued)

#### 29.1 INTRODUCTION (continued)

##### *Risk measurement and reporting systems*

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, the Credit / Risk Committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information. A daily briefing is given to all relevant members of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

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

#### 29.2 CREDIT RISK

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, setting limits for transactions with counterparties, and continually assessing the creditworthiness of counterparties.

In addition to monitoring credit limits, the Group manages the credit exposures by entering into collateral arrangements with counterparties in appropriate circumstances and by limiting the duration of the exposure.

## Notes to the Consolidated Financial Statements

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### 29. RISK MANAGEMENT (continued)

#### 29.2 CREDIT RISK (continued)

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

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

	<i>Gross maximum exposure 2014 BD '000</i>	<i>Gross maximum exposure 2013 BD '000</i>
<b>ASSETS</b>		
Balances with other banks	48,088	7,420
Murabaha receivables from banks	182,110	118,227
Corporate Sukuk	139,304	91,106
Murabaha and Mudaraba financing	376,716	212,217
Ijarah Muntahia Bittamleek	137,719	108,090
Musharaka financing	10,851	19,145
Assets under conversion	290,618	-
Other assets	16,753	13,852
<b>Total</b>	<b>1,202,159</b>	<b>570,057</b>
Contingent liabilities and commitments	215,712	21,176
<b>Total credit risk exposure</b>	<b>1,417,871</b>	<b>591,233</b>

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

##### *Type of credit risk*

Various contracts entered into by the Group comprise Murabaha financing, Mudaraba financing, Musharaka financing, Sukuk and Ijarah Muntahia Bittamleek contracts. Murabaha financing contracts cover land, buildings, commodities, motor vehicles and others. Mudaraba financing consist of financing transactions entered through other Islamic banks and financial institutions. Mudaraba is a partnership agreement in which the Islamic bank acts as the provider of funds (the Rabamal) while the recipient of the funds (the Mudarib or the manager) provides the professional, managerial and technical know-how towards carrying out the venture, trade or service with an aim of earning profit. The various financial instruments are:

##### *Murabaha financing*

The Group arranges Murabaha transactions by buying an asset (which represents the object of the Murabaha) and then selling this asset to customers (beneficiary) after adding a margin of profit over the cost. The sale price (cost plus profit margin) is paid in instalments over the agreed period.

## Notes to the Consolidated Financial Statements

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### 29. RISK MANAGEMENT (continued)

#### 29.2 CREDIT RISK (continued)

##### *Ijarah Muntahia Bittamleek*

The legal title of the leased asset under Ijarah Muntahia Bittamleek passes to the lessee at the end of the Ijarah term, provided that all Ijarah instalments are settled.

a) The credit quality of balances with banks and Murabaha receivables from banks subject to credit risk is as follows:

	31 December 2014				
	Neither past due nor impaired			Past due or individually impaired	Total
	'A' Rated BD '000	'B' Rated BD '000	Unrated BD '000		
Balances with banks	37,365	5,446	5,277	-	48,088
Murabaha and Wakala receivables from banks	73,275	77,119	31,716	-	182,110
	110,640	82,565	36,993	-	230,198

	31 December 2013				
	Neither past due nor impaired			Past due or individually impaired	Total
	'A' Rated BD '000	'B' Rated BD '000	Unrated BD '000		
Balances with banks	6,182	199	1,039	-	7,420
Murabaha and Wakala receivables from banks	38,114	36,114	43,999	-	118,227
	44,296	36,313	45,038	-	125,647

The ratings referred to in the above tables are by one or more of the 4 international rating agencies (Standards & Poors, Moody's, Fitch and Capital Intelligence). The unrated exposures are with various high quality Middle East financial institutions, which are not rated by a credit rating agency. In the opinion of the management, these are equivalent to "A" rated banks.

## Notes to the Consolidated Financial Statements

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### 29. RISK MANAGEMENT (continued)

#### 29.2 CREDIT RISK (continued)

b) The credit quality of Corporate sukuk, financing facilities and other assets that are subject to credit risk, based on internal credit ratings, is as follows:

	31 December 2014					
	Neither past due nor impaired			Past due		Total BD '000
	Satisfactory BD '000	Watch List BD '000	Substandard BD '000	Not impaired BD '000	Impaired BD '000	
Corporate Sukuk	138,661	-	-	-	643	139,304
Murabaha and Mudaraba financing	325,576	43,141	-	4,348	3,651	376,716
Ijarah Muntahia Bittamleek	128,547	1,818	967	4,850	1,537	137,719
Musharaka financing	10,274	-	-	525	52	10,851
Assets under conversion	214,012	1,167	-	47,736	27,703	290,618
Other assets	16,753	-	-	-	-	16,753
	<b>833,823</b>	<b>46,126</b>	<b>967</b>	<b>57,459</b>	<b>33,586</b>	<b>971,961</b>

	31 December 2013					
	Neither past due nor impaired			Past due		Total BD '000
	Satisfactory BD '000	Watch List BD '000	Substandard BD '000	Not impaired BD '000	Impaired BD '000	
Corporate sukuk	91,106	-	-	-	-	91,106
Murabaha and Mudaraba financing	188,136	3,995	3,740	12,720	3,626	212,217
Ijarah Muntahia Bittamleek	92,724	2,683	1,041	10,717	925	108,090
Musharaka financing	10,675	74	-	8,306	90	19,145
Assets under conversion	-	-	-	-	-	-
Other assets	12,410	-	190	-	1,252	13,852
	<b>395,051</b>	<b>6,752</b>	<b>4,971</b>	<b>31,743</b>	<b>5,893</b>	<b>444,410</b>

In addition to the above, the financing facilities provided to the Government of Bahrain, its related entities and GCC sovereign amounts to BD 86,644 thousands (2013: BD 60,550 thousands).

All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

## Notes to the Consolidated Financial Statements

31 December 2014

### 29. RISK MANAGEMENT (continued)

#### 29.2 CREDIT RISK (continued)

c) Past due but not impaired financing facilities are analysed as follows:

	31 December 2014			
	0-30 days BD '000	31-90 days BD '000	> 90 days BD '000	Total BD '000
Murabaha and Mudaraba financing	2,753	1,420	175	4,348
Ijarah Muntahia Bittamleek	6	195	4,649	4,850
Musharaka financing	73	-	452	525
Assets under conversion	26,598	13,092	8,046	47,736
	29,430	14,707	13,322	57,459

	31 December 2013			
	0-30 days BD '000	31-90 days BD '000	> 90 days BD '000	Total BD '000
Murabaha and Mudaraba financing	916	978	10,826	12,720
Ijarah Muntahia Bittamleek	977	732	9,008	10,717
Musharaka financing	486	-	7,820	8,306
Assets under conversion	-	-	-	-
	2,379	1,710	27,654	31,743

All the past due but not impaired financing facilities are covered by collateral of BD 77,935 thousands (2013: BD 112,955 thousands). The utilisation of the collateral will be on customer by customer basis and is limited to the customers' total exposure.

The maximum credit risk, without taking into account the fair value of any collateral and Shari'a-compliant netting agreements, is limited to the amounts on the consolidated statement of financial position plus commitments to customers disclosed in Note 28 except capital commitments.

During the year BD 53,187 thousands (2013: BD 14,416 thousands) of financing facilities were renegotiated. Most of the renegotiated facilities are performing and are secured.

At 31 December 2014, the amount of credit exposure in excess of 15% of the Bank's regulatory capital to individual counterparties was BD 3,356 thousands (2013: BD 9,993 thousands).

#### 29.3 LEGAL RISK AND CLAIMS

Legal risk is the risk arising from the potential that unenforceable contracts, lawsuits or adverse judgements can disrupt or otherwise negatively affect the operations of the Group. The Group has developed controls and procedures to identify legal risks and believes that losses will be minimised.

As at 31 December 2014, legal suits amounting to BD 2,586 thousands (2013: BD 1,978 thousands) were pending against the Group. Based on the opinion of the Group's legal counsel, the total estimated liability arising from these cases is not considered to be material to the Group's consolidated financial position as the Group also has filed counter cases against these parties.



## Notes to the Consolidated Financial Statements

31 December 2014

### 30. CONCENTRATIONS

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The Group manages its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with customers in specific locations or businesses.

The distribution of assets, liabilities and equity of investment account holders by geographic region and industry sector was as follows. For quoted investments this is analysed with reference to the indices in which the investments are listed. For unquoted investments, this is analysed by changing the key inputs used in the valuation assumptions.

	<i>Liabilities, equity of investment account holders and</i>			<i>Liabilities, equity of investment account holders and</i>		
	<i>Assets</i>	<i>owners' equity</i>	<i>Contingent liabilities and Commitments</i>	<i>Assets</i>	<i>owners' equity</i>	<i>Contingent liabilities and Commitments</i>
	<i>2014</i>	<i>2014</i>	<i>2014</i>	<i>2013</i>	<i>2013</i>	<i>2013</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
<b>Geographic region</b>						
GCC	1,709,859	1,553,152	215,180	932,131	822,694	20,660
Arab World	7,764	1,887	-	8,582	126	-
Europe	74,437	6,038	4,133	47,098	4,123	-
Asia Pacific	117,572	52,728	1,133	97,318	15,133	1,647
North America	22,179	7,007	4	3,123	12	-
Others	23,486	5,682	568	-	67	-
	1,955,297	1,626,494	221,018	1,088,252	842,155	22,307
Owners' equity	-	328,803	-	-	246,097	-
	1,955,297	1,955,297	221,018	1,088,252	1,088,252	22,307

	<i>Liabilities, equity of investment account holders and</i>			<i>Liabilities, equity of investment account holders and</i>		
	<i>Assets</i>	<i>owners' equity</i>	<i>Contingent liabilities and Commitments</i>	<i>Assets</i>	<i>owners' equity</i>	<i>Contingent liabilities and Commitments</i>
	<i>2014</i>	<i>2014</i>	<i>2014</i>	<i>2013</i>	<i>2013</i>	<i>2013</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
<b>Industry sector</b>						
Trading and manufacturing	154,474	104,447	55,553	73,735	28,465	5,264
Banks and financial institutions	620,360	430,333	5,366	187,791	131,086	55
Real estate	448,117	205,966	83,405	347,882	114,614	8,623
Aviation	20,196	13,948	-	25,520	9,680	-
Individuals	185,828	547,402	4,186	95,963	418,189	1,287
Government and public sector	402,086	107,543	30,642	280,697	43,855	-
Others	124,236	216,855	41,866	76,664	96,266	7,078
	1,955,297	1,626,494	221,018	1,088,252	842,155	22,307
Owners' equity	-	328,803	-	-	246,097	-
	1,955,297	1,955,297	221,018	1,088,252	1,088,252	22,307

## Notes to the Consolidated Financial Statements

31 December 2014

### 31. MARKET RISK

Market risk arises from fluctuations in global yields on financial instruments and foreign exchange rates that could have an indirect effect on the Group's assets value and equity prices. The Board has set limits on the risk that may be accepted. This is monitored on a regular basis by the Asset and Liability Committee of the Group.

#### 31.1 EQUITY PRICE RISK

Equity price risk arises from fluctuations in equity prices. The Board has set limits on the amount and type of investments that may be accepted. This is monitored on an ongoing basis by the Group's Investment Committee.

The effect on income (as a result of changes in the fair values of non-trading investments held at fair value through profit or loss and available-for-sale investments) solely due to reasonably possible changes in equity prices, is as follows:

	2014			
	10% increase		10% decrease	
	<i>Effect on net profit BD '000</i>	<i>Effect on equity BD '000</i>	<i>Effect on net profit BD '000</i>	<i>Effect on equity BD '000</i>
<b>Quoted:</b>				
Bahrain	-	301	-	(301)
Saudi	540	-	(540)	-
Singapore	1,155	372	(1,155)	(372)
Frankfurt	152	-	(152)	-
<b>Unquoted</b>	<b>10,730</b>	<b>1,502</b>	<b>(10,730)</b>	<b>(1,502)</b>
	2013			
	10% increase		10% decrease	
	<i>Effect on net profit BD '000</i>	<i>Effect on equity BD '000</i>	<i>Effect on net profit BD '000</i>	<i>Effect on equity BD '000</i>
<b>Quoted:</b>				
Bahrain	-	305	-	(305)
Saudi	602	-	(602)	-
Singapore	-	340	(340)	-
Frankfurt	304	-	(304)	-
<b>Unquoted</b>	<b>10,315</b>	<b>992</b>	<b>(10,315)</b>	<b>(992)</b>

## Notes to the Consolidated Financial Statements

31 December 2014

### 31. MARKET RISK (continued)

#### 31.2 PROFIT RETURN RISK

The Group has exposure to fluctuations in the profit rates on its assets and liabilities. The Group recognises income on certain financial assets on a time-apportioned basis. The Group has set limits for profit return risk and these are monitored on an ongoing basis by the Group's Asset Liability Committee (ALCO).

The Group manages exposures to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows.

The effect on income solely due to reasonably possible immediate and sustained changes in profit return rates, affecting both floating rate assets and liabilities and fixed rate assets and liabilities with maturities less than one year are as follows:

	2014			
	<i>Change in rate %</i>	<i>Effect on net profit BD '000</i>	<i>Change in rate %</i>	<i>Effect on net profit BD '000</i>
Bahraini dinars	0.10	(208)	-0.10	208
US dollars	0.10	(142)	-0.10	142
	2013			
	<i>Change in rate %</i>	<i>Effect on net profit BD '000</i>	<i>Change in rate %</i>	<i>Effect on net profit BD '000</i>
Bahraini dinars	0.10	(31)	-0.10	31
US dollars	0.10	(108)	-0.10	108

#### 31.3 CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. Positions are monitored on a periodic basis by the Asset Liability Committee to ensure positions are maintained within established limits.

Substantial portion of the Group's assets and liabilities are denominated in Bahrain dinars, US dollars or Saudi Riyals. As the Bahraini Dinar and Saudi Riyals are pegged to the US Dollars, positions in these currencies are not considered to represent significant currency risk as of 31 December 2014 and 2013.

## Notes to the Consolidated Financial Statements

31 December 2014

### 32. LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its liabilities as they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may impact certain sources of funding. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an adequate balance of cash, cash equivalents and readily convertible marketable securities. Liquidity position is monitored on an ongoing basis by the Asset Liability Committee.

The table below summarises the expected maturity profile of the Group's assets and liabilities as at 31 December 2014 and 2013:

	31 December 2014				
	Up to 3 months BD '000	3 months to 1 year BD '000	1 to 5 years BD '000	Over 5 years BD '000	Total BD '000
<b>ASSETS</b>					
Cash and balances with banks and the CBB	256,575	-	21,176	-	277,751
CBB Sukuk	10,267	-	84,411	-	94,678
Murabaha & Wakala receivables from banks	182,110	-	-	-	182,110
Corporate Sukuk	-	19,902	55,898	63,504	139,304
Murabaha and Mudaraba financing	28,803	121,852	211,206	98,168	460,029
Ijarah Muntahia Bittamleek	28,402	13,044	59,141	40,465	141,052
Musharaka financing	3,010	1,774	3,393	2,674	10,851
Assets under conversion	30,185	21,326	257,148	-	308,659
Non-trading investments	-	-	145,121	1,975	147,096
Investments in real estates	-	-	65,149	-	65,149
Development properties	-	-	59,262	-	59,262
Investment in associates	-	-	7,753	2,739	10,492
Other assets	23,854	2,096	474	6,469	32,893
Goodwill	-	-	-	25,971	25,971
	563,206	179,994	970,132	241,965	1,955,297
<b>LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>					
Murabaha and Wakala payables to banks	-	44,179	77,087	-	121,266
Wakala payables to non-banks	-	103,405	930,647	-	1,034,052
Customers' current accounts	226,648	-	-	-	226,648
Term financing	303	935	20,099	-	21,337
Liabilities under conversion	9,637	14,962	125,022	-	149,621
Other liabilities	40,568	4,323	527	-	45,418
Equity of investment accountholders	8,445	5,631	14,076	-	28,152
	285,601	173,435	1,167,458	-	1,626,494

## Notes to the Consolidated Financial Statements

31 December 2014

## 32. LIQUIDITY RISK (continued)

	31 December 2013				
	Up to 3 months BD '000	3 months to 1 year BD '000	1 to 5 years BD '000	Over 5 years BD '000	Total BD '000
<b>ASSETS</b>					
Cash and balances with banks and the CBB	76,122	6,970	3,005	-	86,097
CBB Sukuk	-	18,770	84,167	-	102,937
Murabaha & Wakala receivables from banks	118,227	-	-	-	118,227
Corporate Sukuk	-	12,964	52,473	25,669	91,106
Murabaha and Mudaraba financing	50,540	38,892	149,704	31,090	270,226
Ijarah Muntahia Bittamleek	11,078	2,759	55,831	40,963	110,631
Musharaka financing	7,968	7,821	2,201	1,155	19,145
Non-trading investments	-	-	125,923	-	125,923
Investments in real estates	-	-	66,718	-	66,718
Development properties	-	-	65,891	-	65,891
Investment in associates	-	-	8,537	-	8,537
Other assets	19,526	2,009	1,279	-	22,814
	283,461	90,185	615,729	98,877	1,088,252
<b>LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>					
Murabaha and Wakala payables to banks	-	10,680	96,116	-	106,796
Wakala payables to non-banks	-	58,436	525,929	-	584,365
Customers' current accounts	70,532	-	-	-	70,532
Term financing	291	900	22,446	-	23,637
Other liabilities	27,545	3,198	236	-	30,979
Equity of investment accountholders	7,754	5,169	12,923	-	25,846
	106,122	78,383	657,650	-	842,155

## Notes to the Consolidated Financial Statements

31 December 2014

### 32. LIQUIDITY RISK (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2014 and 2013 based on contractual undiscounted payment obligation:

	31 December 2014					
	On Demand BD '000	Up to 3 months BD '000	3 Months to 1 year BD '000	1 to 5 Years BD '000	Over 5 years BD '000	and Total BD '000
<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, COMMITMENTS AND CONTINGENT LIABILITIES</b>						
Murabaha & Wakala payables to banks	-	103,091	18,175	-	-	121,266
Wakala payables to non-banks	-	332,009	553,664	147,730	649	1,034,052
Customers' current accounts	226,648	-	-	-	-	226,648
Equity of investment accountholders	-	28,152	-	-	-	28,152
Term financing	303	935	20,099	-	-	21,337
Liabilities under conversion	-	58,422	25,511	51,971	13,717	149,621
Unutilised commitments	33,594	7,337	50,686	18,358	7,653	117,628
Commitments towards development cost	-	1,569	10,211	12,100	-	23,880
Contingent liabilities	2,199	17,475	24,381	6,190	-	50,245
Capital expenditure commitments	-	-	45	-	-	45
Other financial liabilities	-	5,971	5,855	427	-	12,253
Profit on financial liabilities	81	1,254	9,083	7,888	49	18,355
	262,825	556,215	717,710	244,664	22,068	1,803,482

## Notes to the Consolidated Financial Statements

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## 32. LIQUIDITY RISK (continued)

	31 December 2013					
	<i>On Demand</i>	<i>Up to 3 months</i>	<i>3 Months to 1 year</i>	<i>1 to 5 Years</i>	<i>Over 5 years</i>	<i>and Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, COMMITMENTS AND CONTINGENT LIABILITIES						
Murabaha & Wakala payables to banks	-	98,665	8,131	-	-	106,796
Wakala payables to non-banks	-	332,080	232,919	19,366	-	584,365
Customers' current accounts	70,532	-	-	-	-	70,532
Equity of investment						
accountholders	-	25,846	-	-	-	25,846
Term financing	-	291	901	18,059	4,386	23,637
Unutilised commitments	-	5,165	4,579	608	814	11,166
Commitments towards						
development cost	-	-	2,799	-	-	2,799
Contingent liabilities	6,881	252	78	-	-	7,211
Other financial liabilities	-	8,246	4,333	3,304	-	15,883
Profit on financial liabilities	-	1,334	4,069	1,108	-	6,511
	77,413	471,879	257,809	42,445	5,200	854,746

## Notes to the Consolidated Financial Statements

31 December 2014

### 33. SEGMENT INFORMATION

#### Primary segment information

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

<b>Banking</b>	Principally managing Shari'a compliant profit sharing investment accounts, and offering Shari'a compliant financing contracts and other Shari'a-compliant products. This segment comprises corporate banking, retail banking and private banking and wealth management.
<b>Treasury</b>	Principally handling Shari'a compliant money market, trading and treasury services including short-term commodity Murabaha.
<b>Investments</b>	Principally the Group's proprietary portfolio and serving clients with a range of investment products, funds and alternative investments.
<b>Capital</b>	Manages the undeployed capital of the Group by investing it in high quality financial instruments, incurs all expenses in managing such investments and accounts for the capital governance related expenses.

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

Segment information is disclosed as follows:

	31 December 2014				
	<i>Banking</i> <i>BD '000</i>	<i>Treasury</i> <i>BD '000</i>	<i>Investments</i> <i>BD '000</i>	<i>Capital</i> <i>BD '000</i>	<i>Total</i> <i>BD '000</i>
Operating income	30,931	5,757	8,507	873	46,068
Segment result	7,148	4,448	5,600	(1,375)	15,821
Segment assets	830,396	537,408	356,947	230,546	1,955,297
Segment liabilities, and equity	1,444,201	121,549	62,258	327,289	1,955,297

Goodwill resulting from BMI acquisition is allocated to banking segment.

	31 December 2013				
	<i>Banking</i> <i>BD '000</i>	<i>Treasury</i> <i>BD '000</i>	<i>Investments</i> <i>BD '000</i>	<i>Capital</i> <i>BD '000</i>	<i>Total</i> <i>BD '000</i>
Operating income	15,059	6,633	1,031	3,364	26,087
Segment result	9,591	5,825	(1,957)	(1,087)	12,372
Segment assets	381,307	397,309	208,039	101,597	1,088,252
Segment liabilities, and equity	688,122	107,237	48,872	244,021	1,088,252

#### Secondary segment information

The Group primarily operates in the GCC and derives substantially all its operating income and incurs all operating expenses in the GCC.



## Notes to the Consolidated Financial Statements

31 December 2014

### 34. FIDUCIARY ASSETS

Funds under management at the year-end amounted to BD 78,178 thousands (2013: BD 96,686 thousands). These assets are held in a fiduciary capacity and are not included in the consolidated statement of financial position.

### 35. SHARI'A SUPERVISORY BOARD

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

### 36. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of the Group's financial instruments are not significantly different from their carrying values as at 31 December 2014 and 2013.

### 37. EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

During the year, the Group received Sharia' prohibited income totalling BD 211 thousands (2013: BD 130 thousands). These include, income earned from the conventional financing and investments, penalty charges from customers and income on current account balances held with correspondent banks. These funds were allocated to charitable contributions.

### 38. SOCIAL RESPONSIBILITY

The Group discharges its social responsibility through charity fund expenditures and donations to individuals and organisations which are used for charitable purposes. During the year the Group paid an amount of BD 225 thousands (2013: BD 215 thousands) on account of charitable donations.

### 39. ZAKAH

Pursuant to a resolution of the shareholders in an EGM held on 12 November 2009, it was resolved to amend the articles of association of the Bank to inform the shareholders of their obligation to pay Zakah on income and net worth. Consequently, Zakah is not recognized in the consolidated income statement as an expense. The total Zakah payable by the shareholders for 2014 has been determined by the Shari'a supervisory board as 3.8 fils (2013: 4.1 fils) per share.

### 40. CAPITAL ADEQUACY

The adequacy of the Bank's capital is monitored using, primarily, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the CBB. The primary objective of the Bank's capital management is to ensure that it complies with externally imposed capital requirements. The Group complied in full with all externally imposed capital requirements during the years ended 31 December 2014 and 31 December 2013.

## Notes to the Consolidated Financial Statements

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### 40. CAPITAL ADEQUACY (continued)

The risk asses ratio calculations, in accordance with the 'Basel II' capital adequacy guidelines of the CBB are as follows:

	<i>2014</i> <i>BD '000</i>	<i>2013</i> <i>BD '000</i>
Total Capital	263,222	187,565
Credit risk weighted exposure	1,302,332	828,766
Market risk weighted exposure	8,196	4,300
Operational risk weighted exposure	96,818	42,064
Total risk weighted exposure	1,407,346	875,130
Capital adequacy	18.7%	21.4%
Minimum requirement	12.0%	12.0%

### 41. DEPOSIT PROTECTION SCHEME

Deposits held with the Group's Bahrain operations are covered by the Deposit Protection Scheme (the Scheme) which was established by the Central Bank of Bahrain concerning the establishment of Deposit Protection Scheme and Deposit Protection Board. No liability is due until one of the member commercial banks of the Scheme is unable to meet its deposit obligations.

### 42. COMPARATIVE FIGURES

Certain of the prior year figures have been reclassified to conform to the current year presentation. Such reclassifications did not affect previously reported net profit, total assets, total liabilities and total equity of the Group.