

BANK ALKHAIR B.S.C. (c)
CONSOLIDATED FINANCIAL STATEMENTS
31 December 2014

Commercial registration	:	53462 (registered with the Central Bank of Bahrain as a wholesale Islamic bank).
Registered Office	:	4 th Floor Building No. 2304, Road 2830, Seef District 428 PO Box 31700, Manama, Kingdom of Bahrain
Directors	:	Yousef A. Al-Shelash, <i>Chairman</i> Hethloul Saleh Al-Hethloul Abdullatif Abdullah Al-Shalash Ayman Ismail Abudawood Abdulaziz Naif Al Orayer Ahmed Saleh Dehailan Khaled Shaheen Saqer Shaheen Khaled Abdulla Mohammed Ateeq Abdullah Ali Al Dubaikhi Majed Abdulrahman Al Qasem Sultan Abdulrahman Abalkheel Abdulrazaq Mohamed Al Wohaib Ali Saleh Al Othaim Khalid Mohamed Abdulrahim Hamad Abdulrazaq Al-Turkait (w.e.f. 1 April 2014)
Chief Executive Officer	:	Ayman Sejiny
Auditors	:	KPMG Fakhro

**CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2014**

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Chairman's Message

In the name of Allah, the Beneficent, the Merciful, Prayers and Peace upon the Last Apostle and Messenger, Our Prophet Mohammed, His Companions and Relatives.

On behalf of the Board of Directors, it is my privilege to present the annual report and consolidated financial statements of Bank Alkhair for the year ended 31st December 2014.

I am pleased to report that Bank Alkhair, by the grace of Allah the Almighty, has been able to achieve several major milestones, not least of which was completing our tenth successful year of operations. The year was marked by several initiatives that leave us well placed to further build our franchises and secure sustainable profitability as we move forward.

In the run up to and during 2014 we refocused our business strategy with regard to our regional offices in Bahrain and Turkey, which we expect will generate more recurring income from fee-based transactions. Meanwhile, the Bank's strategic repositioning of investments in our Saudi Arabia and Malaysian subsidiaries is expected to generate stable revenue streams. Also under consideration are substantial improvements to the performance of our portfolio investments and profitability during 2015.

Despite the considerable progress Bank Alkhair and its subsidiaries made during the year the Group reported a loss of USD17.3 million for the year ended 31 December, 2014. This loss was primarily due to the conservative accounting methodology that Bank Alkhair adopted for year-end 2014.

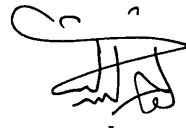
Looking forward to 2015 and beyond, it is our goal to return the Bank to profitability. The positive global outlook for Islamic finance for 2015-2018 places Bank Alkhair Group in a prime position to reach our goal and is further encouraged by the following key developments of the Bank during 2014.

I am delighted to inform you that during the latter half of 2014 the Bank concluded its search for key, senior level recruitments. Human Resources continued to develop the skills sets of existing employees and to attract, maintain and upgrade its workforce. Information Technology undertook an initiative in 2014 to upgrade its IT systems and to transform the infrastructure to a world-class platform.

In closing, on behalf of the Bank's Board of Directors and Executive Management Team, I would like to extend our sincere appreciation to our valued Shareholders for their unwavering support and confidence; to our Shari'ah Supervisory Board for their pro-active involvement in our product development and investment decision; to our dedicated employees across the globe for the achievements of the past year, as well as the expected path of development.

We would like to extend our appreciation to the governments of the countries in which our associates and subsidiaries operate, for the privilege of conducting our businesses. We would also like to say a special thank you to the Government of Bahrain for their support and encouragement of the financial services industry and in particular the growth of Islamic finance, and finally, to the Central Bank of Bahrain for their valuable support and direction

May Allah guide us on the proper path, and lead us to the realisation of our goals for the future success of the Bank.



Yousef Abdullah Al-Shelash
Chairman of the Board

26 February 2015

SHARI'AH SUPERVISORY BOARD REPORT TO THE SHAREHOLDERS OF BANK ALKHAIR B.S.C. (c)

Asslamo A'laikom WA Rahmatu Allah WA Barakatuh

In compliance with the terms of our letter of appointment, we are required to report as follows:

The Shari'ah Board, through the Shari'ah department, and under its direct supervision, reviewed the principles and the contracts relating to the transactions conducted by Bank Alkhair B.S.C. (c) ("the Bank") and its subsidiaries (together "the Group") during the year ended 31 December 2014. The review was conducted in order to form an opinion as to whether the Group has complied with rules and principles of Islamic Shari'ah and also with the specific fatwa's, rulings and guidelines issued by us.

Based on the Articles of Association of the Bank, the Group's management is responsible for ensuring that the Group conducts its business in accordance with the rules and principles of Shari'ah while the Shari'ah Board's responsibility is to form an independent opinion, based on our review of the operations of the Group, and to report this to you.

We conducted our review through the Shari'ah department and under our supervision which included examining, on a test basis, each type of transaction and the relevant documentation and procedures adopted by the Group. We performed our review so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to give assurance that the Group has not violated any rules and principles of Shari'ah.

In our opinion:

- a) The contracts, transactions and dealings entered into by the Group during the year ended 31 December 2014 are in compliance with the rules and principles of Shari'ah except part of the investment in Taj Mall project, Open Silicon and Logistics & Warehousing which were not submitted to the Shari'ah Board for approval before its execution, and appear later to be having explicitly non-Shari'ah Compliance issues.
- b) The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Shari'ah rules and principles.
- c) The Shari'ah Board resolved that all earnings that have been realized from sources or by means prohibited by rules and principles of Shari'ah shall be disposed off and given to charity under the supervision of the Shari'ah Board.
- d) The calculation of Zakah is in compliance with the rules and principles of Islamic Shari'ah.

We supplicate to Allah the Almighty to grant us success and a straight path.

Wa Asslamo A'laikom Wa Rahmatu Allah Wa Barakatuh.



Dr. Khalid Al Mathkoor
Chairman

26 February 2015



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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Bank Alkhair BSC (c)
Manama, Kingdom of Bahrain

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Bank Alkhair BSC (c) (the "Bank") and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statements of income, changes in equity, cash flows and changes in restricted investment accounts for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Respective responsibilities of board of directors and auditors

These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a rules and principles are the responsibility of the board of directors of the Bank. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Basis of opinion

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2014, and of its consolidated results of operations, its consolidated cash flows, its consolidated changes in equity and its consolidated changes in restricted investment accounts for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

Report on other regulatory requirements

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

- a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith;
- b) the financial information contained in the chairman's report is consistent with the consolidated financial statements;
- c) As disclosed in note 35, the Bank's capital adequacy ratio as at 31 December 2014 was below the minimum regulatory requirement as per Volume 2 of the CBB Rule Book. Except for this, we are not aware of any other violations during the year of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6 and CBB directives) or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position;
- d) Except for the matters discussed in the Shari'a Supervisory Board Report dated 19 February 2015, we are not aware of any other breaches of the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank; and
- e) satisfactory explanations and information have been provided to us by management in response to all our requests

KPMG Fakhro
Partner Registration no. 100
26 February 2015

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2014

US\$ 000's

	note	31 December 2014	31 December 2013 (restated – note 7)
ASSETS			
Cash and balances with banks	4	22,510	17,282
Placements with financial institutions		42,250	74,390
Financing receivables	5	9,151	52,309
Investment securities	6	85,323	79,186
Assets held-for-sale	7	15,082	-
Equity-accounted investees	8	121,974	121,662
Investment property	9	254,109	257,298
Other assets	10	12,986	15,955
Equipment		1,598	1,726
TOTAL ASSETS		564,983	619,808
LIABILITIES AND EQUITY			
LIABILITIES			
Due to financial institutions	11	106,987	130,763
Due to customers	12	197,552	217,594
Liabilities related to assets held-for-sale	7	1,374	-
Other liabilities	13	31,625	31,647
TOTAL LIABILITIES		337,538	380,004
EQUITY			
Share capital	14	207,962	207,862
Statutory reserve		664	664
Fair value reserve		(185)	117
Foreign currency translation reserve		(13,333)	(12,784)
Accumulated losses		(53,452)	(34,516)
Equity attributable to the shareholders of the Bank		141,656	161,343
Non-controlling interests		80,975	78,461
Non-controlling interests related to assets held-for-sale	7	4,814	-
TOTAL EQUITY (page 7)		227,445	239,804
TOTAL LIABILITIES AND EQUITY		564,983	619,808

The consolidated financial statements consisting of pages 4 to 53 were approved by the Board of Directors on 26 February 2015 and signed on its behalf by:



Yousef Abdullah Al-Shelash
Chairman



Hethloul Saleh Al-Hethloul
Board Member

The accompanying notes 1 to 36 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2014

US\$ 000's

	note	2014	2013 (restated – note 7)
Continuing operations			
Income from investment securities	15	2,054	7,232
Finance income		2,342	7,034
Fees and commission income	16	5,093	7,009
Share of profit of equity-accounted investees	8	5,769	1,488
Gain on acquisition of a subsidiary		-	14,453
Income from real estate operations	17	23,667	22,503
Rental income		3,361	-
Other income		547	1,428
Total income		42,833	61,147
Staff cost		12,771	15,330
Finance expense		9,445	8,240
Legal and professional expenses		2,431	7,891
Premises cost		1,580	2,254
Business development expenses		469	609
Depreciation		4,774	2,476
Expense of real estate operations	17	17,061	19,031
Other operating expenses		4,189	4,202
Total expenses		52,720	60,033
(Loss) / profit for the year before Zakah and impairment		(9,887)	1,114
Provision for Zakah	18	-	(145)
Impairment allowance	19	(6,500)	(2,017)
Loss for the year from continuing operations		(16,387)	(1,048)
Loss from assets held-for-sale and discontinued operations	7	(929)	-
Loss for the year		(17,316)	(1,048)
Attributable to:			
Shareholders of the Bank		(18,936)	(1,761)
Non-controlling interests		1,982	713
Non-controlling interests relating to assets held-for-sale		(362)	-
		(17,316)	(1,048)

The accompanying notes 1 to 36 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 for the year ended 31 December 2014

US\$ 000's

2014	Attributable to the shareholders of the Bank					Non-controlling interests	Non-controlling interests related to assets held-for-sale	Total equity	
	Share capital	Statutory reserve	Investments fair value reserve	Foreign currency translation reserve	Accumulated losses				Total
As at 1 January 2014	207,862	664	117	(12,784)	(34,516)	161,343	78,461	-	239,804
Loss for the year	-	-	-	-	(18,936)	(18,936)	1,982	(362)	(17,316)
Foreign currency translation differences	-	-	-	(863)	-	(863)	61	-	(802)
Share of changes in reserves of equity-accounted investees	-	-	(302)	314	-	12	-	-	12
Total recognised income and expense for the year	-	-	(302)	(549)	(18,936)	(19,787)	2,043	(362)	(18,106)
Capital increase (note 14)	100	-	-	-	-	100	-	-	100
Non-controlling interests related to assets held-for-sale	-	-	-	-	-	-	-	5,176	5,176
Changes in non-controlling interests	-	-	-	-	-	-	471	-	471
As at 31 December 2014	207,962	664	(185)	(13,333)	(53,452)	141,656	80,975	4,814	227,445

The accompanying notes 1 to 36 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*
for the year ended 31 December 2014

US\$ 000's

	Attributable to the shareholders of the Bank					Non-controlling interests	Non-controlling interests related to assets held-for-sale	Total equity	
	Share capital	Statutory reserve	Fair value reserve	Foreign currency translation reserve *	Accumulated losses				Total
2013 (restated)									
As at 1 January 2013	207,862	337	114	(8,485)	(32,715)	167,113	28,767	-	195,880
Prior year adjustment	-	-	22	(3,684)	287	(3,375)	-	-	(3,375)
Restated balance at 1 January 2013	207,862	337	136	(12,169)	(32,428)	163,738	28,767	-	192,505
(Loss) / profit for the year (page 6)	-	-	-	-	(1,761)	(1,761)	713	-	(1,048)
Foreign currency translation differences	-	-	-	(746)	-	(746)	(62)	-	(808)
Share of changes in reserves of equity-accounted investees	-	-	(19)	131	-	112	-	-	112
Total recognised income and expense for the year	-	-	(19)	(615)	(1,761)	(2,395)	651	-	(1,744)
Transfer to statutory reserve	-	327	-	-	(327)	-	-	-	-
Non-controlling interests related to assets held-for-sale	-	-	-	-	-	-	49,043	-	49,043
As at 31 December 2013	207,862	664	117	(12,784)	(34,516)	161,343	78,461	-	239,804

The accompanying notes 1 to 36 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2014

US\$ 000's

	2014	2013 (restated)
OPERATING ACTIVITIES		
(Loss) / profit for the year	(17,316)	(1,048)
Adjustments for:		
Provision for Zakah	-	145
Gain on sale of investment securities	(646)	(1,022)
Fair value changes in investment securities	(546)	(5,202)
Share of profit of equity-accounted investees	(5,769)	(1,488)
Gain on acquisition of a subsidiary	-	(14,453)
Income from real estate operations	-	(22,503)
Expense from real estate operations	-	19,031
Income from assets held-for-sale and discontinued operations	929	-
Depreciation and amortisation	4,774	2,476
Other Income	-	(1,133)
Sukuk amortisation	11	(348)
Impairment allowance	6,500	2,017
	(12,063)	(23,528)
Changes in:		
Financing receivables	39,449	31,290
Other assets	2,616	7,354
Due to financial institutions	(16,560)	(86,838)
Due to customers	(20,042)	149,418
Other liabilities	78	(6,348)
Net cash (used in) / generated from operating activities	(6,522)	71,348
INVESTING ACTIVITIES		
Net disposal / (purchase) of equipment	(389)	105
Proceeds from sale of investment securities	18,003	34,210
Purchase of investment securities	(30,174)	(16,952)
Investments in equity-accounted investees	-	(2,600)
Purchase of investment property	(714)	(56,013)
Dividends received from equity-accounted investees	2,168	4,336
Net cash used in investing activities	(11,106)	(36,914)
FINANCING ACTIVITIES		
Repayment of bank financing	(7,216)	(15,110)
Net cash used in financing activities	(7,216)	(15,110)
Net (decrease) / increase in cash and cash equivalents during the year	(24,844)	19,324
Effect of exchange rate changes on cash and cash equivalents	(2,068)	(816)
Cash from a subsidiary acquired during the year	-	1,446
Cash and cash equivalents at the beginning of the year	91,672	71,718
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	64,760	91,672
Cash and cash equivalents comprise:		
Cash and balances with banks	22,510	17,282
Placements with financial institutions	42,250	74,390
	64,760	91,672

The accompanying notes 1 to 36 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the year ended 31 December 2014

US\$ 000's

	At 1 January 2014	Deposit	Gross income	Wakil fee	Withdrawals	At 31 December 2014
2014						
Wakala contract	-	-	-	-	-	-

	At 1 January 2013	Deposit	Gross income	Wakil fee	Withdrawals	At 31 December 2013
2013						
Wakala contract	-	500	15	(3)	(512)	-

The accompanying notes 1 to 36 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2014

US\$ 000's

1. REPORTING ENTITY

Bank Alkhair B.S.C. (c) ("the Bank") was incorporated in the Kingdom of Bahrain and registered with the Ministry of Industry and Commerce under Commercial Registration No. 53462 on 29 April 2004 and operates under a wholesale Islamic banking license granted by the Central Bank of Bahrain (CBB). The Bank's registered office is at the 4th floor of Building No. 2304, Road No. 2830, Seef District 428, Manama, Kingdom of Bahrain.

The Bank and its subsidiaries (together referred to as "the Group") aim to provide a full range of investment banking products and services that are compliant with Shari'ah principles. The principal products and services offered by the Group are:

- financial advisory services;
- private equity, equity structuring, private placements and initial public offerings;
- facility structuring, restructuring and placement including project finance, securitisation and Sukuk;
- structuring and marketing of both open and closed end mutual funds as well as client portfolio management and brokerage services that aim to meet investor driven return and asset criteria;
- advisory and investment services for takaful (Islamic insurance) and retakaful (Islamic reinsurance) providers; and
- mergers and acquisitions, including deal sourcing, structuring, valuations and advisory.

Consolidated financial statements

The consolidated financial statements comprise the results of the Bank and its subsidiaries.

The following are the principal subsidiaries of the Bank that are consolidated:

Subsidiary	Owner ship	Year of incorporation / Acquisition	Country of incorporation	Principal activity
Alkhair International Islamic Bank Malaysia Berhad	100%	2004	Malaysia	Alkhair International Islamic Bank Malaysia Berhad was established in 2004 to source investment opportunities in the Far East and monitor the performance of the acquired companies on behalf of the Bank and investors and to establish distribution channels for the Group. In 2007, Alkhair International Islamic Bank Malaysia Berhad was granted an investment banking license by Bank Negara Malaysia to carry out investment banking activity in currencies other than the Malaysian Ringgit.
Alkhair Capital Menkul Degerler A.S.	91.9%	2007	Turkey	The main activities of Alkhair Capital Menkul Degerler A.S. are to provide investment consultancy and asset management.
Alkhair Portföy Yönetimi A.Ş.	96.4%	2007	Turkey	The main activities of Alkhair Portföy Yönetimi A.Ş. are to provide investment consultancy and asset management.
Alkhair Capital Saudi Arabia	53.4%	2009	Kingdom of Saudi Arabia	Alkhair Capital Saudi Arabia was incorporated in March 2009 and registered with Capital Markets Authority. Its principal activities are Asset Management, Corporate Finance & Investment banking and Brokerage.
Al-Tajamouat for Touristic Projects Co Plc	50.6%	2013	Jordan	Al-Tajamouat for Touristic Projects Co was incorporated in January 2004. Its principal activities are real estate property investment & development and ownership and operation of a shopping mall in Amman.
Tintoria international Limited	52.06 %	2014	UAE	General trading and investing in UAE and foreign companies.

The Bank has other special purpose entities (SPE's) holding companies and subsidiaries which are set up to supplement the activities of the Bank and its principal subsidiaries.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2014**

US\$ 000's

2. BASIS OF PREPARATION**(a) Statement of compliance**

The consolidated financial statements have been prepared in accordance with Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). In line with the requirement of AAOIFI and the CBB Rule Book, for matters that are not covered by FAS, the Group uses guidance from the relevant International Financial Reporting Standards ('IFRS').

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except for certain investment securities carried at fair value. The consolidated financial statements are presented in United States Dollars (US\$), being the functional currency of the Group's operations. All financial information presented in US\$ has been rounded to the nearest thousands, except when otherwise indicated.

Going concern

As at 31 December 2014, the current contractual liabilities of the Group exceeded its liquid assets as demonstrated in notes 26 and 29 to the consolidated financial statements. As a result, the ability of the Group to meet its obligations when due depends on its ability to roll over short term liabilities and timely disposal of assets. Further, the capital adequacy ratio as at 31 December 2014 was below the minimum regulatory capital requirements. These factors indicate the existence of material uncertainties which may cast doubt about the Group's ability to continue as a going concern.

The management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for foreseeable future based on its ability to roll over short term liabilities, current discussions with certain creditors, assets sale plan and support from major shareholders that would generate the required liquidity to meet its obligation when due. These actions are also expected to improve the Bank's capital adequacy ratio. The Board of Directors have reviewed the Bank's future plans and are satisfied with the appropriateness of the going concern assumption for preparation of the consolidated financial statements.

(c) Basis of consolidation**(i) Subsidiaries**

Subsidiaries are those enterprises (including special purpose entities) controlled by the Bank. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases.

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or investment transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. The assessment of whether the Group has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Group and the SPE. Where the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE.

The Group in its fiduciary capacity also manages and administers assets held in trust and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's fiduciary assets under management is set out in note 21.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2014

US\$ 000's

2. *BASIS OF PREPARATION (continued)**Loss of control*

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the consolidated income statement. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

Non-controlling interests

Interests in the equity of subsidiaries not attributable to the parent are reported in consolidated statement of financial position as non-controlling interests. Profits or losses attributable to non-controlling interests are reported in the consolidated income statement as income attributable to non-controlling interests. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in equity in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other equity are reclassified to the consolidated income statement.

(ii) Investment in associates (Equity-accounted investees)

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

On initial recognition of an associate, the Group makes an accounting policy choice as to whether the associate shall be equity accounted or designated as at fair value through income statement. The Group makes use of the exemption in FAS 24 – *Investment in Associates* for venture capital organisation and designates certain of its investment in associates, as 'investments carried at fair value through income statement'. These investments are managed, evaluated and reported on internally on a fair value basis (refer note 3 (b)).

If the equity accounting method is chosen for an associate, these are initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investees after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investees arising from changes in the investee's equity.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2014**

US\$ 000's

2. BASIS OF PREPARATION (continued)**(ii) Investment in associates (Equity-accounted investees) (continued)**

When the Group's share of losses exceeds its interest in an equity-accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the equity-accounted investees.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an equity-accounted investee at the date of acquisition is recognised as goodwill, and included within the carrying amount of the investment. When the excess is negative, a bargain purchase gain is recognised immediately in the consolidated income statement.

If the ownership interest in an equity-accounted investee is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in equity is reclassified to the consolidated income statement where appropriate.

(iii) Transactions eliminated on consolidation and equity accounting

Intra-group balances and transactions, and any unrealised gains or losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group gains on transactions between the Group and its equity-accounted investees are eliminated to the extent of the Group's interest in the investees. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

The reporting period of the Group's subsidiaries and equity-accounted investees are identical and their accounting policies conform to those used by the Bank for like transactions and events in similar circumstances. The accounting policies of the subsidiaries and equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Business combination

Business combinations are accounted for using the acquisition method as at the acquisition date i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in the consolidated income statement immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in consolidated income statement. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service

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3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by Group entities to all periods presented in these consolidated financial statements.

New standards, amendments and interpretations issued but not yet effective for adoption

There are no AAOIFI accounting standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2015 that would be expected to have a material impact on the Group.

a) Foreign currency transactions

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in US\$, which is the Bank's functional and presentation currency.

Foreign currency transactions are translated using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement. Translation differences on non-monetary items carried at their fair value, such as certain equity securities measured at fair value through equity, are included in investments fair value reserve.

Other group companies

As at the reporting date, the assets and liabilities of subsidiaries, equity-accounted investees and joint venture are translated into the Bank's functional currency at the rate of exchange prevailing at the reporting date, and their statements of income are translated at the average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate reserve in equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

b) Investment securities

Investment securities comprise debt and equity instruments, but exclude investment in subsidiaries and equity-accounted investees (refer note 2 (c ii)).

(i) Classification

The Group segregates its investment securities into debt-type instruments and equity-type instruments.

Debt-type instruments

Debt-type instruments are investments that provide fixed or determinable payments of profits and capital. Investments in debt-type instruments are classified in the following categories:

At fair value through income statement (FVTIS)

These investments are either not managed on contractual yield basis or designated on initial recognition at FVTIS to avoid any accounting mismatch that would arise on measuring the assets or liabilities or recognising the gains or losses on them on different bases. Currently, the Group does not have any investment under this category.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)**b) Investment securities (continued)***At amortised cost*

This classification is for debt-type instruments which are not designated as FVTIS and are managed on contractual yield basis. These include investments in medium to long-term sukuk.

Equity-type instruments

Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities. Investments in equity type instruments are classified in the following categories:

At fair value through income statement (FVTIS)

Equity-type instruments classified and measured at FVTIS include investments held-for-trading and those designated on initial recognition at FVTIS.

Investments are classified as held-for-trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealers margin or that form part of a portfolio where there is an actual pattern of short-term profit taking. The Group currently does not have any of its investments classified as investments held-for-trading purposes.

On initial recognition, an equity-type instrument is designated as FVTIS only if the investment is managed and its performance is evaluated and reported on internally by the management on a fair value basis. This category currently includes investment in private equity, funds and investment in associates (refer note 2 (c) (ii))

At fair value through equity (FVTE)

Equity-type instruments other than those designated at FVTIS are classified as at fair value through equity. This category includes investment in unquoted equity securities.

(ii) Recognition and de-recognition

Investment securities are recognised at the trade date i.e. the date that the Group contracts to purchase or sell the asset, at which date the Group becomes party to the contractual provisions of the instrument. Investment securities 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.

(iii) Measurement

Investment securities are measured initially at fair value, which is the value of the consideration given. For investments carried at FVTIS, transaction costs are expensed in the consolidated income statement. For other investment securities, transaction costs are included as a part of the initial recognition.

Subsequent to initial recognition, investments carried at FVTIS and FVTE are re-measured to fair value. Gains and losses arising from a change in the fair value of investments carried at FVTIS are recognised in the consolidated income statement in the period in which they arise. Gains and losses arising from a change in the fair value of investments carried at FVTE are recognised in the consolidated statement of changes in equity and presented in a separate fair value reserve within equity.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)**b) Investment securities (continued)**

When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in equity is transferred to the consolidated income statement.

Investments carried at FVTE where the entity is unable to determine a reliable measure of fair value on a continuing basis, such as investments that do not have a quoted market price or where there are no other appropriate methods from which to derive reliable fair values, are stated at cost less impairment allowances.

Subsequent to initial recognition, debt-type investments other than those carried at FVTIS are measured at amortised cost using the effective profit method less any impairment allowances.

(iv) Measurement principles***Amortised cost measurement***

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus capital repayments, plus or minus the cumulative amortisation using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The calculation of the effective profit rate includes all fees and points paid or received that are an integral part of the effective profit rate.

Fair value measurement

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

The Group measures the fair value of quoted investments using the market bid-prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active or the instrument is not quoted, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flow analysis and other valuation models with accepted economic methodologies for pricing financial instruments.

c) Financing receivables

Financing receivables comprise Shari'ah compliant financing contracts with fixed or determinable payments. These include financing provided through Murabaha contracts. Financing assets are recognised on the date they are originated and are carried at their amortised cost.

d) Placements with financial institutions

These comprise inter-bank placements made using Shari'ah compliant contracts. Placements are usually for short-term and are stated at their amortised cost.

e) Due to financial institutions

These comprise funds from financial institutions received on Shari'ah compliant contracts. Placement from financial institutions are stated at their amortised cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2014

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3. *SIGNIFICANT ACCOUNTING POLICIES (continued)***f) Due to customers**

These comprise funds payable to corporate customers received using Shari'ah compliant contracts. Due to customers are stated at their amortised cost.

g) Impairment of assets

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

Financial assets carried at amortised cost

For financial assets carried at amortised cost impairment is measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses are recognised in consolidated income statement and reflected in an allowance account. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the consolidated income statement. The Group considers evidence of impairment for financial assets carried at amortised cost at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

Investments carried at fair value through equity (FVTE)

In the case of investments in equity securities classified as FVTE, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment. If any such evidence exists for FVTE investments, the unrealised re-measurement loss shall be transferred from equity to the consolidated income statement.

The cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are subsequently reversed through equity.

For FVTE investments carried at cost less impairment due to the absence of reliable fair value, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverable amount is assessed to be below the cost of the investment. Currently, the Group does not have any investments under this category.

Non-financial assets

The carrying amount of the Group's assets or its cash generating unit, other than financial assets carried at amortised cost and investments carried at FVTE, are reviewed at each reporting date to determine whether there is any indication of impairment. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other asset and groups. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset or a cash generating unit is the greater of its value in use or fair value less costs to sell.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)
g) Impairment of assets (continued)

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of expected return and the risks specific to the asset or cash generating unit. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the consolidated income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Separately recognised goodwill is not amortised and is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on separately recognised goodwill are not reversed.

In assessing the impairment of investment property, the Group periodically uses external independent valuers to determine the recoverable amount based on market value of property.

h) Investment property

Investment property comprise land and building. Investment property is investments that earn rental income and/or are expected to benefit from capital appreciation or land held for undetermined future use. Investment properties are measured initially at cost, including directly attributable expenditures. Subsequently, investment property is carried at cost less accumulated depreciation (where applicable) and accumulated impairment losses (if any). Impairment of investment property is evaluated on assets-by-assets and not on portfolio basis at each reporting period.

Depreciation is calculated to write-off the cost of items of investment property less their estimated residual value using straight line basis over their estimated useful life. Depreciation is recognised in the consolidated income statement. Land is not depreciated. The building is depreciated over useful life of 50 years. Depreciation methods and estimated useful life and residual value are reviewed at each reporting period and adjusted if appropriate.

Investment properties are derecognised when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement in the year of retirement or disposal.

i) Equipment

Equipment includes computers, office equipment, fixtures and fittings. Equipment is recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method to write-off the cost of the assets over their estimated useful lives ranging from 1 to 8 years. The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

j) Assets held-for-sale and discounted operations**i) Classification**

The Group classifies non-current assets or disposal groups as held-for-sale if its carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use within twelve months. A disposal group is a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. A subsidiary acquired exclusively with a view to resale is classified as disposal group held-for-sale and income and expense from its operations are presented as part of discontinued operation.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)**j) Assets held-for-sale and discounted operations (continued)**

If the criteria for classification as held for sale are no longer met, the entity shall cease to classify the asset (or disposal group) as held for sale and shall measure the asset at the lower of its carrying amount before the asset (or disposal group) was classified as held-for-sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held-for-sale and its recoverable amount at the date of the subsequent decision not to sell.

Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets and investment property carried at fair value, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognised in the consolidated income statement. Gains are not recognised in excess of any cumulative impairment loss.

ii) Measurement

Non-current assets or disposal groups classified as held-for-sale, other than financial instruments, are measured at the lower of its carrying amount and fair value less costs to sell. Financial instruments that are non-current assets and 'held-for-sale' continue to be measured in accordance with their stated accounting policies. On classification of equity-accounted investee as held-for-sale, equity accounting is ceased at the time of such classification as held-for-sale. Non-financial assets (i.e. intangible assets, equipment) are no longer amortised or depreciated.

iii) Discounted operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held-for-sale, if earlier. When an operation is classified as a discontinued operation, the comparative consolidated income statement is re-presented as if the operation had been discontinued from the start of the comparative year.

k) Restricted investment accounts

Restricted investment accounts represent funds received by the Group from third parties for investment in specified products as directed by the investment account holders. These assets are managed in a fiduciary capacity and the Group has no entitlement to these assets. Clients bear all of the risks and earn all of the rewards on these investments. Restricted investments are not included in the consolidated statement of financial position since the Group does not have the right to use or dispose these investments except within the conditions of the contract between the Group and holders of restricted investment accounts.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)**l) Revenue recognition**

Revenue is recognised when it is probable that future economic benefits will flow to the Group and the amount of the revenue can be reliably measured. Revenue earned by the Group and gain / loss on assets are recognised on the following basis:

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

Gain / (loss) on sale of investment securities (realised gain / (loss)) is recognised on trade date at the time of derecognition of the investment securities. The gain or loss is the difference between the carrying value on the trade date and the consideration received or receivable.

Fair value gain / (loss) on investment securities (unrealised gain or loss) is recognised on each measurement date in accordance with the accounting policy for equity-type instruments carried at fair value through income statement (refer note 3 b).

Sukuk Income comprises the coupon profit on Sukuk and realised gain or loss on the sale of Sukuk. The coupon profit is recognised through the effective profit rate in accordance with the accounting policy for debt-type instrument carried at amortised costs (refer to 3 b). Realised gain or loss on sale of Sukuk is recognised on trade date at the time of de-recognition of the Sukuk. The gain or loss is the difference between the carrying value on the trade date and the fair value of consideration received or receivable.

Fees and Commission income represents advisory fees, arrangement fees, management fees and brokerage fees. Fees and Commission income is recognised at the fair value of consideration received or receivable and when the service is provided and income is earned. This is usually when the Group has performed all significant acts in relation to a transaction and it is highly probable that the economic benefits from the transaction will flow to the Group. Significant acts in relation to a transaction are determined based on the terms for each transaction.

Finance income and expense

Finance income and expense is recognised using effective profit rate.

m) Employee benefits**(i) Short-term benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided and recognised as staff cost in the consolidated income statement. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)**m) Employee benefits (continued)****(ii) Post-employment benefits**

Pensions and other social benefits for local employees are covered by the Social Insurance Organisation scheme, which is a "defined contribution scheme" in nature, and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. Contributions by the Group are recognised as staff cost in the consolidated income statement when they are due. Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Certain employees on fixed contracts are also entitled to leaving indemnities payable, based on length of service and final remuneration. Provision for this unfunded commitment has been made by calculating the notional liability had all employees left at the reporting date. These benefits are in the nature of "defined benefit scheme" and any increase or decrease in the benefit obligation is recognised as staff cost in the consolidated income statement.

n) Earnings prohibited by Shari'ah

The Bank is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Bank uses these funds for charitable purposes.

o) Zakah

The Bank is not obliged to pay Zakah on behalf of its shareholders. However, the Bank is required to calculate and notify individual shareholders of their pro-rata share of the Zakah payable amount.

p) Provision for Zakah

Provision for Zakah represents Zakah from operation in Kingdom of Saudi Arabia and computed in accordance with Saudi Arabia Zakah regulations.

q) Provision for taxation

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

r) Offsetting of financial instruments

Financial instruments comprise of financial assets and financial liabilities. Financial assets include cash and balances with banks, placements with financial institutions, financing receivables, investment securities and other assets. Financial liabilities include due to financial institutions, due to customers, other liabilities and financial guarantees.

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

s) Statutory reserve

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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US\$ 000's

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**t) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

u) Contingent liabilities and contingent assets

Contingent liabilities are not recognised in the consolidated financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is probable. Contingent assets are not recognised in the consolidated financial statements, but are disclosed when an inflow of economic benefits is probable.

v) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and commitments. Financial guarantee liabilities are recognised initially at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable.

v) Leases

Payments under operating lease are recognised in the consolidated income statement on a straight line basis over the term of the lease. Lease incentives are recognised as an integral part of the total lease expense, over the term of the lease.

w) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from the contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

x) Trade date accounting

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

y) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise cash in hand, bank balances and placements with financial institutions with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in fair value and are used by the Group in the management of its short-term commitments.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)**z) Critical accounting estimates and judgements**

The Group makes estimates and assumptions that effect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

Judgements**(i) Classification of investments**

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments at fair value through income statement or investments carried at fair value through equity or investments carried at amortised cost. The classification of each investment reflects the management's judgement in relation to its strategy for each investment and is subject to different accounting treatments based on such classification (refer note 3 (b)).

(ii) Special purpose entities

The Group sponsors the formation of special purpose entities (SPE's) primarily for the purpose of allowing clients to hold investments. The Group provides corporate administration, investment management and advisory services to these SPE's, which involve the Group making decisions on behalf of such entities. The Group administers and manages these entities on behalf of its clients, who are by and large third parties and

are the economic beneficiaries of the underlying investments. The Group does not consolidate SPE's 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 SPE's activities, its exposure to the risks and rewards, as well as about the Group intention and ability to make operational decisions for the SPE and whether the Group derives benefits from such decisions.

Estimations**(i) Fair value of financial instruments**

Where the fair values of financial assets and financial liabilities cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility for discount rates.

Fair value is determined for each investment individually in accordance with the valuation policies set out below:

- For investment that is traded in an active market, fair value is determined by reference to the quoted bid market price prevailing on the reporting date;
- For investment in unquoted equity securities, the Bank establishes fair value by using valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same and discounted cash flow analysis; and
- Investments in funds or similar investment entities are carried at the latest net asset valuation provided by the fund administrator.

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US\$ 000's

3. SIGNIFICANT ACCOUNTING POLICIES (continued)
z) Critical accounting estimates and judgements (continued)

The impact on fair value of financial instruments measured at fair value for changes in key assumptions is given in note 20.

(ii) Impairment of financing receivables

Each counterparty exposure is evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying assets/collaterals. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently evaluated by the Risk Management Department. All individually significant financing receivables are tested for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Financing receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss in respect of a financing receivables measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective profit rate. Losses are recognised in profit or loss and reflected in an allowance account against financing receivable.

Profit on the impaired asset does not continue to be recognised. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through consolidated income statement.

(iii) Impairment of cash generating units

Cash generating units include the Group's investments in certain subsidiaries and equity-accounted investees and investment property that generate cash flows that are largely independent from other assets and activities of the Group. The basis of impairment assessment for such cash generating units is described in accounting policy 3 (g). For equity-accounted investees with indicators of impairment, the recoverable amounts have been determined based on higher of fair value less costs to sell or value in use.

Value in use for the equity-accounted investees was determined by discounting the future cash flows expected to be generated from continuing operations, comparison to similar instruments for which market observable prices exist and other valuation models.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length. Fair value less costs to sell of certain cash generating units is based on indicative offer prices received by the Group.

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3. *SIGNIFICANT ACCOUNTING POLICIES (continued)*
 z) *Critical accounting estimates and judgements (continued)*

Key assumptions used in the calculation of value in use were the following: cash flows were projected based on 3-5 year business plans, after ensuring consistency with historical operating results and forecasted economic growth rates for mature companies. Terminal growth rates were determined based on the IMF's forecast GDP growth rate in 5 years' time. The forecast period is based on the Group's long term perspective with respect to the operations of these CGU's.

Discount rates were based on a CAPM formula, with the risk-free rate obtained from the yield on 10-year bonds issued by the government in the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally, as well as liquidity and control factors. The key assumptions described above may change as economic and market conditions change.

4. CASH AND BALANCES WITH BANKS

	31 December 2014	31 December 2013 (restated)
Cash on hand	17	19
Balances with banks	22,493	17,263
	22,510	17,282

5. FINANCING RECEIVABLES

	31 December 2014	31 December 2013
Gross murabaha receivables	15,579	56,224
Less: Deferred profits	(154)	(641)
Net murabaha receivables	15,425	55,583
Less: Specific impairment allowances	(5,974)	(2,974)
Less: Collective impairment allowances	(300)	(300)
	9,151	52,309

Financing receivables comprise due from customers under murabaha financing contracts. The average profit on these balances during the year was 7.0% per annum (2013: 7.2% per annum).

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6. INVESTMENT SECURITIES

	31 December 2014	31 December 2013
Equity type instruments		
<i>At fair value through income statement:</i>		
- Quoted equity securities	1,028	51
- Unquoted equity securities	30,255	29,846
- Quoted funds	9,032	7,037
- Unquoted funds	24,816	28,360
Total equity type instruments	65,131	65,294
Debt type instruments		
<i>At amortised cost :</i>		
- Quoted Sukuk #	20,192	13,892
	85,323	79,186

* Unquoted equity securities and unquoted funds carried at fair value through income statement primarily comprise assets managed by the Group. These investments are carried at fair value determined based on valuation techniques. During the year, the Group recognised a net fair value loss of US\$ 43 thousands (31 December 2013: fair value loss of US\$ 2.9 million) on these investments.

The fair value of the investments carried at amortised cost at 31 December 2014 is US\$ 20,155 (2013: US\$ 13,734)

Movement on investments carried at fair value through income statement as follows:

	At 1 January 2014	Additions during the year	Disposals/ Reclassified during the year	Foreign currency changes	Fair value changes	At 31 December 2014
Investment in associates	56,581	-	(7,084)	-	(43)	49,454
Quoted funds	7,037	1,975	(614)	(122)	756	9,032
Equity investments (< than 20% stake)	1,676	8,430	(3,285)	(9)	(167)	6,645
	65,294	10,405	(10,983)	(131)	546	65,131

7. ASSETS AND LIABILITIES HELD-FOR-SALE

	31 December 2014	31 December 2013 (restated)
Subsidiaries held-for-sale		
- Assets	15,082	-
- Liabilities	(1,374)	-
Net assets	13,708	-

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7. ASSETS AND LIABILITIES HELD-FOR-SALE (continued)

On 13 May 2014, the Group acquired additional stake of 20.41% in Tintoria International Limited (TI), a company incorporated and operated in United Arab Emirates and in which the Group already owned 41.44% resulting in TI becoming a subsidiary. On 4 December 2014, the Group disposed a stake of 9.79% to TI current shareholders without consideration.

As per acquisition accounting requirements, the net identifiable assets and liabilities recognized on acquisition were measured at their fair values on the date of acquisition. The total consideration for the controlling stake amounted to US\$ 7,084 thousand. The Bank has provisionally recognised identifiable assets of US\$ 15,197 thousand and liabilities of US\$ 3,744 thousand at the date of acquisition which also represents the management's estimated fair value less cost to sell of the investment.

The Group has an active plan to sell its stake in TI, and accordingly, the asset and liabilities acquired are classified as held-for-sale and presented in consolidated statement of financial position. Equity stake held by external parties are classified as "non-controlling interests related to assets held-for-sale" in the consolidated statement of financial position.

The net result of operations of the subsidiaries during the year was loss of US\$929 thousand (2013: US\$ nil thousand) which is presented separately as "loss from assets held-for-sale and discontinued operations" in consolidated income statement.

Restatement

In 2013, the Group had re-classified its investment in a subsidiary, Al Tajamoout for Touristic Projects Plc, and investment in an equity-accounted investee, Burj Bank Limited, as assets held-for-sale. During the year, because the investments no longer meet the criteria to be classified as held-for-sale, these were re-classified as held-for-use.

In accordance with IFRS 5 *Non-current assets held-for-sale and discontinued operations*, upon reclassification as held-for-use, the subsidiary was consolidated on a line by line basis including earlier periods resulting in restatement of the prior year as if the subsidiary had always been consolidated. The reclassification to held-for-use resulted in reduction in last year's profits by US\$ 1,523 thousands.

With regard to investment the equity-accounted investee, Burj Bank Limited, the equity method was applied retrospectively from the date of its classification as held-for-sale. The reclassification of the investment in Burj Bank Limited as held-for-use resulted in recognition in the consolidated income statement of the Group's share of loss of US\$ 4,263 thousands for 2013 and share of profit of US\$ 287 thousands for previous periods being recognised in accumulated losses as at 1 January 2013.

The net effect of the reclassification resulted in decrease of previously reported profit for the year ended 31 December 2013 by US\$ 5,787 thousands and decrease in previously reported total equity as at 31 December 2013 by US\$ 8,782 thousands.

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8. EQUITY-ACCOUNTED INVESTEEES

	31 December 2014	31 December 2013 (restated)
BFC Group Holdings Ltd.	99,191	94,337
Burj Bank Limited	13,176	14,273
t'azur Company B.S.C. (c)	9,607	13,052
	121,974	121,662

The Group has 43.36% stake (2013: 43.36%) in BFC Group Holdings Ltd. ("BFC"), a company incorporated in the United Arab Emirates. BFC is a holding company of a group of money changers in different jurisdictions. BFC is engaged in buying and selling foreign currencies and traveller's cheques, handling of remittance business and provision of other exchange house services in both local and foreign currencies.

The Group has 37.91% stake (2013: 37.91%) in Burj Bank Limited, an unlisted Islamic commercial bank in Pakistan. During the year, the Group reclassified the investment in Burj Bank from assets held-for-sale to held-for-use. (refer note 7)

The Group has 25.86% stake (2013: 25.86%) in t'azur B.S.C. (c), an unlisted regional takaful company incorporated in the Kingdom of Bahrain. t'azur Company B.S.C (c) has a commitment to provide a Qard Hassan to the extent of the accumulated deficit in the participants' fund of US\$ 35.2 million at 31 December 2014 (31 December 2013: US\$ 32.7 million). The Group's share of the commitment is US\$ 9.1 million (31 December 2013: US\$ 8.4 million).

The movement on equity-accounted investees is as follows:

	2014	2013 (restated)
At 1 January	121,662	125,225
Acquisitions during the year	-	2,600
Net share of profits of equity-accounted investees	5,769	1,488
Share of reserves of equity-accounted investees	211	(3,315)
Impairment allowance	(3,500)	-
Dividends received	(2,168)	(4,336)
At 31 December	121,974	121,662

Summarised financial information of associates that have been equity accounted not adjusted for the percentage ownership held by the Group (based on most recent audited financial statements / most recent management accounts):

	2014	2013 (restated)
Assets	695,395	842,944
Liabilities	396,646	549,658
Revenue	85,644	65,691
Profit for the year	13,197	2,962

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9. INVESTMENT PROPERTY

	Land	Buildings	Total
Cost			
Balance at 1 January 2013	17,706	-	17,706
Additions (restated)	13,333	42,680	56,013
Reclassified from assets held-for-sale (refer note 7)	56,916	128,186	185,102
Balance at 31 December 2013 (restated)	87,955	170,866	258,821
Balance at 1 January 2014	87,955	170,866	258,821
Additions	-	714	714
Balance at 31 December 2014	87,955	171,580	259,535
Accumulated depreciation			
Balance at 1 January 2013	-	-	-
Depreciation for the year	-	1,523	1,523
Balance at 31 December 2013 (restated)	-	1,523	1,523
Balance at 1 January 2014	-	1,523	1,523
Depreciation for the year	-	3,903	3,903
Balance at 31 December 2014	-	5,426	5,426
Carrying Amount			
Balance at 31 December 2013 (restated)	87,955	169,343	257,298
Balance at 31 December 2014	87,955	166,154	254,109

The fair value of the investment property is US\$ 259,937 thousands (31 December 2013: US\$ 258,897 thousands).

10. OTHER ASSETS

	31 December 2014	31 December 2013 (restated)
Deal related advances	-	2,265
Fees and expenses recoverable	1,978	2,511
Rental income receivable	2,745	3,325
Prepayments and advances	4,953	2,951
Intangible assets	93	300
Others	5,119	6,505
	14,888	17,857
Less: Provision for impairment	(1,902)	(1,902)
	12,986	15,955

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11. DUE TO FINANCIAL INSTITUTIONS

	31 December 2014	31 December 2013 (restated)
Placements from financial institutions	34,613	51,173
Bank financing	72,374	79,590
	106,987	130,763

The average profit rate on placements from financial institutions was 3.36% per annum (2013: 3.58% per annum).

Bank financing representing a syndicated loan from the Housing Bank for Trade and Finance in Jordan secured by mortgage over the Group's investment property. The interest rate of the syndicated loan equals the prime lending rate of the Jordanian Dinar, plus an annual margin of 1.0%.

The value of the annual payments for bank financing is as follows:

Year	US\$000's
2015	13,918
2016	11,134
2017	11,134
2018	11,134
2019	11,134
2020	11,134
2021	2,786

12. DUE TO CUSTOMERS

This includes deposits from corporate customers on Wakala basis with maturities ranging from 1 month to 1 year (2013: 1 month to 1 year) and carries an average profit rate of 3.64% per annum (2013: 3.70% per annum).

13. OTHER LIABILITIES

	31 December 2014	31 December 2013 (restated)
Provision for legal and professional expenses	820	820
Accruals and other provisions	6,330	5,949
Restructuring provision	419	419
Deal-related payables	4,725	4,740
Unearned rental income	5,266	5,066
Staff-related payables	2,566	2,512
Trade and other payables	11,499	12,141
	31,625	31,647

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14. SHARE CAPITAL

	31 December 2014	31 December 2013
Authorised: 750,000,000 (2013: 750,000,000) ordinary shares of US\$1 each	750,000	750,000
Issued and fully paid up:		
186,170,234 (2013: 186,070,234) ordinary shares of US\$1 each, issued against cash	186,170	186,070
20,371,807 (2013: 20,371,807) ordinary shares of US\$1 each, issued in kind	20,372	20,372
1,419,873 (2013: 1,419,873) ordinary shares of US\$1 each, granted to employees	1,420	1,420
	207,962	207,862

During the year, the Group increased the share capital by US\$ 100 thousands due to reconciliation of accounting and statutory records by adjusting the subscription received earlier from a shareholder that was included under "other liabilities".

15. INCOME FROM INVESTMENT SECURITIES

	2014	2013
Dividend income	21	-
Fair value gain on equity type investment securities	546	5,202
Gain on sale of equity type investment securities	517	348
Sukuk income:		
- Sukuk profit	841	1,008
- Gain on sale of sukuk	129	674
	2,054	7,232

16. FEES AND COMMISSION INCOME

	2014	2013
Arrangement fees	680	3,791
Management fees	3,610	2,911
Brokerage fees	803	307
	5,093	7,009

17. NET INCOME FROM REAL ESTATE OPERATIONS

	2014	2013
Revenue from Al-Tajamouat for Touristic Projects Co Plc	23,667	22,503
Expenses from Al-Tajamouat for Touristic Projects Co Plc	(17,061)	(19,031)
	6,606	3,472

18. PROVISION FOR ZAKAH

Provision for Zakah represents the Zakah from operations of Alkhair Capital Saudi Arabia, calculated in accordance with the Zakah Regulations of the Kingdom of Saudi Arabia.

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19. IMPAIRMENT ALLOWANCE

	2014	2013
Impairment allowance on:		
Financing receivables	3,000	3,024
Equity-accounted investee	3,500	-
Other assets	-	297
Reversal of impairment allowance on:		
Other assets	-	(1,304)
	6,500	2,017

20. COMMITMENTS AND CONTINGENCIES

	31 December 2014	31 December 2013
Commitment to invest	11,000	-
Lease commitments	127	1,206
Guarantees	5,311	5,311
Financing	-	500
	16,438	7,017

Litigations and claims

The Bank has filed a number of legal cases against the former Chief Executive Officer before the Civil and Criminal Courts of the Kingdom of Bahrain and the UK. At the same time the former CEO has filed a court case in the Bahraini courts for wrongful dismissal. The Bahraini Courts have ruled in favor of the Bank in a number of the civil and criminal cases. The case in the UK was filed by the bank to remedy the damages resulting from defamation and unlawful conspiracy. The case is still in its early stages.

A number of employment claims have been filed against the Bank by former employees. The Bank's external legal counsel has confirmed that the Bank has strong grounds to successfully defend itself against these claims. No disclosure regarding contingent liabilities arising from the employment claims has been made as the directors of the Bank believe that such disclosures may be prejudicial to the Bank's legal position.

The Group's share of commitments arising from its equity-accounted investees is given in note 8.

21. FAIR VALUE

Fair value is the amount for which an asset could be exchanged or an obligation settled between well informed, willing parties (seller and buyer) in an arm's length transaction. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to curtail materially the scale of its operation or to undertake a transaction on adverse terms. Generally accepted methods of determining fair value include reference to quoted prices and the use of valuation techniques such as discounted cash flow analysis.

Valuation techniques

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

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21. FAIR VALUE (continued)

The fair value of unquoted funds are based on net asset values which are determined by the fund manager using the quoted market prices of the underlying assets, if available, or other acceptable methods such as a recent price paid by another investor, the market value of a comparable company or other proprietary valuation models.

The fair value of other financial instruments on the consolidated statement of financial position are not significantly different from the carrying values included in the consolidated financial statements.

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

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

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

31 December 2014

Investments carried at fair value through income statement

Level 1	Level 2	Level 3	Total
10,060	49,453	5,618	65,131
10,060	49,453	5,618	65,131

31 December 2013

Investments carried at fair value through income statement

Level 1	Level 2	Level 3	Total
7,088	49,497	8,709	65,294
7,088	49,497	8,709	65,294

Movements in level 3 financial instruments

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

	At 1 January 2014	Total losses recorded in consolidated income statement	Total gains recorded in equity	Additions	Sales/ transfers	At 31 December 2014
Investments carried at fair value through:						
- income statement	8,709	(7)	-	4,000	(7,084)	5,618
	8,709	(7)	-	4,000	(7,084)	5,618

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21. FAIR VALUE (continued)

	At 1 January 2013	Total gains recorded in consolidated income statement	Total gains recorded in equity	Additions	Sales/ transfers	At 31 December 2013
Investments carried at fair value through: - income statement	11,634	(3,000)	-	75	-	8,709
	11,634	(3,000)	-	75	-	8,709

Transfers between level 1, level 2 and level 3

There were no transfers between the levels during the year ended 31 December 2014.

The following table shows the impact on fair value of level 3 financial instruments using reasonably possible alternative assumptions.

For investment securities the Bank adjusted the discount rate \pm 1% and carrying values \pm 5% where appropriate, which is considered by the Bank to be within a range of reasonably possible alternatives.

	Carrying amount	Effects of reasonably possible alternative assumptions on carrying amount
31 December 2014		
Investments carried at fair value through income statement	5,618	281
31 December 2013		
Investments carried at fair value through income statement	8,709	435

22. ASSETS UNDER MANAGEMENT

	31 December 2014	31 December 2013
Proprietary	51,003	58,131
Clients	153,478	166,803
	204,481	224,934

Proprietary assets are included in the consolidated statement of financial position under "investment securities". Client assets, which represent client investments, are managed in a fiduciary capacity without recourse to the Group and are not included in the consolidated statement of financial position.

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23. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include significant shareholders and entities over which the Bank and shareholders exercise significant influence, directors, members of Shari'ah Supervisory Board and executive management of the Bank.

Compensation of key management personnel

Key management personnel of the Group comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group. The key management personnel compensation during the year is as follows:

	2014	2013
Short term employee benefits	1,327	2,482
Post-employment benefits	941	606
	2,268	3,088

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23. RELATED PARTY TRANSACTIONS (continued)

The significant related party transactions and balances included in this consolidated financial statements are as follows:

	2014				2013 (restated)			
	Associates	Significant shareholders/ entities in which directors have interest	Senior management	Other entities	Associates	Significant shareholders/ entities in which directors have interest	Senior management	Other entities
Assets								
Financing receivables	-	-	-	1,835	7,281	-	-	7,097
Investment securities	49,453	-	-	27,683	56,581	-	-	16,197
Equity-accounted investees	121,974	-	-	-	121,622	-	-	-
Other assets	1,048	-	9	266	1,177	-	11	2,532
Liabilities								
Due to financial institutions	15,580	-	-	-	22,888	-	-	-
Due to customers	914	-	-	52,231	-	-	-	50,077
Other liabilities	64	1,233	941	374	149	754	606	221
Income / (expenses)								
Income from investment securities	(43)	-	-	1,405	5,050	-	-	695
Fees and commission	2,397	-	-	141	2,314	-	-	2,646
Net finance income / (expense)	(575)	-	-	(1,606)	(674)	-	-	956
Share of profit of equity-accounted investees	5,769	-	-	-	1,488	-	-	-
Directors' and Shari'ah board remuneration and expenses	-	(619)	-	(124)	-	(874)	-	(33)

24. RISK MANAGEMENT

Risk is an inherent part of the Group's business activities. The Group's risk management and governance framework is intended to provide progressive controls and continuous management of the major risks involved in the Group's activities. Risks are managed by a process of identification, measurement and monitoring, and are subject to risk limits and other controls. The process of risk management is critical to the Group's operations and each business unit within the Group is accountable for the risk exposures relating to their responsibilities. The Group's main risk exposure categories are Investment and Credit risk, Market risk, Liquidity risk and Operational risks.

- Risk identification: The Group's exposure to risk through its business activities, including investment in Private Equity, Brokerage, and Capital Markets, is identified through the Group's risk management infrastructure, which includes prior review of all new activities by Risk management.
- Risk measurement: The Group measures risk using risk management position methodologies which reflect the Group's investment risks, foreign exchange and profit rate exposure risks. The Bank relies on both quantitative and qualitative approaches in quantifying risks.
- Risk monitoring: The Group's risk management policies and procedures incorporate respective limits and the Group's activities. The Bank conducts periodic reporting for ongoing monitoring of its position at both Management and Board level.
- Risk reporting: The Group undertakes reporting of all core risks relevant to its businesses on a consolidated basis. In line with the Board-approved risk framework. The Bank has risk governance arrangements to oversee risk management and transaction approval and key governance committees include; the Group Asset and Liability Committee ("ALCO") which oversees liquidity, cash flow planning and general asset liability management, the Group Risk Executive Committee ("REXCO") which oversees risk management across the group including review and approval of risk limits, credit facilities and key risk processes and the Investment and Post Investment Management Committee ("IPIMC") which is responsible for review and approval of new investments, funding requirements, divestments and general investment processes.

Group Risk Framework and Governance

The Board of Directors is ultimately accountable for the risk management of the Group. The Board has advocated a wholly integrated risk management process within the Group, in which all business activities are aligned to the risk framework. The Group Risk Framework establishes Group risk management standards, risk processes, structures, and defines the Bank's risk philosophy.

Board of Directors

The Board of Directors is responsible for defining the Group's risk appetite within which it manages its risk exposures and reviews the Group's compliance with delegated risk authorities.

Audit Committee

The Audit Committee is appointed by the Board of Directors and consists of four non-executive Board members. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and oversight of the Internal Audit function.

Shari'ah Supervisory Board

The Group's Shari'ah Supervisory Board is vested with the responsibility of ensuring that the Group complies with the Shari'ah rules and principles in its transactions, activities and general philosophy.

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24. RISK MANAGEMENT (continued)

Group Risk Executive Committee

Group Risk Executive Committee REXCO has the overall responsibility for ensuring that the Group develops appropriate risk policies and strategies for the relevant business activities, and makes preparations for forthcoming regulatory arrangements in line with Basel Committee recommendations. It oversees the risk management activities of the Group, reviews and approves risk management principles, frameworks, policies, limits, processes and procedures. It is responsible for assessing fundamental risk issues within the general development strategy of the Group.

Internal Audit and Independent Review

All key operational, financial and risk management processes are audited by Internal Audit according to risk based auditing standards. Internal Audit examines the adequacy of the relevant policies and procedures and the Group's compliance with internal policies and regulatory guidelines. Internal Audit discusses the result of all assessments with management and reports its findings and recommendations to the Audit Committee. The Internal Audit recommendations are tracked for resolution via the Committee.

Group Asset and Liability Committee (ALCO)

The Group Asset and Liability Committee establishes the funding, liquidity and market risk policies for the Group. It is composed of the CEO, CFO, Treasury and control areas. ALCO's objectives are to manage the assets and liabilities of the Group, determine the statement of financial position mix and appropriate risk and return profile. It oversees all treasury and capital markets activities and all areas affected by liquidity and market risk. Cash flow management is a major focus of ALCO and ALCO regularly reviews the business line investment plans to ensure that sufficient funding is in place. ALCO ensures that the appropriate mix of short and long term funding strategies are developed in conjunction with the Group's treasury and capital markets functions.

Risk Management

The Risk Management function is responsible for designing and implementing the Group's risk framework, including policies, processes and systems. The Chief Risk Officer reports functionally to the Board Risk Committee and administratively to the Chief Executive Officer. Risk Management conducts risk assessments of individual transactions (including their respective credit, investment, counterparty and operational risks), products and services. Risk Management is responsible for ensuring that the Group's processes capture all sources of transaction risk and that appropriate limit methodologies are developed for use in the management of business risk. In addition to the above the Risk Function also supports investment processes throughout the investment cycle by monitor the investment risk.

Treasury Activities

Treasury is responsible for managing the Group's day to day funding, liquidity management, foreign exchange and profit rate exposures, under the review of Risk Management and the supervision of ALCO.

Investment Monitoring and Reporting

Proprietary investment risks are identified and assessed via extensive due diligence activities conducted by the respective departments. This is supported by Risk Management which undertakes an independent risk assessment of every investment transaction. Post-acquisition investment management is rigorously exercised, mainly via board representation within the investee company, during the life of the investment transaction.

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24. RISK MANAGEMENT (*continued*)

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

The information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the Bank's management of capital is explained in notes 24 to 27 and 34.

25. CREDIT RISK

Credit Risk Policy Framework

The Bank has a Group Credit Risk Policy framework establishing Group credit risk appetite, credit risk origination, underwriting and administration standards. The credit policy articulates key credit markets, minimum criteria for the granting of credit, minimum requirements on collateral and defines roles and responsibilities for credit risk management. The policy provides a guideline to business units when originating credit business.

Credit Risk Management

Credit risk is the risk that the Group will incur a loss of principal or profit earned because its customers, clients or counterparties fail to discharge their contractual obligations and arises principally from the Group's balances with banks, placements with financial institutions, financing receivables, investment securities – sukuk and other receivables. Institutional Banking proposes limits for its interbank placement activities and other client groups for review and approval by REXCO. Further, Risk Management independently analyses the applications and rates for the respective counterparties. Based on this an independent recommendation is forwarded to the REXCO for approval. REXCO periodically reviews these limits for appropriateness in prevailing market conditions.

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. There is no significant use of master netting and collateral agreements.

	Maximum exposure 2014	Maximum exposure 2013
<u>On balance sheet</u>		
Balances with banks	22,493	17,263
Placements with financial institutions	42,250	74,390
Financing receivables	9,151	52,309
Investment securities – Sukuk	20,192	13,775
Other assets	4,426	7,804
<u>Off balance sheet</u>		
Investment-related	11,000	-
Guarantees	5,311	5,311
Financing	-	500
	114,823	171,352

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25. CREDIT RISK (continued)

Risk Exposure Concentration

Risk concentration arises 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 guidelines to focus on maintaining a diversified portfolio. In line with regulatory requirements, the Bank has a group level Large Exposure Policy which details the Bank's approach in managing concentration risk to sectors, asset classes, single obligors and countries including defining specific limits.

Concentration of risks is managed by counterparty, by geographical region and by industry sector. The maximum credit exposure to any client, or counterparty, or group of closely related counterparties as of 31 December 2014 was US\$ 17.5 million (2013: US\$ 39.2 million), relating to "placement with financial institution and financing receivables".

Geographical Exposure Distribution

The analysis by geographical region of the Group's financial assets having credit risk exposure is as follows:

REGION	Total Assets	Off-balance sheet	Total 2014	Total 2013
Bahrain	30,525	-	30,525	37,112
Other Middle East	23,718	-	23,718	70,743
North America	5	5,000	5,005	5,385
Asia Pacific	28,272	-	28,272	52,790
Europe	15,992	11,311	27,303	5,322
Total	98,512	16,311	114,823	171,352

Industry Sector Exposure

The distribution of assets and off-statement of financial position items by industry sector is as follows:

INDUSTRY SECTOR	Total Assets	Off-balance sheet	Total 2014	Total 2013
Banking and finance	68,927	311	69,238	106,342
Industrial	3,696	11,000	14,696	10,358
Real estate and construction	17,895	-	17,895	19,910
Technology	3,989	5,000	8,989	8,501
In-house funds	908	-	908	894
Trade	69	-	69	22,118
Government	3,028	-	3,028	3,229
Total	98,512	16,311	114,823	171,352

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25. CREDIT RISK (continued)

Collateral and other credit enhancements

The Group utilizes collateral and other credit enhancements mostly on its credit facilities, in line with Shari'ah requirements. Before taking any form of collateral the Bank pre-assesses impediments that may restrict accessibility to collateral should the need arise as well as acceptability from a Shari'ah perspective. In this respect the Bank will formally agree with the customer at the time of signing the offer letter on the usage, redemption and utilization of collateral when the customer/counterparty defaults. In the past year, the Bank has obtained collateral including shareholders' personal guarantees, cash, real estate, unlisted equity shares and debentures. The Bank's credit policy discourages taking collateral value where there is positive correlation between collateral value and obligor's ability to pay.

Credit quality per class of financial assets

The Group did not apply a standard credit rating to its investment business, as the Group assessed credit quality according to the policies of the respective business areas. Management considers the credit quality of the Group's financial assets to be of standard quality as of 31 December 2014. Following is an analysis of credit quality by class of financial assets:

	2014				
	Neither past due nor impaired	Past due but not impaired	Individually impaired	Impairments/provisions	Total
Balances with banks	22,493	-	-	-	22,493
Placements with financial institutions	42,250	-	-	-	42,250
Financing receivables	6,425	-	9,000	(6,274)	9,151
Investment securities – Sukuk	20,192	-	-	-	20,192
Other assets	3,980	446	1,902	(1,902)	4,426
Investment-related commitment	11,000	-	-	-	11,000
Guarantees	5,311	-	-	-	5,311
Total	111,651	446	10,902	(8,176)	114,823

Exposures that are past due but not impaired are either past due for less than 90 days and the financial condition of the customer is sound, or has adequate unimpaired collateral coverage. Provisioning is driven by the performance of the customer against laid down terms and conditions of the facility, internal credit grading and classification system calculated on net exposure after deducting the discounted value of recoverable collateral and any disposal costs.

	2013				
	Neither past due nor impaired	Past due but not impaired	Individually impaired	Impairments/provisions	Total
Balances with banks	17,263	-	-	-	17,263
Placements with financial institutions	74,390	-	-	-	74,390
Financing receivables	52,609	-	2,974	(3,274)	52,309
Investment securities – Sukuk	13,775	-	-	-	13,775
Other assets	7,244	560	1,902	(1,902)	7,804
Guarantees	5,311	-	-	-	5,311
Financing	500	-	-	-	500
Total	171,092	560	4,876	(5,176)	171,352

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25. CREDIT RISK (continued)

Ageing analysis of past due but not impaired by class of financial assets:

	2014			
	Less than 120 days	Less than 365 days	More than 365 days	Total
Other assets	221	152	73	446

	2013			
	Less than 120 days	Less than 365 days	More than 365 days	Total
Other assets	177	279	104	560

26. LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial assets.

The key features of the Group's liquidity methodology are:

- The Group Asset and Liability Committee ("ALCO") is responsible for liquidity monitoring, cash flow planning and general asset liability management.
- In accordance with the Basel recommendations on liquidity management, the Group measures liquidity according to two criteria: "normal business", reflecting day-to-day expectations regarding the funding of the Group; and "crisis scenario", reflecting simulated extreme business circumstances in which the Group's survival may be threatened.
- The Group's liquidity policy is to hold sufficient liquid assets to cover its committed statement of financial position requirements, plus its budgeted expenses for the liquidity horizon and its forecast investment commitments over the liquidity horizon.

Analysis of financial liabilities

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations.

	Gross undiscounted cash flows				Carrying value
	Less than 3 months	3 to 12 months	Over 1 year	Total	
At 31 December 2014					
Due to financial Institutions	26,309	28,304	72,510	127,123	106,987
Due to customers	114,547	85,308	-	199,855	197,552
Other liabilities	24,274	-	2,207	26,481	26,481
Total financial liabilities	165,130	113,612	74,717	353,459	331,020

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26. LIQUIDITY RISK MANAGEMENT (continued)

	Gross undiscounted cash flows				Carrying value
	Less than 3 months	3 to 12 months	Over 1 year	Total	
At 31 December 2013 (restated)					
Due to financial Institutions	35,411	37,698	78,559	151,668	130,763
Due to customers	65,411	156,720	-	222,131	217,594
Other liabilities	24,073	-	2,430	26,503	26,503
Total financial liabilities	124,895	194,418	80,989	400,302	374,860

The table below shows the contractual expiry by maturity of the Group's commitments.

	On demand	3 to 12 months	Over 1 year	Carrying value
31 December 2014				
Investment-related Commitments	11,000	-	-	11,000
Lease Commitments	-	127	-	127
Guarantees	5,311	-	-	5,311
Total	16,311	127	-	16,438

	On demand	3 to 12 months	Over 1 year	Carrying value
31 December 2013				
Lease Commitments	-	1,079	127	1,206
Guarantees	5,311	-	-	5,311
Financing	500	-	-	500
Total	5,811	1,079	127	7,017

27. MARKET RISK MANAGEMENT

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to adverse changes in market variables such as profit rates, foreign exchange rates, equity prices and commodities. The Group classifies exposures to market risk into either trading or non-trading portfolios. The Group does not currently engage in significant trading activity. Non-trading positions are managed and monitored using sensitivity analysis.

Market Risk: Non-trading*Profit rate risk*

Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of the financial instruments. The Group currently has limited exposure to profit rate risk. The Group's assets and liabilities that are exposed to profit rate risk include: placements with financial institutions, financing receivables, investments in sukuk and due to financial and non-financial institutions.

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27. MARKET RISK MANAGEMENT (continued)

Profit rate risk (continued)

The following table demonstrates the sensitivity to a reasonable possible change in profit rates by 200 bps, with all other variables held constant. The effect of decreases in profit rate is expected to be equal and opposite to the effect of the increases shown.

	2014			2013 (restated)		
	Balance	Change in profit rate (+/-)	Effect on net profit (+/-)	Balance	Change in profit rate (+/-)	Effect on net profit (+/-)
Assets						
Placements with financial institutions	42,250	200	798	74,390	200	1,459
Financing receivables	9,151	200	108	52,309	200	992
Investment securities – Sukuk	20,192	200	21	13,775	200	13
Liabilities						
Due to financial institutions	106,987	200	(2,038)	130,763	200	(2,481)
Due to customers	197,552	200	(2,918)	217,594	200	(2,332)
Total			(4,029)			(2,349)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to adverse changes in foreign exchange rates.

The table below indicates the currencies to which the Group has significant exposure. The analysis shows the impact of a 20% movement in the currency rate against the United States Dollar, with all other variables held constant on the consolidated statement of income and equity. The effect of decreases in the currency rates is expected to be equal and opposite to the effect of the increases shown.

Currency	2014			2013		
	Exposure (USD equivalent)	Effect on net profit (+/-)	Effect on equity (+/-)	Exposure (US\$ equivalent)	Effect on net profit (+/-)	Effect on equity (+/-)
Kuwaiti Dinar	(10,017)	(2,003)	-	(10,423)	(2,085)	-
Turkish Lira	2,830	265	301	4,718	264	680
Malaysian Ringgit	45	9	-	85	17	-
Euro	12	2	-	27	5	-
Jordanian Dinar *	50,323	10,065	-	50,323	10,065	-
Sterling Pounds	137	27	-	77	15	-

* Jordanian Dinar is officially pegged to International Monetary Fund (IMF) special drawing rights (SDR's). In practice this is fixed at 1US\$=0.709 JOD most of the times.

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*27. MARKET RISK MANAGEMENT (continued)**Equity price risk*

Equity price risk is the risk that the fair value of equities decreases as the result of adverse changes in the levels of equity prices and the value of individual stocks. Equity price risk arises from the Group's investment portfolio. The Group conducts significant investment activity in private equity, mainly in unquoted entities. The Group manages this risk through diversification of its investments in terms of geographical distribution and industry concentration by arranging representation on the Board of Directors within the investee company, wherever possible. Investments are managed within maximum concentration risk limits, approved by the Board of Directors of the Bank.

*Sensitivity analysis**Unquoted securities - Investment securities carried at fair value through income statement:*

The effect on profit as a result of a change in the fair value of equity instruments at 31 December 2014 due to a reasonable possible change (i.e. +/-15%) in the value of individual investments, with all other variables held constant, is US\$ 8.8 million (2013: US\$ 9.2 million). The effect of decrease in the value of individual investments is expected to be equal and opposite to the effect of an increase.

Prepayment risk

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

28. OPERATIONAL RISK

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal controls or procedures, systems failures, fraud, business interruption, compliance breaches, human error, management failure or inadequate staffing. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or lead to financial loss.

While operational risks cannot be entirely eliminated, they are managed and mitigated by ensuring that appropriate infrastructure, controls, systems, procedures and trained and competent people are in place throughout the Group.

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29. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

	31 December 2014							
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Total up to 1 year	Over 1 year	Undated	Total
ASSETS								
Cash and balances with banks	22,510	-	-	-	22,510	-	-	22,510
Placements with financial institutions	41,175	1,075	-	-	42,250	-	-	42,250
Financing receivables	35	45	1,835	2,258	4,173	4,978	-	9,151
Investment securities	1,170	-	1,428	24,637	27,235	58,088	-	85,323
Assets held-for-sale	-	-	-	15,082	15,082	-	-	15,082
Equity-accounted investees	-	-	-	-	-	-	121,974	121,974
Investment properties	-	-	-	-	-	-	254,109	254,109
Other assets	-	12,722	-	171	12,893	93	-	12,986
Equipment	-	-	-	-	-	-	1,598	1,598
Total assets	64,890	13,842	3,263	42,148	124,143	63,159	377,681	564,983
LIABILITIES								
Due to financial institutions	11,014	13,665	17,545	6,307	48,531	58,456	-	106,987
Due to customers	79,884	34,307	57,538	25,823	197,552	-	-	197,552
Liabilities related to assets held-for-sale	-	-	-	1,374	1,374	-	-	1,374
Other liabilities	-	24,274	-	5,144	29,418	2,207	-	31,625
Total liabilities	90,898	72,246	75,083	38,648	276,875	60,663	-	337,538
Commitments	16,311	64	63	-	16,438	-	-	16,438
Net liquidity gap	(42,319)	(58,468)	(71,883)	3,500	(169,170)	2,496	377,681	211,007
Net cumulative gap	(42,319)	(100,787)	(172,670)	(169,170)	(169,170)	(166,674)	211,007	

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29. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

31 December 2013 (restated)								
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Total up to 1 year	Over 1 year	Undated	Total
ASSETS								
Cash and balances with banks	17,282	-	-	-	17,282	-	-	17,282
Placements with financial institutions	73,327	1,063	-	-	74,390	-	-	74,390
Financing receivables	8,976	7,646	19,659	10,028	46,309	6,000	-	52,309
Investment securities	79	91	8,844	22,687	31,701	47,485	-	79,186
Equity-accounted investees	-	-	-	-	-	-	121,662	121,662
Investment properties	-	-	-	-	-	-	257,298	257,298
Other assets	-	15,172	-	483	15,655	300	-	15,955
Equipment	-	-	-	-	-	-	1,726	1,726
Total assets	99,664	23,972	28,503	33,198	185,337	53,785	380,686	619,808
LIABILITIES								
Due to financial institutions	12,342	20,943	22,573	9,439	65,297	65,466	-	130,763
Due to customers	16,829	48,256	78,613	73,896	217,594	-	-	217,594
Other liabilities	-	24,073	-	5,144	29,217	2,430	-	31,647
Total liabilities	29,171	93,272	101,186	88,479	312,108	67,896	-	380,004
Commitments	5,811	64	64	951	6,890	127	-	7,017
Net liquidity gap	64,682	(69,364)	(72,747)	(56,232)	(133,661)	(14,238)	380,686	232,787
Net cumulative gap	64,682	(4,682)	(77,429)	(133,661)	(133,661)	(147,899)	232,787	

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30. SEGMENT INFORMATION

Operating segments are reported in accordance with internal reporting provided to Executive Management (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses its performance. All operating segments used by the Group meet the definition of a reportable segment under FAS 22.

During the year, the Group has changed its reportable segments as a result of the recent restructuring of its business and in-line with the current internal reporting to the Chief Operating decision-maker for segment measurement and monitoring. Currently, the Group is organised into business units based on their nature of operations and services and has three reportable operating segments which are as follows:

**Investment Banking & Alkhair
Capital Menkul Degerler A.S**

The Group's Investment banking business is engaged in transaction origination and structuring, investment, placement to third-party investors, restructuring and managing portfolio companies. This segment focuses on stable companies, historically revenue-generating with positive profitability, requiring growth capital or partial exits. The segment focuses on specific sectors and geographies, whilst avoiding start-ups, venture capital, and greenfield investments. The segment targets businesses in the oil & gas services; industrial services; building materials; logistics; and agri-business; specifically in the MENA region including Turkey.

The business manages Al-Tajamout for Touristic Projects Co. "Taj" which own and operate a shopping mall in Amman. At 31 December 2014, the total assets of Taj are US\$ 214.4 million and the total equity is \$128.0 million. In 2014, Taj reported a net profit of \$2.1 million.

Alkhair Capital Menkul Degerler A.S originates Shari'ah compliant PE transactions, especially proprietary deals from direct contacts with a wide range of local sources. The Turkey office also provides a post-investment management services (post management until successful exit, advisory for an IPO or trade sale) to co-investors.

The business manages the Bank's Global Private Equity Fund. It also sources and manages investments on behalf of the Bank's Strategic Acquisition Fund.

**Alkhair International Islamic
Bank Malaysia Berhad**

Alkhair International Islamic Bank Malaysia Berhad was established in 2004 to source investment opportunities in the Far East and monitor the performance of the acquired companies on behalf of the Bank and investors and to establish distribution channels for the Group.

Alkhair Capital Saudi Arabia

Alkhair Capital Saudi Arabia was incorporated in March 2009 and registered with Capital Markets Authority. Its principal activities are Asset Management, Corporate Finance & Investment banking and Brokerage.

Information regarding the results of each reportable segment is included below. Inter-segment pricing is determined on an arm's length basis. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

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30. SEGMENT INFORMATION (continued)

For the year ended 31 December 2014					
	Investment Banking & Alkhair Capital Menkul Degerler A.S	Alkhair International Islamic Bank Malaysia Berhad	Alkhair Capital Saudi Arabia	Inter-company	Total
External revenue					
Income from investment securities	528	528	998	-	2,054
Finance Income	431	1,911	-	-	2,342
Fees and commission	2,680	348	2,065	-	5,093
Share of profit of equity-accounted investees	5,769	-	-	-	5,769
Income from real estate operations	23,667	-	-	-	23,667
Rental income	-	-	3,361	-	3,361
Other income	524	23	-	-	547
Inter-segment income	(330)	330	-	-	-
Total income	33,269	3,140	6,424	-	42,833
Total operating expenses	(42,823)	(3,626)	(6,271)	-	(52,720)
Impairment allowance	(3,500)	(3,000)	-	-	(6,500)
Loss from assets held-for-sale	(929)	-	-	-	(929)
(Loss) / profit for the year	(13,983)	(3,486)	153	-	(17,316)
Equity-accounted investees	121,974	-	-	-	121,974
Capital expenditure	731	-	282	-	1,013
Segment assets	450,442	66,857	68,419	(20,735)	564,983
Segment liabilities	311,723	40,644	5,906	(20,735)	337,538

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30. SEGMENT INFORMATION (continued)

For the year ended 31 December 2013 (restated)					
	Investment Banking & Alkhair Capital Menkul Degerler A.S	Alkhair International Islamic Bank Malaysia Berhad	Alkhair Capital Saudi Arabia	Inter-company	Total
External revenue					
Income from investment securities	5,503	1,641	88	-	7,232
Finance income	316	6,718	-	-	7,034
Fees and commission	3,060	2,162	1,787	-	7,009
Share of profit of equity-accounted investees	1,488	-	-	-	1,488
Gain on acquisition of a subsidiary	14,453	-	-	-	14,453
Income from non-banking activities	22,503	-	-	-	22,503
Other income	1,370	(23)	81	-	1,428
Inter-segment income	(3,250)	586	2,664	-	-
Total income	45,443	11,084	4,620	-	61,147
Total operating expenses	(47,243)	(7,886)	(4,904)	-	(60,033)
Impairment allowance	1,007	(3,024)	-	-	(2,017)
Provision for Zakah	-	-	(145)	-	(145)
(Loss) / profit for the year	(793)	174	(429)	-	(1,048)
Equity-accounted investees	121,662	-	-	-	121,662
Capital expenditure	24	27	56,013	-	56,064
Segment assets	442,829	132,392	68,382	(23,795)	619,808
Segment liabilities	295,006	102,695	6,098	(23,795)	380,004

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30. SEGMENT INFORMATION (continued)

Geographic segment information:

The Group operates in five geographic markets: Bahrain, Other Middle East, North America, Asia Pacific and Europe. The following tables show the distribution of the Group's total income and non-current assets by geographical segments

	Bahrain	Other Middle East	North America	Asia Pacific	Europe	Total
31 December 2014						
Total income	9,293	30,091	-	3,140	309	42,833
Net (loss) / profit for the year	(15,819)	3,219	-	(3,486)	(1,230)	(17,316)
Non-current assets *	18,325	237,065	-	152	165	255,707

	Bahrain	Other Middle East	North America	Asia Pacific	Europe	Total
31 December 2013 (restated)						
Total income	8,003	41,576	-	11,084	484	61,147
Net (loss) / profit for the year	(17,454)	17,496	-	174	(1,264)	(1,048)
Non-current assets *	18,633	239,988	-	194	209	259,024

* includes equipment and investment property

31. SHARI'AH SUPERVISORY BOARD

The Bank's Shari'ah Supervisory Board consists of six Islamic scholars who review that the Bank is compliant with general Shari'ah principles and specific fatwas, rulings and guidelines issued. 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'ah principles.

32. EARNINGS AND EXPENSES PROHIBITED BY SHARI'AH

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

33. SOCIAL RESPONSIBILITIES

The Group discharges its social responsibilities through donations to good faith charity funds.

34. ZAKAH

The Bank is not obliged to pay Zakah. Payment of Zakah is the responsibility of the shareholders of the Bank. Zakah payable by shareholders on their holdings in the Bank is calculated on the basis of a method prescribed by the Bank's Shari'ah Supervisory Board. Zakah payable by the shareholders in respect of the year ended 31 December 2014 was US\$ 0.00581 cents per share (2013: US\$ 0.04887 cents per share).

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35. CAPITAL MANAGEMENT

The Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Bank as a whole. In implementing current capital requirements CBB requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. CBB capital adequacy regulations are based on the principles of Basel II and IFSB capital adequacy guidelines.

The Bank's regulatory capital is analysed into two tiers:

- *Tier 1 capital*, includes ordinary share capital, disclosed reserves including share premium, general reserves, legal / statutory reserve as well as retained earnings after deductions for goodwill and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- *Tier 2 capital*, includes interim retained profits reviewed by the auditors and an allowed portion profit equalisation reserve (PER) and investment risk reserves (IRR). As per CBB, the PER & IRR can be up to a maximum amount equal to the capital charge pertaining to 30% of the risk weighted assets financed by unrestricted investment accounts.

Certain limits are applied to elements of the capital base in line with regulatory requirements. Tier 1 capital should represent at least half of the total eligible capital, i.e., Tier 2 capital is limited to 100% of Tier 1 capital. The limit on Tier 2 capital is based on the amount of Tier 1 capital after all deductions of investments pursuant to Prudential Consolidation and Deduction Requirements (PCD) Module of the CBB. The PCD Module sets out the regulatory rules for prudential consolidation, pro-rata consolidation or deduction where the own controlling or significant minority stakes in regulated financial entities, insurance entities and have significant exposures to investment in commercial entities. It also sets out the framework for the prudential deductions from capital for various instances including exposures to counterparties exceeding the large exposure limits as set out by CBB.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

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

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

The Group has adopted the standardised approach for credit risk and market risk and basic indicator approach for operational risk regulatory capital computation purposes under the CBB capital adequacy framework. The Group does not have Basel II permissible credit risk mitigants against any of its credit exposures.

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35. *CAPITAL MANAGEMENT (continued)*

The Group's capital adequacy ratio, calculated in accordance with the capital adequacy rules set by the regulator, Central Bank of Bahrain, is as follows:

	2014	2013
Regulatory capital base:		
Tier 1 capital	33,884	65,382
Tier 2 capital	-	-
Total regulatory capital	33,884	65,382
Risk-weighted assets	405,059	430,348
Tier 1 capital adequacy ratio	8.37%	15.19%
Total capital adequacy ratio	8.37%	15.19%

The capital adequacy ratio as at 31 December 2014 was below the minimum regulatory capital requirement of 12%. Based on the planned asset sales program and operating cash flow projections, the Group expects to improve its risk weighted assets profile and capital adequacy ratio.

Capital allocation

The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Bank's capital management policy seeks to maximise return on risk adjusted while satisfying all the regulatory requirements. The Bank's policy on capital allocation is subject to regular review by the Board.

Basel III

During the year, CBB issued the final regulations to give effect to the Basel III framework which is effective from 1 January 2015. Basel III introduces capital components like core equity tier I (CET1), and additional tier I (AT1), it also requires maintenance of certain capital buffers. Computation of CET1 is subject to certain regulatory deductions. These deductions would be effective in a phased manner through the transitional arrangements under the revised regulations over the period from 2015 to 2018. The revised regulations prescribe higher risk weight for certain type of exposures and for the significant investments in financial institutions, significant investments in commercial entities and large exposures that exceed materiality thresholds. The Group is currently assessing the full impact of the revised regulations. The Bank's Board of Directors and senior management are actively looking for long-term options to enhance the capital position of the Bank to meet the Basel III requirements set by the CBB.

36. COMPARATIVES

Certain prior year figures were regrouped to confirm current year's presentation. Except for the effect of reclassification of certain non-current assets as held-for-use during the year resulting in retrospective restatement of previously reported numbers (refer note 7), no other regrouping have been carried out that would affect the previously reported loss for the year or total equity.