Sustainable excellence

ANNUAL REPORT 2014

بنك الإثمار
Ithmaar Bank

Contents

AT A GLANCE

Ithmaar Bank B.S.C. (stock code "ITHMR") is a Bahrain-based Islamic retail bank that is licensed and regulated by the Central Bank of Bahrain (CBB). Ithmaar Bank provides a diverse range of Sharia compliant products and services that cater to the financing and investment needs of individuals and institutions.

Ithmaar Bank is a subsidiary of Dar Al-Maal Al-Islami Trust (DMIT), and has a paid-up capital of US$757.7 million and is listed on the Bahrain Bourse and the Kuwait Stock Exchange.

Ithmaar Bank, formerly an investment bank, completed in April 2010 a comprehensive reorganisation with its then wholly-owned subsidiary, Shamil Bank, to emerge as a premier Islamic retail bank. Ithmaar maintains a presence in Bahrain and overseas markets through its subsidiaries, associated and affiliated companies, as well as a representative office. These include Bahrain-based BBK, Ithmaar Development Company Limited, Naseej and Solidarity, as well as Faysal Bank Limited (Pakistan), Faisal Private Bureau (Switzerland), and Ithraa Capital (Saudi Arabia).

VISION, MISSION AND VALUES

Our Vision

A trusted leading Islamic financial institution offering a comprehensive range of financial solutions and contributing to social development.

Our Mission

To be the preferred Bank for our customers, counterparties and strategic partners by creating value through innovation and customer service. These include: retail and commercial banking, asset management, private banking, takaful, and real estate development.

Our Values

- Comply with Islamic Sharia principles;
- Honesty, integrity and objectivity in all our relationships;
- Market and customer focused;
- Continuous improvement, creativity, innovation and willingness to bring about changes; and
- Active role in the community.

FINANCIAL HIGHLIGHTS

	2014	2013	2012	2011	2010
Net loss ($ 000)	**(8,847)**	(79,327)	(26,828)	(61,902)	(140,008)
Net loss attributable to shareholders ($ 000)	**(15,012)**	(80,372)	(30,480)	(62,886)	(150,409)
Total equity attributable to shareholders ($ 000)	**523,386**	531,568	589,114	576,828	656,578
Book value per share (US cents)	**18**	19	22	21	24
Earnings per share (US cents)	**(0.52)**	(2.76)	(11.35)	(23.13)	(58.90)
Total assets ($ 000)	**7,860,904**	7,403,135	7,225,737	6,899,419	6,747,467
Funds under management (restricted and unrestricted investment accounts) ($ 000)	**2,381,660**	2,464,780	2,613,483	2,571,411	2,966,362
Return on average shareholders' equity	**-2.85%**	-14.34%	-5.23%	-10.20%	-21.99%
Return on average assets	**-0.12%**	-1.08%	-0.38%	-0.91%	-2.18%
Return on average paid in capital	**-2.06%**	-11.49%	-4.54%	-9.37%	-24.26%
Cost to operating income ratio	**87.28%**	97.60%	85.38%	121.71%	72.06%
Capital adequacy ratio	**12.11%**	12.77%	12.64%	12.88%	13.20%
Market price per share (US cents)	**16**	23	17	7	12
Market price per share/Book value per share	**0.89**	1.21	0.77	0.30	0.52

JOINT MESSAGE

HRH Prince Amr Mohammed Al Faisal
Chairman

In the name of Allah, most Gracious, most Merciful

Dear Shareholders,

We are pleased to announce that the strategic decisions taken by Ithmaar Bank early in 2014 have already started yielding results.

These decisions, which aimed at turning the Ithmaar Group around by significantly transforming the Group's operations, included initiatives for increased revenue, improved margins, divestment of non-core assets and cost reductions across Ithmaar Group. Key decisions included the full conversion of Ithmaar Bank's subsidiary Faysal Bank Limited Pakistan's (FBL) remaining conventional operations to Islamic banking.

The immediate implementation of these initiatives, coupled with the consistent growth of our core business has, despite challenging local, regional and international market conditions, contributed to improving the Bank's performance.

As a result, Ithmaar Bank has reported net profit before impairment provision and taxation of US$ 28.9 million compared to US$ 4.8 million profit for 2013. The net loss after impairment provision and taxation attributable to shareholders of US$ 15 million is significantly lower by 81% compared to US$ 80.3 million for 2013.

This improved financial performance is mainly due to sustainable growth in Ithmaar Bank's core retail banking operations, as is evident in the significant growth of the Bank's operating income which increased more than 13 percent to US$ 227.7 million in 2014, from US$ 199.9 million in 2013. Despite growth in business, total expenses for the year ended 31 December 2014, at US$198.8 million, are under control and 1.9 percent higher than 2013 expenses of US$195.1 million. We are also pleased to report that the balance sheet continues to be stable, with total assets increasing by six percent to US$ 7.86 billion as at 31 December 2014, compared to US$ 7.4 billion as at 31 December 2013.

The 2014 results show that, during the year, the equity of unrestricted investment account holders marginally grew to US$2 billion as at 31 December 2014 as compared to US$1.99 billion as at 31 December 2013. Customers' current accounts have increased by eight percent to US$1.37 billion as at 31 December 2014, compared to US$1.27 billion as at 31 December 2013, and deposits from banks, financial and other institutions have increased by 13 percent to US$1.47 billion as at 31 December 2014, compared to US$1.30 billion as at 31 December 2013. This increase reflects growing customer confidence in the Bank and demand for its products and services.

Ahmed Abdul Rahim
Chief Executive Officer

This growth is a result of the Bank's commitment to listening closely to its customers, and working to realise their aspirations by continuously improving its products and services.

In 2014, for example, Ithmaar Bank introduced a full suite of new credit card solutions from MasterCard, substantially enhanced its popular prize-based savings account, Thimaar, and created new home, personal and auto finance products designed specifically to meet customer requirements.

Ithmaar Bank operates one of the largest retail banking networks in Bahrain with 46 ATMs and 17 full-service branches, while our key subsidiary, FBL, with its 274 branches across all cities in Pakistan, is amongst the top 10 banks in Pakistan.

In 2014, Ithmaar Bank also signed a partnership agreement with the Bahrain's Ministry of Housing and Eskan Bank to help overcome the Kingdom's housing challenges. Under the agreement, Bahraini citizens will be offered government-subsidised financing through Ithmaar Bank to help them buy their first homes as part of a national scheme designed to help overcome the Kingdom's housing challenges. The Social Housing Financing Scheme allows eligible citizens to finance their first homes through Ithmaar Bank by paying 25 percent of their monthly income towards the property's monthly instalment with the rest being paid for by the Ministry of Housing through Eskan Bank.

These initiatives helped drive the continued growth in the Bank's Bahrain retail banking business in 2014. Ithmaar Bank's financing business in Bahrain, for example, increased by 23 percent, from US$745 million at the end of 2013, to US$914 million at the end of 2014. This growth in 2014 was driven mainly by Home Financing which increased by 53 percent and Personal Financing which increased by 21 percent. Similarly, total customer current accounts, savings accounts, Thimaar and URIA deposits, increased by 11 percent in 2014, from US$1.38 billion at the end of 2013, to US$1.54 billion at the end of 2014.

The focus on growth did not distract Ithmaar from its long-standing commitment to excellence: in 2014, the Bank continued to earn recognition for growth, innovation and Information Technology security. Ithmaar Bank also earned an award recognizing the Bank as Bahrain's fastest growing MasterCard debit card portfolio.

JOINT MESSAGE
CONTINUED

As always, we stress that these achievements are, ultimately, a result of the commitment, dedication and expertise of the people at Ithmaar Group who we continue to regard as our greatest asset. In 2014, we continued to reorganize and refocus on this asset.

In addition to thanking all our employees for their contributions, we take this opportunity, also, to thank our shareholders for their continued support, our customers, investors and all other stakeholders for their confidence, our regulators for their guidance and the members of the Board of Directors and the Sharia Supervisory Board for their continued support to realizing the Ithmaar Bank vision of becoming the region's premier Islamic retail bank.

Amr Mohammed Al Faisal
Chairman

Ahmed Abdul Rahim
Chief Executive Officer

REVIEW OF OPERATIONS

REVIEW OF OPERATIONS

Strategy and Focus

Ithmaar Bank's strategy continues its single focus: return to sustainable profitability. The strategies to achieve the Bank's key objectives include a firm focus on core business, together with improving asset allocation including divestment of non-core assets, cost rationalization and improving efficiency levels.

Economic outlook

Overall, global growth is expected to rise moderately to 3.0 percent in 2015, and average about 3.3 percent through 2017. In developing countries, as the domestic headwinds that held back growth in 2014 ease and the recovery in high-income countries slowly strengthens, growth is projected to gradually accelerate, rising from 4.4 percent in 2014 to 4.8 percent in 2015 and 5.4 percent by 2017. Lower oil prices will contribute to diverging prospects for oil-exporting and importing countries, particularly in 2015. [Source: World Bank Global Economic Prospects – January 2015].

Firm focus on core business

The focus on developing Ithmaar Bank's core business delivered significant growth in the Bank's Bahrain retail banking business which continued to report consistent growth in 2014.

Total customer current accounts, savings accounts, Thimaar and URIA deposits, for example, increased by 11 percent in 2014, from US$1.38 billion at the end of 2013, to US$1.54 billion at the end of 2014.

Similarly, Ithmaar Bank continued to expand its financing business, which increased by 21 percent, from US$745 million at the end of 2013, to US$914 million at the end of 2014. This growth was driven mainly by Home Financing which increased by 54 percent in 2014.

This growth is due, in a large part, to continuous improvements in Ithmaar Bank's products and services. Early in 2014, for example, Ithmaar Bank introduced a full suite of new, Sharia-compliant MasterCard credit cards which were tailored to meet the specific requirements of Ithmaar customers. The new cards - MasterCard Gold, MasterCard Gold Plus, MasterCard Titanium and MasterCard Platinum - offer a range of extended features and benefits including free worldwide Takaful travel insurance, exclusive discounts through MasterCard and free access to selected airport lounges for Titanium and Platinum credit card holders.

As part of its commitment to continuously improving its customer service offerings, Ithmaar Bank also began providing its award-

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winning card-less cash solution, MobiCash, to customers without a service charge. MobiCash, Bahrain's first card-less cash withdrawal system, allows customers access to Ithmaar Bank ATMs using their mobile phones or computers.

In 2014, Ithmaar Bank was accredited as a participant in the Social Housing Financing Scheme after signing an agreement with Eskan Bank. The Scheme, which was introduced by the Ministry of Housing in cooperation with the Ministry of Finance and Eskan Bank, is among the most important financing solutions provided by the Government of Bahrain to address housing needs. Ministry of Housing data indicates that the first phase of the Scheme included 1,200 citizens whose housing applications were listed on the waiting list.

Ithmaar Bank also signed an agreement with Naseej, Bahrain's first fully-integrated real estate and infrastructure company and an Ithmaar Bank associate company, to provide Sharia-compliant financing for Naseej's affordable housing solutions. As a result, Ithmaar Bank offers potential buyers of units in the Al Madina Al Shamaliya development, part of the ground-breaking social and affordable housing public-private-partnership (PPP) between the Ministry of Housing and Naseej, Sharia-compliant property financing.

Ithmaar Bank re-launched in October 2014 its popular prize-based savings account, Thimaar, to offer bigger prizes to more winners.

Thimaar is the only saving scheme in Bahrain that offers both gold and cash prizes, as well as anticipated profit rates and free life takaful, as an added incentive to save. During the year-long Thimaar campaign, a total of 3,540 winners will win cash and gold prizes of more than US$2,000,000.

In 2014, Ithmaar Bank renovated its Muharraq Branch, further upgrading its retail banking network which is already one of the largest in Bahrain.

Ithmaar Bank also enhanced its electronic delivery channels in 2014, installed new ATM interface screens with environmentally friendly features, and redesigning the corporate website. The website offers an improved user experience and delivers innovative, customer-focused solutions using the latest technology.

REVIEW OF OPERATIONS
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Ithmaar Bank Markets Served (Bahrain)

FINANCINGS – FYE 2014

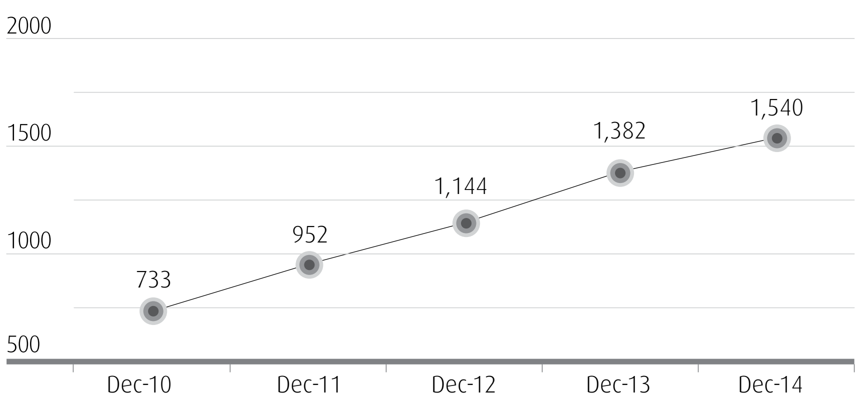
TERRITORY		**SECTOR**	
Bahrain	76%	Personal	53%
GCC	5%	Financial Institutions	3%
Others	19%	Real estate and construction	15%
		Trade and manufacturing	13%
		Services	16%
Total	**100%**		**100%**

CUSTOMER FUNDS – FYE 2014

TERRITORY		**SECTOR**	
Bahrain	88%	Personal	59%
GCC	1%	Financial Institutions	4%
Others	11%	Real estate and construction	8%
		Trade and manufacturing	9%
		Services	11%
		Government related	9%
Total	**100%**		**100%**

Ithmaar Bank Retail Banking – Customer Funds (Bahrain)

Customer Funds (URIA) (US$ million)



Customer Financing (US$ million)

	Home finance	Personal finance	Corporate & SME finance
Dec-10	22	272	416
Dec-11	25	395	446
Dec-12	44	533	617
Dec-13	51	659	577
Dec-14	78	798	552

Ithmaar Bank Market Share (Bahrain)

	Customer Deposits/Funds (%)	Corporate & SME finance (%)	Home finance (%)	Credit Card Receivables (%)	Personal finance (%)
Dec-10	6.1	4.3	2.4	2.5	8.1
Dec-11	6.7	4.1	1.4	2.7	10.8
Dec-12	7.0	4.3	2.3	2.6	13.6
Dec-13	6.9	4.3	2.2	3.0	15.0
Sep-14	6.7	4.5	2.5	4.4	16.2

Based on statistics compiled by the Central Bank of Bahrain.

Ithmaar Bank continued to expand its financing business, which increased by 23 percent, from US$745 million at the end of 2013, to US$914 million at the end of 2014. This growth in 2014 was driven mainly by Home Financing which increased by 53 percent and Personal Financing which increased by 21 percent.

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Private Banking continued to achieve good results in 2014, which is reflected in the Bank's overall performance both directly and indirectly, and contributed to a positive outlook for the year ahead.

Despite overall market and industry challenges, for example, Private Banking managed to attract a steady growth in both liabilities and assets with the introduction of new clientele.

Private Banking, which manages the Ithmaar Premier programme, also reported a significant increase of more than 20 percent in membership since the programme was introduced in 2013. Ithmaar Premier is a members-only programme designed to recognise the Bank's most valuable customers by providing exclusive benefits and services. In 2014, Ithmaar signed an agreement with Solidarity Group, one of the largest Takaful groups and an Ithmaar Bank associate company, to offer Ithmaar Premier members exclusive insurance rates.

Commercial and International Banking focused in 2014 on Small and Medium Enterprises (SMEs) as well as on developing the Bank's Corporate Banking and International Banking business.

Despite the challenging and the highly competitive environment in the local and regional markets, the Corporate Banking Unit managed to conclude transactions that match Ithmaar Bank's core market. Meanwhile, in order to support Ithmaar Bank's geographic diversification strategy, the International Banking Unit continued to focus on identifying new markets and providing financial solutions to corporate customers in international markets.

Based mainly in Bahrain, Ithmaar Bank's range of operations presently spans the Middle East, North Africa, Turkey and the Far East. Ithmaar Bank through the Commercial and International Banking Department is focused on becoming the bank of choice for corporate clients.

Improving Asset Allocation

The main objective of Asset Management is to preserve the value of the existing investment portfolio of the Bank and identify opportunities for investment exits at acceptable valuations. The planned and managed exit from certain non-revenue generating investments will help restore the asset allocation to be in line with peers and facilitate the additional deployment of funds in financing, thereby contributing to the net margins.

During 2014, Asset Management continued to effectively manage and monitor Ithmaar Bank's investments including subsidiaries and associates. Asset Management also manages a number of the Bank's funds as Modareb for the fund's investors.

In June 2014, Ithmaar Bank issued an investor report on its Shamil Bosphorus Modaraba (SBM) indicating the fund will not achieve its investment objectives and stating that there is a low probability that investors will have their entire capital returned. In November 2014, Ithmaar sent SBM investors notice of the fund's termination along with certain exit options. As Modareb, Ithmaar Bank met SBM investors to discuss the investor report and explain available exit options. A number of investors have opted to receive the proposed settlement, while others requested additional time.

Cost rationalization and improving efficiency

In line with the strategic decisions taken by the Board of Directors in early 2014 to significantly transform Ithmaar Group's operations by increasing revenues, improving margins and reducing costs across the group, Ithmaar Bank implemented reorganisation and staff cost rationalization under the Voluntary Separation Programme.

Several employees opted to participate in the Programme which, in addition to contributing to the Bank's cost rationalization plans, also improved efficiency within the Bank and provided opportunities for employee growth through internal promotions.

Reorganised, refocused workforce

Ithmaar Bank has long recognised that, ultimately, it is the quality of its people that drive the Bank's success and that, to become one of the region's premier Islamic retail banks, it must invest in continuously developing its human resources.

During 2014, Ithmaar Bank conducted a number of in-house training courses that were developed specifically to meet employee training and development needs. These include a collaboration with the General Council for Islamic Banks and Financial Institutions (CIBAFI) to certify 11 employees from different departments as Certified

Islamic Bankers. Two intensive courses, a Credit Programme and a Collection Programme, were also conducted in collaboration with the Bahrain Institute of Banking and Finance (BIBF).

In 2014, Ithmaar Bank conducted Information Security Awareness sessions, as well as Business Continuity Plan Awareness sessions for all employees; and the Internal Sharia Compliance Officer conducted a "Murabaha" session for the Corporate Banking Team and "Tawaruq" (Islamic Finance) sessions for all Branch employees. In compliance with CBB requirements, the Bank held Anti-Money Laundering (AML) Refresher E-Learning Courses for specific employees.

Twenty-four employees from the Retail, Private and Corporate Banking departments also completed the Financial Adviser Programme (FAP) Level 1 in 2014.

Ithmaar Bank, which has long encouraged diversity and equal opportunity for all employees, marked Bahrain Women's Day on 1 December 2014 by honouring the Bank's women employees and presenting each with a gift at a ceremony that was hosted by the Chief Executive Officer. Ithmaar Bank's total workforce of 268 employees include 74 women employees who account for almost 28 percent of the workforce. Kuwait's Shaikha Hissah bint Saad Al Sabah, who is president of both the Council for Arab Business Women and the Council for Arab African Business Women, is also a member of the Ithmaar Bank Board of Directors.

Training

BIBF Levy Training	Total: 1,917 Hours Managers and Above: 100 Hours Below Managers: 1,817 Hours
External Training	Total: 319 Hours Managers and Above: 161 Hours Below Managers: 158 Hours
Islamic Banking Ethics and Governance Course – CBB Requirement	12 Employees attended
Anti-Money Laundering (AML) – CBB Requirement	New Joiners: 28 Employees Annual Refresher Course: 118 Employees
Financial Adviser Programme (FAP) Level 1 – CBB Requirement	24 Employees successfully completed FAP Level 1
Certified Islamic Banker (CIB) certification	11 Employees successfully completed and obtained the CIB certificate

Staff Overview

Bahrain Operations Only

	Bahrainis				Non Bahrainis				
	Assistant Manager and Above	Associate and Senior Officer	Officer and Below	Others	Assistant Manager and Above	Associate and Senior Officer	Officer and Below	Others	Total
Male	62	37	78	3	13	1	0	0	194
Female	6	36	32	0	0	0	0	0	74
Total	68	73	110	3	13	1	0	0	268

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Global certification for information security

In 2014, Ithmaar Bank also earned international recognition for its information security processes when it was formally awarded the ISO27001 certification following a rigorous audit that was conducted by Bureau Veritas on the Bank's Information Security Management System. The accreditation will further enhance customer confidence and reinforces Ithmaar's position as a pioneering Islamic retail Bank.

Global awards for growth in card business and innovation

During 2014, MasterCard Division President, Middle East and North Africa, presented an award to the Ithmaar Bank Chief Executive Officer in recognition of Ithmaar Bank achieving the Kingdom's fastest growing MasterCard debit card portfolio.

Ithmaar Bank earned prestigious international awards for its new, customer-focused interactive website when it was named the Silver winner in two separate categories at the high-profile W3 Awards. The W3 Awards are prestigious international awards which honour creative excellence on the web, and recognises institutions behind award-winning sites, marketing programmes, social content, mobile site/apps and online videos.

Role in the community

Ithmaar Bank has long-recognized the important role it must play in supporting the community in which it operates. In line with that commitment, the Bank continued throughout 2014 to support worthy national causes. In particular, Ithmaar Bank offered financial support meet educational, medical and sporting initiatives.

In 2014, for example, Ithmaar joined other Banks in Bahrain to help finance the establishment of the BIBF dealing room, a first of its kind training facility in the Middle MENA region, which allows students to learn about trading stocks and bonds in a real environment. Ithmaar Bank also continued to invest its own staff time and resources on training and developing aspiring job seekers, and in 2014, provided on-the-job training opportunities to 46 university students from different universities across Bahrain. Ithmaar Bank staff also volunteered to teach at different government schools as part of the inJAz programme. InJAz Bahrain is a member of the worldwide Junior Achievement Organisation that inspires and prepares young Bahrainis to succeed in the global economy.

Ithmaar Bank also continued to support the education of underprivileged students. Together with the Kingdom of Bahrain's Royal Charity Organisation, Ithmaar continues to sponsor 18 orphaned students from preschool right through to Grade 12 at an accredited private school in Bahrain. In total, up to the end of 2014, Ithmaar Bank has sponsored 34 Bachelor degree graduates, 16 Master's degree graduate and one PHD degree graduate.

In 2014, Ithmaar Bank supported public health awareness campaigns, and provided financial support to various societies and associations that help the sick, the blind, the disabled, and the elderly. The Bank also sponsored various sport events including, for the second consecutive year, the His Majesty King Hamad Horserace Championship that was organized by the Rashid Equestrian and Horseracing Club, and for the seventh consecutive year, the His Majesty King Hamad Trophy Golf Championship. Ithmaar Bank also sponsored the King's Football Cup of 2014.The Championship is a popular national sports event, and a key highlight on the annual calendar.

Ithmaar Bank also continued in 2014 to contribute to Bahrain's development as a key regional banking and finance by supporting various initiatives undertaken by the Bahrain Association of Banks (BAB), the Accounting and Auditing Organisation for Islamic Financial Institution (AAOIFI) and the World Islamic Banking Conference (WIBC).

FINANCIAL PERFORMANCE

The Bank has substantially reduced its loss in 2014 and reported a net loss attributable to equity holders of the Bank for 2014 amounting to US$ 15 million, compared to a net loss of US$ 80.4 million reported last year.

Over all, the recurring income from all revenue streams increased resulting in profit before provision for impairment and taxation of US$ 28.9 million for 2014, which is an increase of more than 500% from US$ 4.8 million for 2013. This is due to significant growth of the Bank's operating income which increased by 14% to US$ 227.8 million in 2014, from US$199.9 million in 2013. This increase is mainly due to sustainable revenue growth across most income streams. A major contributor was income from investments, which increased by 30% to US$ 126.7 million compared to US$ 97.3 million in 2013. This is mainly due to growth in government securities portfolio by Faysal Bank Limited (FBL). This is partly offset by reduced share of profit from associates by 42% to US$ 22.3 million in 2014, compared to US$ 38.4 million in 2013.

Despite the growth in business, total expenses for the year ended 31 December 2014, at US$ 198.8 million are under control and marginally higher by 1.9% than 2013 expenses of US$ 195.1 million. The 2014 expenses include the one-off expenses associated with the Staff Voluntary Separation Scheme and the full year impact in 2014 of certain branches opened in 2013 in Pakistan.

Financial Position

Total assets increased by 6% to US$ 7.86 billion as at 31 December 2014, compared to US$7.4 billion as at 31 December 2013. This is mainly due to growth in core business (Murabaha, Musharaka and Ijara financings) by 7% to US$ 3.49 billion as at 31 December 2014 compared to US$ 3.28 billion as at 31 December 2013. Investment securities also increased by 35% to US$ 1.77 billion as at 31 December 2014 compared to US$ 1.31 billion as at 31 December 2013 mainly due to higher investment in government securities.

The equity of unrestricted investment account holders marginally grew to US$ 2 billion as at 31 December 2014 as compared to US$ 1.99 billion as at 31 December 2013. The Bank's focus on low cost deposit is evident from growth in customers' current accounts which increased by 8% to US$ 1.37 billion as at 31 December 2014, compared to US$ 1.27 billion as at 31 December 2013. Deposits from banks, financial and other institutions have increased by 13% to US$ 1.47 billion as at 31 December 2014, compared to US$ 1.3 billion as at 31 December 2013.

Shareholders' equity continues to be stable at US$523.4 million as at 31 December 2014.

During 2014, the Bank improved its maturity profile with a shift in liabilities from short-term to medium-to-long-term maturities. Overall, during the past three years, customer accounts have consistently registered significant growth. Maintaining adequate liquidity continues to be the focus and, liquid assets, at US$ 889.7 million, formed 11% of the total assets as at 31 December 2014.

SUBSIDIARIES AND ASSOCIATES

Key operating subsidiaries

Faysal Bank Limited (FBL)

Faysal Bank Limited (the Bank) was incorporated in Pakistan on October 3, 1994. Its shares are listed on Karachi, Lahore and Islamabad Stock Exchanges. The Bank is mainly engaged in Corporate, Commercial and Consumer banking activities. The Bank has a network of 274 branches including 58 Islamic banking branches as of 31 December 2014, with combined business assets of over PKR 380 billion. The Group owns 66.6 percent of FBL. During 2014, the decision was taken to convert FBL's remaining conventional operations to Islamic banking.

The current strategy of FBL focuses on growth in deposits (including improvement in low cost deposits portfolio) and reduction on operating costs in order to achieve higher profitability. The total assets and total shareholders' equity as of 31 December 2014 amounted to PKR 388 billion and PKR 26.3 billion respectively.

Faisal Private Bureau [formerly Faisal Private Bank] (FPB)

FPB, a wholly-owned subsidiary of the Group, was established in 1980 as Sharia Investment Services in Geneva, Switzerland, and later got a banking license and was providing Islamic financial services in the European region. FPB voluntarily surrendered its banking license in June 2013 and the activities of the new entity are restricted to providing advice and wealth management services.

The current strategy of FPB focuses on serving existing clients of the erstwhile Faisal Private Bank through providing advice and wealth management services. The total assets and total shareholders' equity as of 31 December 2014 amounted to US$ 31.1 million and US$ 14.6 million respectively. The Funds Under Management (FUM) as at 31 December 2014 amounted to US $ 138.6 million.

Ithmaar Development Company (IDC)

Ithmaar Development Company (IDC) is a wholly-owned subsidiary of the Group which was established in 2007 with the objective of developing and managing major development, real estate and other infrastructure projects. IDC's flagship projects include Dilmunia, a 1.25 million square meters manmade island off the coast of Bahrain.

IDC, together with Ithmaar, is aggressively working on the sale of parcels relating to the project and has achieved significant success during 2014 with two major announcements following the sale of the key plots.

"The Treasures" a US$45 million residential apartment project by Bin Faqeeh Real Estate Investment Company, a major Bahrain real estate developer, and later in the year, "Essence of Dilmunia" a US$130 million luxury apartment development by Cooperation Investment House (CIH), another major Bahrain real estate developer. These two new major developments announced in 2014 are the latest to join the Dilmunia family, alongside the sold-out Temara and Seavilla projects that were announced in during 2013.

The current strategy of IDC focuses on the infrastructure development relating to Dilmunia project as well as providing development management services to Naseej relating to the Private Public Partnership Housing Project (PPPHP) project.

Key operating associates

BBK B.S.C. (BBK)

BBK is one of the largest commercial banks in Bahrain with a presence in Kuwait, India and Dubai (United Arab Emirates). BBK provides a full range of lending, deposit, treasury and investment services, and has established a number of subsidiaries in the areas of brokerage, financial services and credit cards. The Group owns 25.4 percent of BBK. BBK has 16 branches, including seven financial malls, and 53 ATMs in Bahrain.

BBK's strategy focuses on growth of its retail banking business through branch expansion in GCC and international markets, mainly India. The total assets and total shareholders' equity as of 31 December 2014 amounted to US$ 9.3 billion and US$ 949 million respectively.

Naseej B.S.C. (Naseej)

Naseej is the MENA region's first fully-integrated real estate and infrastructure development company, encompassing the entire value chain from concept to completion. The Company's core activities comprise design and master planning; development and construction; building components; mortgage facilitation; and asset management. Naseej was established by prominent private and public sector investors to act as a pioneering catalyst for addressing the region's affordable housing development needs. The Group owns 30.7 percent of Naseej.

Naseej's strategy focuses on pursuing property development and investment opportunities in affordable housing and retail real estate sectors in the MENA region besides working on the Private Public Partnership Housing Project (PPPHP) project in Bahrain which was awarded to the Company in 2012 and the financial close achieved in September 2013. In 2014, Naseej announced that the project's housing units were available to all Bahrainis, regardless of income level. Under the terms of the PPPHP, the units were initially available exclusively to Ministry of Housing applicants and then to Bahraini families with a household income of less than BD2,000.

In 2014, Naseej also announced Yasmeenat Saar, a development targeted at the mid-high income segment and comprising 32 villas on an overall plot size of 17,000 square meters.

Solidarity Group Holdings (Solidarity)

Solidarity is one of the largest takaful (Islamic insurance) companies. The Company provides general and family takaful products and services, which comply with the principles of the Islamic Sharia, around the globe. Solidarity operates two fully-owned subsidiaries in Bahrain, one subsidiary in Jordan, and other business interests in Saudi Arabia and Malaysia. The Group owns 33.8 percent of Solidarity.

Solidarity's strategy focuses on providing general takaful services both locally and in key international markets, mainly Jordan, Saudi Arabia and Malaysia, in order to achieve sustainable profitable growth. The total assets and total shareholders' equity as of 31 December 2014 amounted to US$ 326.4 million and US$ 228.6 million respectively.

CITIC International Asset Management Limited (CITICIAM)

CITICIAM is part of the CITIC Group, a major diversified financial and investment conglomerate wholly-owned by the State Council of the People's Republic of China. CITICIAM's principal activity is to invest in companies and projects in China and internationally, both for its own account and on behalf of clients. Established in 2002 to specialize in distressed asset management, the current portfolio of CIAM includes direct investments in real estate, high technology, health, retail and industrial projects. The Group owns 20 percent of CITICIAM.

CITICIAM's strategy focuses on investment mainly in China in environmental, agricultural, natural resources and health sector of China specifically in companies, mainly SME's, which are run in line with the state policies and contribute to the socio-economic development of China.

BOARD OF DIRECTORS

HRH Prince Amr Mohammed Al Faisal
Chairman

Appointed 5 November 2009, Elected 28 March 2010 and 31 March 2013 (approved by the CBB on 9 May 2013).

HRH Prince Amr has more than 26 years of extensive and diversified experience in commercial and investment banking, executive management, architecture and engineering.

He is a Member of the Board of Supervisors of Dar Al Maal Al Islami Trust, Faisal Islamic Bank (Sudan) and Faisal Islamic Bank (Egypt). HRH Prince Amr is also Founder and Director of the Red Sea Design Consultants (Jeddah), Chairman of the Board of Directors of Al Daleel Company for Information Systems (headquartered in Jeddah with sister companies in Tunisia, Sudan and Pakistan), Al Wadi Company for Trading Ltd. (Jeddah) and Amr Establishment for Marketing and Commerce.

He is a Fellow of the Saudi Association for Construction Societies, City Development and Clean Environment and a Member of the Saudi Council of Engineers. HRH Prince Amr holds a Bachelor of Arts Degree in Architecture from King Abdulaziz University, Saudi Arabia.

Sheikh Zamil Abdullah Al-Zamil
Independent, Non-Executive Board Member

Elected 28 March 2010 and 31 March 2013 (approved by the CBB on 9 May 2013)

Sheikh Al-Zamil is a prominent businessman in the Kingdom of Saudi Arabia and in GCC countries.

He is Executive Vice-President of Zamil Group Holdings Company and serves as the Chairman of Zamil Offshore Services Co. and Zamil Operations and Maintenance Co. Ltd.

Sheikh Al-Zamil is actively involved in various institutions such as the Chambers of Commerce, industrial companies and banks in his capacity as a Director.

Educated in the United States, he has BS degree in Petroleum Engineering from the University of Southern California (USC) and an MS degree in the same major from West Virginia University, USA.

Tunku Dato' Ya'acob Bin Tunku Abdullah
Independent, Non-Executive Board Member

Elected 11 May 2006, 28 March 2010 and 31 March 2013 (approved by the CBB on 9 May 2013)

Prince Ya'acob has more than 31 years of banking and finance experience.

He is Chairman of MAA Group Berhad (Malaysia), which he joined in 1999. Prior to his current position, Prince Ya'acob worked for 19 years at Malaysian Assurance Alliance Berhad, where his last position was Chairman. He also worked at PriceWaterhouse, UK and Malaysia.

Prince Ya'acob holds a Bachelor of Science Degree with Honours from the City University in London and is a Fellow of the Institute of Chartered Accountants of England and Wales.

Shaikha Hissah bint Saad Al-Sabah
Independent, Non-Executive Board Member

Elected 11 May 2006 and 28 March 2010 and 31 March 2013 (approved by the CBB on 9 May 2013)

Shaikha Hissah has more than 16 years of banking experience.

She is President of the Council of Arab Businesswomen, and has a long history in the Kuwait Government and private voluntary service in sectors which include medical services, research and development, defense, and narcotics and addiction control. Shaikha Hissah is also the President of the Council of Arab African Business Women.

Shaikha Hissah studied Public Administration and Political Science at the American University of Beirut, Lebanon, and holds a Doctorate in Humane Letters.

Abdelhamid Mohamed Aboumousa
Executive Board Member

Elected 11 May 2006, 28 March 2010 and 31 March 2013 (approved by the CBB on 9 May 2013)

Mr. Aboumousa has more than 46 years of banking experience. He is Governor of Faisal Islamic Bank of Egypt, which he joined in 1977. Prior joining Faisal Islamic Bank of Egypt, Mr. Aboumousa worked in the Central Bank of Egypt for 15 years. He is a Member of the Coordinating Council that determines the monetary and fiscal policy objectives of the Egyptian economy, and a Member of the General Assembly of the Public Banks representing the Egyptian Government in state owned banks.

He holds a Bachelor of Science Degree in Accounting and a Diploma in Finance from Cairo University in Egypt, and a Diploma in Banking Economics from Lwegi Boconi University in Milano, Italy.

Khalid Abdulla-Janahi
Executive Board Member

Elected 11 May 2006, 28 March 2010 and 31 March 2013 (approved by the CBB on 9 May 2013)

Mr. Janahi has more than 28 years of banking experience.

He is Group Chief Executive Officer of Dar Al-Maal Al Islami Trust (DMI Trust), Chairman of Faisal Private Bureau (Switzerland), DMI Administrative Services, Islamic Investment Company of the Gulf (Bahamas) Ltd., Solidarity Group, Naseej and Ithmaar Development Company, Bahrain.

He is also the Chairman of the Executive Committee and Member of the Board of Saudi Takaful Company, Saudi Arabia.

Mr. Janahi is a member of the Board of Faisal Islamic Bank of Egypt and the Centre for International Business and Management (CIBAM) at the University of Cambridge.

He had earlier served as Chairman of the Board of Directors of First Leasing Bank, Bahrain; Chairman of the Executive Committee of the Bank of Bahrain and Kuwait; a Member of the Economic Development Board of Bahrain; Chairman of the Executive Committee of the Board of Directors of Faysal Bank Limited (Pakistan); and Vice Chairman of the Arab Business Council, as well as a Member of the Board of the Bahrain Stock Exchange, the Accounting and Auditing Standards Board for Islamic Banks and Financial institutions, the Bahrain Academic Qualification Accreditation Committee and the Public Accounting Standards Setting Committee in Bahrain.

He holds a Bachelor of Science degree in Computer Science & Accountancy from the University of Manchester, UK; and is a Fellow of the Institute of Chartered Accountants in England and Wales.

Mohammed A. Rahman Bucheerei
Non-Executive Board Member

Elected 28 March 2010 and 31 March 2013 (approved by the CBB on 9 May 2013)

Mr. Bucheerei has more than 44 years of experience in Accounting, Commercial and Offshore Banking.

He was Chief Executive Officer of Ithmaar Bank from July 12, 2010 to August 31, 2013, and has been a Member of the Ithmaar Bank Board of Directors since March 2010. He is also a Member of the Bank's Executive Committee.

Previously, Mr. Bucheerei served as the General Manager of the Private Offices of HRH Prince Mohamed Al Faisal Al Saud, Saudi Arabia, and Executive Vice-President, Shamil Bank of Bahrain.

He currently serves on the Boards of Islamic Investment Company of the Gulf (Bahamas and Sharjah) Limited, Faysal Bahamas Limited, Crescent International Limited (Bermuda), DMI (Jersey) Limited, MFAI (Jersey) Limited, Gulf Investors Asset Management Company (Saudi Arabia), Cantara S.A . (Switzerland), Abudhabi Investment House (Abudhabi), Al Areen Palace Hotel (Bahrain), Lost Paradise of Dilmun (Bahrain) and Overland Capital Group, USA.

He studied accounting, mathematics and economics at Gulf Polytechnic, Bahrain.

Nabeel Khaled Mohamed Kanoo
Independent, Non-Executive Board Member

Elected 28 March 2010 and 31 March 2013 (approved by the CBB on 9 May 2013)

Mr. Kanoo has more than 16 years of business and management experience.

He is Director of Public Relations and Marketing of YBA Kanoo as a group, a Director of YBA Kanoo's Saudi Arabia Board, a Director of YBA Kanoo's Bahrain Board, a Director of Kanoo Travel Co. UK and France, a Director of Kanoo and El-Shabrawy Ltd. Co. Egypt, and a Board Member of the Bahrain Chamber of Commerce.

Mr. Kanoo holds a Bachelor of Business Management Degree from St. Edwards University, Austin, Texas.

Abdulellah Ebrahim Al-Qassimi
Independent, Non-Executive Board Member

Appointed 15 July 2012 and Elected 31 March 2013 (approved by the CBB on 9 May 2013)

Mr. Al-Qassimi has more than 31 years of diversified management experience.

His previous positions include Chief Executive of the Labour Fund (Tamkeen), from which he resigned in May 2010, Deputy Chief Executive Officer of Labour Fund Project at the Bahrain Economic Development Board, Assistant Undersecretary for Training at the Bahrain Ministry of Labour and Social Affairs, Director of Engineering and Maintenance at the Bahrain Ministry of Health. He has also served as the Chairman of the Bahrain Qualifications Framework Steering Committee and the Steering Committee of Career Expo and was a Board member of the Bahrain Society of Engineers and the Bahrain Consumer Protection Society.

He is currently a Member of the Board of Tamkeen, Solidarity Group Holding, Durah Resort Management Company, Naseej BSC, Faysal Bank Limited (Pakistan) and the Bahrain Development Bank, as well as a Member of the Committee for HRH Princess Sabeeka bint Ibrahim Al Khalifa's Award for Women Empowerment (Supreme Council for Women, SCW).

Mr. Al-Qassimi holds a BSc in Civil Engineering from Queen Mary College, University of London, UK, and MSc in Health Facility Planning from the University of North London, UK, and a Diploma in Health Care Management from the Royal College of Surgeons in Ireland, Bahrain.

BOARD OF DIRECTORS
CONTINUED

Imtiaz Ahmad Pervez
Non-Executive Board Member

Appointed 15 July 2012 and Elected 31 March 2013 (approved by the CBB on 9 May 2013)

Mr. Pervez has more than 36 years of banking experience.

He has previously served on the Boards of AlBaraka Bank Pakistan Limited, Faysal Islamic Bank of Bahrain, Faysal Investment Bank of Bahrain EC., Faysal Bank Ltd., Pakistan, Al Faysal Investment Bank Ltd., Pakistan, Trust Leasing Corp. Limited, and Namco Management Company Ltd.

He has also held many senior positions in the banking industry, including those of Chief Operating Officer of the Faysal Islamic Bank of Bahrain EC, and Chief Executive Officer of Al Faysal Investment Bank Ltd., Pakistan.

Mr. Pervez holds a BA degree from University of the Punjab, Pakistan, and is a Fellow of the Institute of Islamic Banking and Insurance, London.

Graham R. Walker
Non-Executive Board Member

Elected 31 March 2013 (approved by the CBB on 9 May 2013)

Mr. Walker has more than 46 years of experience in banking and financial services. He has a strong record in General Management, Finance and Strategic Planning gained internationally in banking, securities and investment management.

Mr. Walker served as Finance Director and a member of the Executive Committee at Ithmaar Bank from 2003 to 2008.

Previously, Mr. Walker served at Dar Al-Maal Al- Islami Trust (DMI Trust) where he was Executive Vice President, Group Head of Finance and Risk Management. He also served as Director and member of the Audit Committees of Solidarity General, Solidarity Family, Shamil Bank and Faysal Bank Limited (Pakistan) as well as a Director and Chairman of the Audit Committee at Citic International Assets Management Limited (Hong Kong). Mr. Walker was earlier Chief Operating Officer at Foreign & Colonial Management Limited and Deputy Managing Director of Standard Chartered Equitor Limited.

Mr. Walker qualified as a Chartered Accountant and is a member of the Institute of Chartered Accountants of Scotland.

Omar Abdi Ali
Non-Executive Board Member

Elected 31 March 2013 (approved by the CBB on 9 May 2013)

Mr. Ali has more than 46 years of experience in financial and general management in development as well as commercial and investment banking in Africa, the Middle East and Europe. He is Founder and Chairman of the Board of Directors of Quadron Investments Co. Ltd. (Sudan) and Integrated Property Investments (United Kingdom and Tanzania).

Previously, Mr. Ali served at Dar Al-Maal Al-Islami Trust (DMI – Trust) where he was Chief Executive Officer and Chief Operating Officer from 1986 to 1999 and, before that, Executive Vice-President Finance and Vice-President in charge of Internal Audit from 1983 to 1986. Prior to his DMI appointments, Mr. Ali was Director of Finance and Chief Financial Officer at the Arab Authority for Agricultural Investment and Development (Sudan).

He is currently a member of the Board of directors of Faisal Islamic Bank of Egypt and serves as chairman of the Audit and Risk Committees of the Board. He has served in the African Development Bank for ten years and his last post there was CFO of the Bank. He has also served in the Arab Fund for Economic and Social Development and the Arab Authority for Agriculture and Investment where he was also the CFO. He has served these two institutions for seven years.

Mr. Ali is a Certified Accountant, Leeds College of Commerce, UK, and a Fellow of the Association of Chartered Certified Accountants.

SHARIA SUPERVISORY BOARD

Sheikh Abdullah Sulaiman Al Manee'a
Chairman

Sheikh Al Manee'a is a prominent, highly-respected Sharia scholar from the Kingdom of Saudi Arabia. He is the Vice Chairman of the Sharia Board of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and a member of the Senior Scholars Council of the Kingdom of Saudi Arabia and the Awqaf Supreme Council. He is also Chairman or a member of the Sharia Supervisory Boards of several other Islamic banks and financial institutions.

An expert at the Islamic Fiqh Academy, Sheikh Al Manee'a holds a Master's degree from the Higher Institute for Judgment and has authored several books including 'Paper Money: Truth, History and Reality' and 'Economic Research'.

Sheikh Dr. Nedham Yaqouby
Member

Sheikh Yaqouby is a prominent, highly-respected Sharia scholar and a successful businessman from the Kingdom of Bahrain. He is a member of the Sharia Board of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), and is also a member of the Sharia Supervisory Boards of several regional and international banks as well as many investment funds around the world.

In 2007, the King of Bahrain, His Majesty King Hamad bin Isa Al Khalifa, awarded Sheikh Yaqouby the Order Merit in recognition of his services in Bahrain and abroad. Sheikh Yaqouby has also received the Euromoney award for Innovation in Sharia Supervision, as well as the Malaysian Islamic Banking award.

Sheikh Yaqouby holds a Bachelor degree in economics and comparative religions from McGill University, Canada. He has authored a large number of books.

Sheikh Mohsin Al-Asfoor
Member

Sheikh Al-Asfoor is a well-known and highly-respected Sharia scholar from the Kingdom of Bahrain. In addition to his membership of the Ithmaar Bank Sharia Advisory Board, he serves on the Sharia Advisory Boards of six other companies. He has previously been a judge at the Supreme Sharia Court of Appeal (Jaafari).

Sheikh Al-Asfoor is a member of Curriculum Development at the Jaafari Religious Institute as well as the Sharia Board of the International Islamic Rating Agency of the Islamic Development Bank. He is a graduate of Islamic Hawza from Qom, Iran and has authored more than 60 books on Islamic Sharia.

Sheikh Dr. Osama Mohammed Saad Bahar
Member

Sheikh Bahar is a well-known, highly-respected Sharia scholar from Bahrain.

He is currently a Sharia member and Head of the Sharia Compliance and Advisory at First Energy Bank, following earlier senior positions at Islamic banks in Bahrain including Head of Sharia Compliance at Al Salam Bank and before that, Sharia Compliance Officer at ABC Islamic Bank.

Sheikh Bahar is also a chairman of the Sharia Supervisory Boards of several Banks in the Kingdom of Bahrain and a member of Sharia Supervisory Boards in many other Banks in Bahrain and abroad. Sheikh Bahar holds a Doctorate from Lahaye University in the Netherlands, a Master's degree from Al Emam Al Awzae University in Lebanon, and a Bachelor's degree in Islamic Sharia from Prince Abdul Qader Al Jaazaeri University of Islamic Studies in Algeria.

EXECUTIVE MANAGEMENT

Ahmed Abdulrahim
Chief Executive Officer

Ahmed Abdulrahim has more than 36 years of retail banking experience.

He currently serves as Vice Chairman of Faysal Bank Limited (Pakistan) and Board member of Solidarity Group Holding, The Benefit Company B.S.C and Injaz Bahrain.

Prior to his appointment as Ithmaar Bank Chief Executive Officer, he was the Ithmaar Bank General Manager, Retail Banking, and has held several other senior positions at the Bank since 2006.

Prior to Ithmaar Bank's reorganisation with its then wholly-owned subsidiary, Shamil Bank, Mr. Abdul Rahim held the dual roles of Ithmaar Bank Chief Operating Officer and Shamil Bank Deputy Chief Executive Officer.

Mr. Abdul Rahim held senior positions at the National Bank of Bahrain (NBB) before his Ithmaar Bank appointments. His NBB appointments included Manager FX and Funding, Chief Internal Auditor and, later, Assistant General Manager, Corporate Services.

He holds an MBA from the University of Glamorgan, Wales (UK), and is an Associate in Financial Accounting from the Institute of Financial Accountants, London (UK). He also holds an Executive Management Diploma from the University of Bahrain and an Advanced Banking Diploma from the Bahrain Institute of Banking and Finance.

As the Ithmaar Bank Chief Executive Officer, his responsibilities include, among other things, execution of strategic plans set by the Board of Directors from time to time and that the Bank is run in an efficient and effective manner in compliance with the laws, rules and regulations. He is also responsible for the performance of the Bank's executive management team.

Ravindra Anant Khot
Chief Operating Officer

Ravindra Khot, who was appointed the Ithmaar Bank Chief Operating Officer in September 2013, has more than 29 years of banking and finance experience. Prior to his current appointment, he was the Ithmaar Bank Chief Financial Officer.

Mr. Khot had previously held many senior positions both in Bahrain and abroad.

He was Vice President, Financial Administration at TAIB Bank, Bahrain; Senior Manager, Assurance and Advisory at PricewaterhouseCoopers, Bahrain; Principal Consultant, Financial Services, Consulting at Oracle Financial Services (erstwhile i-flex Solutions Ltd), India; and Senior Vice President, Group Financial Controller at Bahrain Middle East Bank BSC, Bahrain.

Mr. Khot is a Fellow Chartered Accountant (FCA), the Institute of Chartered Accountants of India, and holds a Bachelor of Commerce, (Financial Accounting) from the University of Mumbai, India.

As the Ithmaar Bank Chief Operating Officer, his responsibilities include, among other things, the performance of the Bank's Operations, Information Technology and Administration, as well as the Financial Control, Asset Management, Remedial Management and Collection, Corporate Secretary and Legal, and Corporate Communications departments.

Abdulhakeem Khalil Al Mutawa
General Manager, Retail & Private Banking

Abdulhakeem Al Mutawa, who was appointed the Ithmaar Bank General Manager, Retail and Private Banking in September 2013, has more than 30 years of management and banking experience.

Prior to his current appointment, he was the Ithmaar Bank Assistant General Manager, Head of Private Banking, and led the investment placement and private banking activities.

Prior to Ithmaar Bank's reorganisation with its then wholly-owned subsidiary, Shamil Bank, and its subsequent transformation into an Islamic retail bank, Mr. Al-Mutawa held several other senior positions at the Bank, including Head of Private Banking at Shamil Bank, as well as other senior positions in investment and corporate banking.

Mr. Al-Mutawa spent more than 12 years in a commercial capacity in the airline and aviation industry. In his early career, he was a practicing engineering.

Mr. Al-Mutawa holds an MBA from the University of Bahrain and a Bachelor degree in engineering from the University of Texas at Austin.

As General Manager, Retail and Private Banking, his responsibilities include, among other things, the performance of the Bank's Retail Banking including the Product Management and Development department; Private Banking, including Shareholder Affairs; and Marketing Communications.

Abdulrahman Mohammed Al Shaikh
General Manager, Banking Operations, Information Technology and Administration

Abdulrahman Al Shaikh, who was appointed the Ithmaar Bank General Manager, Banking Operations, Information Technology and Administration in September 2013, has almost 40 years of banking experience.

Prior to his current appointment, he was the Ithmaar Bank Assistant General Manager, Banking Operations Department. Mr. Al Shaikh has held many senior positions at Shamil Bank, including Head of the Banking Operations Department; Head of the Banking Operations Department and Information Technology; and Assistant Vice President, Banking Operations Department.

Prior to joining Shamil Bank, Mr. Al Shaikh held various senior positions at Bank of America, Bahrain, including Assistant Vice President, Operations Manager; Head of Letter of Credit; and Head of FX Processing Department. He started his career in 1976 at Habib Bank.

Mr. Al Shaikh holds a Commercial Diploma from Bahrain.

As General Manager, Banking Operations, Information Technology and Administration, his responsibilities include, among other things, the performance of the Banking Operations, Information Technology and Administration departments.

Mohammed Hasan Janahi

Assistant General Manager, Retail Banking

Mohammed Janahi, who was appointed the Ithmaar Bank Assistant General Manager, Retail Banking in August 2008, has almost 30 years of experience.

Prior to his current appointment, he was the Assistant General Manager, Retail Banking, at Shamil Bank, prior to its reoganisation with Ithmaar Bank.

Mr. Janahi has held many senior positions at Shamil Bank and, before that, at BBK.

He joined Shamil Bank in 2002 as Manager, Retail Banking, before being promoted, first to Senior Manager, Retail Banking in 2006, then to Assistant General Manager in 2008. Prior to joining Shamil Bank, Mr. Janahi was Head of Branches Administration and Collection Unit at BBK which he had joined in 1985.

He holds an Advanced Diploma in Banking and Finance, from the Bahrain Institute of Banking and Finance.

As Assistant General Manager, Retail Banking, his responsibilities include, among other things, the performance of the Bank's Retail Banking activities, including the performance of the Product Management and Development department.

Yousif Abdulla Alkhan

Assistant General Manager, Information Technology

Yousif Alkhan, who was appointed the Ithmaar Bank Assistant General Manager, Information Technology in July 2008, has more than 25 years of experience.

Prior to his current appointment, he was the Assistant General Manager, Information Technology at Shamil Bank, prior to its reoganisation with Ithmaar Bank.

Mr. Alkhan has held many senior positions at Shamil Bank and its predecessor, Faysal Islamic Bank of Bahrain. He started his career as a Computer Programmer at the Information Technology Department of Faysal Islamic Bank of Bahrain in 1989, and has since developed his career within the Bank.

He was with the Corporate Banking department for a year but has, otherwise, focused on his Information Technology career, becoming first Assistant Vice President, then Resident Vice President before being promoted, first to Vice President then Senior Manager at the Information Technology Department. Mr. Alkhan was appointed as Head of the Information Technology Department in 2005, and in 2008 promoted to Assistant General Manager.

He holds a Bachelors in Computer Science from the University of Bahrain, and an MBA from AMA International University, Bahrain.

As Assistant General Manager, Information Technology, his responsibilities include, among other things, the performance of the Bank's Information Technology systems and strategies.

Rafed Ahmed Al Mannai

Head, Private Banking

Rafed Al Mannai, who was appointed Head of Ithmaar Bank's Private Banking Department in May 2014, has 14 years of banking experience.

Mr. Al Mannai joined Shamil Bank, then a wholly-owned subsidiary of Ithmaar Bank, in May 2007 as a Manager in the Private Banking Department before moving to Ithmaar Bank's Private Banking Department in September 2008.

Prior to joining Shamil Bank, Mr. Al Mannai was Product Development Manager in the Cards and Distribution Department of the National Bank of Bahrain from 2001 to 2007.

Mr. Al Mannai holds a Bachelor of Science degree in Architectural Engineering from the University of Bahrain, and a Master of Commerce degree in Information Systems from the University of Queensland.

As Head of Private Banking, his responsibilities include, among other things, the performance of the Private Banking department.

Abdulla Abdulaziz Ali Taleb

Head, Commercial and International Banking Department

Abdulla Abdulaziz Ali Taleb, who was appointed Head of Ithmaar Bank's Commercial and International Banking Department in July 2014, has 14 years of banking experience.

Prior to joining Ithmaar Bank in January 2014 as Senior Manager, Corporate Banking, Mr. Taleb was a Relationship Manager at the Islamic Financial Services Department of BMI Bank from January 2014. Before that, he was a Senior Associate at the Capital Markets Department of the First Investment Bank from June 2008 to December 2010.

EXECUTIVE MANAGEMENT
CONTINUED

He was, earlier, a Senior Officer at the Investment Banking Department of Shamil Bank from 2005 to 2007, after working in the Credit and the Islamic Finance departments of Khaleeji Finance and Investments from 2001 to 2003.

Mr. Taleb holds a B.Sc. in Banking and Finance from Kingdom University, and an Advanced Diploma in Islamic Banking from the Bahrain Institute of Banking and Finance (BIBF).

As Head of the Commercial and International Banking Department, his responsibilities include, among other things, setting up the strategies pertaining to, and the performance of, the Commercial and International Banking department.

Ahmed Khamis Abdulla Al-Sowaidi
Head, Treasury and Financial Institutions Department

Ahmed Al-Sowaidi, who was appointed Head of Ithmaar Bank's Treasury and Financial Institutions Department in February 2015, has 28 years of banking and finance experience.

Mr. Al-Sowaidi joined Shamil Bank in 2000 as an Assistant Manager in the Bank's Financial Institution and Treasury Department before being promoted, in 2006, to Manager in the same department. Following the Ithmaar-Shamil Bank reorganization in 2010, Mr. Al Sowaidi joined Ithmaar Bank and was promoted in 2011 to Senior Manager at the Financial Institution and Treasury Department and, in 2012, to Executive Senior Manager at the Treasury Department.

Prior to joining Shamil Bank, Mr. Al-Sowaidi was Assistant Manager at the Institutional Marketing Department of the Islamic Investment Company of the Gulf (IICG) where he was, earlier, an Equity Trader in the Capital Markets Department and, before that, an Accountant in the Operations Department.

He started his career in 1987 as an Accountant in the Reserve Directorate of the Bahrain Monetary Agency (BMA) which later became the Central Bank of Bahrain, before becoming a Dealer at the BMA Dealing Room in 1989.

Mr. Al-Sowaidi holds a B.Sc. In Business Administration from the University of Bahrain, and a Master of Business Administration (Financial Management) from the University of Hull.

As Head of the Treasury and Financial Institutions Department, his responsibilities include, among other things, the liquidity management and relationship building with banks and financial institutions.

Saqib Mahmood Mustafa
Head, Financial Control Department

Saqib Mustafa, who was appointed Head of Ithmaar Bank's Financial Control Department in May 2014, has 16 years of banking and finance experience.

Mr. Mustafa has been with the Ithmaar Bank Financial Control Department since he joined the Bank in April 2007. Prior to joining Ithmaar Bank, he was a Senior Auditor in the Financial Services Group of Ernst & Young (Bahrain) from December 2004 to 2007, and before that, he was a Supervisory Senior in the Assurance Division at KPMG Karachi (Pakistan).

Mr. Mustafa holds a Bachelor of Commerce from Karachi University (Pakistan) and is a Member of the Institute of Chartered Accountants of England & Wales (ICAEW), a Fellow Member of the Association of Chartered Certified Accountants (ACCA), and a Certified Islamic Professional Accountant (CIPA). He also holds an International Certificate in Banking Risk & Regulation (ICBRR).

As Head of the Financial Control department, his responsibilities include, among other things, the performance of the Financial Control department.

Ahmed Baluch Abdulhameed
Head, Risk Management Department

Ahmed Abdulhameed, who was appointed Head of Ithmaar Bank's Risk Management Department in February 2015, has 14 years of banking and finance experience.

Mr. Abdulhameed joined Ithmaar Bank in July 2008 as a Manager in the Risk Management and Compliance Department, and was promoted to Senior Manager in the same department in September 2010.

Prior to joining Ithmaar Bank, he was a Manager in the Financial Services Risk Management Department of Ernst and Young Middle East and, before that, a Senior Associate in the Risk Advisory Services department of KPMG Fakhro Bahrain. Prior to that, he was Senior Risk Analyst (Team Leader-Credit Risk Management Team) at United Bank Limited, and before that, Assistant Director of the Banking Supervision Department (Risk Management Division) of the State Bank of Pakistan where he started his career, in 2001, as Assistant Director at the Banking Inspection Department.

Mr. Abdulhameed holds a Master of Business Banking and Finance from Monash University (Australia), and an MBA in Finance and Accounting from the Institute of Business Administration (IBA) (Pakistan). He is a Member of the Certified Practising Accountants (CPA) Australia, and he also is a Certified Financial Risk Manager (FRM) from Global Association of Risk Professionals (GARP).

As Head of the Risk Management department, his responsibilities include, among other things, setting the appropriate policies and procedures for the various functions, ensuring that the Bank works within approved risk framework; highlighting areas of risks to the management and the Board, and monitoring the performance of the Risk Management department in general.

Hana Ahmed Al Murran
Head, Compliance and AML Department

Hana Al Murran, who was appointed Head of Ithmaar Bank's Compliance and Anti Money Laundering (AML) Department in February 2015, has 12 years of banking and finance experience.

Prior to her Ithmaar Bank appointment, Ms. Al Murran was Head of Retail Islamic Banking Supervision at the Central Bank of Bahrain (CBB) where she has held several key position since joining in 2004. Prior to joining the CBB, she worked for Bahrain Islamic Bank at the Corporate Banking Department from 2003 to 2004.

Ms. Al Murran holds a B.Sc. in Banking and Finance from the University of Bahrain and an MBA from the University of Strathclyde Business School, as well as a Treasury and Capital Markets Diploma from the Bahrain Institute of Banking & Finance (BIBF).

As Head of the Compliance and AML department, her responsibilities include, among other things, ensuring that the Bank complies with the relevant laws, guidelines and regulations, including that relating to Anti-money laundering.

Muhammed Wasif Ijlal
Head of Asset Management

Muhammed Ijlal, who was appointed the Ithmaar Bank Head of Asset Management in May 2014, has almost 20 years of investment banking and capital markets experience.

Prior to his current appointment, he was Executive Senior Manager, Asset Management at Ithmaar Bank. Mr. Ijlal joined Shamil Bank, then a wholly-owned subsidiary of Ithmaar Bank, in 2006. Prior to his Shamil Bank appointment, he was Country Manager at Elixir Securities Pakistan (formerly Credit Agricole Indosuez Securities) which he joined in 2004. Prior to that, he was Director of Business Consulting at Deloitte & Touche Pakistan, looking after the business process re-engineering, strategic financial advisory and corporate restructuring areas.

Mr. Ijlal, a Chevening scholar, holds MBA degrees from the Institute of Business Administration, Karachi, and Management School, University of Bath.

As Head of Asset Management, his responsibilities include managing and monitoring assets in excess of USD 1 billion spread over GCC, Asia, USA and Central and Eastern Europe.

Dana Aqeel Raees
Head of Legal and Company Secretary

Dana Raees, who was appointed Head of Ithmaar Bank's Legal Department and Company Secretary in May 2014, has 10 years of legal experience.

Prior to her current appointment, Ms. Raees was Executive Senior Manager, Legal Department, at Ithmaar Bank, which she joined in 2006. Prior to her Ithmaar Bank appointments, she worked with Trowers & Hamlins LLP, UK, and trained at Sheppard Mullin Richter & Hampton LLP, USA.

Ms. Raees holds a Bachelor of Laws (LLB), UK, a Post Graduate Diploma in Legal Practice (LPC) , UK, and is admitted as a Solicitor in the Senior Courts of England and Wales.

As Head of Legal and Company Secretary, her responsibilities include, among other things, the performance of the Legal department as well as serving as the Company Secretary.

Taimour Raouf
Head, Marketing & Corporate Communications

Taimour Raouf, who was appointed Head of Ithmaar Bank's Marketing and Corporate Communications Department in September 2013, has 18 years of communications experience.

Prior to his current appointment, Mr. Raouf was Senior Manager, Public Relations, at Ithmaar Bank, which he joined in 2008. Prior to his Ithmaar Bank appointments, he was Head of Corporate Communications at Aluminium Bahrain (Alba) which he joined in 2004 and, before that, Deputy Features Editor at the Bahrain Tribune which he joined in 1997.

Mr. Raouf holds a B.Sc. in Computer Science from the University of Bahrain.

As Head of Marketing & Corporate Communications, his responsibilities include, among other things, the performance of the Marketing & Corporate Communications department.

Enas Mohammed Rahimi
Head, Human Resources

Enas Rahimi, who was appointed Head of Ithmaar Bank's Human Resources Department in March 2015, has 14 years of management and human resource experience.

Prior to her current appointment, Ms. Rahimi was Manager, Human Capital Development, at Ithmaar Bank which she joined in 2005, then Shamil Bank, a wholly-owned subsidiary of Ithmaar Bank. Prior to that, she was a Management Analyst at the Ministry of Education which she joined in 2003 and, before that, an Instructor at the Bahrain Training Institute which she joined in 2001.

Ms. Rahimi holds an MBA, with a specialization in Project Management, from AMA International University, Bahrain, and a BSc. in Banking and Finance from the University of Bahrain.

As Head of Human Resources, her responsibilities include, among other things, the performance of the Human Resources department.

CORPORATE GOVERNANCE

Ithmaar Bank complies with the High Level Controls Module of the Rulebook issued by the Central Bank of Bahrain and the Corporate Governance Code of the Kingdom of Bahrain.

The Bank's Corporate Governance Policy provides guidance on engaging with our stakeholder groups. It is based on the Central Bank of Bahrain's Rulebooks on High Level Controls and Public Disclosures, the Bank's Articles and Memorandum of Association, the Bahrain Commercial Companies Law, Islamic Financial Services Board recommendations, AAOIFI standards and international best practices where applicable.

Recognizing its fundamental stewardship role towards its shareholders, it is the Bank's policy to treat its shareholders, major and minor, equally and fairly in line with the governing laws and regulatory guidelines. The overarching goal of the Bank is to ensure sustainable growth with due consideration to both current and future risks, and thereby generate optimum value to shareholders over the long-term. The Bank adheres to Sharia principles in striking a balance between the interests of its various stakeholders.

The Bank respects a business approach that is transparent, honest and fair. It has established various written policies such as the Code of Ethics and Business Conduct, Anti-Money Laundering and Whistle-Blowing Policy for strict adherence by Directors, executives and employees at all levels. These are distributed as guidelines through multiple internal communication channels of the Bank.

The Board's adherence to corporate governance practices is underlined by various principles, such as integrity, transparency, independence, accountability, responsibility, fairness, Sharia principles and social responsibility.

Moreover, the Bank's corporate governance policies are designed to lay a solid foundation for the executive management and the Board of Directors in managing the Bank, promote ethical and responsible decision-making, safeguard integrity in financial reporting, make timely disclosures, respect the rights of shareholders, recognize and manage risk, encourage enhanced performance, remunerate fairly and responsibly and recognize the legitimate interest of stakeholders. The Bank's written Code of Ethics and Business Conduct that binds all employees, members of the Sharia Supervisory Board and Directors, lends further weight to the practical implementation of our stated policies.

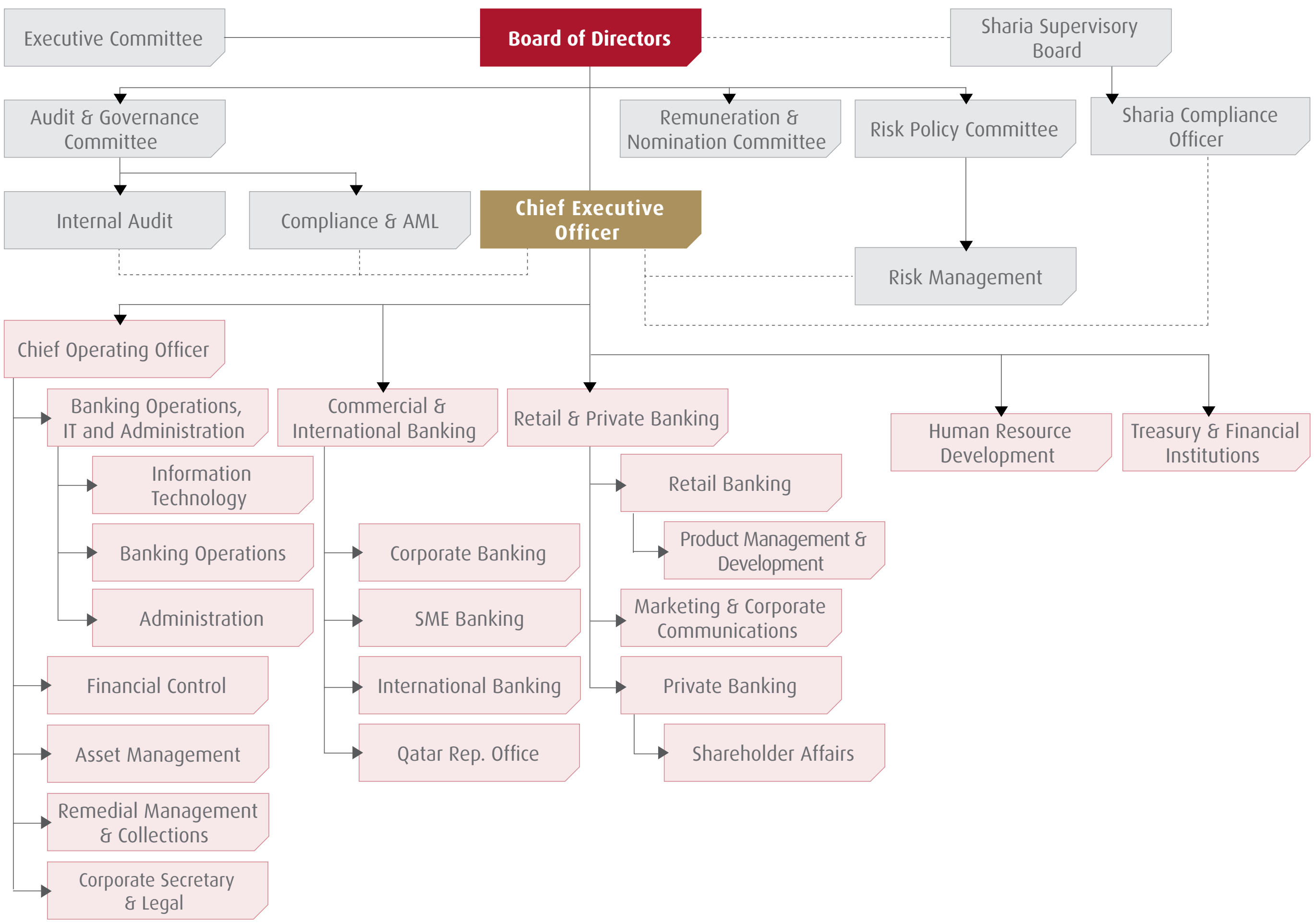
The Bank's Corporate Governance policy is posted on the Bank's website.

BANK ADMINISTRATION

The Bank is administered by the Board of Directors and the Sharia Supervisory Board, and, for day-to-day matters, by the Executive Management.

The Board's adherence to corporate governance practices is underlined by various principles, such as integrity, transparency, independence, accountability, responsibility, fairness, Sharia principles and social responsibility.

ORGANISATION CHART



Notes:

For Remedial Management related matters, the Head of Remedial Management & Collections reports to the Chief Operating Officer and, for Collections, reports to the Head of Retail Banking.

For Corporate Secretarial related matters, the Corporate Secretary reports to the Chairman of the Board of Directors and, administratively, reports to the Chief Executive Officer.

For Corporate Communications related matters, the Head of Marketing & Corporate Communications reports to the Chief Operating Officer and, for Marketing Communications, reports to the Head of Retail & Private Banking.

CORPORATE GOVERNANCE
CONTINUED

BOARD OF DIRECTORS

The Board of Directors comprises twelve members of whom five are independent. The Board is headed by a Chairman.

The Board of Directors is accountable to the shareholders for setting the broad policy guidelines and strategic direction and the creation and delivery of strong, sustainable financial performance and long-term shareholder value. The Chairman is responsible for leading the Board and ensuring its effectiveness.

The Board's role includes the task of monitoring management in such a manner as to ensure that appropriate policies and processes are in place, that they are operating effectively, and that the Bank is meeting its plans and budget targets.

The Board of Directors duties and responsibilities are documented in the Bank's Corporate Governance Policy, and include, inter alia, the following responsibilities:

- Set the Bank's strategic direction
- Overall responsibility for the performance of the Bank
- Select, appoint and evaluate the Executive Management
- Review management performance and compensation
- Review management structure and succession planning
- Advise and counsel management
- Monitor and manage potential conflict of interest
- Ensure the integrity of the financial information
- Monitor the effectiveness of the governance and compliance practices
- Timely and adequate disclosures
- Ensure effective risk management and internal control measures
- Arrange shareholders' general meetings
- Ensure equitable treatment of minority shareholders

Some of the responsibilities of the Board of Directors are delegated to the Committees of the Board.

The Board of Directors has drawn a 'Business Discretionary Powers' policy which outlines authorities and approval powers for the Board and the Executive Management. These powers conform to the provisions of the Article and Memorandum of Association. In general, all business decisions relating to strategic investment, and financing exceeding certain limits, including business relationship with connected counterparties, require the Board's approval.

All transactions that require Board approval have been approved by the Board as per applicable regulations. The Board of Directors' functions, mandate, appointment, responsibilities and terminations are governed by the Articles of Association of the Bank which complies with applicable statutory and regulatory structures. Board members serve three year terms, unless reinstated.

The next election of Directors will take place during the next Annual General Meeting of the Bank in March 2016.

STRUCTURE AND COMPOSITION OF THE BOARD

The Bank is administrated at the high level by a Board of Directors. The actual size of the Board is determined by the shareholders in the General Meetings based on recommendations from the Corporate Governance Committee. In all cases the size of the Board is subject to the Bank's Articles of Association and the rules and procedures decreed by the Ministry of Industry and Commerce and/ or the Central Bank of Bahrain.

DUTIES OF DIRECTORS

Directors, individually and collectively, are bound by distinct fiduciary duties to the Bank. Directors owe their fiduciary duty to the Bank as a corporate being in its own right and not just individual shareholders and/ or group of shareholders. These duties apply to all Directors whether they are representing (appointed by) major shareholders or are elected as an Independent Director.

The main duties that Directors owe the Bank are the duty of obedience, the duty of care and the duty of loyalty.

Duty of Obedience

Directors are required to act in accordance with the Bank's rules and policies and in furtherance of its goals as stated in the mission statement and Memorandum & Articles of Association. In addition, Directors must comply with all relevant laws and regulations. The duty of obedience forbids acts outside the scope of internal authorities, powers and limits.

Duty of Care

Directors are under duty to exercise the same care that an ordinary, prudent person would exercise in a like position or under similar circumstances. In complying with this duty, Directors are expected to

- Attend all Board meetings. At a minimum, Directors are expected to attend not less than 75 percent of all scheduled Board meetings.
- Consider all material information reasonably available and/or seek relevant information prior to making a business decision relating to the issue. Directors have the rights of access to the Executive Management and/or advisors when in doubt.

Duty of Loyalty

This duty requires Directors to act solely in the best interest of the Bank, free of any self-dealing, conflicts of interest, or other abuse of the principal for personal advantage. Directors are barred from using Bank properties or assets for their personal pursuits, insider trading, or taking business opportunities for themselves. This duty also requires Directors to retain the confidentiality of information that is explicitly deemed confidential by the Bank, as well as information that appears to be confidential from its nature or matter.

The Bank provides insurance to indemnify Directors for negligence, default, breach of duty or breach of trust provided such breach has occurred in good faith.

The above duties are detailed in the Bank's Code of Ethics and Business Conduct policy approved by the Board.

DIRECTORS' ELECTION AND EVALUATION SYSTEM

Any shareholder who owns 10 percent or more of the capital of Ithmaar Bank shall have the right to appoint a representative on the Board of Directors of Ithmaar Bank. In the event that a shareholder exercises this right, such shareholder shall lose the right to vote for the percentage for which the shareholder has appointed a representative on the Board of Directors.

Subject to the foregoing, the General Assembly shall elect members of the Board of Directors by a secret ballot. The members shall be elected by the relative majority of valid votes.

All appointments to the Board of Directors are governed by and subject to Ithmaar Bank's Memorandum & Articles of Association, the Code of Ethics and Business Conduct, the Corporate Governance Policy and laws, rules, regulations, policies and charters in place as amended from time to time.

The Remuneration and Nomination Committee reviews annually the composition and performance of the Board of Directors. The Remuneration and Nomination Committee's duties in relation to the composition and performance of the Board of Directors include, among other things, assessing the skills required for the Board of Directors to competently discharge its responsibilities and meet its objectives as well as developing and implementing a plan to identify, assess and enhance Directors' competencies. In the event of a vacancy on the Board of Directors, the Remuneration and Nomination Committee shall make recommendations to the Board of Directors for the appointment of a Director, which recommendation shall be made pursuant and subject to the legal and regulatory requirements in place.

All Directors receive a letter of appointment signed by the Chairman in which relevant information, including responsibilities, are described. Directors also receive a copy of the Bank's Code of Ethics and Business Conduct.

BOARD INDUCTION PROGRAMME

The Company Secretary provides sufficient information to newly appointed or elected Board members including a discussion of the Corporate Governance Principles of the Bank and the Code of Ethics and Business Conduct. These Board members are also received by the Chief Executive Officer of the Bank who provides them with details on the structure of the Bank, strategic and business plans, the past financial performance and outstanding issues. Newly appointed members also meet with, and receive presentations from, the Heads of various departments at the Bank. The Board is continuously kept abreast of new regulations and laws.

DIRECTORS' REMUNERATION

Directors' sitting fees for 2014 amounted to US$348,000 (2013: US$213,500). Sharia Supervisory Board retention fee amounted to US$60,000 (2013: US$60,000) and their sitting fees for 2014 was US$25,000 (2013: US$19,000).

CORPORATE GOVERNANCE
CONTINUED

REMUNERATION RELATED DISCLOSURES

The Banks total compensation policy, which includes the variable remuneration policy, sets out the Banks's policy on remuneration for senior management and the key factors that were taken into account in setting the policy. During the year, the Bank has adopted the Sound Remuneration Practices issued by the Central Bank of Bahrain and requires revisions to its existing variable remuneration policy.

The key features of the revision to the existing policy are summarised below.

Remuneration strategy

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

The Bank's reward package comprises the following key elements:

1. Fixed pay;
2. Benefits;
3. Discretionary performance bonus

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

The Banks remuneration policy in, particular, considers the role of each employee and has set guidance depending on whether an employee is a Material Risk Taker and/or an Approved Person in business line, control or support functions. An Approved Person is an employee whose appointment would require prior regulatory approval because of the significance of the role within the Bank, and an employee is considered a Material Risk Taker if they head significant business lines and if any individuals within their control have a material impact on the Bank's risk profile.

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

RNC role and focus

The RNC has oversight of all reward policies for the Bank's employees. The RNC is the supervisory and governing body for remuneration policy, practices and plans.

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

- Approve, monitor and review the remuneration system to ensure the system operates as intended.
- Approve the remuneration policy and amounts for each Approved Person and Material Risk-Taker, as well as total variable remuneration to be distributed, taking into account the total remuneration including salaries, fees, expenses, bonuses and other employee benefits.

- Ensure remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees that earn same short-run profit but take different amounts of risk on behalf of the Bank.
- Ensure that for approved persons in risk management, internal audit, operations, financial controls and compliance functions, the mix of fixed and variable remuneration is weighted in favour of fixed remuneration.
- Recommend Board member remuneration based on their attendance and performance and in compliance with Article 188 of the Bahrain Commercial Companies Law.

The remuneration policy is reviewed on a periodic basis to reflect changes in market practices and the business plan and risk profile of the Bank.

External consultants

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

Scope of application of the remuneration policy

The remuneration policy has been adopted on a bank-wide basis.

Board remuneration

The Bank's board remuneration is determined in line with the provisions of Article 188 of the Bahrain Commercial Companies Law, 2001. The board of directors' remuneration will be capped so that the total remuneration (excluding sitting fees) does not exceed 5% of the Bank's net profit, after all the required deductions outlined in Article 188 of the Companies law, in any financial year. The board remuneration is subject to approval of the shareholders in the Annual General Meeting. Remuneration of non-executive directors do not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits.

Variable remuneration for staff

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

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

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

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

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

For the overall Bank to have any funding for distribution of bonus pool; thresholds of financial targets have to be achieved. Furthermore, the target bonus pool as determined above is subject to risk adjustments in line with the risk adjustment and linkage framework.

Remuneration of control functions

The remuneration level of staff in the control and support functions allows the Bank to employ qualified and experienced personnel in these functions. The Bank ensures that the mix of fixed and variable remuneration for control and support function personnel should be weighted in favour of fixed remuneration. The variable remuneration of control functions is to be based on function-specific objectives.

CORPORATE GOVERNANCE
CONTINUED

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

Variable compensation for business units

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

Risk assessment framework

The purpose of the risk linkages is to align variable remuneration to the risk profile of the Bank. The risk assessment process encompasses the need to ensure that the remuneration policy designed reduces employees' incentives to take excessive and undue risk is symmetrical with risk outcomes and has an appropriate mix of remuneration that is consistent with risk alignment.

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

Risk adjustments take into account for all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Bank undertakes risk assessment to review financial and operational performance against the business strategy and risk performance prior distribution of the annual bonus. The Bank ensures that total variable remuneration does not limit its ability to strengthen its capital base. The extent to which capital needs to be built up is a function of a bank's current capital position and its ICAAP.

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

(a) The cost and quantity of capital required to support the risks taken;
(b) The cost and quantity of the liquidity risk assumed in the conduct of business; and
(c) Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

Risk adjustments

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

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

- There would be considerable contraction of the Bank's total variable remuneration.
- At the individual level, poor performance by the Bank would mean individual KPIs are not met and hence employee performance ratings would be lower
- Reduction in value of deferred shares or awards
- Possible changes in vesting periods and additional deferral applied to unvested rewards
- Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or clawback of previous bonus awards may be considered.

The RNC, with Board's approval, can rationalize and make the following discretionary decisions:

- Increase/ reduce the ex-post adjustment
- Consider additional deferrals or increase in the quantum of share awards
- Recovery through malus and clawback arrangements

Malus and Clawback framework

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

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

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

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

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

Components of Variable remuneration

Variable remuneration has the following main components:

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred Cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a vesting period of three years
Upfront share awards	The portion of variable compensation that is awarded and issued in the form of shares on conclusion of the performance evaluation process for each year.
Deferred shares	The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over a vesting period of three years

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

CORPORATE GOVERNANCE
CONTINUED

Deferred compensation

All employees with job titles of Manager and above shall be subject to deferral of variable remuneration as follows:

Element of variable remuneration	Assistant General Managers and above	Executive Senior Managers	Senior Managers & Managers	Deferral period	Retention	Malus	Clawback
Upfront cash	40%	50%	70%	Immediate	-	-	Yes
Upfront shares	-	10%	-	Immediate	6 months	Yes	Yes
Deferred cash	-	-	30%	Over 2 years	-	Yes	Yes
	10%	-	-	Over 3 years	-	Yes	Yes
Deferred shares	50%	40%	-	Over 3 years	6 months	Yes	Yes

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

Details of remuneration paid

The variable remuneration for 2014 shall be decided following the Bank's AGM on 31 March 2015 and will, thereafter, be updated on the Bank's website.

Severance Pay

Ithmaar Bank has introduced a voluntary separation scheme during 2014 where 45 employees applied to it for a total cost of US$2,658,889. The highest award to a single person totaled US$216,072.

BOARD COMMITTEES

In accordance with regulatory requirements and best practices, the Board has established the following committees and has adopted charters setting out the matters relevant to their composition, responsibilities and administration.

AUDIT AND GOVERNANCE COMMITTEE

The Audit and Governance Committee is appointed by the Board of Directors to assist in reviewing the selection and application of the accounting and financial policies, reviewing the integrity of the accounting and financial reporting systems and the effectiveness of the internal controls framework, monitoring the activities and performance of the internal audit function and external auditors and to coordinate and integrate the implementation of the Corporate Governance Policy framework. The Audit and Governance Committee reviews and, as appropriate, approves and / or recommends for the approval of the Board of Directors, among other things: the interim and annual consolidated financial results; status updates on implementation on various regulatory reports; internal and external audit reports and status of their implementation (as appropriate); liquidity and capital adequacy action plan; new accounting and regulatory pronouncements and their implications.

This committee also assists the Board in fulfilling its governance responsibility, particularly to (a) oversee and monitor the implementation of a robust compliance framework by working together with the Management, and the Sharia Supervisory Board, and (b) provide the Board of Directors with reports and recommendations based on its findings in the exercise of its function.

The Audit and Governance Committee is chaired by an Independent Director and comprises:

- Tunku Dato' Ya'acob Bin Tunku Abdullah - Chairman and Member
- Sheikh Zamil Abdullah Al-Zamil - Member
- Imtiaz Ahmed Pervez - Member
- Sheikh Dr. Osama Bahar - Member

Sheikh Dr. Bahar is a Religious Supervisory Board Member with a voting right in respect of the agendas relating to the Corporate Governance.

The key matters reviewed and, as appropriate, approved and / or recommended for the approval of the Board of Directors during the year include:

- Reviewing the consolidated financial statements and recommending to the Board for approval;
- Reviewing and approving the proposed annual Internal Audit plan and strategy and all reports issued by the Internal Audit Department; and
- Providing oversight for the Corporate Governance, Compliance and Regulatory requirements.

RISK POLICY COMMITTEE

The primary objectives of the Risk Policy Committee are to make recommendations to the Board in relation to the Bank's overall risk appetite and tolerances and the risk policies within which to manage the aforementioned. These policies cover the credit risk, market risk, operational risk and liquidity risk in addition to any other risk categories the Bank faces in carrying out its activities. The Risk Policy Committee also recommends and monitors the Bank's overall risk management framework which involves developing across all business activities and operations policies, internal controls, methods of risk management and risk reporting to the Board.

The Risk Policy Committee of the Board duly discharged its responsibilities during the meetings where key matters were discussed or through circular resolutions.

The Risk Policy Committee comprises:

- Abdelhamid Mohamed Aboumousa - Chairman and Member
- Abdulellah Ebrahim Al-Qassimi – Member
- Nabeel Khaled Mohamed Kanoo – Member

The key matters reviewed, approved (as appropriate) and recommended for approval (as appropriate) to the Board of Directors during the year include:

- The new policy on FATCA implementation providing the comprehensive guidelines on the FATCA compliance framework.
- Updating and aligning all risk policies in line with changes in the regulatory requirements;
- Establishing new risk limits for better control of credit, market, liquidity and concentration risks;
- Enhancing the Operational Risk Framework across the Bank by approving the revised operational risk policy and operational key risk indicators
- The Internal Capital Adequacy Assessment Process (ICAAP) report for 2013.
- The Risk Assessment report of the Strategic Plan 2015-2017.

EXECUTIVE COMMITTEE

The Executive Committee is appointed by the Board of Directors to assist with the oversight of the general management of the Bank and its business by management, considering and recommending to the Board of Directors the strategy, business plans and budget as well as evaluating the financial and business performance of the Bank. The Executive Committee reviews and, as appropriate, approves and / or recommends for the approval to the Board of Directors: credit proposals over certain threshold; review of asset quality and exit strategies; status updates and reports from the management in respect of group reorganization; consolidated financial performance; liquidity and capital adequacy action plan; strategic business plan; and key management initiatives, including with respect to funds under management.

The Executive Committee comprises:

- Omar Abdi Ali – Chairman and Member
- Mohammed A. Rahman Bucheerei - Member
- Graham R. Walker - Member

The key matters reviewed and, as appropriate, approved and / or recommended for the approval of the Board of Directors during the year include:

- Evaluating the financial and business performance and monitoring the implementation of the approved business / budget plans against Key Performance Indicators (KPIs);
- Approve business proposals falling within its authority in accordance with the Business Discretionary Powers Policy.
- Review the Company's funding requirements and strategies;
- Reviewing the strategic business plan 2015-2017 and annual budget and recommending to the Board for approval;

CORPORATE GOVERNANCE
CONTINUED

- Reviewing the financial position (including the capital adequacy and liquidity positions) and the status of its overall business portfolio; and
- Reviewing strategic and other investments.

REMUNERATION AND NOMINATION COMMITTEE

The Remuneration and Nomination Committee is appointed by the Board of Directors to provide a formal forum for communication between the Board and Management on human resource issues. The Remuneration and Nomination Committee reviews and, as appropriate, approves and / or recommends for the approval of the Board of Directors:

- candidates for Board election;
- the appointment of new senior management executives;
- the Bank's remuneration policies as well as guidelines for increments and promotions;

The Committee has at least two Independent Directors, one of whom acts as the Chairperson:

- Shaikha Hissah bint Saad Al-Sabah - Chairperson and Member
- Omar Abdi Ali – Member until 7 December 2014
- Abdulellah Ebrahim Al-Qassimi – Member
- Tunku Dato's Ya'acob Bin Tunku Abdullah – Member, effective 7 December 2014

The key matters reviewed, approved (as appropriate) and recommended for approval (as appropriate) to the Board of Directors during the year include:

- Recommending to the Board changes in the structure and job descriptions of Approved Persons;
- Recommending to the Board the compensation adjustments, based on annual appraisals, and promotion of executive management;
- Recommending the composition, quantum and structure of remuneration for the members of the Sharia Supervisory Board;
- Recommending the Bank's organisation chart and succession plan and
- Recommending Bank's Variable Remuneration Policy implemented in compliance with the regulations of the Central Bank of Bahrain on Sound Remuneration Practices of Approved Person and Material Risk Takers.

The Board of Directors is responsible for setting the Bank's strategic direction in accordance with the objectives upon which the Bank is established and ensuring that the business activities are aligned with the terms of the Bank's license as well as the interest of the Shareholders.

Attendance

2014 Board of Directors / Board Committees Meetings Attendance

		Board of Directors		Audit & Governance Committee*		Meetings of the Executive Committee		Remuneration & Nomination Committee		Risk Policy Committee	
		Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
1	HRH Prince Amr Mohammed Al Faisal	6	6	-	-	-	-	-	-	-	-
2	Mr. Khalid Abdulla-Janahi	6	6	-	-	-	-	-	-	-	-
3	Tunku Dato 'Ya'acob Bin Tunku Abdullah	6	6	4	3	-	-	-	-	-	-
4	Sheikha Hissah Bint Saad Al-Sabah	6	3	-	-	-	-	5	3	-	-
5	Sheikh Zamil Abdullah Al-Zamil	6	6	4	3	-	-	-	-	-	-
6	Governor Abdel Hamid Abo Moussa	6	5	-	-	-	-	-	-	3	3
7	Mr. Nabeel Khalid Kanoo	6	5	-	-	-	-	-	-	3	2
8	Mr. Mohammed Bucheerei	6	6	-	-	8	8	-	-	3	3
9	Mr. Abdulellah Ebrahim Al-Qassimi	6	6	-	-	-	-	5	5	-	-
10	Mr. Imtiaz Ahmad Pervez	6	6	4	4	-	-	-	-	-	-
11	Mr. Graham R.Walker	6	5	-	-	8	8	-	-	-	-
12	Mr. Omar Abdi Ali	6	6	-	-	8	8	5	5	-	-

	Board of Directors	Audit & Governance Committee	Meetings of the Executive Committee	Remuneration & Nomination Committee	Risk Policy Committee
Dates of meetings during 2014	30 Jan Teleconference	20 Feb	14 Jan	3 Mar	1 Jun
	3 Mar	8 May	2 Mar	2 Jun	8 Sep
	2 Jun	7 Aug	31 May	7 Sep	7 Dec
	23 Jun	6 Nov	1 Jun	27 Oct	
	7 Sep		6 Sep	7 Dec	
	7 Dec		2 Oct Teleconference		
			17 Nov		
			6 Dec		

*Dr Osama Bahar (Sharia Supervisory Board Member) also serves as a member of the Audit & Governance Committee.

In accordance with the Bank's Articles of Association, the Board of Directors meets at least four times a year and the Board expects each Director to attend at least 75 percent of all Board meetings and the meetings of the committees on which they serve.

The Board of Directors is responsible for setting the Bank's strategic direction in accordance with the objectives upon which the Bank is established and ensuring that the business activities are aligned with the terms of the Bank's license as well as the interest of the

CORPORATE GOVERNANCE
CONTINUED

Shareholders. The Board of Directors has the overall responsibility for the performance of the Bank and therefore the Board of Directors, among other things receive, review and, as appropriate, approve: the status updates from the chairpersons of the various committees of the Board; the status updates and reports from the management in respect of the strategic business plan; the consolidated financial performance; the liquidity and capital adequacy action plan; the regulatory reports and related communications; new regulatory updates; related-party proposals; and key management initiatives, including with respect to funds under management.

The key matters reviewed and approved (as appropriate) during the year include:

- Approving the strategic business plan and budget;
- Overseeing the implementation of strategic initiatives with respect to group restructuring/reorganization; and
- Reviewing status of action plan to comply with regulatory requirements.

SHARIA SUPERVISORY BOARD

The Bank shall always conduct its business in accordance with the Islamic Sharia rules.

In compliance with licensing requirements of the Central Bank of Bahrain (CBB), the Bank's Memorandum & Articles of Association and the general practice of Islamic Banking, the Bank, at all times, has a Sharia Supervisory Board (SSB) appointed by the shareholders at General Meeting based on recommendations of the Board of Directors (through the Remuneration & Nomination Committee).

The SSB actively participates in developing and overseeing the Bank's products and business activities. It is responsible for certifying every product to ensure strict adherence to the principles of Sharia.

The SSB has full access to the Board and the management personnel of the Bank including access to the Bank's Sharia Compliance Officer who is proactively involved in: (a) reviewing and advising on the Sharia compliance of all products and investment projects, (b) auditing the operations of the Bank from a Sharia point of view, and (c) producing reports to the SSB in order to ensure that the Bank's activities are under a strict and direct oversight of Sharia guidelines. Furthermore, the Sharia Compliance Officer monitors on a day-to-day basis to ensure that all areas of the Bank adhere to SSB's recommendations, advice and opinions.

The SSB operates within its own charter which sets forth its policies, procedures, meeting operations and responsibilities in addition to the qualifications for membership. This charter was developed in coordination with the Board and is disclosed on the Bank's website.

SSB members are entitled to remuneration comprising an annual retainer fee and sitting fees paid per meeting attended. Non-resident members are also entitled for full travel expenses. These remunerations are recommended by the Remuneration & Nomination Committee, the structure of which is approved by the shareholders.

Currently, the Bank does not pay any performance related remuneration to SSB members. If any, this will be structured in accordance with the Memorandum and Articles of Association and subject to shareholder approval.

The profiles of all members of the SSB are given in the section on Sharia Supervisory Board.

MANAGEMENT

The day-to-day operations of the Bank are handled by the management team.

Departments are grouped into Business and Support Units with clear delineation between them to avoid conflict of interests. These safeguard measures are reinforced by independent internal audit and risk management and compliance departments.

The Risk Management Department reports, functionally, to the Risk Policy Committee and, administratively, to the Chief Executive Officer.

The Compliance and Anti Money Laundering Department reports, functionally, to the Audit and Governance Committee and, administratively, to the Chief Executive Officer.

The Internal Audit Department reports, functionally, to the Audit and Governance Committee and, administratively, to the Chief Executive Officer.

MANAGEMENT REMUNERATION

The Chief Executive Officer and senior management are compensated in line with market trends. The Bank is working on implementing recent CBB guidelines with respect to management remuneration.

The total remuneration of the Executive Management Team in 2014 was US$ 7.1 million. This remuneration does not include the 2014 performance award as the related policy framework is subject to approval by the shareholders at the Annual General Meeting.

MANAGEMENT COMMITTEES

The Bank has in place the following Management committees. The members of committees comprise the Heads of Divisions who are drawn from relevant and related functions.

Investment and Credit Committee

The main objective of this Committee is to manage the credit risk of the Bank including reviewing, approving and ratifying business proposals falling within its authority, reviewing risk management reports and resolving all credit-related issues. The Committee is chaired by the Chief Executive Officer.

Asset-Liability Committee

The Committee is responsible for business performance review, managing the market and liquidity risks of the Bank and monitoring capital adequacy ratio. The main functions are to develop and manage the Bank's assets and liabilities in accordance with the Strategic Business Plan and relevant banking regulations and laws. The Committee is chaired by the Chief Executive Officer.

Management Committee

The Committee's principal objective is to manage operations risk. It focuses on improving communications and cooperation among the various divisions and departments of the Bank and optimising the Bank's operational efficiency. The Committee is chaired by the Chief Executive Officer. The Management Committee has several Sub Committees, including the Business Continuity Plan and Crisis Management Team Committee, and the IT Steering Committee.

Ithmaar Bank maintains a website which stakeholders may access for information, which includes the Bank's profile, corporate information, press releases, financial performance and performance of investment funds and career opportunities, amongst others.

CORPORATE GOVERNANCE
CONTINUED

COMMUNICATION WITH STAKEHOLDERS

The Board acknowledges the importance of regular communication with stakeholders and particularly the investors, through a number of means to promote greater understanding and dialogue. Measures adopted include Annual General Meetings, annual reports, quarterly disclosures of financial reports and various announcements made during the year as well as the Bank's website, through which stakeholders have an overview of the Bank's performance and operations.

The Chairman of the Board (or any other Director if delegated by the Chairman) maintains continuing personal contact with its major shareholders to solicit their views. The Chairman discusses the views of the major shareholders with the Board of Directors.

The Bank maintains a website which stakeholders may access for information, which includes the Bank's profile, corporate information, press releases, financial performance and performance of investment funds and career opportunities, amongst others.

To further assist with shareholder communications, the Bank has a dedicated Shareholders Affairs Unit with the primary responsibility of acting as a liaison between the Bank, shareholders and the stock exchanges where the Bank is listed. Views of shareholders are communicated to and discussed at Board meetings, which are part of the agenda.

Interests of Directors and Executive Management

The interests of Directors and Executive Management in the shares of the Bank are disclosed in the Report of the Directors and Share Information respectively.

Share Information

Information on the distribution of share ownership together with key statistics on the performance of the Bank's shares on the Bahrain Bourse are disclosed in the section on Share Information of the annual report.

Shareholders' Rights

Recognising the importance of shareholders, it is Ithmaar Bank's policy to treat its shareholders equally and fairly in line with the laws of regulatory agencies. Basic legitimate rights of shareholders include the right to participate in shareholder meetings, the right to appoint other persons as a proxy for participating in and voting at meetings, and the right to participate in the election or disqualification of a Director, jointly or severally. Their rights also include voting on the appointments of independent auditors, voting for other businesses of Ithmaar, such as increases in, or reduction of capital, right to receive dividend payments, as well as the right to give opinions and the right to inquire during shareholder meetings.

Rights of Minority Shareholders

The Board of Directors is structured to include independent Directors with additional responsibilities of protecting minority shareholders' rights. As additional measures to protect minority interests, the Bank subscribes to the following guidelines:

- Mandatory shareholder approval of major transactions such as change in capital or transfer of business (as per limits prescribed by the Central Bank of Bahrain);
- Mandatory disclosures of transactions by substantial shareholders;
- Pre-emptive rights on issuance of new shares;
- Limitations on Bank's business transactions with Directors, controllers, and related parties as per the rules of the Central Bank of Bahrain;
- Exercise rights to elect independent Directors;
- Penalties for insider trading; and
- Provisions on takeovers, mergers, and acquisitions.

CODE OF ETHICS AND BUSINESS CONDUCT

The Bank's Code of Ethics and Business Conduct applies to members of the Board, as well as executive management, officers, employees, agents, consultants, and others, when they are representing or acting for the Bank. The Board expects all Directors, as well as officers and employees, to act ethically at all times and to acknowledge their adherence to the Bank's policies. Any waiver of the Code of Ethics and Business Conduct for a Director or executive officer may be granted only by the Board or the appropriate Board committee and must be promptly disclosed to the shareholders.

RISK MANAGEMENT

RISK GOVERNANCE STRUCTURE

Risk is an integral part of Ithmaar Bank's business and managing it is critical to the Bank's continuing success and profitability. The essence of effective risk management is to enhance shareholder and investment account holders' value through business profits commensurate with the risk appetite of the Bank.

Ithmaar has adopted an integrated risk management framework to proactively identify, assess, manage and monitor risks in its decisions and operations. Ithmaar's risk management framework is based on guidelines issued by the Central Bank of Bahrain, sound principles of risk management issued by the Bank for International Settlements and international best practices, wherever applicable.

The Ithmaar risk management charter lays the foundations for a risk governance structure in the Bank. The risk strategy in terms of the overall risk appetite, risk tolerance levels and risk management methodologies are assimilated in the various risk policies and the Internal Capital Adequacy Assessment Programme (ICAAP) report of the Bank which are reviewed and approved by the Board of Directors. The risk strategy of the Bank is reviewed annually in line with the Bank's business strategy. The Board also oversees the establishment and implementation of risk management systems and policies for all material risks exposure of the Bank.

The process of risk management is carried out by an independent control function; The Risk Management Department (RMD) headed by the Chief Risk Officer with a direct reporting line to the Risk Policy Committee. The Department is mandated with identifying, quantifying and assessing all risks and recommending appropriate prudential limits and risk management methodologies within the parameters of the overall risk management strategy approved by the Board. Further, the RMD plays an active role in highlighting all risks associated with a product before it is approved and launched by the Bank.

RISK MANAGEMENT STRATEGY

The risk management strategy in respect of each of these types of risks is set out below:

Credit Risk

Credit risk is the risk of potential loss arising from failure of a counterparty to meet its contractual obligations. Ithmaar manages its credit risk arising from its banking exposures by implementing robust policies and procedures with respect to identification, measurement, mitigation, monitoring and controlling the risks. A centralised credit risk management system is in place where all significant exposures are independently reviewed by the Risk Management Department before approval by appropriate approval authorities.

The risk policies of the Bank set guidelines to limit concentration risk within the portfolio by larger exposure, connected counterparty, country, industry, tenor and products. The RMD has also developed internal rating and scoring models incorporating both quantitative and qualitative risk parameters for the grading and classification of credit risk exposures.

The Bank uses a robust management information system to monitor its exposures and concentrations by various dimensions. The significant concentration of credit risk as at 31 December 2014 is set out in Note 37.

All credit exposures are subject to at least an annual review as per policy. All commercial financings exposures are reviewed and rated annually and appropriate provisions are maintained for any classified account as per the provisioning policy in line with relevant Central Bank of Bahrain guidelines. All financing exposures are classified as past due and impaired when any exposure instalment not paid over 90 days period. The Bank follows, except the subsidiary entities which may follow their own regulatory guidelines, a time-based criteria of past due days to estimate the specific provisioning requirements and past due accounts are reviewed periodically. However, each investment exposure is evaluated individually for impairment assessment on its merits, strategy, and estimated cash flows recoverability.

RISK MANAGEMENT
CONTINUED

ECAI Ratings

The Bank has adopted the CBB guidelines for utilization of external ratings, where available, by External Credit Assessment Institutions (ECAI) for the purpose of risk assessment. In case of multiple ECAI rating of a single counterparty, the lowest of all is taken to assign the relevant risk category. The Bank complies with all the qualitative requirements stipulated by the CBB for the recognition process and eligibility criteria of ECAI rating in the credit risk management policy of the Bank. ECAI ratings are applied, where applicable, to all financing exposures with counterparty credit risks.

Credit Risk Mitigation

The Bank uses a variety of tools to mitigate its credit risk, the primary one being that of securing the exposure by suitable collaterals. While existence of collaterals is not a precondition for financing, exposures are fully or partially collateralised as a second line of defense. The Bank has clear policies on types of assets that can be accepted as collateral and the mode of valuation of these assets. In general all collaterals are valued periodically depending on the collateral type. The legal validity and enforceability of the documents used for collateral have been established by qualified personnel, including lawyers and Sharia scholars.

The Bank's credit portfolio is supported by various types of collateral such as real estate, listed equity, cash and guarantees. The Bank prefers liquid and marketable credit collateral, however other types of collateral are accepted provided that such collateral can be reasonably valued. Only unconditional and irrevocable third party guarantees are acceptable after analyzing the financial strength of the guarantors as per policy.

MARKET RISK

Market risk is the potential loss arising from change in the value of any exposure due to adverse changes in the underlying benchmark market rates, i.e. foreign exchange rates, equity prices and profit rates.

As per current business strategy, the Bank does not maintain an active trading book and all Ithmaar's market risk exposures primarily is foreign exchange risk stemming from net open currency positions (NOP) in the balance sheet.

Market risk activities are governed by the market risk policy of the Bank. Implementation of the policy, procedures and regulatory and internal limits for the Bank is the responsibility of the relevant business units with oversight by the Asset Liability Committee (ALCO) and the Risk Policy Committee.

The key market risk factors the Bank is exposed to are discussed below:

Foreign Exchange Risk

Foreign exchange risk is the risk to earnings and value caused by a change in foreign exchange rates. At Ithmaar, foreign exchange risk is the risk that an exposure denominated in any foreign currency may be adversely affected due to volatility in foreign exchange rates compared to the base currency of the Bank. Foreign exchange risk management at the Bank is ensured through regular measurement and monitoring of net open foreign exchange positions vis-à-vis appropriate NOP limits. The Bank also utilises appropriate Sharia compliant hedging instruments wherever feasible. For more details, please refer to Section 26 of the Basel II disclosures.

The essence of effective risk management is to enhance shareholder and investment account holders' value through business profits commensurate with the risk appetite of the Bank.

Liquidity Risk

Liquidity risk is the risk that the Bank is unable to meet its financial obligations as they fall due, which could arise due to mismatches in cash flows. Funding and liquidity management is performed centrally by the Treasury, with oversight from ALCO and Risk Policy Committee. The Bank liquidity policies are designed to ensure it will meet its obligations as and when they fall due, by ensuring it is able to generate funds on an unsecured basis from the market, or has sufficient high quality liquid assets (HQLAs) to sell and raise immediate funds without incurring unacceptable costs and losses.

The liquidity policy also sets out the minimum acceptable standards for the management of Ithmaar Bank's assets and liabilities including maintenance of high quality liquid assets, prudent assets and liabilities maturity mismatch limits, and mechanism of monitoring liquidity risk in the Bank. The RMD independently monitors liquidity risk, including liquidity mismatch limits, maintenance of regulatory and internal liquidity ratios and the funding maturity profile on a regular basis.

A liquidity contingency policy is in place and provides the mechanism for management of liquidity in adverse market conditions.

Profit Rate Risk in the Banking Book

Profit rate risk in the Bank's banking book is the risk of adverse changes in expected net earnings and economic value of the balance sheet resulting from the impact of changes in profit rates on mismatched assets and liabilities in the banking book. The Bank measures and manages profit rate risk in the banking book by setting internal limits for assets and liability mismatch gaps.

The measurement methods for profit rate sensitivity analysis are risk sensitive assets and liabilities maturity gap analysis (to measure the profit rate sensitivity of earnings) and duration (to measure profit rate sensitivity of capital).

Profit rate risk is regularly monitored by the ALCO and the Risk Policy Committee.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events which includes but not limited to legal risk and Sharia compliance risk. This definition excludes strategic and reputational risks.

The Bank has in place Policies and Procedures which provide detailed guidelines for management of Operational Risks in the Bank. The approach to Operational Risk includes emphasis on:

- Establishment of an effective governance structure with clear reporting lines and segregation of duties.
- Maintenance of an effective internal control environment,
- Escalation and resolution of risk and control incidents and issues.

A workflow process for reporting of Operational Risk events and maintaining a database of all internal Risk events is in place. Bank has also implemented a Risk Control Self- assessment (RCSA) process whereby the risk in a process is identified and evaluated taking into consideration the residual risk. The Risk Register which enables the RCSA process is prepared jointly by the risk and line managers.

The Bank has also established Bank-wide Key Risk Indicators (KRI) which are constantly monitored to assess the overall operational risk profile of the Bank.

The Operational Risk management process through RCSA, KRI and loss reporting is complemented by the department level procedures which ensure that concerned staff are well aware of their responsibilities and processes associated with their responsibilities.

The Bank has Board approved policies and procedures for various departments including the Financial Control Department which is responsible for budget formulation, monitoring and management reporting. The Bank has in place a Business Continuity Policy which deals with policy initiatives to ensure that the Bank continues its critical activities following a disastrous event. Policies addressing the effective management of Human Resources, including improving the skill-set of the employees, is in place.

Detailed procedures are in place which enhance the internal controls, as well as provide guidelines for conduct of business process.

Reputation Risk

Reputation risk is the risk that an event will adversely affect Ithmaar Bank's reputation in the market, which, in turn, may adversely impact its ability to effectively undertake its activities.

RISK MANAGEMENT
CONTINUED

Sound corporate governance is a cornerstone in managing reputation risk. The Bank has in place a Corporate Governance Policy and a Code of Ethics and Business Conduct for the members of the Board, management and staff. This Code helps to build an atmosphere of professionalism, integrity and ethical behaviour within the Bank. It will also help in preventing any reputation risks.

RISK MANAGEMENT REPORTING AND CONTROL

Effective measurement, reporting and control of risk are vital to ensure that Ithmaar Bank's business activities are managed in accordance with its overall strategies and risk management objectives. The risk management, reporting and control framework ensures quantifications of credit, market and liquidity risks and its aggregation. The Bank is currently upgrading its IT and Management Information Systems which will further support its risk management processes.

RISK MANAGEMENT POLICIES AND PROCEDURES

Ithmaar has developed a comprehensive framework of policies and procedures to identify, measure, monitor and report the key risks the Bank is exposed to. The policy has various chapters divided into four volumes, each addressing a specific risk area, namely, High Level Controls, Credit Risk Management, Market Risk Management and Operations Risk Management.

CAPITAL RISK MANAGEMENT

Ithmaar's capital management policy is to ensure that it meets the capital requirements as mandated by the Central Bank of Bahrain (CBB) and is able to estimate an appropriate capital level in order to support its business growth. Capital management also ensures that shareholder value is protected and enhanced.

Regulatory capital is the minimum capital that is required by regulatory authority, to be maintained by the Bank commensurate to the underlying risks. The Bank has adopted the capital charge computations and adequacy ratios as per Pillar 1 as per the CBB Capital Adequacy and Prudential Consolidation & Deduction ("PCD").

Capital management is a coordinated effort by the business divisions, Risk Management, and Financial Control and is a part of a broader Internal Capital Adequacy Assessment Process (ICAAP). ICAAP covers the capital charge for all material risks in the pillar 1 and 2. ICAAP also recommends an internal capital adequacy ratio target over and above the regulatory requirement to absorb any un-expected losses arising due to Pillar 2 risks. The adequacy and sufficiency of capital ratio is also tested with a mechanism of stress scenario across various risk dimensions on a periodic basis. A comprehensive risk assessment of the Business and Budget Plans are independently performed by RMD, which inter alia, assesses the capital requirement of the Bank both for current and future activities under normal and stressed scenarios. Overseas subsidiaries manage their own capital as prescribed by host regulatory requirements. However, the input is taken from the material subsidiary entities of the Bank for capital planning purposes.

Ithmaar Bank's capital position is monitored on a regular basis and reported to the ALCO, the Audit and Governance Committee, the Risk Policy Committee, and the Board. The Pillar 3 disclosure section covers the capital management reports as of 31 December 2014.

RISK MANAGEMENT OF SUBSIDIARIES

Each operating subsidiary has a dedicated Risk Management and Compliance functions for implementing policies and supervising appropriate management of overall risks of the subsidiary including assessment, mitigation and monitoring of risks, and reporting on the risk status.

Effective oversight controls over the performance of the subsidiaries are ensured with the guidelines of subsidiary governance policy of the Bank. RMD is also mandated to receive, independently review periodic risk reports from all material subsidiaries for RPC submission. Non-operating subsidiaries are subject to relevant and applicable risk principles applicable at Ithmaar Bank.

RELATED PARTY TRANSACTIONS

Business transactions with persons and companies connected with the Bank (which include, inter alia, Directors, their immediate family members, major shareholders, associates and subsidiaries) are termed as Related Party Transactions. For avoidance of any possibility of conflicts of interest, the Bank treats all these transactions at arms' length and are approved by the Board of Directors with the interested party being refrained from voting. The Bank complies with relevant rules issued by the regulatory authorities in this respect and all transactions are appropriately disclosed in the Report of the Directors.

COMPLIANCE, ANTI-MONEY LAUNDERING AND INTERNAL CONTROLS

COMPLIANCE

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss of reputation that the Bank may suffer as a result of its failure to comply with the requirements of relevant laws and regulations. By the terms of its license and listing rules, the Bank is subject to compliance with the requirements stipulated by CBB, Bahrain Bourse, Kuwait Stock Exchange (KSE), Bahrain Commercial Companies Law and FAS issued by AAOIFI, Sharia Standards and SSB Fatwas.

Compliance risk is managed through the Compliance Policy which provides for the assessment of compliance risks, implementation of controls, monitoring and testing of framework effectiveness, the escalation, remediation of compliance incidents and control weaknesses.

The Bank's management ensures that business is conducted in conformity with high ethical standards and is in compliance with all applicable laws and regulations. The Bank has appointed a compliance officer in accordance with CBB directives to ensure that the Bank's operations achieve a consistently high level of compliance with all relevant laws and regulations. Each of Ithmaar Bank's subsidiaries also employs local compliance officers, if applicable, to ensure adherence to local requirements and regulatory issues. Consolidated reports are prepared for the Board's review.

CUSTOMER COMPLAINT PROCEDURES

The Bank has in place a formal customer complaints procedure that complies with the Code of Best Practice on Consumer Credit and Charging issued by the Bankers Association of Bahrain. A dedicated customer complaints officer is responsible for handling and resolving complaints. Contact details of this Officer are published at all branches. All customer complaints are promptly resolved up to the best satisfaction of the customers.

ANTI-MONEY LAUNDERING

It is the Bank's policy to prohibit and actively prevent money laundering and any activity that facilitates money laundering or the funding of terrorist or criminal activities.

For this purpose, the Bank has defined strict policies and procedures in compliance with the Financial Crimes Regulations issued by the CBB. These policies and procedures apply to all employees, branches and offices of the Bank.

The Bank has adopted specific initiatives and measures to facilitate implementation of these policies and procedures. These include the appointment of a Money Laundering Reporting Officer (MLRO), who is empowered with sufficient mandate to implement the Bank's Anti-Money Laundering (AML) programmes. The MLRO independently enforces the AML policies and reports any incidents to the Board of Directors and/or the applicable regulatory authorities. All employees undergo compulsory AML trainings with regular refresher courses.

The Bank's AML and Know Your Customer (KYC) framework incorporates the following four key elements: customer acceptance, customer identification procedures, transaction monitoring and risk management.

INTERNAL CONTROLS

The Board of Directors of the Bank places significant emphasis on efficient internal control systems to ensure shareholders' and investment account holders' interest and Bank's assets are safeguarded.

This internal control mechanism is delineated with appropriate policies, procedures, control manuals, and regular management reporting system. The Board has approved the organizational structure of the Bank to enhance efficient functioning of management and to avoid any conflict of interest. The organization structure clearly defines the lines of responsibility, approval authority and accountability aligned to business and operations requirements which support the maintenance of a strong control environment. Appropriate processes such as authorisation of limits, segregation of duties, reconciliation of accounts and the valuation of assets and positions are robustly operational. Well established budgeting and forecasting procedures are in place and reports are regularly presented to the Board detailing:

- Business plans and strategies;
- Results of operations;
- Key risk areas;
- Variances against budget; and
- Other performance data.

FUNDS UNDER MANAGEMENT

As a commercial financial institution, a fundamental objective of Ithmaar Bank is to act as a financial intermediary, channeling funds between deficit and surplus agents, for economic benefits. This is usually done through pooling monetary resources from Investment Accountholders (IAH), investing them in the market, and sharing the profits with IAHs at predetermined rates and conditions set out in the agreements. This activity is known as Funds Under Management (FUM).

STRUCTURE OF THE FUNDS

The Bank provides three types of FUMs, namely, Un-restricted Investments Accounts (URIA), Restricted Investments Accounts (RIA), and Collective Investment Undertakings (CIU).

I. Un-restricted Funds (URIA)

In the case of URIA accounts, the Bank as Mudarib (investment manager) is authorised by the Investment Account Holders (IAHs) to invest their funds in any manner which the Bank deems appropriate, without laying down restrictions as to where, how, and for what purpose their contribution amounts should be invested. All URIA funds are accounted for as 'on' balance sheet items. These funds are open for the public (natural persons and corporates including financial institutions) provided they satisfy the Bank's KYC requirements.

As of 31 December 2014, the Bank operated URIA funds are as follows:

- General Mudaraba
- Special Mudaraba

II. Restricted Funds (RIA)

Under this, the Bank as the Mudarib is restricted by the IAHs with regard to the use of their funds - where, how, for what period, and for what purpose their contribution amounts are invested. Such features are required to be agreed between the parties at the time of contracting (such as signing the Mudaraba and/or Agency agreements) so as to formalise the relationship. RIAs funds are accounted for as 'off' balance sheet items as the Bank has no discretion on the utilisation of funds in case of RIA funds. As per CBB's instructions, all future RIA funds shall be structured as CIUs.

As of December 2014, the Bank operated the following RIAs:

- Dilmunia Development Fund
- Shamil Bosphorus Modaraba
- European Real Estate Fund
- US Development Opportunities Fund 1.

The funds managed by the Bank are mainly in Real Estate and Private Equity. These are subject to various risks including:

- Foreign Exchange risk as a result of fluctuating currency exchange rates.
- Liquidity risk due to the nature of the holdings in those funds being non-marketable nor listed on any security exchange platforms.
- Market risk as a result of changing market conditions, including demand and price changes.
- Economic risk due to changes in the economic climate.
- Credit risk of parties with whom the Fund conducts business and may also bear the risk of settlement default.
- Risks of changes in government policy, including issuing necessary approvals.
- The value of Investments in real estate and/or the rental income derived from them will fluctuate as property values and rental incomes rise and fall.
- Investments in real estate may be affected by changes in the general economic climate, competition on rental rates, the financial standing of tenants, the quality of maintenance, insurance and management services and changes in operation costs.
- Investments in real estate which require development or refurbishment works may also entail risks associated with construction delays, cost overruns and an inability to rent either at all or at satisfactory rental levels following completion of the development or refurbishment works.
- The value of the Investments may be affected by uncertainties, such as political developments, changes in governmental policies, taxation, currency repatriation restrictions, and restrictions on foreign investment in some or all of the countries in which the Fund may be directly or indirectly invested.

- The regulatory supervision, legal infrastructure and accounting, auditing and reporting standards in emerging markets may not provide the same degree of protection or information as would generally exist in more mature or developed markets.
- Risks from uncertainties such as political or diplomatic developments, social and religious instability, changes in government policies, taxation, and interest rates and other political and economic developments in legislation, in particular changes in legislation relating to the right of, and level of, foreign ownership.
- Risks outside control of funds, including labour unrest, civil disorder, war, subversive activities, sabotage, fires, floods, acts of God, explosions or catastrophes.

The specific risks for each fund is detailed in the respective prospectus. Ithmaar Bank discloses regular updates related to individual funds on its corporate website www.ithmaarbank.com

III. Collective Investment Undertakings (CIU).

CIU have the following features:

The collective capital raised from the public or through private placement, including investments seeded by the operator, is invested in financial instruments and other assets which operate on the basis of risk-spreading as appropriate, the holdings of which may be repurchased or redeemed.

These funds are structured in accordance with relevant CIU rules issued by CBB and are offered to the following:

As of 31 December 2014, the Bank operated one CIU fund (Aldar Private Equity Fund - under liquidation). This is given on page 62 of this report.

All Investors are required to meet the KYC requirements as per CBB rules.

RISK AND REWARD

In accordance with the principles of Islamic Sharia, all FUMs are managed on profit and loss sharing basis with the IAH bearing all risks except for gross negligence and misconduct.

The profit or loss of a FUM is determined using the accounting policies normally applied by the Bank. The distribution of the profit or loss may either be on a limited or continuous basis as follows:

Specific Term

The IAH invests for a specific term, and profits/losses are accounted for at the time the fund is liquidated (or staged liquidation) and the capital is returned to the IAHs along with any profits/losses.

Open Term

The IAH invests for an unspecified terms (such as Savings Accounts), and profits are accounted for on a periodical basis during the Mudaraba period.

In case of RIA and CIU, specific expenses that may arise in relation to the launching of a Mudaraba fund and in employment of funds may be charged against the gross revenue of that Mudaraba, provided this is set out in the related Mudaraba agreement. Audit and legal fees, documentation and printing charges are all examples of expenses that may be charged to the Mudaraba. Distributable profit is calculated after all permitted expenses have been deducted. URIA funds are not subject to administration fees.

The Bank applies appropriate income smoothening techniques to ensure that profits are fairly distributed to the IAHs, both current and future. These include Profit Equalisation Reserves and Investment Risk Reserves.

REDEMPTIONS

All funds are redeemed on their respective maturities. In special circumstances, the Bank may allow early withdrawals by either finding a purchaser for the contribution, or by purchasing the IAH's contribution at prevailing market prices and provided such exposure does not cause any violations of regulatory or internal limits.

FUNDS UNDER MANAGEMENT
CONTINUED

FIDUCIARY OBLIGATIONS

Although the IAH is fully responsible for risks associated with his/her investments in an FUM, the Bank is bound by its fiduciary obligation and duty of care to safeguard the assets of the IAHs. In this respect, the Bank subscribes to the following guiding principles issued by the Islamic Financial Services Board (IFSB):

- Aspire to the highest standards of truthfulness, honesty and fairness in all its statements and dealings, and treat its customers fairly
- Exercise due care and diligence in all its operations, including the way it structures and offers its products and provides financing, with particular regard to Sharia compliance, and to the thoroughness of research and risk management
- Ensure that it has in place the necessary systems and procedures, and that its employees have the necessary knowledge and skills, to manage FUMs in accordance with this policy and other regulatory rules
- Take steps to ensure that it understands the nature and circumstances of its IAHs so that it offers those products most suitable for their needs, as well as offering financing only for Sharia- compliant projects
- Provide clear and truthful information both in any public document issued as well as to its actual and prospective clients, both during the sales process and in subsequent communications and reports
- Recognise the conflicts of interest between it and its clients that arise from the type of products it offers, and either avoid or disclose and manage them, bearing in mind its fiduciary duties to Investment Accountholders as well as shareholders
- Ensure that its operations are governed by an effective system of Sharia governance and that it conducts its business in a socially responsible manner

INVESTMENT OBJECTIVES

The investment objective of the funds is to provide maximum returns to both the IAHs and the Bank in a manner that is consistent with the Mudaraba agreement of the specific fund and Sharia guidelines while at the same time managing risks within predetermined levels.

GOVERNANCE OF FUNDS UNDER MANAGEMENT

The Board of Directors is responsible for ensuring that the Funds Investment Objectives are adhered to. The Board has established an Audit and Governance Committee commissioned, amongst other responsibilities, to look after the interests of the IAHs. The Asset-Liability Committee (ALCO) and Investment and Credit Committee (ICC) play a pivotal role in monitoring the performance of funds. The Asset Management Department is responsible for the effective management of RIA and CIU funds. Customer affairs are handled by various business units including Private Banking, Corporate Banking, International Banking, and Retail Banking departments.

RIA and CIU funds are launched after comprehensive due diligence of the market and the needs and risk appetite of investors. A comprehensive policy is in place which outlines processes for managing funds. All funds are reviewed independently by the Risk Management Department and the Compliance Department prior to their approval and launch. Once approved, these funds are utilised strictly in accordance with the fund's prospectus and terms of approval.

URIA Funds are primarily used for retail and commercial financings. The Bank diversifies the portfolio through establishing prudent limits determined by geographical areas, industry sectors, tenors, customer type, etc. The composition, characteristics and diversification of the Bank's funding structure is recorded in various risk policies.

All funds are reviewed periodically, at least annually, to assess their performance. These reviews are submitted to ICC for its review and approval. In case of adverse change in the risk profile of the Fund, the review is raised to the authority which originally approved the initial proposal.

The Profit Distribution Sheet (Mudaraba Account) provides details on investment period and the Bank's share of investments in 2014 as shown below:

Period	Bank's share (%)
Undetermined term (savings account)	60
1 month	50
3 months	45
6 months	40
9 months	38
1 year	35
18 months	33
2 years	30
30 months	28
3 years	25

The average benchmark and declared rate of return or profit rate on Profit Sharing Investment Accounts (PSIA) by maturity in percentage terms paid annually in 2014:

BD or US$	1 day	7 days	1 month	3 months	6 months	9 months	1 year	18 months	2 years	30 months	3 years
Savings	0.15										
General Mudaraba	-	0.15	1.10	1.60	2.00	2.10	2.50	2.55	2.60	2.60	2.70
Special Mudaraba	-	-	1.30	1.80	2.20	2.30	2.75	2.80	2.85	2.85	2.95

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

REPORT OF THE SHARIA SUPERVISORY BOARD

In the Name of Allah, the Beneficent, the Merciful

Report of the Sharia Supervisory Board on the activities of Ithmaar Bank B.S.C. for the Financial Year from 1 January 2014 until 31 December 2014, corresponding to the Period from 29 Safar 1435 H until 9 Rabeea' Alawal 1436 H.

Praise be to Allah, the Lord of the worlds, and peace and blessings be upon our Master, Mohammed, the leader of Prophets and Messengers, and upon his scion and companions, and upon those who follow his guidance until the Day of Judgment.

The Sharia Supervisory Board of Ithmaar Bank B.S.C. performed the following acts during the financial year from 1 January 2014 until 31 December 2014:

1. Issued fatwas and Sharia resolutions related to the Bank's products and activities and followed them up through the Bank's internal Sharia Audit Department while also guiding the management towards Sharia-compliant transactions.
2. Studied different mechanisms of financing and prepare its documents with the concerned departments in order to develop products.
3. Examined the books, records and transactions through the Sharia Compliance Department and auditing some of their samples as per established auditing standards.
4. Examined the statement of financial position, income statement and the Bank's overall banking activities through it.
5. Reviewed and concurred with periodic reports issued by the Sharia Compliance Department.

We have reviewed the principles and contracts relating to transactions and products launched by the Bank during the period from 1 January 2014 to 31 December 2014. We have also conducted the required inspection to provide our opinion on whether the Bank had complied with the provisions and principles of Islamic Sharia, as well as fatwas, resolutions and specific guidance that was issued by us.

The management is responsible for ensuring that the Bank operates in accordance with the provisions and principles of Islamic Sharia and accounting standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). Our responsibility is to express an independent opinion based on our observation of the Bank's operations, and prepare a report.

In view of the above the Sharia Supervisory Board hereby resolves as follows:

i: With regard to the Bank's business in general:

a The Bank's overall investment activities and banking services were conducted in full compliance with the principles and provisions of Islamic Sharia and in accordance with the Sharia Supervisory Board-approved standard contracts.

b Gains made from sources prohibited by Sharia were identified and transferred to the Charity Fund.

c All the amounts collected as customers' donations and commitments on late payments were posted to the Charity Fund.

d Zakat is calculated in accordance to Sharia Standard on Zakat issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). Shareholders are responsible for payment of Zakat on their shares.

ii: Conventional assets and liabilities:

The Sharia Supervisory Board identified and reviewed the conventional assets and liabilities that existed before Ithmaar Bank converted to an Islamic retail bank in April 2010 and issued a Fatwa that allows the Bank to convert these assets and liabilities into Islamic alternatives, or dispose them, in an agreed time period, provided that the Bank appropriately discloses to its shareholders in its annual report all amounts of income and expenses associated with these conventional assets and liabilities. This Fatwa conforms to the provisions of Sharia Standard – 6 "Conversion of a Conventional Bank to an Islamic Bank" of AAOIFI Sharia Standards. The Sharia Supervisory Board confirms that the Management, with the grace of Allah, has resolved all sharia issues pertaining to 14 assets.

REPORT OF THE SHARIA SUPERVISORY BOARD
CONTINUED

Report of the Sharia Supervisory Board on the activities of Ithmaar Bank B.S.C. for the Financial Year from 1 January 2014 until 31 December 2014, corresponding to the Period from 29 Safar 1435 H until 09 Rabi Al-Awwal 1436 H.. (continued)

As the period fixed by the Sharia Supervisory Board to dispose of these assets and liabilities expired by the end of the financial year 2014, and noting the serious and continuous efforts taken by the new Management to dispose of these assets and resolve this issues, the Sharia Supervisory Board is of the opinion that the period is to be extended for another new year up to 31st December 2015 during which the Bank will attempt to sell these assets or convert them to Islamic alternatives. The Sharia Supervisory Board is continuously and periodically reviews progresses on these assets and guides the Bank's Management on solutions and appropriate actions to be taken in this respect.

To ensure compliance with its Fatwa and directions, the Sharia Supervisory Board has reviewed the income statement of the Bank for the year end 31 December 2014 and has satisfied itself that the Bank has appropriately disclosed the income and expense arising from the conventional assets and liabilities. Accordingly, the Sharia Supervisory Board guides the shareholders of the Bank to dispose of impermissible earnings which has been calculated, in the current year's financial statements, at 1.13 US cents per share.

We pray to Almighty Allah to grant success to the Bank and its employees and guide them in developing Islamic products and continue to comply with the Sharia principles and to grant them success for everything He pleases. May peace and blessings be upon our Master, Mohammed, and upon his scion and companions.

His Eminence Shaikh Abdulla Al Manee'a
Chairman

His Eminence Shaikh Mohsin Al-Asfoor
Member

His Eminence Shaikh Nizam Yacooby
Member

His Eminence Shaikh Dr. Osama Bahar
Member

Manama - Kingdom of Bahrain

23 February 2015

REPORT OF THE DIRECTORS

The Directors submit their report dealing with the activities of Ithmaar Bank B.S.C (the "Bank") for the year ended 31 December 2014, together with the audited consolidated financial statements of the Bank and its subsidiaries ("the Group") for the year then ended.

PRINCIPAL ACTIVITIES

The Bank holds an Islamic retail banking licence issued by the Central Bank of Bahrain.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are a wide range of financial services, including retail, commercial, asset management, private banking, takaful, equipment leasing and real estate development.

CONSOLIDATED FINANCIAL POSITION AND RESULTS

The consolidated financial position of the Group as at 31 December 2014, together with the consolidated results for the year then ended is set out in the accompanying consolidated financial statements.

The Group has reported a net loss of $15.0 million for 2014 attributable to the equity shareholders of the Bank, as compared to a net loss of $80.4 million for 2013. Total assets at 31 December 2014 amounted to $7,861 million (31 December 2013: $7,403 million).

The Bank's consolidated Capital adequacy ratio under Basel II as at 31 December 2014 was 12.11% (31 December 2013: 12.77%) as compared to a minimum regulatory requirement of 12%. The Bank's risk weighted exposures and eligible capital are set out in note 39 to the accompanying consolidated financial statements.

DIRECTORS

The following served as Directors of the Bank during the year ended 31 December 2014:

HRH Prince Amr Mohamed Al Faisal (Chairman)

Mr. Khalid Abdulla-Janahi

Tunku Dato' Ya'acob Bin Tunku Abdullah

Mr. Abdelhamid Mohamed Aboumousa

Sheikha Hissah Bint Saad Al-Sabah

Sheikh Zamil Abdullah Al-Zamil

Mr. Nabeel Khaled Mohamed Kanoo

Mr. Mohammed A. Rahman Bucheerei

Mr. Abdulellah Ebrahim Al-Qassimi

Mr. Imtiaz Ahmad Pervez

Mr. Omar Abdi Ali

Mr. Graham R. Walker

DIRECTORS' SITTING FEES

Directors' sitting fees for 2014 amounted to $348,000 (2013: $213,500).

REPORT OF THE DIRECTORS
CONTINUED

Interests of Directors
The interests of the Directors in the shares of the Bank are disclosed below:

Name	**31 December 2014**	31 December 2013
HRH Prince Amr Mohamed Al Faisal	**106,100**	106,100
Mr. Khalid Abdulla-Janahi	**20,749,693**	20,749,693
Tunku Dato' Ya'acob Bin Tunku Abdullah	**106,100**	106,100
Mr. Abdelhamid Mohamed Aboumousa	**106,100**	106,100
Sheikha Hissah Bint Saad Al-Sabah	**106,100**	106,100
Sheikh Zamil Abdullah Al-Zamil	**205,000**	205,000
Mr. Nabeel Khaled Mohamed Kanoo	**106,100**	106,100
Mr. Mohammed A. Rahman Bucheerei	**105,600**	105,600
Mr. Abdulellah Ebrahim Al-Qassimi	**106,100**	106,100
Mr. Imtiaz Ahmad Pervez	**-**	-
Mr. Omar Abdi Ali	**-**	-
Mr. Graham R. Walker	**1,056,000**	1,056,000

Dividend
No dividend has been proposed for 2014 (2013: Nil).

Auditors
The auditors, PricewaterhouseCoopers ME Limited, have expressed their willingness to be reappointed as auditors of the Bank for the year ending 31 December 2015.

By order of the Board of Directors

HRH Prince Amr Mohamed Al Faisal
Chairman
7 March 2015

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF ITHMAAR BANK B.S.C.

Report on the financial statements

We have audited the accompanying consolidated financial statements of Ithmaar Bank B.S.C. (the "Bank") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2014 and the related consolidated statements of income, changes in owners' 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.

Directors' responsibility for the financial statements

Directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and to operate in accordance with Islamic Shari'a rules and principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Auditing Standards issued by the 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 consolidated 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 financial position of the Group as at 31 December 2014 and the results of its operations, its cash flows, changes in owners' equity and 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 regulatory requirements and other matters

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

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

(ii) the financial information contained in the directors' report is consistent with the consolidated financial statements;

(iii) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association, having occurred during the year that might have had a material adverse effect on the business of the Bank or on its financial position; and

(iv) satisfactory explanations and information have been provided to us by the management in response to all our requests.

The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group.

PricewaterhouseCoopers

Partner's Registration No. 134
7 March 2015
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS UNLESS OTHERWISE STATED)

	Notes	**At 31 December 2014 (Audited)**	At 31 December 2013 (Audited)
ASSETS			
Cash and balances with banks and central banks	3	**559,394**	595,671
Commodity and other placements with banks, financial and other institutions	4	**330,371**	498,321
Murabaha and other financings	5	**3,331,337**	3,153,644
Musharaka financing		**90,150**	62,101
Investment in mudaraba	6	**17,434**	20,801
Investment in associates	7	**684,821**	665,066
Investment securities	8	**1,767,618**	1,306,080
Restricted investment accounts	9	**69,869**	77,958
Assets acquired for leasing	10	**74,243**	64,286
Investment in real estate	11	**332,599**	353,308
Other assets	12	**273,196**	267,191
Fixed assets	13	**113,278**	115,164
Intangible assets	14	**216,594**	223,544
Total assets		**7,860,904**	7,403,135
LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS, MINORITY INTEREST AND OWNERS' EQUITY			
Customers' current accounts	15	**1,372,653**	1,270,562
Due to banks, financial and other institutions	16	**1,473,298**	1,301,523
Due to investors	17	**1,995,345**	1,855,769
Other liabilities	18	**274,090**	236,324
Total liabilities		**5,115,386**	4,664,178
Equity of unrestricted investment accountholders	19	**2,001,949**	1,985,469
Minority interest	20	**220,183**	221,920
Total liabilities, equity of unrestricted investment accountholders and minority interest		**7,337,518**	6,871,567
Share capital	21	**757,690**	757,690
Treasury shares	21	**(30,149)**	(30,149)
Reserves		**259,260**	252,430
Accumulated losses		**(463,415)**	(448,403)
Total owners' equity		**523,386**	531,568
Total liabilities, equity of unrestricted investment accountholders, minority interest and owners' equity		**7,860,904**	7,403,135

These consolidated financial statements were approved by the Board of Directors on 7 March 2015 and signed on their behalf by:

HRH Prince Amr Mohamed Al Faisal
Chairman

Mohammed Bucheerei
Director

Ahmed Abdul Rahim
CEO

The notes 1 to 42 on pages 63 to 99 form an integral part of the consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS UNLESS OTHERWISE STATED)

	Notes	Year ended 31 December 2014 (Audited)	31 December 2013 (Audited)
INCOME			
Income from unrestricted investment accounts		**100,500**	100,796
Less: return to unrestricted investment accounts and impairment provisions	29	**(76,793)**	(77,133)
Group's share of income from unrestricted investment accounts as a Mudarib		**23,707**	23,663
Group's share of income from restricted investment accounts as a Mudarib	23	**208**	599
Income from murabaha and other financings	24	**222,209**	211,324
Share of profit after tax from associates	7	**22,317**	38,469
Income from other investments	25	**126,744**	97,326
Other income	26	**54,996**	40,793
Total income		**450,181**	412,174
Less: profit paid to banks, financial and other institutions - net		**(222,421)**	(212,276)
Operating income		**227,760**	199,898
EXPENSES			
Administrative and general expenses	27	**(167,868)**	(163,785)
Depreciation and amortization	7,13,14	**(30,930)**	(31,308)
Total expenses		**(198,798)**	(195,093)
Net income before provision for impairment and overseas taxation		**28,962**	4,805
Provision for impairment - net	29	**(26,125)**	(82,199)
Net income/(loss) before overseas taxation		**2,837**	(77,394)
Overseas taxation	30	**(11,684)**	(1,933)
NET LOSS FOR THE YEAR		**(8,847)**	(79,327)
Attributable to:			
Equity holders of the Bank		**(15,012)**	(80,372)
Minority interests	20	**6,165**	1,045
		(8,847)	(79,327)
Basic and diluted earnings per share	22	**US Cts (0.52)**	US Cts (2.76)

These consolidated financial statements were approved by the Board of Directors on 7 March 2015 and signed on their behalf by:

HRH Prince Amr Mohamed Al Faisal
Chairman

Mohammed Bucheerei
Director

Ahmed Abdul Rahim
CEO

The notes 1 to 42 on pages 63 to 99 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS UNLESS OTHERWISE STATED)

			Reserves								
2014	**Share capital**	**Treasury shares**	**Share premium**	**Statutory reserve**	**General reserve**	**Investments fair value reserve**	**Investment in real estate fair value reserve**	**Foreign currency translation**	**Total reserves**	**Accumulated losses**	**Total owners' equity**
At 1 January 2014 (Audited)	**757,690**	**(30,149)**	**149,692**	**38,090**	**50,727**	**29,027**	**1,103**	**(16,209)**	**252,430**	**(448,403)**	**531,568**
Net loss for the year	-	-	-	-	-	-	-	-	**-**	(15,012)	**(15,012)**
Movement in fair value of investment securities	-	-	-	-	-	1,371	-	-	**1,371**	-	**1,371**
Movement in fair value of associates	-	-	-	-		16,713	-	-	**16,713**	-	**16,713**
Movement in deferred tax relating to investment securities	-	-	-	-	-	(234)	(11)	-	**(245)**	-	**(245)**
Transfer to income statement due to impairment of investment securities	-	-	-	-	-	306	-		**306**	-	**306**
Transfer to income statement due to disposal of investment securities	-	-	-	-	-	(1,794)	-	-	**(1,794)**	-	**(1,794)**
Movement in fair value of investment in real estate	-	-	-	-	-	-	(654)	-	**(654)**	-	**(654)**
Foreign currency translation adjustments	-	-	-	-	-	47	19	(8,933)	**(8,867)**	-	**(8,867)**
At 31 December 2014 (Audited)	**757,690**	**(30,149)**	**149,692**	**38,090**	**50,727**	**45,436**	**457**	**(25,142)**	**259,260**	**(463,415)**	**523,386**

			Reserves								
2013	Share capital	Treasury shares	Share premium	Statutory reserve	General reserve	Investments fair value reserve	Investment in real estate fair value reserve	Foreign currency translation	Total reserves	Accumulated losses	Total owners' equity
At 1 January 2013 (Audited)	701,011	(30,149)	149,692	38,090	50,727	41,782	1,032	(1,883)	279,440	(361,188)	589,114
Increase in share capital (note 21)	56,679	-	-	-	-	-	-	-	-	-	56,679
Net loss for the year	-	-	-	-	-	-	-	-	-	(80,371)	(80,371)
Movement in fair value of investment securities	-	-	-	-	-	(6,167)	-	-	(6,167)	-	(6,167)
Movement in fair value of associates	-	-	-	-	-	(4,737)	-	-	(4,737)	-	(4,737)
Movement in deferred tax relating to investment securities	-	-	-	-	-	(578)	-	-	(578)	-	(578)
Transfer to income statement due to impairment of investment securities	-	-	-	-	-	(1,382)	-	-	(1,382)	-	(1,382)
Transfer to income statement due to disposal of investment securities	-	-	-	-	-	77	-	-	77	-	77
Movement in fair value of investment in real estate	-	-	-	-	-	-	95	-	95	-	95
Foreign currency translation adjustments	-	-	-	-	-	32	(24)	(14,326)	(14,318)	(6,844)	(21,162)
At 31 December 2013 (Audited)	757,690	(30,149)	149,692	38,090	50,727	29,027	1,103	(16,209)	252,430	(448,403)	531,568

The notes 1 to 42 on pages 63 to 99 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS UNLESS OTHERWISE STATED)

		Year ended	
	Notes	**31 December 2014 (Audited)**	31 December 2013 (Audited)
OPERATING ACTIVITIES			
Net income/(loss) before overseas taxation		**2,837**	(77,394)
Adjustments for:			
Depreciation and amortization	7,13,14	**30,930**	31,308
Share of profit after tax from associates	7	**(22,317)**	(38,469)
Provision for impairment - net	29	**26,125**	82,199
Gain on sale of fixed assets	26	**(1,611)**	(1,188)
Operating income/(loss) before changes in operating assets and liabilities		**35,964**	(3,544)
(Increase)/decrease in balances with banks maturing after ninety days and including with central banks relating to minimum reserve requirement		**(45,589)**	29,005
(Increase)/decrease in operating assets:			
Murabaha and other financings		**(117,373)**	(174,995)
Musharaka financing		**(25,088)**	(20,284)
Other assets		**1,306**	(8,342)
Increase/(decrease) in operating liabilities:			
Customers' current accounts		**67,142**	133,003
Due to banks, financial and other institutions		**151,173**	30,260
Due to investors		**56,024**	99,162
Other liabilities		**34,551**	33,374
Increase in equity of unrestricted investment accountholders		**16,480**	277,000
Net cash provided by operating activities		**174,590**	394,639
INVESTING ACTIVITIES			
Net (increase)/decrease:			
Investment in mudaraba		**2,513**	854
Investment in associates		**1,440**	-
Investment in restricted investment accounts		**750**	20,538
Assets acquired for leasing		**(9,957)**	7,833
Investment securities		**(425,368)**	(216,804)
Dividend received from associates	7	**6,304**	5,732
Purchase of fixed assets		**(3,528)**	2,966
Investment in real estate		**3,460**	(634)
Net cash used in investing activities		**(424,386)**	(179,515)
FINANCING ACTIVITIES			
Taxes paid		**(12,724)**	(12,528)
Net cash used in financing activities		**(12,724)**	(12,528)
Foreign currency translation adjustments		**12,958**	(72,150)
Net increase/(decrease) in cash and cash equivalents		**(249,562)**	130,446
Cash and cash equivalents at the beginning of the year		**901,804**	771,358
Cash and cash equivalents at the end of the year	4	**652,242**	901,804

The notes 1 to 42 on pages 63 to 99 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS UNLESS OTHERWISE STATED)

2014	At 1 January 2014	Net Deposits / (Withdrawals)	Income/ (Expenses)	Mudarib's Fee	Fair value movements	At 31 December 2014
Dilmunia Development Fund I L.P.*	172,066	(10,799)	(454)	-	-	160,813
Shamil Bosphorus Modaraba*	62,499	-	-	-	(56,249)	6,250
European Real Estate Portfolio*	21,003	-	-	-	(2,489)	18,514
US Development Opportunities Fund*	12,952	(9,684)	-	-	-	3,268
European Real Estate Placements*	23,239	-	142	(34)	(2,932)	20,415
US Real Estate Placements*	79,979	(27,714)	-	(100)	(4,300)	47,865
Trade Finance Placements	390	(228)	-	-	(162)	-
Listed and non-listed equities	36,512	-	614	(74)	20,287	57,339
TOTAL	**408,640**	**(48,425)**	**302**	**(208)**	**(45,845)**	**314,464**
FUNDS MANAGED ON AGENCY BASIS	70,671	(5,424)	-	-	-	65,247
	479,311	**(53,849)**	**302**	**(208)**	**(45,845)**	**379,711**

* Income/(loss) will be recognised and distributed at the time of disposal of the underlying investments

2013	At 1 January 2013	Net Deposits / (Withdrawals)	Income / (Expenses)	Mudarib's Fee	Fair value movements	At 31 December 2013
Aldar Private Equity Fund**	206,820	(206,820)	-	-	-	-
Dilmunia Development Fund I L.P.*	170,209	-	1,857	-	-	172,066
Shamil Bosphorus Modaraba*	102,435	-	-	-	(39,936)	62,499
European Real Estate Portfolio*	20,085	-	-	-	918	21,003
US Development Opportunities Fund*	18,019	(5,067)	-	-	-	12,952
European Real Estate Placements*	102,178	(79,114)	244	(69)	-	23,239
US Real Estate Placements*	86,292	(7,234)	1,384	(463)	-	79,979
PPSC Placements	47,430	(47,419)	16	(27)	-	-
Trade Finance Placements	14,546	(14,238)	90	(8)	-	390
Listed and non-listed equities	23,149	12,719	676	(32)	-	36,512
Investment in Sukuk	528	(539)	11	-	-	-
TOTAL	791,691	(347,712)	4,278	(599)	(39,018)	408,640
FUNDS MANAGED ON AGENCY BASIS	70,671	-	-	-	-	70,671
	862,362	(347,712)	4,278	(599)	(39,018)	479,311

* Income/(loss) will be recognised and distributed at the time of disposal of the underlying investments
**Fund distributed its entire shareholding to its unitholders during 2013

The notes 1 to 42 on pages 63 to 99 form an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2014

1. INCORPORATION AND ACTIVITIES

Ithmaar Bank B.S.C. (the "Bank") was incorporated in the Kingdom of Bahrain on 13 August 1984 and was licensed as an investment bank regulated by the Central Bank of Bahrain (the "CBB"). On 14 April 2010 the CBB approved the reorganisation of the Bank and its wholly owned subsidiary Shamil Bank of Bahrain B.S.C. (C) (the "Shamil Bank") into one entity under Ithmaar Bank B.S.C. with an Islamic retail banking license. As a result, Shamil Bank has transferred its entire business, assets and liabilities to Ithmaar Bank B.S.C. effective 21 April 2010. On 17 February 2013, the CBB approved the Transfer of Business from First Leasing Bank B.S.C. (c) ("FLB") to the Bank and the related share swap transaction (note 21), and this was completed in March 2013.

Dar Al-Maal Al-Islami Trust ("DMIT"), a Trust incorporated in the commonwealth of Bahamas is the ultimate parent company of the Bank.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are a wide range of financial services, including retail, commercial, investment banking, private banking, takaful and real estate development.

The Bank's activities are supervised by the CBB and are subject to the supervision of Shari'a Supervisory Board.

The Bank's shares are listed for trading on the Bahrain Bourse and Kuwait Stock Exchange.

The Group's activities also include acting as a Mudarib (manager, on a trustee basis), of funds deposited for investment in accordance with Islamic laws and principles particularly with regard to the prohibition of receiving or paying interest. These funds are included in the consolidated financial statements as equity of unrestricted investment accountholders and restricted investment accounts. In respect of equity of unrestricted investment accountholders, the investment account holder authorises the Group to invest the accountholders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. In respect of restricted investment accounts, the investment accountholders impose certain restrictions as to where, how and for what purpose the funds are to be invested. Further, the Group may be restricted from commingling its own funds with the funds of restricted investment accounts.

The Group carries out its business activities through the Bank's head office, 17 commercial branches in Bahrain and its following principal subsidiary companies:

	% owned			
	Voting	Economic	Country of Incorporation	Principal business activity
Faysal Bank Limited	67	67	Pakistan	Banking
Faisal Private Bureau (Switzerland) S.A. (formerly Faisal Private Bank (Switzerland) S.A.)	100	100	Switzerland	Wealth and asset management
Ithmaar Development Company Limited	100	100	Cayman Islands	Real estate
City View Real Estate Development Co. B.S.C. (C)	51	51	Kingdom of Bahrain	Real estate
Health Island B.S.C. (C)	50	50	Kingdom of Bahrain	Real estate
Sakana Holistic Housing Solutions B.S.C. (C) (Sakana)	63	50	Kingdom of Bahrain	Mortgage finance
Cantara (Switzerland) S.A.	100	100	Switzerland	Investment holding
DMI Administrative Services S.A.	100	100	Switzerland	Management services
Faisal Finance (Luxembourg) S.A.	100	100	Luxembourg	Investment holding
Shamil Finance (Luxembourg) S.A.	100	100	Luxembourg	Investment holding
Faisal Finance (Netherlands Antilles) NV	100	100	Netherlands Antilles	Investment holding

Islamic Investment Company of the Gulf (Bahamas) Limited (IICG), a company incorporated in the Commonwealth of Bahamas and owned 100% by DMIT, is an affiliate of the Bank.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2014

1. INCORPORATION AND ACTIVITIES (Continued)

The Bank has voluntarily surrendered Faisal Private Bank (Switzerland) S.A.'s banking license effective 30 June 2013. Effective, 1 July 2013 Faisal Private Bank adopted a new name "Faisal Private Bureau (Switzerland) S.A.". Faisal Private Bureau now provides advice and wealth management services to investors in the existing funds managed by erstwhile Faisal Private Bank. The financial statements of Faisal Private Bureau have been prepared on a going concern basis as at 31 December 2014.

During January 2013, the Bank decided to exit from its 50% investment in Sakana together with the other 50% shareholder. The shareholders approved the company's voluntary liquidation in the EGM held in September 2013. Approval from the CBB was also obtained in this regard. Liquidation committee appointed by Sakana is overseeing the liquidation.

During March 2013, the Bank exited from its 51% investment in Marina Reef Real Estate Development Co. B.S.C.(C).

2. SIGNIFICANT GROUP ACCOUNTING POLICIES

Effective 30 June 2010, the Bank adopted Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

The Group has certain assets, liabilities and related income and expenses which are not Sharia compliant as these existed before Ithmaar Bank converted to an Islamic retail bank in April 2010. These are currently presented in accordance with AAOIFI standards in the consolidated financial statements for the year ended 31 December 2014 as appropriate.

The Sharia Supervisory Board has approved the Sharia Compliance Plan ("Plan") for assets and liabilities which are not Sharia Compliant. The Sharia Supervisory Board is monitoring the implementation of this Plan. The income and expenses attributable to non-Sharia compliant assets and liabilities is disclosed under note 41.

The consolidated financial statements comprise the financial information of the Group for the year ended 31 December 2014.

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

(i) New accounting standard: Issued and effective

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

The following new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2015 and are expected to be relevant to the Group.

FAS27 - Investment Accounts

FAS 27 Investment accounts was issued in December 2014 replacing FAS5 - Disclosures of Bases for Profit Allocation between Owner's equity and Investment Account Holders' and FAS 6 - 'Equity of Investment Account Holders and their Equivalent'. This standard is effective for financial periods beginning 1 January 2016. The adoption of this standard would not have any significant impact on the financial statements of the Group.

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

(ii) Basis of preparation

The consolidated financial statements are prepared on a historical cost convention except for investments carried at fair value through income statement and equity and investment in real estate.

(iii) Statement of compliance

The consolidated financial statements have been prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank, the Bahrain Commercial Companies Law, the CBB and the Financial Institutional Law. In accordance with the requirement of AAOIFI, for matters where no AAOIFI standards exist, the Group uses the relevant International Financial Reporting Standards (IFRS).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2014

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(iv) Summary of significant accounting policies

(a) Basis of consolidation

Subsidiaries

Subsidiaries are companies in which the Group holds 50% or more of equity shares and as such exercises significant control over such companies. Subsidiaries, including Special Purpose entities that are controlled by the Bank, are consolidated from the date on which the Group obtains control and continue to be so consolidated until the date such control ceases.

Associates

Associates are companies in which the Group has significant influence, but not control over the management of affairs, and which are neither subsidiaries nor joint ventures. The Group's investments in associates are accounted for under the equity method of accounting. Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. The consolidated income statement reflects the Group's share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in owners equity.

In case of associates where audited financial statements are not available, the Group's share of profit or loss is arrived at by using the latest available management accounts.

Intra-Group balances and minority interest

The consolidated financial statements include the assets, liabilities and results of operations of the Bank, its subsidiary companies after adjustment for minority interest and equity of unrestricted investment accountholders managed by the Group. All significant intra-group balances and transactions have been eliminated. The financial statements of the subsidiaries are prepared on the same reporting periods as the Bank, using consistent accounting policies.

(b) Foreign currency transactions and balances

Functional and presentation currency

Items included in the consolidated financial statements of the Group's entities are measured using the currency of the primary economic environment in which the entity operates, which is Bahraini Dinars (the functional currency). The Annual General Meeting of the Bank held on 30 March 2014 approved the change of the presentation currency of the Bank from Bahraini Dinars to United States Dollars effective 1 January 2014. Considering that the Bahraini Dinar is pegged to United States Dollars, the changes in presentation currency will have no impact on the consolidated statement of financial position, consolidated income statement, consolidated statement of changes in owners' equity, consolidated statement of cash flow and consolidated statement of changes in restricted investment accounts.

Transactions and balances

Foreign currency transactions are translated into the functional currency 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 period-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 investment securities are included in investments fair value reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(iv) Summary of significant accounting policies (Continued)

(b) Foreign currency transactions and balances (Continued)

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

1. Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of statement of financial position;
2. Income and expenses for each income statement are translated at average exchange rates; and
3. All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. Translation losses arising in the case of severe devaluation or depreciation (other than temporary) of the currency of the net investment in a foreign operation when the latter is translated at the spot exchange rate at the date of consolidated statement of financial position, are recognised in the first place as a charge against any credit balance on the separate component of the shareholders equity and any remaining amount is recognised as a loss in the consolidated income statement. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill, and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(c) Accounting estimates and judgements

The Group makes estimates and assumptions that affect 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.

1. Classification of investments

   In the process of applying the Group's accounting policies, management decides upon acquisition of an investment, whether it should be classified as investments carried at fair value through income statement, held at amortised cost or investments carried at fair value through equity. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification.

2. Special purpose entities

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

3. Impairment on financing assets and investments

   Each financing and investment exposure is evaluated individually for impairment. Management makes judgements about counterparty's financial situation and the net realisable value of any underlying assets. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable.

4. Liquidity mismatch

   The Group constantly monitors the liquidity mismatch arising in the normal course of the business. Periodic stress tests are carried out on liquidity position to assess the ability of the Bank to meet its liquidity mismatch. The stress testing also incorporates judgement based behavioural approach for various sources of funding, estimated inflows from disposal of assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2014

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(iv) Summary of significant accounting policies (Continued)

(d) Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash on hand, non-restricted balance with central banks and other banks, and short term liquid investments on demand or with an original maturity of three months or less.

(e) Murabaha and other financings

Murabaha financing is stated at cost less allowance for doubtful receivables.

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

Other financings represent conventional loans and advances, which are non-derivative financial assets with fixed or determinable payments. These are initially recorded at fair value and are subsequently carried at amortised cost using the effective yield method.

The Group receives collateral in the form of cash or other securities including bank guarantees, mortgage over property or shares and securities for Murabaha and other financings where deemed necessary. The Group's policy is to obtain collateral where appropriate, with a market value equal to or in excess of the principal amount financed under the respective financing agreement. To ensure that the market value of the underlying collateral remains sufficient, collateral is valued periodically.

Specific provision is made when the management consider that there is impairment in the carrying amount of Murabaha and other financings.

In addition to specific provision, the Group also assess impairment collectively for losses on financing facilities that are not indiviually significant and where there is not yet objective evidence of individual impairment. General provision is evaluated at each reporting date.

(f) Musharaka financing

Musharaka financing is stated at cost less provision for impairment.

Specific provision is made when the management consider that there is impairment in the carrying amount of Musharaka financing.

(g) Investments

1. Investments carried at amortised cost

Debt-type instruments are carried at amortised cost where the investment is managed on a contractual yield basis and their performance evaluated on the basis of contractual cash flows. These investments are measured at initial recognition minus capital/redemption payments and minus any reduction for impairment.

2. Investments carried at fair value through equity

Equity-type instruments are investments that do not exhibit the feature of debt type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities.

Equity-type investments carried at fair value through equity are those equity instruments which are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity; these are designated as such at inception. Regular-way purchases and sales of these investments are recognised on the trade date which is the date on which the Group commits to purchase or sell the asset.

These investments are initially recognised at cost plus transaction costs. These investments are subsequently re-measured at fair value and the resulting unrealised gains or losses are recognised in the consolidated statement of changes in equity or equity of unrestricted investment accountholders under "Investments fair value reserve", until the financial asset is derecognized or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2014

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(iv) Summary of significant accounting policies (Continued)

(g) Investments (Continued)

The fair value of quoted investments in active market is based on current bid price. If there is no active market for such financial assets, the Group establishes fair values using valuation techniques. These include the use of recent arm's length transactions and other valuation techniques used by other participants. The Group also refers to valuations carried out by investment managers in determining fair value of certain unquoted financial assets.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as financial assets carried at fair value through equity, a significant or prolonged decline in fair value of the security below the cost is considered in determining whether the assets are impaired. If any evidence exists of significant impairment for the investment carried at fair value through equity, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognised in the consolidated income statement is removed from the equity and recognised in the consolidated income statement. Impairment losses on equity instruments previously recognised in the consolidated income statement are not subsequently reversed through the consolidated income statement.

3. Investments carried at fair value through income statement

An investment is classified as investment carried at fair value through income statement if acquired or originated principally for the purpose of generating a profit from short term fluctuations in price or dealers margin. These investments are recognised on the acquisition date at cost including the direct expenses related to the acquisition. At the end of each reporting period, investments are re-measured at their fair value and the gain/loss is recognised in the consolidated income statement.

4. Restricted investment accounts

Investment in restricted investment accounts is initially recorded at cost and subsequently re-measured at fair value. Unrealised losses are recognised in equity to the extent of the available balance, taking into consideration the portion related to owner's equity and equity of unrestricted investment accountholders. In case cumulative losses exceed the available balance under equity, the excess is recognised in the consolidated income statement.

5. Investment in real estate

All properties held for rental income or for capital appreciation purposes or both are classified as investment in real estate. Investment in real estate held for capital appreciation are initially recognised at cost and subsequently re-measured at fair value in accordance with the fair value model with the resulting unrealised gains being recognised in the consolidated statement of changes in owner's equity under investment in real estate fair value reserves. Any unrealised losses resulting from re-measurement at fair value of investment in real estate carried at fair value are adjusted in equity against the investment in real estate fair value reserve, taking into consideration the split between the portion related to owners' equity and equity of investment accountholders, to the extent of the available credit balance of this reserve. In case such losses exceed the available balance, the unrealised losses are recognised in the consolidated income statement. In case there are unrealised losses relating to investment in real estate that have been recognised in the consolidated income statement in a previous financial period, the unrealised gains relating to the current financial period are recognised to the extent of crediting back such previous losses in the consolidated income statement. The realised profits or losses resulting from the sale of any investment in real estate are measured as the difference between the book value (or carrying amount) and the net cash or cash equivalent proceeds from the sale for each investment separately. The resulting profit or loss together with the available balance on the investment in real estate fair value reserve account is recognised in the consolidated income statement for the current financial period.

Investment in real estate held for rental purposes are stated at cost less accumulated depreciation.

6. Investment in mudaraba

Mudaraba investments are recorded at cost. Decline in the value of investment which is not temporary is charged directly to the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2014

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(iv) Summary of significant accounting policies (Continued)

(g) Investments (Continued)

7. Fair value

For investments traded in organised financial markets, fair value is determined by reference to quoted market bid prices.

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

(h) Assets acquired for leasing (Ijarah)

Assets acquired for leasing are stated at cost and are depreciated according to the Group's depreciation policy for fixed assets or lease term, whichever is lower.

A provision for doubtful receivable is made if, in the opinion of the management, the recovery of outstanding rentals are doubtful.

(i) Fixed assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method to write off the cost of each asset over its estimated useful life as follows:

Buildings	50 years
Leasehold improvements	over the period of the lease
Furniture, equipment and motor vehicles	3-10 years

Depreciation is calculated separately for each significant part of an asset category. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The asset's residual value and useful life are reviewed, and adjusted if appropriate, at each date of the statement of financial position.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably. All other repairs and renewals are charged to the consolidated income statement during the financial period in which they are incurred.

Gains and losses on disposal of fixed assets are determined by comparing proceeds with carrying amounts.

(j) Intangible assets

1. Goodwill

Goodwill acquired at the time of acquisitions of subsidiaries is reported in the consolidated statement of the financial position as an asset. Goodwill is initially measured at cost being the excess of the cost of acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary undertaking at the date of acquisition. Subsequently, the goodwill is tested for impairment on annual basis. At the end of the financial period, the goodwill is reported in the consolidated statement of financial position at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2014

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(iv) Summary of significant accounting policies (Continued)

(j) Intangible assets (Continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Negative goodwill resulting from the acquisition of business is reported in the consolidated income statement.

Acquisition of minority interest is accounted using the Economic Entity Method. Under the Economic Entity Method, the purchase of a minority interest is a transaction with a shareholder. As such, any excess consideration over the Group's share of net assets is recorded in owners' equity.

2. Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (three to five years). Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised using the straight line method over their expected useful lives.

3. Other acquired intangible assets

Other acquired intangible assets determined to have finite lives, such as core deposits and customer relationships, are amortised on a straight line basis over their estimated useful lives of up to twenty years. The original carrying amount of core deposits and customer relationships has been determined by independent appraisers, based on the profit rate differential on the expected deposit duration method.

Other acquired intangible assets are tested annually or more often if indicators exist for impairment and carried at cost less accumulated amortization.

(k) Current taxation

There is no tax on corporate income in the Kingdom of Bahrain. However, the subsidiaries incorporated in tax jurisdictions pay tax as per local regulations.

(l) Deferred taxation

Deferred taxation is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

A deferred tax asset is recognised for all deductible temporary differences and carry forward of unused tax losses and tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and unused tax losses and tax credits can be utilised. Enacted tax rates are used to determine deferred income tax.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2014

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(iv) Summary of significant accounting policies (Continued)

(m) Provision for staff benefits

Staff benefits and entitlements to annual leave, holiday air passage and other short-term benefits are recognised when they accrue to employees. The Group's contributions to defined contribution plans are charged to the consolidated income statement in the period to which they relate. In respect of these plans, the Group has a legal and constructive obligation to pay the contributions as they fall due and no obligation exists to pay future benefits.

In respect of end of service benefits, to which certain employees of the Group are eligible, costs are assessed in accordance with the labour law requirements of the applicable jurisdiction or by using the projected unit credit method as appropriate. Costs to be recognised under the projected unit credit method are estimated based on the advice of qualified actuaries. Actuarial gains and losses are spread over the average remaining service lives of the employees until the benefits become vested.

(n) Due to investors

Funds received from depositors who take the corporate risk of the Bank or its subsidiaries are classified as "Due to investors"

(o) Equity of unrestricted investment accountholders

Under the equity of unrestricted investment accountholders (URIA), the investment account holder authorizes the Group to invest the accountholders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

The assets included in the equity of unrestricted investment accountholders are measured on the same basis of various category of the assets as set out above. The amount appropriated to investment risk reserve are out of the total income from URIA assets before charging any expense relating to the management fee, mudarib share of profit, profit equalization reserve and profit to investment accountholders. Profit equalisation reserve is created to maintain a certain level of return on investments for investment accountholders.

(p) Restricted investment accounts

Under the restricted investment accounts (RIA), the investment accountholders impose certain restrictions as to where, how and for that purpose the funds are to be invested. The assets included in the restricted investment accounts are recorded at Net Asset Value (NAV).

(q) Treasury shares

These shares are treated as a deduction from the owners' equity. Gains and losses on sale of own shares are included in owners' equity.

(r) Statutory reserve

In accordance with the Bahrain Commercial Companies Law 10% of the Bank's net income for the year is transferred to a statutory reserve until such time as reserve reaches 50% of the paid up share capital. The reserve is not distributable, but can be utilized as stipulated in the Bahrain Commercial Companies Law and other applicable statutory regulations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (Continued)

(iv) Summary of significant accounting policies (Continued)

(s) Revenue recognition

1. Profit participation and management fees

Income from profit participation and management fees charged to funds managed by the Group is recognised on the basis of the Group's entitlement to receive such revenue from restricted and unrestricted investment accounts as defined in the Mudaraba agreement (trust deed), except when the Group temporarily waives its entitlement.

2. Profit on Murabaha and other financings

Profit on Murabaha transactions is recognised by proportionately allocating the attributable profits over the period of the transaction where each financial period carries its portion of profits irrespective of whether or not cash is received. However, profit accrual is suspended on Murabaha transactions in respect of which repayment instalments are past due for more than ninety days, unless, in the opinion of the management of the Bank, the accrual is justified.

Income from other financings is accrued based on the effective yield method over the period of the transaction. Where income is not contractually determined or quantifiable, it is recognised when reasonably certain of realisation or when realised.

3. Income from assets acquired for leasing

Lease rental revenue is recognised on a time-apportioned basis over the lease term.

4. Income from Mudaraba contracts

Income from Mudaraba contracts are recognised when the Mudarib distributes profits. Any share of losses for the period are recognized to the extent such losses are being deducted from the Mudaraba capital.

5. Profit on Musharaka contracts

In respect of Musharaka contracts that continue for more than one financial period, the Group's share of profits are recognised when a partial or final settlement takes place and its share of the losses are recognised to the extent that such losses are deducted from the Group's share of Musharaka capital. However, in respect of diminishing Musharaka transactions, profits or losses are recognised after considering the decline in the Group's share of the Musharaka capital and, consequently, its proportionate share of the profits or losses.

6. Dividend income

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

7. Fees and commissions

Fees and commissions (including banking services) are recognised when earned.

Commissions on letters of credit and letters of guarantee are recognised as income over the period of the transaction.

Fees for structuring and arrangement of financing transactions for and on behalf of other parties are recognised when the Bank has fulfilled all its obligations in connection with the related transaction.

(t) Profit allocation between group and investment accountholders

The Group maintains separate books for assets financed by owners, unrestricted and restricted investment accounts. All income generated from the assets financed by the investment accounts are allocated to the customers after deducting impairment provisions, profit equalization reserves, mudarib's share of profit and management fees.

Administrative expenses incurred in connection with the management of the funds are borne directly by the Group.

Impairment provision is made when the management considers that there is impairment in the carrying amount of assets financed by the investment account.

(u) Assets transfer between Owner's equity, Unrestricted Investment Accounts and Restricted Investment Accounts

Assets are transferred between Owner's equity, Unrestricted Investment Accounts and Restricted Investment Accounts at fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS UNLESS OTHERWISE STATED)

3. CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

	31 December 2014			31 December 2013		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Cash reserve with central banks	154,082	-	154,082	163,432	-	163,432
Cash and balances with banks and central banks	405,312	-	405,312	432,239	-	432,239
	559,394	-	559,394	595,671	-	595,671

4. COMMODITY AND OTHER PLACEMENTS WITH BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2014			31 December 2013		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Commodity placements	312,147	25,003	337,150	479,841	25,005	504,846
Less: Provision	(6,779)	-	(6,779)	(6,525)	-	(6,525)
	305,368	25,003	330,371	473,316	25,005	498,321

Cash and cash equivalents for the purpose of cash flow statement are as under:

	31 December 2014			31 December 2013		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Cash and balances with banks and central banks	559,394	-	559,394	595,671	-	595,671
Commodity and other placements with banks, financial and other institutions -net	305,368	25,003	330,371	473,316	25,005	498,321
Less: Placement maturing after ninety days	(58,438)	(25,003)	(83,441)	(3,751)	(25,005)	(28,756)
Less: Balances with central bank relating to minimum reserve requirement	(154,082)	-	(154,082)	(163,432)	-	(163,432)
	652,242	-	652,242	901,804	-	901,804

The movement in provisions is as follows:

	31 December 2014			31 December 2013		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	6,525	-	6,525	6,525	-	6,525
Exchange differences and other movements	254	-	254	-	-	-
At 31 December	6,779	-	6,779	6,525	-	6,525

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5. MURABAHA AND OTHER FINANCINGS

	31 December 2014			31 December 2013		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Murabaha and other financings	**2,333,591**	**1,320,655**	**3,654,246**	2,275,016	1,170,562	3,445,578
Less: Provisions	**(268,357)**	**(54,552)**	**(322,909)**	(242,561)	(49,373)	(291,934)
	2,065,234	**1,266,103**	**3,331,337**	2,032,455	1,121,189	3,153,644

Other financings represents conventional loans and advances totalling $1,715.6 million (31 December 2013: $1,709.5 million) made by a subsidiary of the Bank.

The movement in provisions is as follows:

	31 December 2014			31 December 2013		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	**242,561**	**49,373**	**291,934**	241,894	38,188	280,082
Charge for the year	**24,531**	**4,892**	**29,423**	41,584	6,496	48,080
Write back during the year	**(9,165)**	**-**	**(9,165)**	(18,228)	-	(18,228)
Utilised during the year	**-**	**(623)**	**(623)**	(5,477)	(305)	(5,782)
Transfer from Investment Risk Reserve	**-**	**835**	**835**	-	-	-
Exchange differences and other movements	**10,430**	**75**	**10,505**	(17,212)	4,994	(12,218)
At 31 December	**268,357**	**54,552**	**322,909**	242,561	49,373	291,934

Total provision of $322.9 million (31 December 2013: $291.9 million) includes general provision of $3.6 million (31 December 2013: $3.6 million).

6. INVESTMENT IN MUDARABA

	31 December 2014			31 December 2013		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Mudaraba investments	**973**	**32,103**	**33,076**	1,196	34,393	35,589
Less : provisions	**(854)**	**(14,788)**	**(15,642)**	-	(14,788)	(14,788)
	119	**17,315**	**17,434**	1,196	19,605	20,801

Certain assets totalling $17.4 million included above are held by third parties as nominee on behalf of the Group.

The movement in provisions is as follows:

	31 December 2014			31 December 2013		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	**-**	**14,788**	**14,788**	-	14,788	14,788
Exchange differences and other movements	**854**	**-**	**854**	-	-	-
At 31 December	**854**	**14,788**	**15,642**	-	14,788	14,788

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7. INVESTMENT IN ASSOCIATES

Investment in associated companies, as adjusted for the Bank's share of their results comprise:

Name of company	2014	% of Share-holding	2013	% of Share-holding	Country	Activity
Unlisted:						
Solidarity Group Holding B.S.C. (C)	**79,480**	**34**	88,737	34	Bahrain	Takaful
Citic International Assets Management Limited	**69,595**	**20**	67,939	20	Hong Kong	Asset management
Sanpak Engineering	**448**	**31**	398	31	Pakistan	Manufacturing
Islamic Company for Production, Printing and Packing Materials "Icopack" - note (i)	**-**	**-**	2,687	23	Egypt	Trading
Misr Company for Packing Materials"Egywrap"	**4,351**	**23**	4,074	23	Egypt	Trading
Faysal Asset Management Limited	**573**	**30**	552	30	Pakistan	Asset management
Ithraa Capital	**4,263**	**23**	4,475	23	Saudi Arabia	Investment company
Naseej B.S.C. (C)	**97,133**	**30**	94,846	30	Bahrain	Infrastructure
Chase Manara B.S.C. (C)	**1,781**	**40**	2,149	40	Bahrain	Real estate
Islamic Trading Company E.C	**534**	**24**	1,973	24	Bahrain	Trading
Listed:						
BBK B.S.C	**426,663**	**25**	397,236	25	Bahrain	Banking
	684,821		665,066			

Note (i) - During the period, Icopack increased its issued and fully paid share capital. The Bank did not participate in the increase, resulting in dilution of the Bank's shareholding in Icopack from 23% to 7%.

Investment in associates include conventional investments totalling $593 million (31 December 2013: $560 million).

The Bank's share of net assets of its associated companies includes the following movements analysed as follows:

	31 December 2014	31 December 2013
At 1 January	**665,066**	682,488
Share of profit before tax	**22,681**	38,488
Share of tax	**(364)**	(19)
Dividends received	**(6,304)**	(5,732)
Share of fair value reserve	**16,713**	(4,737)
Disposals	**(3,812)**	(32,660)
Amortisation of intangibles	**(6,748)**	(6,748)
Exchange differences	**(2,411)**	(6,014)
At 31 December	**684,821**	665,066

Investment in associates includes $261.8 million (31 December 2013: $258.8 million) pledged as collateral against borrowings (note 16) with the terms and conditions in the ordinary course of business.

Certain assets totalling $38.4 million included above are held by third parties as nominee on behalf of the Group.

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7. INVESTMENT IN ASSOCIATES (Continued)

Included in investment in associates at 31 December 2014 is $76.9 million (31 December 2013: $76.9 million) of goodwill. The movement is as follows:

	31 December 2014	31 December 2013
At 1 January	**76,939**	76,939
Provision	**-**	-
At 31 December	**76,939**	76,939

Amortisation charge for the intangible assets for the year ended 31 December 2014 amounted to $6.7 million (31 December 2013: $6.7 million)

Summarised financial position of associates that have been equity accounted:

	31 December 2014	31 December 2013
Total assets	**10,404,796**	9,766,244
Total liabilities	**8,477,618**	7,896,793
Total revenues	**523,500**	406,724
Total net profit	**111,126**	126,682

8. INVESTMENT SECURITIES

	31 December 2014			31 December 2013		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Investment securities at fair value through income statement						
Held for trading						
Debt-type instruments - unlisted	**270,441**	**-**	**270,441**	78,199	-	78,199
Equity-type securities - listed	**2,615**	**-**	**2,615**	4,281	-	4,281
	273,056	**-**	**273,056**	82,480	-	82,480
Investment securities at fair value through equity						
Equity-type securities - listed	**41,084**	**-**	**41,084**	33,069	-	33,069
Equity-type securities - unlisted	**226,771**	**85,217**	**311,988**	229,695	88,592	318,287
	267,855	**85,217**	**353,072**	262,764	88,592	351,356
Provision for impairment	**(103,550)**	**(5,756)**	**(109,306)**	(110,584)	(5,756)	(116,340)
	164,305	**79,461**	**243,766**	152,180	82,836	235,016
Investment securities carried at amortised cost						
Sukuk - unlisted	**216,454**	**-**	**216,454**	177,135	-	177,135
Other debt-type instruments - listed	**2,259**	**-**	**2,259**	7,647	-	7,647
Other debt-type instruments - unlisted	**1,050,219**	**-**	**1,050,219**	817,377	-	817,377
	1,268,932	**-**	**1,268,932**	1,002,159	-	1,002,159
Provision for impairment	**(18,136)**	**-**	**(18,136)**	(13,575)	-	(13,575)
	1,250,796	**-**	**1,250,796**	988,584	-	988,584
	1,688,157	**79,461**	**1,767,618**	1,223,244	82,836	1,306,080

Investment securities include conventional investments totalling $1,346.9 million (31 December 2013: $1,094.8 million) made by a subsidiary of the Bank.

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8. INVESTMENT SECURITIES (Continued)

The fair value of investment securities carried at amortised cost was $1,269.5 million (31 December 2013: $983.3 million)

Certain assets totalling $86.1 million included above are held by third parties as nominee on behalf of the Group.

The movement in provisions relating to investment securities is as follows:

	31 December 2014			31 December 2013		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	**124,159**	**5,756**	**129,915**	115,559	5,756	121,315
Charge for the year	**13,882**	**-**	**13,882**	27,016	-	27,016
Write back during the year	**(7,406)**	**-**	**(7,406)**	(4,053)	-	(4,053)
Addition due to acquisition of associate (note 21)	**-**	**-**	**-**	4,639	-	4,639
Utilised during the year	**(2,876)**	**-**	**(2,876)**	(10,074)	-	(10,074)
Exchange differences and other movements	**(6,073)**	**-**	**(6,073)**	(8,928)	-	(8,928)
At 31 December	**121,686**	**5,756**	**127,442**	124,159	5,756	129,915

FAS 25 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical investments.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the investments, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - inputs for the investments that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

Investments measured at fair value

	Level 1	**Level 2**	**Level 3**	**Total**
At 31 December 2014				
Investment securities at fair value through income statement				
Debt-type instruments	**-**	**270,441**	**-**	**270,441**
Equity securities	**2,615**	**-**	**-**	**2,615**
Investment securities at fair value through equity				
Equity securities	**35,835**	**1,990**	**205,941**	**243,766**
	38,450	**272,431**	**205,941**	**516,822**
At 31 December 2013				
Investment securities at fair value through income statement				
Debt-type instruments	-	78,199	-	78,199
Equity securities	4,281	-	-	4,281
Investment securities at fair value through equity				
Equity securities	28,310	2,082	204,624	235,016
	32,591	80,281	204,624	317,496

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8. INVESTMENT SECURITIES (Continued)

Reconciliation of Level 3 Items

	Investment securities at fair value through equity	
	2014	2013
At 1 January	**204,624**	136,467
Total gains/(losses) recognised in		
- Income statement	**(1,358)**	(16,822)
- Equity	**(1,584)**	(8,032)
Purchases	**5**	100,780
Sales	**(1,797)**	(7,769)
Reallocation	**6,051**	-
At 31 December	**205,941**	204,624
Total gains/(losses) for the year included in consolidated income statement for 31 December	**4,382**	(1,538)

9. RESTRICTED INVESTMENT ACCOUNTS

	31 December 2014			31 December 2013		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Investment in restricted investment accounts	**91,798**	**45,206**	**137,004**	91,799	46,480	138,279
Less: provisions	**(58,509)**	**(8,626)**	**(67,135)**	(51,695)	(8,626)	(60,321)
	33,289	**36,580**	**69,869**	40,104	37,854	77,958

The movement in provisions is as follows:

	31 December 2014			31 December 2013		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	**51,695**	**8,626**	**60,321**	23,329	1,931	25,260
Charge for the year	**6,250**	**-**	**6,250**	28,276	-	28,276
Transfer from Profit Equalisation Reserve	**-**	**-**	**-**	-	6,695	6,695
Exchange differences and other movements	**564**	**-**	**564**	90	-	90
At 31 December	**58,509**	**8,626**	**67,135**	51,695	8,626	60,321

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10. ASSETS ACQUIRED FOR LEASING

	31 December 2014			31 December 2013		
	Cost	**Accumulated depreciation**	**Net book amount**	Cost	Accumulated depreciation	Net book amount
Property & Equipment	**156,811**	**(82,568)**	**74,243**	129,507	(65,221)	64,286

The net book amount of assets acquired for leasing is further analysed as follows:

	31 December 2014	31 December 2013
Relating to owners	**22,036**	36,986
Relating to unrestricted investment accounts	**52,207**	27,300
	74,243	64,286

11. INVESTMENT IN REAL ESTATE

	31 December 2014			31 December 2013		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Investment properties	**355,857**	**-**	**355,857**	378,981	-	378,981
Less: provisions	**(23,258)**	**-**	**(23,258)**	(25,673)	-	(25,673)
	332,599	**-**	**332,599**	353,308	-	353,308

Fair value of investment properties at the year end approximates their carrying value.

Certain assets totalling $109.4 million included above are held by third parties as nominee on behalf of the Group.

The movement in provisions for investment in real estate is as follows:

	31 December 2014			31 December 2013		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	**25,673**	**-**	**25,673**	20,045	-	20,045
Charge for the year	**-**	**-**	**-**	-	-	-
Write back during the year	**(2,182)**	**-**	**(2,182)**	-	-	-
Utilised during the year	**-**	**-**	**-**	(5,454)	-	(5,454)
Addition due to acquisition of associate (note 21)	**-**	**-**	**-**	5,170	-	5,170
Exchange differences and other movements	**(233)**	**-**	**(233)**	5,912	-	5,912
At 31 December	**23,258**	**-**	**23,258**	25,673	-	25,673

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12. OTHER ASSETS

	31 December 2014			31 December 2013		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Account receivable	**172,148**	**38,137**	**210,285**	172,719	33,329	206,048
Due from related parties	**76,606**	**-**	**76,606**	71,308	-	71,308
Taxes - deferred	**37,295**	**-**	**37,295**	37,904	-	37,904
Taxes - current	**35,814**	**-**	**35,814**	31,552	-	31,552
Assets acquired against claims	**18,081**	**-**	**18,081**	21,032	-	21,032
	339,944	**38,137**	**378,081**	334,515	33,329	367,844
Provision for impairment	**(77,763)**	**(27,122)**	**(104,885)**	(73,454)	(27,199)	(100,653)
	262,181	**11,015**	**273,196**	261,061	6,130	267,191

The movement in provisions is as follows:

	31 December 2014			31 December 2013		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	**73,454**	**27,199**	**100,653**	45,080	26,188	71,268
Charge for the year	**4,168**	**-**	**4,168**	11,305	-	11,305
Write back during the year	**(3,953)**	**-**	**(3,953)**	(6,501)	-	(6,501)
Utilised during the year	**-**	**-**	**-**	(1,682)	-	(1,682)
Addition due to acquisition of associate (note 21)	**-**	**-**	**-**	22,512	-	22,512
Exchange differences and other movements	**4,094**	**(77)**	**4,017**	2,740	1,011	3,751
At 31 December	**77,763**	**27,122**	**104,885**	73,454	27,199	100,653

13. FIXED ASSETS

	Relating to owners							
	31 December 2014				31 December 2013			
	Cost	**Accumulated depreciation**	**Provision for impairment**	**Net book amount**	Cost	Accumulated depreciation	Provision for impairment	Net book amount
Land and building	**113,433**	**(13,309)**	**(2,804)**	**97,320**	110,066	(10,491)	(2,804)	96,771
Leasehold improvements	**25,099**	**(19,794)**	**-**	**5,305**	24,836	(17,894)	-	6,942
Furniture and equipment	**71,845**	**(62,989)**	**-**	**8,856**	68,462	(58,536)	-	9,926
Motor vehicles	**3,637**	**(1,840)**	**-**	**1,797**	3,215	(1,690)	-	1,525
	214,014	**(97,932)**	**(2,804)**	**113,278**	206,579	(88,611)	(2,804)	115,164

Depreciation charge for the year ended 31 December 2014 amounted to $7.4 million (31 December 2013: $8.5 million)

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14. INTANGIBLE ASSETS

	Relating to owners			
	31 December 2014			
	Cost	**Accumulated amortisation**	**Exchange differences**	**Net book amount**
Goodwill	**87,830**	**-**	**(8,702)**	**79,128**
Customer relations	**113,565**	**(43,455)**	**(10,645)**	**59,465**
Core deposits	**155,546**	**(65,138)**	**(20,964)**	**69,444**
Others	**26,431**	**(17,874)**	**-**	**8,557**
	383,372	**(126,467)**	**(40,311)**	**216,594**

	Relating to owners			
	31 December 2013			
	Cost	Accumulated amortisation	Exchange differences	Net book amount
Goodwill	87,830	-	(9,262)	78,568
Customer relations	113,565	(37,374)	(12,464)	63,727
Core deposits	155,546	(57,361)	(24,230)	73,955
Others	22,294	(15,000)	-	7,294
	379,235	(109,735)	(45,956)	223,544

Amortisation charge for the year ended 31 December 2014 amounted to $16.7 million (31 December 2013: $16 million)

The carrying amount of goodwill has been allocated to cash-generating units as follows:

	31 December 2014	31 December 2013
Business units of ex-Shamil Bank of Bahrain B.S.C. (C)	**66,070**	66,070
Faysal Bank Limited	**13,058**	12,498
	79,128	78,568

The recoverable amount of the cash-generating units were determined based on Value-in-Use (VIU) calculation using cash flow projections from financial budgets approved by the Group's senior management covering a three year period and Fair Value Less Cost to Sell (FVLCTS). The discount rate applied to cash flow projections represent the cost of capital adjusted for an appropriate risk premium for these cash-generating units. The key assumptions used in estimating the recoverable amounts of cash-generating units were assessed to ensure reasonableness of the VIU and FVLCTS and resulting adjustment, if any, is recorded in the consolidated income statement.

15. CUSTOMERS' CURRENT ACCOUNTS

Customers' current accounts include balances relating to a counterparty amounting to $218.4 million (31 December 2013: $247.8 million) which is subject to freeze and originating from jurisdiction under US and UN sanctions.

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16. DUE TO BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2014			31 December 2013		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Due to Banks	**1,232,663**	**-**	**1,232,663**	1,045,547	-	1,045,547
Due to financial and other institutions	**240,635**	**-**	**240,635**	255,976	-	255,976
	1,473,298	**-**	**1,473,298**	1,301,523	-	1,301,523

Due to banks, financial and other institutions include balances totalling $657.6 million (31 December 2013: $685.7 million) from two counterparties having contractual maturity ranging from up to one month to 3 years. Out of these, balances totalling $417 million (31 December 2013: $429.9 million) is from one counterparty which is subject to freeze and originating from jurisdiction under US and UN sanctions.

Due to banks include short and medium term borrowings by the Group under bilateral and multilateral arrangement with maturities ranging from one year to five years.

Due to banks, financial and other institutions include conventional deposits totalling $576.7 million (31 December 2013: $435.7 million), accepted by a subsidiary of the Bank.

At 31 December 2014, there were collateralized borrowings in aggregate $167.8 million (31 December 2013: $134.2 million).

Cash dividends amounting to $6.1 million (31 December 2013: $5.8 million) on certain shares pledged as collateral was directly received by the lender (as per agreed terms and conditions) during the year and adjusted against the outstanding facility amount as per the agreed terms.

Assets which are pledged as collateral are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

17. DUE TO INVESTORS

	Relating to owners	
	31 December 2014	31 December 2013
Due to corporate institutions	**1,047,431**	976,881
Due to individuals	**875,178**	811,448
Due to financial institutions	**72,736**	67,440
	1,995,345	1,855,769

Due to investors represent conventional deposits accepted by a subsidiary of the Bank.

Due to investors include floating rate unsecured term finance certificates issued by a subsidiary.

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18. OTHER LIABILITIES

	31 December 2014			31 December 2013		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Accounts payable	**206,522**	**52,550**	**259,072**	176,714	43,538	220,252
Due to related parties	**10,567**	**-**	**10,567**	10,867	-	10,867
Provision for taxation - current	**259**	**-**	**259**	133	-	133
Provision for taxation - deferred	**4,192**	**-**	**4,192**	5,072	-	5,072
	221,540	**52,550**	**274,090**	192,786	43,538	236,324

19. EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS

The funds received from Unrestricted Investment Accountholders (URIA) are invested on their behalf without recourse to the Group as follows:

	Notes	31 December 2014	31 December 2013
Commodity and other placements with banks, financial and other institutions	4	**25,003**	25,005
Murabaha and other financings	5	**1,266,103**	1,121,189
Investment in mudaraba	6	**17,315**	19,605
Investment in associates	7	**4,340**	4,340
Investment securities	8	**79,461**	82,836
Restricted investment accounts	9	**36,580**	37,854
Assets acquired for leasing	10	**52,207**	27,300
Other assets	12	**11,015**	6,130
Due from the Bank		**562,475**	704,748
		2,054,499	2,029,007
Other liabilities	18	**(52,550)**	(43,538)
Equity of unrestricted investment accountholders		**2,001,949**	1,985,469

The movement in investments fair value reserve (included in URIA) is as follows:

	31 December 2014	31 December 2013
At 1 January	**9,647**	11,960
Net movement during the year	**(355)**	(2,313)
At 31 December	**9,292**	9,647

The assets attributable to unrestricted investment accountholders have been disclosed net of impairment provisions amounting to $110 million (31 December 2013: $105.8 million). The movement of impairment provisions relating to unrestricted investment accountholders has been disclosed in note 29.

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19. EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS (Continued)

Other liabilities include profit equalization reserve and the movement is as follows:

	31 December 2014	31 December 2013
At 1 January	**2,546**	10,061
Net transfer to impairment provisions (note 29)	**-**	(12,698)
Net addition during the year	**5,002**	5,183
At 31 December	**7,548**	2,546

Other liabilities include investment risk reserve and the movement is as follows:

	31 December 2014	31 December 2013
At 1 January	**-**	-
Net addition during the year	**3,750**	-
Net transfer to impairment provisions (note 29)	**(835)**	-
At 31 December	**2,915**	-

The average gross rate of return in respect of unrestricted investment accounts was 7.82% for 31 December 2014 (31 December 2013: 7.09%) of which 5.03% (31 December 2013: 4.72%) was distributed to the investors and the balance was either set aside as provisions and/or retained by the Bank as share of profits in its capacity as a Mudarib.

The Bank earned a management fee up to 1% of the total invested amount per annum to cover its administration and other expenses related to the management of such funds

20. MINORITY INTEREST

The consolidated financial statements include 100% of the assets, liabilities and earnings of subsidiaries. The ownership interests of the other shareholders in the subsidiaries are called minority interests.

The following table summarises the minority shareholders' interests in the equity of consolidated subsidiaries.

	31 December 2014		31 December 2013	
	Minority %		**Minority %**	
Faysal Bank Limited	**33**	**102,727**	33	83,146
Health Island B.S.C. (C)	**50**	**100,766**	50	110,382
Cityview Real Estate Development B.S.C. (C)	**49**	**1,663**	49	1,663
Sakana Holistic Housing Solutions B.S.C. (C)	**50**	**15,027**	50	26,729
		220,183		221,920

Minority interest in the consolidated income statement of $6.2 million (31 December 2013: $1 million) represents the minority shareholders' share of the earnings of these subsidiaries for the respective years.

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21. SHARE CAPITAL

	Number of shares (thousands)	Share capital
Authorised	8,000,000	2,000,000
Issued and fully paid		
Total outstanding	2,804,050	701,013
Treasury shares	(120,595)	(30,149)
At 1 January 2013	2,683,455	670,864
Increase in share capital	226,705	56,677
At 31 December 2013 (Audited)	2,910,160	727,541
Issued and fully paid		
Total outstanding as at 1 January 2014	**3,030,755**	**757,690**
Treasury shares	**(120,595)**	**(30,149)**
At 31 December 2014 (Audited)	**2,910,160**	**727,541**

The Bank's total issued and fully paid share capital at 31 December 2014 comprises 3,030,755,027 shares at $0.25 per share amounting to $757,688,757. The share capital of the Bank is denominated in United States Dollars and these shares are traded on Bahrain Bourse in United States dollars and on Kuwait Stock Exchange in Kuwaiti Dinars.

The Bank owned 120,594,984 of its own shares at 31 December 2014 (31 December 2013: 120,594,984). The shares are held as treasury shares and the Bank has the right to reissue these shares at a later date.

The shareholders of the Bank and FLB in their Extraordinary General Meetings held on 21 October 2012 approved the Transfer of Business from FLB to the Bank and the share swap involving issuance of four ordinary shares of the Bank for one ordinary share of FLB directly to the shareholders of FLB (other than for FLB shares held by or on behalf of the Bank). On 17 February 2013, the CBB approved the Transfer of Business from First Leasing Bank B.S.C. (c) ("FLB") to the Bank and the share swap involving issuance of four ordinary shares of the Bank for one ordinary share of FLB directly to the shareholders of FLB (other than for FLB shares held by or on behalf of the Bank). The Transfer of Business from FLB and share swap was completed in March 2013.

22. EARNINGS PER SHARE (BASIC & DILUTED)

Earnings per share (Basic & Diluted) are calculated by dividing the net income attributable to shareholders by the weighted average number of issued and fully paid up ordinary shares during the year.

	December 31 2014	December 31 2013
Net loss attributable to shareholders ($ '000)	**(15,012)**	(80,372)
Weighted average number of issued and fully paid up ordinary shares ('000)	**2,910,160**	2,910,160
Earnings per share (Basic & Diluted) - US Cents	**(0.52)**	(2.76)

Earnings per share on non-sharia compliant income and expenses is included under note 41.

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23. INCOME FROM RESTRICTED INVESTMENT ACCOUNTS AS A MUDARIB

Income from restricted investment accounts comprises profit participation as a Mudarib and investment management fees net of contribution made to certain restricted funds.

24. INCOME FROM MURABAHA AND OTHER FINANCINGS

	Relating to owners	
	31 December 2014	31 December 2013
Income from murabaha financing	**22,505**	16,637
Income from other financings	**199,704**	194,687
	222,209	211,324

25. INCOME FROM OTHER INVESTMENTS

	Relating to owners	
	31 December 2014	31 December 2013
Income from investment securities at amortised cost	**101,508**	69,994
Income from investment securities at fair value through equity	**6,841**	5,886
Income from investment securities at fair value through income statement	**15,574**	17,650
Rental income from investment in real estate	**2,821**	3,796
	126,744	97,326

26. OTHER INCOME

	Relating to owners	
	31 December 2014	31 December 2013
Income from banking services	**38,051**	37,364
Foreign exchange income/(loss)	**12,871**	(3,226)
Gain on disposal of fixed assets	**1,611**	1,188
Others	**2,463**	5,467
	54,996	40,793

27. ADMINISTRATIVE AND GENERAL EXPENSES

	Relating to owners	
	31 December 2014	31 December 2013
Salaries and other benefits	**84,904**	89,140
Office expenses	**50,296**	48,934
Professional fees	**8,658**	6,013
Other administrative expenses	**24,010**	19,698
	167,868	163,785

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28. SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through donations to charitable causes and organizations.

29. PROVISIONS

	31 December 2014			31 December 2013		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	**597,399**	**105,742**	**703,141**	526,639	88,363	615,002
Charge for the year	**48,831**	**4,892**	**53,723**	110,979	6,496	117,475
Write back during the year	**(22,706)**	**-**	**(22,706)**	(28,780)	-	(28,780)
Addition due to acquisition of associate (note 21)	**-**	**-**	**-**	32,318	-	32,318
Transfer from Investment Risk Reserve (note 19)	**-**	**835**	**835**	-	-	-
Transfer from Profit Equalization Reserve (note 19)	**-**	**-**	**-**	-	12,698	12,698
Utilised during the year	**(2,876)**	**(625)**	**(3,501)**	(26,366)	(1,815)	(28,181)
Exchange differences	**9,890**	**-**	**9,890**	(17,391)	-	(17,391)
At 31 December	**630,538**	**110,844**	**741,382**	597,399	105,742	703,141

The allocation of the provision to the respective assets is as follows:

	31 December 2014			31 December 2013		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Commodity and other placements with banks, financial and other institutions	**6,779**	**-**	**6,779**	6,525	-	6,525
Murabaha and other financings	**268,357**	**54,552**	**322,909**	242,561	49,373	291,934
Investment in mudaraba	**854**	**14,788**	**15,642**	-	14,788	14,788
Investment in associates	**70,528**	**-**	**70,528**	70,528	-	70,528
Investments securities	**121,686**	**5,756**	**127,442**	124,159	5,756	129,915
Restricted investment accounts	**58,509**	**8,626**	**67,135**	51,695	8,626	60,321
Fixed assets	**2,804**	**-**	**2,804**	2,804	-	2,804
Investment in real estate	**23,258**	**-**	**23,258**	25,673	-	25,673
Other assets	**77,763**	**27,122**	**104,885**	73,454	27,199	100,653
	630,538	**110,844**	**741,382**	597,399	105,742	703,141

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29. PROVISIONS (Continued)

Total provisions of $741.4 million (31 December 2013: $703.1 million) includes $6.5 million (31 December 2013: $54.9 million) held as general provisions. The movement in general provision is as follows:

	Relating to owners	
	31 December 2014	31 December 2013
At 1 January	**54,931**	24,244
Charge for the year	**-**	46,037
Write back during the year	**-**	(2,668)
Utilised during the year	**-**	(8,507)
Allocated to specific provision	**(48,407)**	(3,735)
Exchange differences	**(15)**	(440)
At 31 December	**6,509**	54,931

General provision of $6.5 million (31 December 2013: $54.9 million) includes $3.6 million (31 December 2013: $3.6 million) in respect of Murabaha and other financings.

30. OVERSEAS TAXATION

	Relating to owners	
	31 December 2014	31 December 2013
Current taxes	**10,138**	(5,184)
Deferred taxes	**1,546**	7,117
	11,684	1,933

The Group is subject to income taxes in some jurisdictions. Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences impact the income tax and deferred tax provisions in the period in which such determination is made.

Current tax receivable/(payable)

	31 December 2014	31 December 2013
At 1 January	**31,419**	14,729
Reversal/(charge) for the year	**(10,138)**	5,184
Payments made	**12,724**	12,528
Exchange differences and other movements	**1,550**	(1,022)
At 31 December	**35,555**	31,419

Deferred tax asset/(liability)

	31 December 2014	31 December 2013
At 1 January	**32,832**	44,509
Charge for the year	**(1,546)**	(7,117)
Charges due to fair value reserve	**(370)**	-
Exchange differences and other movements	**2,187**	(4,560)
At 31 December	**33,103**	32,832

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31. SEGMENTAL INFORMATION

The Group constitutes of three main business segments, namely;

(i) Retail and Corporate banking, in which the Group receives customer funds and deposits and extends financing to its retail and corporate clients.

(ii) Trading Portfolio, where the Group trades in equity deals, foreign exchange and other transactions with the objective of realizing short-term gains.

(iii) Asset Management/Investment Banking, in which the Group directly participates in investment opportunities.

	31 December 2014					31 December 2013				
	Retail & Corporate banking	**Trading Portfolio**	**Asset Management / Investment Banking**	**Others**	**Total**	Retail & Corporate banking	Trading Portfolio	Asset Management / Investment Banking	Others	Total
Operating income	**207,503**	**46,165**	**(29,937)**	**4,029**	**227,760**	181,422	29,106	(13,778)	3,148	199,898
Total expenses	**(177,899)**	**(1,523)**	**(19,118)**	**(258)**	**(198,798)**	(172,058)	(425)	(22,451)	(159)	(195,093)
Net income/(loss) before provision and overseas taxation	**29,604**	**44,642**	**(49,055)**	**3,771**	**28,962**	9,364	28,681	(36,229)	2,989	4,805
Provision and overseas taxation	**(20,035)**	**(18,479)**	**772**	**(67)**	**(37,809)**	1,379	(31,622)	(53,849)	(40)	(84,132)
Net income/(loss) for the year	**9,569**	**26,163**	**(48,283)**	**3,704**	**(8,847)**	10,743	(2,941)	(90,078)	2,949	(79,327)
Attributable to:										
Equity holders of the Bank	**9,569**	**19,435**	**(47,720)**	**3,704**	**(15,012)**	10,743	(6,634)	(87,430)	2,949	(80,372)
Minority interests	**-**	**6,728**	**(563)**	**-**	**6,165**	-	3,693	(2,648)	-	1,045
	9,569	**26,163**	**(48,283)**	**3,704**	**(8,847)**	10,743	(2,941)	(90,078)	2,949	(79,327)
Total assets	**5,027,889**	**1,482,691**	**1,341,952**	**8,372**	**7,860,904**	5,087,071	946,805	1,361,883	7,376	7,403,135
Total liabilities and equity of unrestricted investment account holders	**6,612,550**	**422,633**	**82,086**	**66**	**7,117,335**	6,268,906	285,847	94,758	136	6,649,647

The Group constitutes of four geographical segments which are Europe, North America, Middle East & Africa, Asia and others

	Europe	**North America**	**Middle East & Africa**	**Asia**	**Others**	**Total**	Europe	North America	Middle East & Africa	Asia	Others	Total
Operating income	**1,160**	**5,413**	**42,279**	**176,742**	**2,166**	**227,760**	2,703	3,220	34,851	155,764	3,360	199,898
Total expenses	**(13,298)**	**-**	**(62,639)**	**(123,105)**	**244**	**(198,798)**	(15,679)	-	(66,997)	(112,509)	92	(195,093)
Net income/(loss) before provision and overseas taxation	**(12,138)**	**5,413**	**(20,360)**	**53,637**	**2,410**	**28,962**	(12,976)	3,220	(32,146)	43,255	3,452	4,805
Provision and overseas taxation	**(896)**	**(1,048)**	**(5,484)**	**(30,381)**		**(37,809)**	(34,544)	(53)	(10,671)	(38,864)	-	(84,132)
Net income/(loss) for the year	**(13,034)**	**4,365**	**(25,844)**	**23,256**	**2,410**	**(8,847)**	(47,520)	3,167	(42,817)	4,391	3,452	(79,327)
Attributable to:												
Equity holders of the Bank	**(13,034)**	**4,365**	**(25,281)**	**16,528**	**2,410**	**(15,012)**	(47,520)	3,167	(40,167)	696	3,452	(80,372)
Minority interests	**-**	**-**	**(563)**	**6,728**	**-**	**6,165**	-	-	(2,650)	3,695	-	1,045
	(13,034)	**4,365**	**(25,844)**	**23,256**	**2,410**	**(8,847)**	(47,520)	3,167	(42,817)	4,391	3,452	(79,327)
Total assets	**492,269**	**62,820**	**3,217,504**	**3,972,811**	**115,500**	**7,860,904**	581,812	108,151	3,075,363	3,515,703	122,106	7,403,135
Total liabilities and equity of unrestricted investment account holders	**230,500**	**26,597**	**3,257,222**	**3,592,220**	**10,796**	**7,117,335**	263,851	48,820	3,138,042	3,167,287	31,647	6,649,647

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32. ZAKAH

Zakah is directly borne by the owners and investors in restricted and equity of unrestricted investment accountholders. The Bank does not collect or pay Zakah on behalf of its owners and its investment accountholders.

33. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

	31 December 2014	31 December 2013
Acceptances and endorsements	**103,910**	125,326
Guarantees and irrevocable letters of credit	**749,748**	826,249
Customer and other claims	**434,488**	404,607
	1,288,146	1,356,182

Commitments

	31 December 2014	31 December 2013
Undrawn facilities, financing lines and other commitments to finance	**2,520,901**	2,249,034

Customer and other claims include a net claim amounting to $59.2 million (31 December 2013: $55.2 million) for which litigation has been filed against the Bank and the counter claim and litigation filed by the Bank against the counterparty in connection with a real estate transaction. The case is currently under court proceedings and the ultimate outcome cannot presently be determined. The Bank's management is vigorously contesting the litigation and based on the advice received from its external legal counsel, the Bank believes that it has strong grounds to successfully defend against this claim. Accordingly, no provision for this claim has been made in the consolidated financial statements.

34. CURRENCY RISK

Assuming that all other variables held constant, the impact of currency risk on the consolidated income statement/equity based on reasonable shift is summarized below:

	PKR	**EUR**	**USD**	**PLN**
As at 31 December 2014				
Total currency exposure	**96,816**	**93,456**	**89,475**	**45,096**
Reasonable shift	**3.68%**	**0.19%**	**0.09%**	**0.66%**
Total effect on income/equity	**3,563**	**178**	**81**	**298**
As at 31 December 2013				
Total currency exposure	92,223	119,631	118,393	49,770
Reasonable shift	5.36%	0.07%	0.12%	2.18%
Total effect on income/equity	4,943	84	142	1,085

The basis for calculation of the reasonable shift is arrived at by comparing the foreign exchange spot rate as at 31 December as compared to the one year forward rate for the same period.

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34. CURRENCY RISK (Continued)

The currency exposure of the assets and liabilities, of the Group, including equity of unrestricted investment accountholders, is as follows:

31 December 2014	United States Dollar	Pakistan Rupee	Swiss Franc	Bahraini Dinar	Euro	UAE Dirham	Hong Kong Dollar	Other	Total
Cash and balances with banks and central banks	98,072	142,129	1,320	196,471	95,994	4,041	28	21,339	559,394
Commodity and other placements with banks, financial and other institutions	177,823	-	-	34,485	113,327	4,736	-	-	330,371
Murabaha and other financings	403,983	1,727,070	-	1,034,425	38,023	46,552	-	81,284	3,331,337
Musharaka financing	-	90,150	-	-	-	-	-	-	90,150
Investment in mudaraba	17,434	-	-	-	-	-	-	-	17,434
Investment in associates	-	1,021	-	605,590	-	-	69,595	8,615	684,821
Investment securities	200,557	1,555,094	718	1,662	6,474	-	-	3,113	1,767,618
Restricted investment accounts	60,393	-	-	-	9,476	-	-	-	69,869
Assets acquired for leasing	22,037	-	-	52,206	-	-	-	-	74,243
Investment in real estate	4,862	7,618	45,195	229,828	-	-	-	45,096	332,599
Other assets	71,326	140,143	1,934	16,797	31,543	-	-	11,453	273,196
Fixed assets	4,014	53,568	86	55,598	12	-	-	-	113,278
Intangible assets	193,552	23,042	-	-	-	-	-	-	216,594
Total assets	**1,254,053**	**3,739,835**	**49,253**	**2,227,062**	**294,849**	**55,329**	**69,623**	**170,900**	**7,860,904**
Customer current accounts	97,633	783,835	-	248,757	224,111	1,364	-	16,953	1,372,653
Due to banks, financial and other institutions	193,602	598,026	-	244,381	108,001	328,432	-	856	1,473,298
Due to investors	158,279	1,777,577	-	-	40,455	-	-	19,034	1,995,345
Other liabilities	6,960	119,809	8,672	90,707	45,460	1,723	-	759	274,090
Total liabilities	**456,474**	**3,279,247**	**8,672**	**583,845**	**418,027**	**331,519**	**-**	**37,602**	**5,115,386**
Equity of unrestricted investment accountholders	363,668	-	-	1,584,165	54,116	-	-	-	2,001,949
Total liabilities and equity of unrestricted investment accountholders	**820,142**	**3,279,247**	**8,672**	**2,168,010**	**472,143**	**331,519**	**-**	**37,602**	**7,117,335**
Contingent liabilities and commitments	**1,165,847**	**1,833,903**	**20,130**	**565,511**	**70,520**	**70,538**	**-**	**82,598**	**3,809,047**
31 December 2013									
Total assets	1,372,189	3,293,522	57,644	2,056,936	331,900	43,239	67,968	179,737	7,403,135
Total liabilities and equity of unrestricted investment accountholders	722,228	2,913,507	8,257	2,189,236	451,531	326,525	-	38,363	6,649,647
Contingent liabilities and commitments	850,894	1,940,586	15,196	639,984	39,005	57,618	-	61,933	3,605,216

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35. MATURITY PROFILE

The maturity profile of the assets and liabilities of the Group, including equity of unrestricted investment accountholders, is as follows:

31 December 2014	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Cash and balances with banks and central banks	559,394	-	-	-	-	559,394
Commodity and other placements with banks, financial and other institutions	246,930	-	83,441	-	-	330,371
Murabaha and other financings	501,048	501,911	448,319	1,079,571	800,488	3,331,337
Musharaka financing	8,392	14,059	14,574	23,886	29,239	90,150
Investment in mudaraba	2,885	-	-	-	14,549	17,434
Investment in associates	-	-	-	-	684,821	684,821
Investment securities	290,493	451,972	540,169	347,337	137,647	1,767,618
Restricted investment accounts	-	-	-	-	69,869	69,869
Assets acquired for leasing	682	-	1,564	23,582	48,415	74,243
Investment in real estate	-	-	-	260,611	71,988	332,599
Other assets	114,164	18,046	98,124	17,702	25,160	273,196
Fixed assets	4,954	33	2,070	10,677	95,544	113,278
Intangible assets	-	-	-	8,553	208,041	216,594
Total assets	**1,728,942**	**986,021**	**1,188,261**	**1,771,919**	**2,185,761**	**7,860,904**
Customer current accounts	1,372,653	-	-	-	-	1,372,653
Due to banks, financial and other institutions	879,918	166,128	351,074	54,214	21,964	1,473,298
Due to investors	1,369,745	187,705	367,558	53,057	17,280	1,995,345
Other liabilities	185,410	498	41,084	30,578	16,520	274,090
Total liabilities	**3,807,726**	**354,331**	**759,716**	**137,849**	**55,764**	**5,115,386**
Equity of unrestricted investment accountholders	746,495	230,429	678,138	346,801	86	2,001,949
Total liabilities and equity of unrestricted investment accountholders	**4,554,221**	**584,760**	**1,437,854**	**484,650**	**55,850**	**7,117,335**
Contingent liabilities and commitments	**1,988,472**	**656,015**	**490,447**	**641,110**	**33,003**	**3,809,047**
31 December 2013						
Total assets	1,833,424	983,541	934,453	1,729,584	1,922,133	7,403,135
Total liabilities and equity of unrestricted investment accountholders	3,920,411	521,008	1,160,035	1,029,029	19,164	6,649,647
Contingent liabilities and commitments	645,074	680,551	519,533	1,559,228	200,830	3,605,216

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36. CONCENTRATION OF ASSETS, LIABILITIES AND LETTERS OF CREDIT AND GUARANTEE

Assets and liabilities of the Group, including equity of unrestricted investment accountholders, and letters of credit and guarantee are distributed over the following industry sectors and geographical regions:

31 December 2014	Banks and Financial Institutions	Trading and Manu-facturing	Property and Construction	Services	Private individuals	Textile	Other	Total
Cash and balances with banks and central banks	559,394	-	-	-	-	-	-	559,394
Commodity and other placements with banks, financial and other institutions	330,371	-	-	-	-	-	-	330,371
Murabaha and other financings	486,844	1,254,233	155,068	137,555	934,100	106,069	257,468	3,331,337
Musharaka financing	-	62,698	91	18,492	8,836	33	-	90,150
Investment in mudaraba	-	-	17,434	-	-	-	-	17,434
Investment in associates	501,093	5,334	98,914	79,480	-	-	-	684,821
Investment securities	1,621,531	68,943	55,594	19,638	-	1,195	717	1,767,618
Restricted investment accounts	-	-	69,869	-	-	-	-	69,869
Assets acquired for leasing	-	8,609	19,235	675	45,724	-	-	74,243
Investment in real estate	7,617	-	324,982	-	-	-	-	332,599
Other assets	191,672	9,337	29,223	402	33,725	126	8,711	273,196
Fixed assets	53,568	-	59,710	-	-	-	-	113,278
Intangible assets	216,594	-	-	-	-	-	-	216,594
Total assets	**3,968,684**	**1,409,154**	**830,120**	**256,242**	**1,022,385**	**107,423**	**266,896**	**7,860,904**
Customer current accounts	17,873	431,703	71,557	129,238	398,224	4,953	319,105	1,372,653
Due to banks, financial and other institutions	1,470,363	-	-	-	-	-	2,935	1,473,298
Due to investors	218,108	373,102	44,218	176,839	849,085	3,590	330,403	1,995,345
Other liabilities	54,146	12,037	28,854	4,117	124,379	467	50,090	274,090
Total liabilities	**1,760,490**	**816,842**	**144,629**	**310,194**	**1,371,688**	**9,010**	**702,533**	**5,115,386**
Equity of unrestricted investment account holders	266,496	352,120	61,798	166,011	1,114,697	-	40,827	2,001,949
Total liabilities and equity of unrestricted investment accountholders	**2,026,986**	**1,168,962**	**206,427**	**476,205**	**2,486,385**	**9,010**	**743,360**	**7,117,335**
Contingent liabilities and commitments	**1,458,619**	**1,338,219**	**533,533**	**44,243**	**31,770**	**31,015**	**371,648**	**3,809,047**
31 December 2013								
Total assets	3,674,825	1,461,772	855,504	245,162	804,307	109,279	252,286	7,403,135
Total liabilities and equity of unrestricted investment accountholders	1,730,008	809,307	140,135	408,618	2,827,154	12,719	721,706	6,649,647
Contingent liabilities and commitments	1,298,090	1,286,795	534,262	35,377	83,920	10,316	356,456	3,605,216

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36. CONCENTRATION OF ASSETS, LIABILITIES AND LETTERS OF CREDIT AND GUARANTEE (Continued)

31 December 2014	Asia / Pacific	Middle East	Europe	North America	Others	Total
Cash and balances with banks and central banks	215,814	220,923	99,913	22,744	-	559,394
Commodity and other placements with banks, financial and other institutions	-	296,506	28,703	-	5,162	330,371
Murabaha and other financings	1,795,581	1,200,655	224,636	127	110,338	3,331,337
Musharaka financing	90,150	-	-	-	-	90,150
Investment in mudaraba	-	-	-	17,434	-	17,434
Investment in associates	70,616	614,205	-	-	-	684,821
Investment securities	1,572,545	180,305	7,813	6,955	-	1,767,618
Restricted investment accounts	-	69,869	-	-	-	69,869
Assets acquired for leasing	-	74,243	-	-	-	74,243
Investment in real estate	11,243	231,066	90,290	-	-	332,599
Other assets	140,252	80,626	36,758	15,560	-	273,196
Fixed assets	53,568	59,613	97	-	-	113,278
Intangible assets	23,042	189,493	4,059	-	-	216,594
Total assets	**3,972,811**	**3,217,504**	**492,269**	**62,820**	**115,500**	**7,860,904**
Customer current accounts	868,162	271,846	218,821	12,389	1,435	1,372,653
Due to banks, financial and other institutions	608,383	855,611	-	-	9,304	1,473,298
Due to investors	1,995,345	-	-	-	-	1,995,345
Other liabilities	120,163	134,545	9,473	9,909	-	274,090
Total liabilities	**3,592,053**	**1,262,002**	**228,294**	**22,298**	**10,739**	**5,115,386**
Equity of unrestricted investment accountholders	167	1,995,220	2,206	4,299	57	2,001,949
Total liabilities and equity of unrestricted investment accountholders accountholders	**3,592,220**	**3,257,222**	**230,500**	**26,597**	**10,796**	**7,117,335**
Contingent liabilities and commitments	**3,122,776**	**650,708**	**22,775**	**-**	**12,788**	**3,809,047**
31 December 2013						
Total assets	3,515,703	3,075,363	581,812	108,151	122,106	7,403,135
Total liabilities and equity of unrestricted investment accountholders	3,167,287	3,138,042	263,851	48,820	31,647	6,649,647
Contingent liabilities and commitments	2,855,527	719,480	27,997	-	2,212	3,605,216

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37. RISK MANAGEMENT

Credit risk

The significant concentration of credit risk at 31 December is set out in note 36.

Non performing financing exposures are conservatively considered as financing exposures which have been past due beyond 90 days and the profit on these assets is not recognized in the consolidated income statement. Following are the details of non performing financing exposures relating to the Bank and its unrestricted investment accountholders:

	31 December 2014			31 December 2013		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Gross exposure						
Past due but performing financing exposures	**24,522**	**45,714**	**70,236**	15,088	12,427	27,515
Non performing financing exposures	**457,090**	**294,590**	**751,680**	380,918	238,883	619,801
	481,612	**340,304**	**821,916**	396,006	251,310	647,316
Fair value of collateral						
Past due but performing financing exposures	**41,969**	**35,951**	**77,920**	9,976	43,119	53,095
Non performing financing exposures	**110,941**	**208,933**	**319,874**	364,268	203,981	568,249
	152,910	**244,884**	**397,794**	374,244	247,100	621,344

Included in the performing financing exposures of the Group are facilities which have been restructured during the year which are as follows:

	31 December 2014			31 December 2013		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	Relating to owners	Relating to unrestricted investment accounts	Total
Restructured financings	**209,139**	**3,517**	**212,656**	216,552	8,602	225,154

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37. RISK MANAGEMENT (Continued)

Profit rate risk

The table below summarises the Group's exposure to profit rate risk. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

31 December 2014	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Non rate sensitive	Total
Cash and balances with banks and central banks	342,541	-	-	-	-	216,853	559,394
Commodity and other placements with banks, financial and other institutions	246,930	34,103	49,338	-	-	-	330,371
Murabaha and other financings	519,438	853,628	666,524	571,186	651,747	68,814	3,331,337
Musharaka financing	1,301	323	4,953	54,399	29,174	-	90,150
Investment securities	36,008	186,207	599,727	542,463	157,966	245,247	1,767,618
Assets acquired for leasing	19,748	-	2,042	5,525	46,928	-	74,243
Other assets	118	3,527	1,899	18,126	-	249,526	273,196
Total financial assets	**1,166,084**	**1,077,788**	**1,324,483**	**1,191,699**	**885,815**	**780,440**	**6,426,309**
Customer current accounts	-	-	-	-	-	1,372,653	1,372,653
Due to banks, financial and other institutions	849,683	58,083	310,013	91,447	164,072	-	1,473,298
Due to investors	381,239	172,624	1,374,810	65,283	1,383	6	1,995,345
Other liabilities	2,221	541	212	2,689	9,453	258,974	274,090
Total financial liabilities	**1,233,143**	**231,248**	**1,685,035**	**159,419**	**174,908**	**1,631,633**	**5,115,386**
Equity of unrestricted investment accountholders	836,005	132,719	659,959	373,158	108	-	2,001,949
Total financial liabilities and equity of unrestricted investment accountholders	**2,069,148**	**363,967**	**2,344,994**	**532,577**	**175,016**	**1,631,633**	**7,117,335**
Total repricing gap	**(903,064)**	**713,821**	**(1,020,511)**	**659,122**	**710,799**	**(851,193)**	**(691,026)**
31 December 2013							
Total financial assets	**2,248,262**	**726,854**	**722,443**	**697,637**	**713,005**	**839,093**	**5,947,294**
Total financial liabilities and equity of unrestricted investment accountholders	**2,041,509**	**360,191**	**2,299,210**	**436,822**	**18,875**	**1,493,040**	**6,649,647**
Total repricing gap	**206,753**	**366,663**	**(1,576,767)**	**260,815**	**694,130**	**(653,947)**	**(702,353)**

	USD	EUR	PKR	BHD	AED
As at 31 December 2014					
Total profit rate exposure	**154,359**	**186,781**	**374,639**	**831,964**	**276,183**
Reasonable shift	**0.33%**	**0.09%**	**0.42%**	**0.57%**	**0.06%**
Total effect on income	**509**	**168**	**1,573**	**4,742**	**166**
As at 31 December 2013					
Total profit rate exposure	511,172	161,647	187,475	1,017,151	283,297
Reasonable shift	0.21%	0.21%	0.90%	0.30%	0.01%
Total effect on income	1,073	339	1,687	3,051	28

The basis for calculation of the reasonable shift is arrived at by comparing the interbank lending rate at the beginning and the end of the year.

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37. RISK MANAGEMENT (Continued)

Price risk

The table below summarises the impact of increase/decrease of equity indices on the Group's post tax profit for the year and on other components of equity. The analysis is based on the assumptions that equity indices increased/decreased by 10% (31 December 2013: 10%) with all other variables held constant and all the Group's equity instruments moved according to the historical correlation with the indices:

	Impact on other components of equity	
Index	**2014**	2013
Karachi stock exchange (+/-10%)	**2,197**	2,382

38. RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence or joint control over the other party in making financial and operating decisions.

Related parties include:

(a) Directors and major shareholders of the Bank and companies in which they have an ownership interest.

(b) Corporate, whose ownership and management is common with the Bank.

(c) DMIT and companies in which DMIT has ownership interest and subsidiaries of such companies.

(d) Associated companies of the Bank.

A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

Significant balances with related parties comprise:

	31 December 2014		31 December 2013	
	Relating to owners	**Relating to unrestricted investment accounts**	Relating to owners	Relating to unrestricted investment accounts
Assets				
Commodity and other placements with banks, financial and other institutions - note (i)	**131,472**	**25,003**	128,082	25,005
Murabaha and other financings	**204,201**	**12,809**	205,050	12,809
Investment securities	**-**	**9,778**	-	9,777
Other assets - note (i)	**76,606**	**-**	71,308	-
Liabilities				
Customers' current accounts	**3,512**	**-**	4,366	-
Due to banks, financial and other institutions	**240,635**	**-**	255,976	-
Equity of unrestricted investment accounts	**-**	**64,413**	-	73,703
Other liabilities	**10,567**	**-**	10,867	-
Funds managed by related parties	**-**	**17,384**	-	17,902

Note (i) - The Group has obtained pledge of specific assets totalling $234.5 million (31 December 2013: $232.5 million) against the outstanding exposure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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38. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

The Group entered into the following significant transactions with related parties during the year:

	31 December 2014	31 December 2013
Income from financings and short-term liquid funds	**2,260**	3,512
Dividends received	**6,304**	5,732
Expense recovery	**8,570**	8,531
Profit paid	**120**	95

39. CAPITAL MANAGEMENT

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The table below summarises the composition of regulatory capital and the ratios of the Group for the years ended (computed under Basel II regulations as prescribed by the CBB). The minimum regulatory requirement is 12%.

	31 December 2014	31 December 2013
Tier 1	**605,955**	666,395
Tier 2	**41,859**	27,286
Total Capital Base	**647,814**	693,681
Total Risk-Weighted Exposures	**5,350,292**	5,430,517
Capital Adequacy Ratio	**12.11%**	12.77%

40. PROPOSED DIVIDEND

The Board of Directors has not proposed any dividend for the year ended 31 December 2014 (31 December 2013: Nil).

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41. NON-SHARIA COMPLIANT INCOME AND EXPENSES

The Group has earned certain income and incurred certain expenses from conventional assets and liabilities. These conventional assets and liabilities are covered by the Sharia Compliance Plan. The details of the total income and total expenses are as follows:

	Year ended	
	31 December 2014	31 December 2013
INCOME		
Group's share of income from funds under management	**208**	599
Income from other financings	**199,704**	194,687
Share of profit after tax from associates - note (i)	**37,691**	33,300
Income from investments	**107,959**	95,011
Other income	**26,339**	33,584
Gross income	**371,901**	357,181
Less: profit paid to banks, financial and other institutions (net) - note (ii)	**(166,946)**	(165,188)
Total income	**204,955**	191,993
EXPENSES		
Administrative and general expenses - note (ii)	**(108,766)**	(109,191)
Depreciation and amortisation	**(22,300)**	(23,326)
Total expenses	**(131,066)**	(132,517)
Net income before provision for impairment and overseas taxation	**73,889**	59,476
Provision for impairment (net)	**(27,137)**	(22,879)
Net income before overseas taxation	**46,752**	36,597
Overseas taxation	**(11,178)**	(1,236)
NET INCOME FOR THE YEAR	**35,574**	35,361
Attributable to:		
Equity holders of the Bank	**32,987**	33,639
Minority interests	**2,587**	1,722
	35,574	35,361
Basic and diluted earnings per share	**USCts1.13**	USCts1.16

Note (i) - The share of profit attributable to non-sharia compliant associates is based on their accounting policies which are different from the Group accounting policies. Since the non-sharia income is already disclosed separately and hence no adjustment is made on impact of dissimilar accounting policies.

Note (ii) - Expenses relate to entities which are consolidated line by line and exclude associates.

Note (iii) - One of the subsidiaries presently operating as a conventional bank has increased the number of its Islamic branches during the year to 58 (2013: 53 branches) out of total 274 branches (2013: 269 branches).

42. COMPARATIVES

Certain comparatives figures have been reclassified to conform to the current year presentation.

BASEL II PILLAR III QUANTITATIVE DISCLOSURES

FOR THE YEAR ENDED 31 DECEMBER 2014

BASEL II PILLAR III QUANTITATIVE DISCLOSURES

AT 31 DECEMBER 2014
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1. Background

The Public Disclosure (PD) module of the Central Bank of Bahrain (CBB) rulebook was introduced with effect from January 2008. The disclosures in this report are in addition to the disclosures set out in the Group's consolidated financial statements for the year ended 31 December 2014, presented in accordance with Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). These disclosures are mainly related to compliance with the Basel II Pillar III Quantitative disclosure requirements and should be read in conjunction with the Group's consolidated financial information for the year ended 31 December 2014.

2. Basel II Framework

CBB has issued Basel II guidelines for the implementation of Basel II capital adequacy framework for Banks incorporated in the Kingdom of Bahrain.

The Basel II framework provides a risk based approach for calculation of regulatory capital. The Basel II framework is expected to strengthen the risk management practices across the financial institutions.

The Basel II framework is based on three pillars as follows:-

- Pillar I: Minimum capital requirements including calculation of the capital adequacy ratio
- Pillar II: Supervisory review process which includes the Internal Capital Adequacy Assessment Process
- Pillar III: Market discipline which includes the disclosure of risk management and capital adequacy information.

3. Methodology

As per the requirements of CBB's Basel II capital adequacy framework, the method for calculating the consolidated capital adequacy ratio for the Group is summarized as follows:

- Line by line consolidation is performed for the risk exposures and eligible capital of all the subsidiaries within the Group with the exception of Ithmaar's banking subsidiaries incorporated outside Kingdom of Bahrain which are operating under Basel II compliant jurisdictions, where full aggregation is performed of the risk weighted exposures and eligible capital as required under Prudential Consolidation and Deduction module (PCD).
- Pro-rata aggregation of risk weighted exposures and eligible capital of Ithmaar's significant investments (20% – 50%) in banking and other financial entities as required under PCD module.

4. Approaches adopted for determining regulatory capital requirements

The approach adopted for determining regulatory capital requirements under CBB's Basel II guidelines is summarised as follows:

Credit Risk	Standardised approach
Market Risk	Standardised approach
Operational Risk	Basic Indicator approach

5. Group Structure

The Group's consolidated financial information are prepared and published on a full consolidation basis, with all subsidiaries being consolidated in accordance with AAOIFI. However, the CBB's consolidated capital adequacy methodology accommodates both line-by-line and aggregation forms of consolidation.

BASEL II PILLAR III QUANTITATIVE DISCLOSURES

AT 31 DECEMBER 2014
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5. Group Structure (Continued)

Line by line consolidation is performed for the risk exposures and eligible capital of all the subsidiaries within the Group except for the following:

Subsidiary	Country of Incorporation	Ownership	Approach
Faysal Bank Limited	Pakistan	66.6 per cent	Full Aggregation

6. Consolidated Capital Structure for capital adequacy purpose

A	Tier 1 Capital	
	Issued and fully paid-up ordinary capital	727,541
	Reserves	
	General reserves	56,725
	Statutory reserve	38,090
	Share Premium	149,614
	Others	(36,599)
	Accumulated losses	(412,681)
	Minority interest in the equity of subsidiaries	74,461
	Aggregation	195,311
	Sub-Total	**792,462**
	Regulatory deductions:	
	Goodwill	(13,058)
	Loss for the year	(28,410)
	Total Tier 1 capital before PCD deductions	**750,994**
B	Tier 2 Capital	
	General Provision	6,509
	Profit Equalization Reserves	7,547
	Investment risk reserve	2,915
	Unrealized gains arising from fair valuations (45%)	25,091
	Aggregation	41,859
	Total Tier 2 capital before PCD deductions	**83,921**
C	**Total Available Capital (A+B)**	**834,915**
D	General deductions from Tier 1 & 2 under PCD Module	
	"Deduction of unconsolidated financial subsidiaries which are aggregated or deducted"	(99,634)
	"Deduction of unconsolidated financial associates which are aggregated or deducted"	(4,263)
	Excess over maximum permitted large exposure limit	(83,199)
	Total Deductible Items	**(187,096)**
E	**Total Eligible Capital (C-D)**	**647,819**

BASEL II PILLAR III QUANTITATIVE DISCLOSURES

AT 31 DECEMBER 2014
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7. Disclosure of the regulatory capital requirements for credit risk under standardized approach

Exposure funded by Self Finance

	Risk weighted assets	Capital requirement
Claims on sovereign	83,683	10,042
Banks	105,357	12,643
Corporate portfolio	429,708	51,565
Investments in securities	1,041,864	125,024
Holding of real estate	825,042	99,005
Regulatory retail	1,666	200
Past due financings	117,630	14,116
Other assets	206,272	24,753
Aggregation	1,466,211	175,945
Total	**4,277,433**	**513,293**

Exposure funded by Unrestricted Investment Accounts (URIA)

	Risk weighted assets	Capital requirement
Corporate portfolio	71,604	8,592
Equity portfolio	15,951	1,914
Holding of real estate	30,544	3,665
Regulatory retail	194,820	23,378
Past due financings	72,635	8,716
Total	**385,554**	**46,265**

BASEL II PILLAR III QUANTITATIVE DISCLOSURES

AT 31 DECEMBER 2014
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS UNLESS OTHERWISE STATED)

8. Gross credit exposures

	Gross credit exposure	Average gross credit exposure
Credit risk exposure relating to on balance sheet assets are as follows:		
Cash and balances with banks and central banks	559,394	577,533
Commodity and other placements with banks, financial and other institutions	330,371	414,346
Murabaha and other financings	3,331,337	3,242,491
Musharaka financing	90,150	76,126
Investments	2,946,584	2,717,042
Other assets	273,196	270,194
Fixed assets	113,278	114,221
Intangible assets	216,594	220,069
Total on balance sheet credit exposure	**7,860,904**	**7,632,022**
Credit risk exposure relating to off balance sheet items are as follows:		
Financial guarantees and irrevocable letters of credit	853,658	902,817
Financing commitments, Undrawn facilities and other credit related liabilities	2,955,389	2,804,515
Total off balance sheet credit exposure	**3,809,047**	**3,707,332**
Total credit exposure	**11,669,951**	**11,339,354**
Total credit exposure financed by URIA	**2,054,499**	**2,041,754**
Total credit exposure financed by URIA (%)	**17.61%**	**18.01%**

Average gross credit exposures have been calculated based on the average of balances outstanding during the year ended 31 December 2014.

BASEL II PILLAR III QUANTITATIVE DISCLOSURES

AT 31 DECEMBER 2014

(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS UNLESS OTHERWISE STATED)

9. Geographical distribution of credit exposures

	Asia/ Pacific	Middle East	Europe	North America	Others	Total
On-balance sheet items						
Cash and balances with banks and central banks	215,814	220,923	99,913	22,744	-	559,394
Commodity and other placements with banks, financial and other institutions	-	296,506	28,703	-	5,162	330,371
Murabaha and other financings	1,795,581	1,200,655	224,636	127	110,338	3,331,337
Musharaka financing	90,150	-	-	-	-	90,150
Investments	1,654,404	1,169,688	98,103	24,389	-	2,946,584
Other assets	140,252	80,626	36,758	15,560	-	273,196
Fixed assets	53,568	59,613	97	-	-	113,278
Intangible assets	23,042	189,493	4,059	-	-	216,594
Total on balance sheet items	**3,972,811**	**3,217,504**	**492,269**	**62,820**	**115,500**	**7,860,904**
Off balance sheet items	**3,122,776**	**650,708**	**22,775**	**-**	**12,788**	**3,809,047**
Total credit exposure	**7,095,587**	**3,868,212**	**515,044**	**62,820**	**128,288**	**11,669,951**

The Group uses the geographical location of the credit exposures as the basis to allocate to the respective geographical region as shown above.

10. Industrial distribution of credit exposures

	Banks and financial institutions	Trading and manufacturing	Property and construction	Services	Private Individuals	Textile	Others	Total
On-balance sheet items								
Cash and balances with banks and central banks	559,394	-	-	-	-	-	-	559,394
Commodity and other placements with banks, financial and other institutions	330,371	-	-	-	-	-	-	330,371
Murabaha and other financings	486,844	1,254,233	155,068	137,555	934,100	106,069	257,468	3,331,337
Musharaka financing	-	62,698	91	18,492	8,836	33	-	90,150
Investments	2,130,241	82,886	586,028	99,793	45,724	1,195	717	2,946,584
Other assets	191,672	9,337	29,223	402	33,725	126	8,711	273,196
Fixed assets	53,568	-	59,710	-	-	-	-	113,278
Intangible assets	216,594	-	-	-	-	-	-	216,594
Total on balance sheet items	**3,968,684**	**1,409,154**	**830,120**	**256,242**	**1,022,385**	**107,423**	**266,896**	**7,860,904**
Off balance sheet items	**1,458,619**	**1,338,219**	**533,533**	**44,243**	**31,770**	**31,015**	**371,648**	**3,809,047**
Total credit exposure	**5,427,303**	**2,747,373**	**1,363,653**	**300,485**	**1,054,155**	**138,438**	**638,544**	**11,669,951**

BASEL II PILLAR III QUANTITATIVE DISCLOSURES

AT 31 DECEMBER 2014
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS UNLESS OTHERWISE STATED)

11. Maturity breakdown of credit exposures

	Up to 1 Month	1-3 Months	3-12 Months	1-5 Years	5-10 Years	10-20 Years	Over 20 Years	Total
On-balance sheet items								
Cash and balances with banks and central banks	559,394	-	-	-	-	-	-	559,394
Commodity and other placements								
with banks, financial and other institutions	246,930	-	83,441	-	-	-	-	330,371
Murabaha and other financings	501,048	501,911	448,319	1,079,571	723,927	68,581	7,980	3,331,337
Musharaka financing	8,392	14,059	14,574	23,886	13,429	15,810	-	90,150
Investments	294,060	451,972	541,733	631,530	159,282	64,745	803,262	2,946,584
Other assets	114,164	18,046	98,124	17,702	4,181	20,979		273,196
Fixed assets	4,954	33	2,070	10,677	11,800	35,845	47,899	113,278
Intangible assets	-	-	-	8,553	17,295	111,618	79,128	216,594
Total on balance sheet items	**1,728,942**	**986,021**	**1,188,261**	**1,771,919**	**929,914**	**317,578**	**938,269**	**7,860,904**
Off balance sheet items	**1,988,472**	**656,015**	**490,447**	**641,110**	**33,003**	**-**	**-**	**3,809,047**
Total credit exposure	**3,717,414**	**1,642,036**	**1,678,708**	**2,413,029**	**962,917**	**317,578**	**938,269**	**11,669,951**

12. Related-party balances under credit exposure

A number of banking transactions are entered into with related parties in the normal course of business. The related party balances included under credit exposure at 31 December 2014 were as follows:

Affiliated companies	447,021
Directors & key management	12,848
Total	**459,869**

Concentration of risk to individual counterparties where the credit exposure is in excess of the 15% individual obligor limit:

Non-banks	158,682
Total	**158,682**

BASEL II PILLAR III QUANTITATIVE DISCLOSURES

AT 31 DECEMBER 2014
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS UNLESS OTHERWISE STATED)

13. Past due and impaired financings and related provisions for impairment

	Gross exposure	Impairment provisions	Net exposure
Analysis by industry			
Manufacturing	252,769	214,068	38,701
Agriculture	14,300	6,873	7,427
Construction	84,838	20,164	64,674
Finance	8,088	1,117	6,971
Trade	196,353	34,095	162,258
Personal	113,989	35,947	78,042
Real estate	33,868	21,177	12,691
Transportation	2,570	2,146	424
Other sectors	44,905	29,706	15,199
Total	**751,680**	**365,293**	**386,387**
Ageing analysis			
Over 3 months up to 1 year	169,321	7,926	161,395
Over 1 year up to 3 years	110,698	18,355	92,343
Over 3 years	471,661	339,012	132,649
Total	**751,680**	**365,293**	**386,387**

Movement in impairment provisions	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January 2014	264,114	67,186	331,300
Charge for the year	25,733	4,892	30,625
Write back during the year	(9,165)	-	(9,165)
Utilised during the year	-	(623)	(623)
Transfer from Investment Risk Reserve	-	834	834
Exchange differences and other movements	12,322	-	12,322
At 31 December 2014	**293,004**	**72,289**	**365,293**

BASEL II PILLAR III QUANTITATIVE DISCLOSURES

AT 31 DECEMBER 2014
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS UNLESS OTHERWISE STATED)

14. Past due and impaired financings by geographical areas

Analysis by Geography	Gross exposure	Impairment Provisions	Net exposure
Asia / Pacific	357,879	245,798	112,081
Middle East	381,931	112,313	269,618
Europe	11,870	7,182	4,688
Total	**751,680**	**365,293**	**386,387**

15. Details of credit facilities outstanding that have been restructured during the year

Restructured financings during the year ended 31 December 2014 aggregated to $212.6 million. This restructuring had an impact of $2.5 million on present earnings during the year ended 31 December 2014. Further, this restructuring is expected to have positive impact of $12.7 million on the Group's future earnings in 2015. Extension of maturity dates was the basic nature of concessions given to all the restructured facilities.

16. Credit exposures which are covered by eligible financial collateral

Exposure funded by Self Finance

	Gross Exposure	Eligible Financial Collateral
Corporate portfolio	1,453,050	193,746
Retail Portfolio	48,599	-
Past due financings	136,429	5,244
Total	**1,638,078**	**198,990**

Exposure funded by Unrestricted Investment Accounts

	Gross Exposure	Eligible Financial Collateral
Corporate portfolio	296,302	57,621
Retail Portfolio	192,973	18,218
Past due financings	866,281	414
Total	**1,355,556**	**76,253**

Counterparty Credit Risk (CCR)

	Gross Positive Fair Value of Contracts	Netting Benefit	Credit Risk Mitigation	Net Value Exposure at Default	Risk Weighted Assets
Profit Rate Contracts	7	-	-	7	7
Foreign Exchange Contracts	7,920	-	-	7,920	4,762
Total	**7,927**	**-**	**-**	**7,927**	**4,769**

BASEL II PILLAR III QUANTITATIVE DISCLOSURES

AT 31 DECEMBER 2014
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS UNLESS OTHERWISE STATED)

17. Disclosure of regulatory capital requirements for market risk under the standardized approach

	Risk weighted assets			Capital requirement		
	31 December 2014	Maximum Value	Minimum Value	31 December 2014	Maximum Value	Minimum Value
Foreign exchange risk	**134,227**	**145,789**	**145,592**	**16,107**	**17,495**	**17,471**
Aggregation						
Foreign exchange risk	1,231	4,746	13,951	148	570	1,674
Profit Rate Risk (Trading Book)	45,114	27,792	9,785	5,414	3,335	1,174
Equity Position Risk	33,651	40,698	36,934	4,038	4,884	4,432
sub total	**79,996**	**73,236**	**60,670**	**9,600**	**8,788**	**7,280**
Total	**214,223**	**219,025**	**206,262**	**25,707**	**26,283**	**24,751**

18. Disclosure of regulatory capital requirements for operational risk under the basic indicator approach

For regulatory reporting, the capital requirement for operational risk is calculated based on basic indicator approach. According to this approach, the Bank's average gross income over the preceding three financial years is multiplied by a fixed alpha coefficient.

The alpha coefficient has been set at 15% under CBB Basel II guidelines. The capital requirement for operational risk at 31 December 2014 aggregated to $56.8 million.

19. Tier one capital ratios and Total capital ratios

	Tier One Capital Ratio	Total Capital Ratio
Ithmaar consolidated	10.54%	12.11%
Significant Bank subsidiaries whose regulatory capital amounts to over 5% of group consolidated regulatory capital whether on a stand-alone or sub-consolidated basis are as follows:		
Faysal Bank Limited	10.59%	12.86%

20. Equity position in Banking book

At 31 December 2014, the Group's investment securities aggregated to $1,767.6 million. Out of the total investment securities, $39.1 million were listed investment securities and the remaining $1,728.5 million represented unlisted investment securities.

Cumulative realized income from sale of investment securities during the year amounted to $4.4 million. Total unrealized income recognized in the consolidated statement of changes in owners' equity amounted to $1.4 million.

At 31 December 2014, capital requirements using standardized approach aggregated to $51.6 million for listed investment securities and $76.7 million for unlisted investment securities excluding capital charge of investment securities classified as real estate holdings.

BASEL II PILLAR III QUANTITATIVE DISCLOSURES

AT 31 DECEMBER 2014
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS UNLESS OTHERWISE STATED)

21. Gross income from Mudaraba and profit paid to Unrestricted Investment Accountholders

	31 December				
	2014	**2013**	**2012**	**2011**	**2010**
Income from unrestricted investment accounts	100,500	100,796	93,207	67,926	61,546
Less: return to unrestricted investment accounts	(76,793)	(77,133)	(70,785)	(65,018)	(56,395)
Group's share of income from unrestricted investment accounts as a Mudarib	**23,707**	**23,663**	**22,422**	**2,908**	**5,151**

For the year ended 31 December 2014 the return to unrestricted investment accountholders based on the average balance outstanding during year stood at 5.03%. The Group's share of income from unrestricted investment account (Mudarib) including management fee for the year ended 31 December 2014 as a percentage of gross income from unrestricted investment accounts stood at 2.79%.

22. Movement in Profit Equalization Reserve and Provisions – URIA

	31 December				
	2014	**2013**	**2012**	**2011**	**2010**
Profit Equalization Reserve					
As at 1 January	**2,546**	**10,061**	**18,607**	**8,154**	**3,099**
Net addition	5,002	5,183	5,443	10,453	6,011
Transfer to impairment provisions	-	(12,698)	(13,989)	-	-
Net utilization	-	-	-	-	(956)
As at 31 December	**7,548**	**2,546**	**10,061**	**18,607**	**8,154**
Amount appropriated as a percentage of gross profit	5%	5%	6%	15%	10%
Provisions					
As at 1 January	**105,743**	**88,363**	**68,854**	**69,767**	**64,427**
Net addition	4,892	6,496	6,406	1,456	5,464
Transfer from Investment Risk Reserve	835	-	-	-	-
Transfer from Profit Equalization Reserve	-	12,698	13,989	-	-
Net utilization	(625)	(1,814)	(886)	-	(124)
Reclassification	-	-	-	(2,369)	-
As at 31 December	**110,845**	**105,743**	**88,363**	**68,854**	**69,767**

At 31 December 2014, the ratio of profit equalization reserve and provisions to equity of unrestricted investment accountholders stood at 0.38% and 5.54% respectively.

At 31 December 2014, the ratio of financings to URIA stood at 65.9%.

At 31 December 2014, the Investment Risk Reserve (IRR) amounted to $2.9 million.

BASEL II PILLAR III QUANTITATIVE DISCLOSURES

AT 31 DECEMBER 2014
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS UNLESS OTHERWISE STATED)

22. Movement in Profit Equalization Reserve and Provisions – URIA (Continued)

The following table summarizes the breakdown of URIA and impairment provisions

	31 December				
	2014	2013	2012	2011	2010
URIA : Banks	266,496	119,655	35,178	58,260	83,584
URIA : Non-Banks	1,735,453	1,865,814	1,715,944	1,418,374	1,112,379
Provisions : Banks	14,755	6,373	1,775	2,717	4,876
Provisions : Non-Banks	96,090	99,370	86,588	66,137	64,891

23. Gross return from Restricted Investment Accounts (RIA)

	31 December				
	2014	2013	2012	2011	2010
Gross income	302	4,278	268	2,408	7,523
Mudarib fee	208	599	809	2,814	12,249

24. Average declared rate of return on General Mudaraba deposits

	31 December				
	2014	2013	2012	2011	2010
	Percentage				
7 Days	0.20	0.25	0.25	0.30	0.50
30 Days	1.17	1.49	1.90	2.31	3.00
90 Days	1.69	1.99	2.48	2.90	3.25
180 Days	2.14	2.49	2.90	3.25	3.50
360 Days	2.60	2.97	3.40	3.50	3.70

25. Profit rate risk

Profit rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market profit rates.

	USD	EUR	PKR	BHD	AED
Total profit rate exposure	154,359	186,781	374,639	831,964	276,183
Rate shock (assumed) (+/-)	0.33%	0.09%	0.42%	0.57%	0.06%
Total estimated impact (+/-)	**509**	**168**	**1,573**	**4,742**	**166**

BASEL II PILLAR III QUANTITATIVE DISCLOSURES

AT 31 DECEMBER 2014
(EXPRESSED IN THOUSANDS OF UNITED STATES DOLLARS UNLESS OTHERWISE STATED)

26. Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Substantial portion of the Group's assets and liabilities are denominated in US Dollars, Bahraini Dinars and Pakistani Rupee. Bahraini Dinars and Saudi Riyal are pegged to US Dollars and as such currency risk is minimal. The Bank's investment in FBL is in Pak Rupees (PKR) and exposes the Bank to foreign exchange risk. The cumulative foreign exchange loss as of 31 December 2014 amounted to US$ 17.4 million (included in the foreign exchange translation reserve statement of changes in equity).

The significant net foreign currency positions at 31 December 2014 were as follows:

	Long/(Short) Equiv US$ 000
Pakistani Rupee	96,816
Euro	(93,456)
United States Dollars	89,475
Polish Zloty	45,096
UAE Dirham	(276,190)
Hong Kong Dollar	69,623

27. Liquidity ratios

	31 December				
	2014	**2013**	**2012**	**2011**	**2010**
Liquid assets to total assets	11.32%	14.78%	13.74%	12.80%	13.48%
Short term assets to short term liabilities	59.35%	66.97%	56.98%	63.80%	63.44%

28. Legal contingencies and compliance

At 31 December 2014, the Group had contingent liabilities towards customer and other claims aggregating to $434.5 million. The management is of the view that these claims are not likely to result into potential liabilities. During the year 2014, the Bank paid penalty of $16 thousand imposed by the CBB due to delay in compliance of regulatory submission requirement.

SHARE INFORMATION

SHAREHOLDING STRUCTURE

	31-Dec-14			31-Dec-13		
	No. of shareholders	No. of shares	%	No. of shareholders	No. of shares	%
1-10,000	132	661,480	0.02	135	736,015	0.02
100,000 - 10,001	2212	49,065,248	1.62	2273	50,977,744	1.68
1,000,000 - 100,001	449	148,525,739	4.90	441	147,806,445	4.88
10,000,000 - 1,000,001	143	439,382,847	14.50	145	468,829,280	15.47
over 10,000,000	36	2,393,119,713	78.96	34	2,362,405,543	77.95
Total	**2972**	**3,030,755,027**	**100.00**	**3028**	**3,030,755,027**	**100.00**

SHAREHOLDING BY NATIONALITY

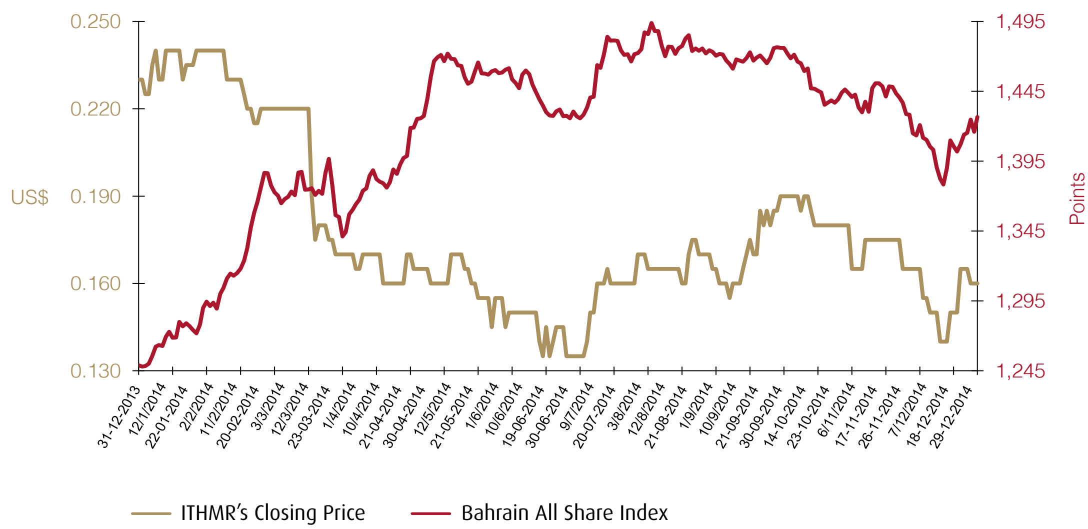
	31-Dec-14			31-Dec-13		
Country	No. of Shareholders	No. of shares	%	No. of Shareholders	No. of shares	%
Bahamas	2	959,467,864	31.66	2	1,384,545,224	45.68
Bahrain	826	320,483,303	10.57	830	288,931,050	9.53
KSA	881	763,413,373	25.19	889	382,277,726	12.61
Kuwait	628	704,233,467	23.24	646	641,933,156	21.18
Other GCC Countries	232	129,218,865	4.26	240	128,829,080	4.26
Other Countries	403	153,938,155	5.08	421	204,238,791	6.74
Total	**2972**	**3,030,755,027**	**100.00**	**3028**	**3,030,755,027**	**100.00**

SHARES OWNED BY GOVERNMENT - DEC 2014

	No. of shares
Ministry of Finance, Kingdom of Bahrain	40,881,210

SHARE INFORMATION
CONTINUED

ITHMR'S TRADING ACTIVITY



MAJOR SHAREHOLDERS OF ITHMAAR BANK - DEC 2014

Shareholder	no. of shares	%
Dar Al-Maal Al-Islami Trust	790,416,000	26.08
Islamic Inv. Co. of the Gulf	594,129,224	19.60
Nizar A.Razaq Al-Qurtas & Co.	193,674,671	6.39
Others	1,452,535,132	47.93
TOTAL	**3,030,755,027**	**100.00**

PERFORMANCE IN THE BAHRAIN BOURSE

Stock Code: ITHMR
Share Price Relative to Indices 2014

	Open	High	Low	Close	% Change in 2014
ITHMR's Share Price ($)	0.230	0.240	0.135	0.160	(30.43)
Commercial Banks Sector's Index	2,456.44	2,966.39	2,446.01	2,721.17	10.78
Bahrain All Share Index	1,248.86	1,494.03	1,247.98	1,426.57	14.23
Esterad Index	1,270.28	1,535.72	1,272.39	1,503.57	18.37

ITHMR'S SHARE TRADING (BAHRAIN)

	2014	2013
Volume, No. of shares	**88,356,452**	251,334,462
Value, US$	**16,161,392**	57,593,273

RANKING

ITHMR's ranking in 2014 out of the 42 local listed companies in the Bahrain Bourse.

	Ranking
Value of Shares Traded	10
Volume of Shares Traded	3
Number of Transactions	7
Market capitalization	11
Number of trading days	7

CORPORATE INFORMATION

NAME OF COMPANY:	Ithmaar Bank B.S.C.
LEGAL FORM:	Ithmaar Bank B.S.C. is a Bahrain-based licensed Islamic retail bank regulated by the Central Bank of Bahrain. Formerly an investment bank, it completed a comprehensive reorganisation with its then wholly-owned subsidiary, Shamil Bank of Bahrain B.S.C. (c) in April 2010. Ithmaar Bank B.S.C. is incorporated as a Bahrain shareholding company under Bahrain Commercial Companies Law (Law No. 21 of 2001) with its shares listed on the Bahrain Bourse and the Kuwait Stock Exchange.
COMPANY REGISTRATION NUMBER:	CR 15210
STOCK EXCHANGE LISTINGS:	Bahrain Bourse and Kuwait Stock Exchange
STOCK CODE	"ITHMR"
REGISTERED OFFICE:	Seef Tower, Building 2080, Road 2825, Al Seef District 428 P.O. Box 2820, Manama, Kingdom of Bahrain Telephone:+973 1758 4000, +973 1758 5000 Facsimile: +973 1758 4017, +973 1758 5151 Swift Code: FIBHBHBM E-mail: info@ithmaarbank.com Website: www.ithmaarbank.com
HEAD OFFICE:	Seef Tower, Building 2080, Road 2825, Al Seef District 428 P.O. Box 2820, Manama, Kingdom of Bahrain
ACCOUNTING YEAR END:	31 December
COMPLIANCE OFFICER	Hana Ahmed Al Murran Head, Compliance and AML
COMPANY SECRETARY	Dana Aqeel Raees Executive Senior Manager - Legal Department
AUDITORS	PricewaterhouseCoopers ME Limited P.O. Box 21144, Manama, Kingdom of Bahrain