Keeping the conversation going

بنك المستقبل
futurebank

ANNUAL REPORT
2014

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"وَأَمَّا بِنِعْمَةِ رَبِّكَ فَحَدِّثْ"

سورة الضُحى – الآية ١١

2015

keeping
the conversation
going

CONTENTS

"MAKING DIALOGUE"

"The year under review provided us with a much needed opportunity to streamline our evolving business strategy, which continues to remain under constant watch and keeps us renewed."

"We have taken in the year to achieve many goals and developing a lasting sense of confidence which inspires us to do more than ever before."

The dialogue between the stakeholders and the Bank is of great essence to Futurebank, as it is what defines the core character of the bank. The current strategy of personalized banking "Lets' talk"...Still personal has worked extremely well in keeping its key audiences connected and informed in a positive manner. It has upheld its status as a Resilient Bank with Great Endurance; a bank that has stayed truly Personalized with a singular focus – to Drive Prosperity, even in trying times.

Vision

To be recognized as a Bank with the ability to build financial bridges, which connect customers and regional markets.

Mission

To maximize stakeholders' interests by becoming the partner of choice for all those who value personalized attention.

Purpose

To serve the community with care and consciousness and make a tangible difference to people's lives.

FINANCIAL HIGHLIGHTS

Growth over 2014

Net Profit BD 17.86m | **62.14%**

Income and Expenses (BD Millions)	**2014**	2013	2012	2011	2010
Net interest income	**20.9**	20.3	20.0	20.9	14.4
Other income	**0.5**	0.2	0.4	(0.7)	1.0
Total Income	**21.4**	20.5	20.4	20.2	15.4
Operating expenses	**5.4**	4.5	4.2	4.0	4.0
Profit before provisions	**16.0**	16.0	16.2	16.2	11.4
Net provision / write-back	**1.9**	(5.0)	(6.4)	(6.7)	(1.3)
Impairment of Goodwill	**-**	-	(1.9)	(1.0)	(1.0)
Net profit	**17.9**	11.0	7.9	8.4	9.1
Financial Position (BD Millions)					
Total assets	**597.2**	578.8	546.4	532.3	524.3
Net loans	**156.1**	113.3	112.8	141.3	151.7
Due from Banks	**341.8**	370.4	330.2	302.8	276.8
Investments	**52.5**	47.1	54.1	36.5	50.3
Total deposits	**402.5**	394.8	375.8	372.4	371.1
Medium Term Borrowings	**55.1**	62.5	59.9	58.6	60.0
Customer deposits	**169.2**	157.3	142.1	140.8	131.7
Shareholder's equity	**133.4**	115.6	104.5	96.6	88.2
Ratios (percentage)					
Profitability					
Net income/Average equity	**14.8**	10.3	7.9	9.1	11.3
Net income/Average assets	**3.0**	2.0	1.5	1.6	1.7
Net Interest Margin	**3.5**	3.7	3.7	4.1	2.8
Operating expenses/Total income	**25.3**	21.9	20.7	19.8	26.1
Earning per share (BD)	**0.215**	0.133	0.095	0.105	0.128
Liquidity					
Customer deposits/Net loans and advances	**108.4**	138.9	126.0	99.6	86.8
Loans and advances/Total assets	**26.1**	19.6	20.6	26.5	28.9
Capital Adequacy					
Capital Adequacy	**26.4**	23.8	22.7	20.2	25.7
Equity/Total Assets	**22.3**	20.0	19.1	18.1	16.8

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Futurebank, I am pleased to present the audited financial statements for the year ended December 31, 2014.

The year 2014 is significant to the Bank, as we complete a milestone 10 years since our inception. Coinciding with our 10th anniversary celebrations, our year-end financial results reflect on yet another groundbreaking performance, wherein the Bank has gained new-found confidence and emerged as a notably stable and growth oriented financial institution. Futurebank's strength is derived from our rich and diverse heritage as well as our iconic brands. We are committed to our core purpose of serving the community with care and conscience and to making a tangible difference to lives. We are proud not only to have supported and met the aspirations of all of our stakeholders for over a decade now, but are equally proud that this vision remains our focus moving forward.

Futurebank's current fiscal year's performance reflected on a record net profit of BD 17.9 million, as compared to BD 11.0 million in the previous year. This highly commendable achievement follows up on last year's record-breaking performance and therefore serves to constitute another milestone, which will impact the Bank's operational stance and strengthen its resolve towards firmly achieving its broader strategic mission.

The year witnessed a host of measures being implemented across all facets of the Bank, aimed at enhancing Futurebank's presence and business activities across its core market within the Kingdom of Bahrain. In doing so, the Bank witnessed stable growth throughout the year. Futurebank's Balance Sheet grew by 3.2%, rising up from BD 578.8 million in 2013, to BD 598.9 million in 2014. This success is credited largely to our ever increasing popularity and growing influence within our loyal customer segments, including corporate, consumer and local retail finance clients.

Despite an increased sense of confidence about the macro-economic outlook, ongoing concerns about the stability of the oil prices, Euro zone and rising worries surrounding emerging markets and the institution of Basel 3 banking regulations norms, served to weigh sharply on the economic growth and the banking sector profitability.

With the Kingdom of Bahrain, steadfastly benefitting from more stable geo-political conditions and a revival of consumer confidence in 2014, Futurebank remained poised to play a dynamic role in business

"Coinciding with our 10th anniversary celebrations, our year-end financial results reflect on yet another ground-breaking performance, wherein the Bank has gained new-found confidence and emerged as a notably stable and growth oriented financial institution."

As we venture into a new era of growth and prosperity, Futurebank, with a decade of successful banking operations behind it now looks forward to building on its ongoing conversation with its customers and clients in the Kingdom of Bahrain and beyond.

and commercial banking activities, which are expected to arise shortly from this welcoming environment. Over the years, the Bank has strengthened its risk management capabilities, as well as improved upon its supervisory processes.

Throughout the year, the Bank's performance was duly enhanced, in line with our current expectations and focused towards achieving our longer-term goals and ambitions. With increasing profitability being realized over the year under review, major steps were taken to bring the Bank closer to new prospects, while our ties with our loyal customer base were further strengthened. Furthermore, Futurebank's asset quality also continued to be vastly improved, following a high level of recoveries which resulted in a consistent decline in our non-performing assets.

The Bank maintained high levels of liquidity with sufficient capitalization. Our shareholders' equity went up from the BD 115.6 million in the previous year to BD 133.4 million in 2014, with a highly robust Capital Adequacy ratio, which increased further from 23.8% to 26.4% as at the end of the year.

The current year of 2014 also served to render greater hope for international sanctions easing up on Islamic Republic of Iran in the near future. We sincerely look forward to playing a central role in supporting the business activity which is sure to result from any such development.

As we venture into a new era of growth and prosperity, Futurebank, with a decade of successful banking operations behind it now looks forward to building on its ongoing conversation with its customers and clients in the Kingdom of Bahrain and beyond. Our core values continue to inspire us to deliver innovation, determination and unrivalled partnership.

Futurebank's financial performance for the year 2014 also owes its success to the well regulated operating environment in Bahrain, which remains one of the most open economies within the GCC. Futurebank as always, adhered to all new regulatory laws and in some instances exceeded the recommended benchmarks, in order to maintain investor confidence and guarantee higher standards of excellence.

We take this opportunity to thank our valued base of loyal clients for their valuable associations, while extending our gratitude to the authorities in Bahrain, especially the Central Bank of Bahrain for their invaluable and ongoing support and guidance.

On behalf of our shareholders, the Board of Directors extends its fullest gratitude and appreciation to the contributions of Futurebank's management and staff.

By the grace of Allah Almighty, Futurebank's Board of Directors stand aligned on the course and direction which lies ahead of us, and are fully energized to achieve even greater goals and ambitions in the upcoming decade, aimed at realizing sustained progress and prosperity for all our stakeholders.

Dr. Abdolnaser Hemmati
Chairman

BOARD OF DIRECTORS

1. **DR. ABDOLNASER HEMMATI -** CHAIRMAN
*(Non-Independent and Executive Director)**

Board Member since December 2013

Chairman and Managing Director of Bank Melli Iran since 2nd December 2013, Chairman of Asian Reinsurance Corporation, Bangkok, Thailand since 2001, Associate Professor, University of Tehran.

Ph.D. in Economics from the University of Tehran.

Over 28 years of experience as Vice-President of the Islamic Republic of Iran Broadcasting (IRIB) (1989-1994), President of Bimeh Markazi Iran (BMI) (Head of High Council of Insurance) (1994 - 2006), Chairman of Asian Reinsurance Corporation, Bangkok, Thailand (since 2001), Managing Director & C.E.O of Sina Bank, Tehran, Iran (2006-2013) and Chairman and Managing Director of Bank Melli Iran since 2nd December 2013.

2. **DR. HAMID BORHANI** - DEPUTY CHAIRMAN
*(Non-Independent and Executive Director)**

Board Member since 2006

PhD in Business Management & Accounting from Azad University.

Over 30 years of banking experience holding various managerial & directorial positions in Bank Saderat Iran as: Chairman & Managing Director; BSI Board member; BSI Regional Manager; Chairman of Bank Saderat PLC - London and Vice Governor of Bank Markazi Jomhuri Islami Iran.

3. **MR. ABDULAZIZ AHMED ABDULMALEK** - DEPUTY CHAIRMAN
(Independent and Non-Executive Director)

Board Member effective 2007

Gulf Executive Management & Strategic Leadership Programme from Colombia University, New York. Executive Programme from INSEAD, Paris. BSC in Physics & Pure Mathematics from Riyadh University.

Over 25 years or banking experience holding various managerial positions in Chemical Bank, New York. BMB Bank, Bahrain.

4. **MR. MOHAMMAD REZA PISHROW** - DIRECTOR
*(Non-Independent and Executive Director)**

Board Member from May 2014

Managing Director & Board member of Bank Saderat Iran.

BA in Engineering from Isfahan University of Technology.

Over 30 years of banking experience holding various managerial positions. Earlier served as a Chairman of the Board and Managing Director of Bank of Industry & Mine.

5. MR. ADEL AL MANNAI - DIRECTOR
(Independent and Non-Executive Director)

Board Member effective 2007
Board Member - Taib Bank, Bahrain effective 2011

Member of the Rating Committee for Islamic International Rating Agency, Kingdom of Bahrain.

Master of Business Administration- University of Glamorgan.UK.

Over 30 years of overall banking experience.

6. MR. GHOLAM H. ZAFERANI - DIRECTOR
(Independent and Non-Executive Director)

Board Member since 2004

Over 40 years or banking experience holding various managerial positions. Earlier served as Director General of Regional Office -Dubai, Eastern European, Far East and Central Asian Countries of Bank Melli Iran From 1996- 2001. Board Member covering International Division of Bank Melli Iran from 2001-2006. CEO - Saman Bank from 2006-2010.

7. MR. GHOLAM SOURI - CEO & MANAGING DIRECTOR
(Non-Independent and Executive Director)

Board Member since 2004

Board Member since 2004

MBA in Banking from Iranian Banking Institution.

Over 28 years of international banking experience holding various senior managerial positions in Bank Saderat Iran as General Manager of International Division & Regional Office Dubai & General Manager Bank Saderat Iran branches.

8. MR. ABBAS FATEMI TORSHEZI - DEPUTY CEO & DIRECTOR
(Non-Independent and Executive Director)

Board Member since 2004

BA in English Language, Tehran University.

Over 43 years of overall banking experience. Holding senior managerial positions in Bank Melli Iran as Assistant Director of Bank Melli Iran, International Division, Tehran; Manager of Bank Melli Iran, Dubai Main Branch.

* Dr. Abdolnaser Hemmati, Dr. Hamid Borhani and Mr. Mohammad Reza Pishrow are not involved in the day-to-day functioning of Futurebank and thus discharging their responsibilities only as Non-executive directors. They are however shown as "Non Independent and Executive" Directors within the meaning of HC guidelines of the CBB rule book.

CORPORATE GOVERNANCE

THE BANK'S PHILOSOPHY ON CODE OF GOVERNANCE

Future Bank is committed to the best practices in the area of corporate governance, in letter and in spirit. The Bank believes that good corporate governance is much more than complying with legal and regulatory requirements. Good governance facilitates effective management and control of business, enables the Bank to maintain a high level of business ethics and to optimize the value for all its stakeholders. The objectives can be summarized as:

- To protect and enhance shareholder value.
- To protect the interest of all other stakeholders such as customers, employees and society at large.
- To ensure transparency and integrity in communication and to make available full, accurate and clear information to all concerned.
- To ensure accountability for performance and customer service and to achieve excellence at all levels.
- To provide corporate leadership of highest standard for others to emulate.

The above Corporate Governance philosophy is supplemented by our Corporate Governance Guidelines which have been written in a manner that they comply with the High Level Controls (HC) module of the CBB Rulebook.

The Bank is committed to:

- Ensuring that the Bank's Board of Directors meets regularly, provides effective leadership and insights in business and functional matters and monitors Bank's performance.
- Establishing a framework of strategic control and continuously reviewing its efficacy.
- Establishing clearly documented and transparent management processes for policy development, implementation and review, decision-making, monitoring, control and reporting.
- Providing free access to the Board to all relevant information, advices and resources as are necessary to enable it to carry out its role effectively.
- Ensuring that the Chairman has the responsibility for all aspects of executive management and is accountable to the Board for the ultimate performance of the Bank and implementation of the policies laid down by the Board. The role of the Chairman and the Board of Directors are also guided by the CBB rule book High Level control module, with all relevant amendments.
- Ensuring that a senior executive is made responsible in respect of compliance issues with all applicable statutes, regulations and other procedures, policies as laid down by the Government of Kingdom of Bahrain/CBB and other regulators and the Board, and reports deviations, if any.

BOARD OF DIRECTORS INFORMATION

Board Composition

The Board's composition is based on the Bank's Memorandum of Association and Articles of Association. The bank shall be managed by six to nine directors. The Directors shall be appointed by the shareholders. Each shareholder shall appoint a minimum of two Directors subject to each shareholder having an equal number of directors. The Board of directors may also appoint by unanimous approval, a Managing Director and two Deputy Managing Directors who may be appointed additional members of the Board of directors as recommended by them and subject to Ordinary General Assembly's approval.

The appointment of the Board of Directors is subject to the prior approval of the Central Bank of Bahrain. The classification of executive, non-executive, independent, non-independent Directors is as per the definitions stipulated by the CBB.

The Board includes eminent professionals representing various walks of life and the composition of the Board of Directors is in compliance with the provisions laid down in the Articles of Association. Each Director is appointed for a period of three years after which he must present himself to the Annual General meeting of shareholders for renewal and re-appointment.

The Board is supported by the Board secretary who provides professional and administrative support to the Board, its committees and members. The appointment of the Board secretary is subject to the approval of the Board.

Board of Director's – Role and Responsibilities

Future Bank was formed in 2004 as a closed joint stock company in accordance with the provisions of Legislative Decree No. 21/2001 in respect of Commercial Companies Law, the Implementation Regulations issued by Resolution No. 6/2002, the Articles of Association and the Memorandum of Association of the bank.

The Bank's board draws its powers from and carries out its functions in compliance with the provisions of Articles of Association and High level control Module of Central Bank of Bahrain rule book. Its major role, among others includes:

- The adoption and annual review of strategy;
- The adoption and review of management structure and responsibilities;
- The adoption and review of the systems and controls framework; and
- Monitoring the implementation of strategy by management
- Responsible for the preparation and fair presentation of the financial statements

- Monitoring management performance
- Monitoring conflicts of interest and preventing abusive related party transactions

A formal Board Charter is in place through which the Board exercises control & judgment in establishing and revising the delegation of authority for its committees and the management. This delegation could be for authorization of expenditure, approval of credit facilities and for other corporate actions which are approved and expressed under various policies of the bank. The thresholds for the identified authorities will depend upon the operating requirements of the Bank. In addition, strategic investments and major capital expenditure would be within the Board's authority.

As per the approved Board charter, any new Board member has to now go through a tailored induction programme. The induction is not restricted to but would include meetings with executive management, visit to the bank's facilities, presentation regarding strategic plans. This would foster a better understanding of the business environment and markets in which the bank operates.

Remuneration of Directors

As per the Board charter, the nomination, remuneration and the corporate governance committee shall make specific recommendations to the board on the remuneration of Board members. Currently no specific remuneration is paid to any Board member except for the CEO & Managing Director and the Deputy CEO & Deputy Managing Director who are executive Board members. All other Directors are paid sitting fees for the participation in the Board meetings. Participation in a meeting via telephone/video conferencing shall be considered an attendance in meetings.

Code of Conduct and Conflict of Interest

The members of the Board should ensure that they conduct their affairs with a high degree of integrity, taking note of the applicable laws codes and regulations. The Board has an approved code of conduct for the Directors. The Board has also approved the Code of conduct of all the members of the staff of the bank. A separate "Whistle Blowing" policy covering all the staff of the bank is adopted. The code of conduct binds the signatories to the highest standard of professionalism and due diligence in discharging their duties. The Board has a documented procedure for dealing with situations involving "conflict of interest" of Directors. In the event of the Board or its committees considering any issues involving "conflict of interest" of Directors, the decisions are taken by the full Board/committee. The particular Director abstains from the discussion and voting/approval process. The concerned Director is also required to inform the Board of the potential conflict of interest in their activity and abstain from voting on the matter.

The bank has a due process for dealing with transactions involving Directors and related parties. Any such transactions will require the approval of Board of Directors. There were no dues from any of the Directors during the year ended 31st December 2014.

MEETINGS OF THE BOARD

The Bank's Board meets a minimum of four times a year and during the year 2014, four Board meetings were held. The dates of the meetings and the attendance of the directors are given as under:

Dates and attendance of directors at the Quarterly Board meetings during 2014

Names of the Board Members	30 Jan	3 May	24 July	24 Oct
Dr. Abdolnaser Hemmati	✓	✓	✓	✓
Dr. Hamid Borhani	✓	✓	✓	✓
Mr. Abdul Aziz Abdul Malek	✓	×	✓	✓
Mr. Mohammad Reza Pishrow			✓	✓
Mr. Gholam Hussain Zafarani	✓	✓	✓	✓
Mr. Adel Mannai	✓	✓	✓	✓
Mr. Abdolreza Shabahangi	✓	✓		
Mr. Gholam Souri	✓	✓	✓	✓
Mr. Abbas Fatemi	✓	✓	✓	✓

Mr. Mohammed Reza Pishrow was appointed as a Director during May 2014 who replaced Mr. Abdolreza Shabahangi as a Board Director.

Mr. Ravi Prakash- Head of Internal Audit remains as the Board secretary with effect from 10th November 2012.

BOARD LEVEL COMMITTEES

In terms of the Article 21(5) of the Bank's Articles of Association and in line with the High level controls Module of CBB rule book (HC-1.8), the Board constituted three committees namely (a) The Audit Committee (b) The Nomination, Remuneration and Corporate Governance Committee and (c) The Executive Risk Committee of the Board. These Committees provide effective professional support in the conduct of Board level business in key areas like Audit, Accounts, Risk, Compliance, Corporate Governance and Nomination & payment of remuneration to Directors/ Senior Management.

AUDIT COMMITTEE OF THE BOARD

The Audit committee was first constituted on 07.07.2004. The Audit committee functions as per CBB guidelines and complies with the provisions of Audit Committee Charter.

CORPORATE GOVERNANCE

Functions and Responsibilities of Audit Committee

The Audit Committee's major functions include the following:

- Consider the major findings of audit and compliance reports as well as any special investigations, particularly in relation to high-risk items, and management responses thereto, and monitor the implementation of agreed action points within stipulated deadlines.
- Review the arrangements established by the Management for compliance with regulatory and financial reporting requirements contained in statute and with the requirements of supervisors and the implementation of such arrangements.
- Review annual and periodic financial statements of the Bank and the external auditors report thereon and report to the Board on their completeness and accuracy.
- Review regulators and external auditor's comments in the context of inspections and audits.
- Review all correspondence with regulatory authorities

A formal audit committee charter, duly approved by the Board is in place.

Composition and Attendance during 2014

The Audit Committee has three members of the Board of Directors with each Shareholder nominating one director. Meetings of the Audit committee are chaired by an Independent director. The constitution and quorum requirements, as per CBB guidelines/Audit Committee Charter, are complied with meticulously. During the year, four meetings of Audit committee were held to discharge the roles and responsibilities assigned to the Committee.

Dates and attendance of directors at Audit committee meetings during 2014

The Board Audit committee meets a minimum of four times a year.

Names of the Board Members	29 Jan	3 May	23 July	24 Oct
Dr. Hamid Borhani – Chairman of the Committee**	✓	✓	✓	✓
Mr. Abdul Aziz Abdul Malek	✓	×	✓	✓
Mr. Gholam Hussain Zaferani	✓	✓	✓	✓

** Mr. Abdul Aziz Abdul Malek chaired the Audit Committee meeting held on 29.01.2014. In the NRCG committee meeting that was held on 30th January 2014, Dr.Hamid Borhani was elected as the Chairman of the Audit Committee.

NOMINATION, REMUNERATION & CORPORATE GOVERNANCE COMMITTEE OF THE BOARD

The Remuneration committee was first constituted in December 2007 and last reconstituted as Nomination, Remuneration and Corporate Governance Committee in 2011. The Nomination, Remuneration and Corporate Governance committee functions as per CBB guidelines and complies with the provisions of Nomination, Remuneration and Corporate Governance committee Charter.

Functions of Nomination, Remuneration and Corporate Governance Committee

The Nomination, Remuneration and Corporate Governance committee's major functions include the following:

- Assisting the Board to ensure that it is comprised of Directors with the appropriate mix of skills, experience and expertise to discharge its mandate effectively
- Assisting the Board in ensuring that the Bank has in place appropriate remuneration policies designed to meet the needs of the Bank and to enhance corporate and individual performance
- Overseeing the development and the regular assessment of the Bank's approach to corporate governance issues and ensuring that such approach supports the effective functioning of the Bank and overseeing the process, structure and effective system of accountability by management to the Board of Directors and by the Board to the shareholders.

A formal Nomination, Remuneration & Corporate Governance committee charter, duly approved by the Board is in place.

Composition and Attendance during 2014

The Nomination, Remuneration & Corporate Governance Committee has three non-executive directors as members as determined by the Board. The constitution and quorum requirements, as per CBB guidelines/Nomination, Remuneration & Corporate Governance Committee Charter, are complied with meticulously. During the year, two meetings of Nomination and Remuneration committee were held to discharge the roles and responsibilities assigned to the Committee.

Dates and attendance of directors at Nomination, Remuneration and Corporate Governance committee meetings during 2014

The Board Nomination Remuneration & Corporate Governance committee meets a minimum of two times during the year.

Names of the Board Members	30 Jan	24 Oct
Dr. Abdolnaser Hemmati - Chairman of the Committee	✓	✓
Mr. Abdul Aziz Abdul Malek	✓	✓
Dr. Hamid Borhani	✓	✓

- On 30th January 2014 Dr. Abdolnaser Hemmati was inducted as a member of the above committee in the place of Mr. Gholam Hussain Zaferani. Mr. Gholam Hussain Zaferani was earlier inducted as a member of the NRCG in the meeting held on 01.11.2013 replacing Dr.Seif who had resigned from the Board. Mr. Zaferani also participated in the NRCG committee meeting held on 30.01.2014 as an invitee.

EXECUTIVE RISK COMMITTEE OF THE BOARD

The Executive Risk committee of the Board (ERCB) was first constituted in January 2012 and functions as per the provisions of Executive Risk Committee Charter.

Functions of Executive Risk Committee

The Executive Risk committee's major functions include the following:

- Ensuring implementation of the risk management framework and maintenance of adequate and capable infrastructure to support the framework.
- Approving and periodic review of the risk strategy and risk appetite of the Bank.
- Reviewing periodically the risk management policies and any significant risk issues.
- Ensuring maintenance of adequate capital required for carrying out business activities under various business lines and products, under normal as well as stressed conditions.
- Recommend to the Board suitable amendments to the risk management framework including risk strategy and policies.

A formal Executive Risk committee charter, duly approved by the Board is in place.

Composition and Attendance during 2014

The ERCB shall be comprised of three directors wherein the majority shall be independent and its members shall be determined by the Board. The ERCB may invite non-directors to participate in, but not vote at, the committee's meetings so that the committee may gain the benefit of their advice and expertise in Risk or other areas. Head of Risk shall function as Secretary to this committee.

The committee shall meet at least once every quarter. The constitution and quorum requirements, as per Committee Charter, are complied with meticulously. During the year, four meetings of ERCB were held to discharge the roles and responsibilities assigned to the Committee.

Dates and attendance of directors at Executive Risk committee meetings during 2014

The committee meets a minimum of four times a year

Names of the Board Members	29 Jan	2 May	23 July	23 Oct
Mr. Adel Al Mannai - Chairman of the Committee	✓	✓	✓	✓
Mr. Mohammad Reza Pishrow*				✓
Mr. Abdolreza Shabahangi*		✓	✓	
Mr. Gholam Souri	✓	✓	✓	✓
Dr. Hamid Borhani*	✓			

* On 23rd October 2014 Mr. Mohammad Reza Pishrow was inducted as a member of the above committee in the place of Mr. Abdolreza Shabahangi.

ANNUAL GENERAL MEETING

The Annual General Meeting for the year ended December 2013 was held on the 2nd April 2014 marking a new term for the Board of Directors. The bank discloses/reports to the shareholders in the AGM the details under the public disclosure module of the rule book. Such disclosures include the amount paid to the Board of Directors and the executive management, which are included in the Annual financial statements.

Besides the above, conflict of interest matters involving the directors, fees paid to the external auditors, performance evaluation of directors carried out annually through a self-appraisal system adopted by the bank are also disclosed in the AGM.

COMMUNICATION STRATEGY

The bank has an open policy on communication with its stakeholders. The bank has an approved "Disclosure policy" which is consistent with Basel II requirements and with the requirements of the CBB rule book. The Board will ensure that the Annual General meeting (AGM) is conducted in an efficient manner and serves as a crucial mechanism in active shareholder communications. The bank is at all times mindful and conscious of its regulatory and statutory obligations regarding dissemination of information to its stakeholders. The bank requires its statutory auditors to attend the annual shareholders meeting and be available to answer shareholder's questions concerning the conduct & conclusion of the audit.

The bank provides information on all events that merit announcement, either on its website i.e. www.futurebank.com.bh or through newspapers and other channels. The bank's four year financials are posted on the website through the annual reports. The bank internally communicates with its staff on general matters and share information on general interest and concern.

REMUNERATION POLICY

The remuneration policy of the bank enumerates the framework which provides for a competitive level of compensation to attract and retain talented personnel in the senior management. The level of compensation is commensurate with the relative seniority, experience and the responsibilities. The bank's reward policy is performance based and goal oriented which is based on a performance based appraisal system across the organization. Further, the policy has been prepared in line with the remuneration guidelines set by the Central Bank of Bahrain. The following remuneration guidelines have been prepared to be in conformity with the CBB's disclosure requirements.

APPOINTMENT OF AUDITOR

As per Section 1.1& Section 1.2 of Chapter AU-1 of the CBB rule book, a new external auditor was appointed by the bank for the financial year-end 31st December 2014. Accordingly in its last Annual General meeting held on 2nd April 2014, Messrs. 'KPMG Fakhro' was appointed as the external auditor of the bank in place of Messrs.' Ernst & Young.

STATUS OF COMPLIANCE WITH CBB'S CORPORATE GOVERNANCE GUIDELINES (HIGH LEVEL CONTROL MODULE)

Banks are required to comply with the High level controls (HC) module of the CBB rule book, which became effective from 01 January 2011 with full compliance mandated by the financial year end 2012. The HC module contains both Rules and Guidance; Rules must be complied with, but Guidance may either be complied with or non-compliance explained by way of an annual report to the shareholders and to the CBB. Guidance: HC 1.4.6 states that the Chairman of the Board of Directors should be independent director. The bank's Chairman, Dr. Abdolnaser Hemmati being the Chairman and Managing Director of Bank Melli Iran, is shown as "Non Independent and Executive" within the meaning of the HC guideline. The Bank is of the view that this does not compromise on the high standard of the Corporate Governance followed by the bank since Dr. Abdolnaser Hemmati is not involved in the day-to-day functioning of Futurebank and thus discharging the responsibilities only as Non-executive director.

REMUNERATION REPORT

The 2014 Remuneration Report provides detailed qualitative and quantitative compensation information with regards to the bank. Furthermore, it contains disclosures specific to the Board members and employees identified pursuant to the Central Bank of Bahrain regulation on the Sound Remuneration Practices.

External regulatory requirements and internal drivers for cultural change continued to shape the remuneration policy and systems of the bank. As a result, 2014 saw significant further progress with regards to our overall compensation strategy, structures and governance framework. The revised policy framework and incentive components are subject to the approval of the shareholders in the upcoming annual general meeting. Once approved, the policy will be effective for the 2014 annual performance incentives and would be fully implemented for future periods.

The key features of the proposed remuneration framework have been summarized below:

REMUNERATION STRATEGY

All compensation matters and overall compliance with regulatory requirements are overseen by the Nomination, Remuneration, Corporate Governance Committee of the Board (NRCG).

The bank's remuneration policy reflects the bank's objectives for good corporate governance as well as sustained and long-term value creation for shareholders. In addition, the policy focuses on ensuring sound and effective risk management through a stringent governance structure for setting goals and communicating these goals to employees and including both financial and non-financial goals in performance and result assessments. The bank's total compensation policy, which includes variable remuneration, sets out the Bank's policy on remuneration for directors, senior management and other staff members and the key factors that were taken into account in setting the policy.

The bank's remuneration scheme maintains internal equity and external competitiveness which also reflects adequately the differences in the relative importance and value of jobs, their levels and reward employees for their contribution. Compensation is aligned to both financial and non-financial indicators of performance. Adequate attention is given to performance on parameters like customer service, process improvement, adherence to risk and compliance norms and employee capability building. Bank does not encourage any kind of guaranteed bonus and therefore will not provide any form of guaranteed variable remuneration as part of the overall remuneration package.

The Bank's reward package consists of the following key elements.

- fixed remuneration (including fixed supplements)
- performance-based remuneration (variable salary)
- Indemnity
- other benefits

The role of each employee is considered to ascertain 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 requires 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 line or any individuals within their control have a material impact on the bank's risk profile.

In order to align pay with performance in line with the bank's business strategy we follow a performance management system in which adequate attention is paid to the goal sheets to ensure a balance of financial goals with non-financial goals. Performance bonus is linked to corporate performance, business performance and individual performance.

NRCG ROLE AND FOCUS

The Bank's Board of Directors (the Board) is responsible for remuneration governance. The Board has established a Nomination, Remuneration, Corporate Governance (NRCG) committee which makes recommendations to the Board regarding remuneration for employees.

The committee comprises 3 directors representing each shareholder of the bank. Where necessary, the committee may seek advice from independent experts and advisors including remuneration consultants. The committee makes recommendations to the Board on remuneration policies and Directors and staff members' remuneration. The remuneration policy of the Future bank applies to all employees. The Board of Directors has adopted the remuneration policy at the proposal of the Nomination, Remuneration and Corporate Governance Committee. The policy reflects the bank's objectives for good corporate governance as well as sustained and long-term value creation for shareholders. The policy focuses on ensuring sound and effective risk management through:

- a stringent governance structure for setting goals and communicating these goals to employees.
- Including both financial and non-financial goals in performance and result assessments.
- making fixed salaries the main remuneration component.

The Committee last reviewed the remuneration policy in February 2015 and the Board approved the updated policy. The committee's objectives include the following:

Assisting the Board to discharge its responsibilities to exercise due care, diligence and skill in relation to the following:

- The design of the bank's remuneration structure and bonus plans for employees.
- Remuneration policies, fees and other entitlements for the Directors and staff members.
- Providing a formal forum for communication between the Board and management on human resource issues.

In summary, the Committee is responsible for:

- Reviewing the remuneration policy including the remuneration framework.
- Remuneration arrangements for the directors.
- Remuneration arrangements and all reward outcomes for CEO, Deputy C.E.O and other staff members.

The committee's key responsibilities are set out in its Charter which is reviewed by the Board annually. The Committee meets at least two times per year and in the 2014 financial year 2 meetings were held. The aggregate remuneration paid to the NRCG members during the year in the form of sitting fees amounted to USD9000.

BOARD REMUNERATION

The Board of Directors' remuneration is fixed in a manner that Remuneration of non-executive directors and executive directors who are not in charge of the day to day function of the bank does not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses, or pension benefits.

The basic fee of a Board member is set at a level that reflects the qualifications and contribution required in view of the bank's complexity, the extent of the responsibilities and based on their attendance and performance and in compliance with Article 188 of the Company Law and is capped in a manner that the amount paid will not exceed 5% of the bank's net profit, after all the required deductions outlined in Article 188 of the Company Law, in any financial year.

VARIABLE REMUNERATION FOR STAFF

Performance based remuneration pools are based on an assessment of the bank's budget performance and a number of KPIs reflecting the trend in the bank's focus areas. Threshold, target and other performance hurdles for bank wide performance will be approved by the Board. The Board of Directors decides on the funds to be allocated to the performance-based remuneration pools. Funding of the bank's variable pay pool is sized in relation to overall bank performance, performance against risk appetite framework, market benchmarks (which include return on average equity, return on average assets, cost to income ratio), regulatory benchmarks (which include Capital adequacy ratio, Liquidity coverage ratio, Net stable funding ratio and Leverage ratio) along with their weighted scores as may be decided by the committee from time to time and overall affordability. The bank's control functions are involved to ensure that risk, capital and liquidity limits are not exceeded. Performance based pay is granted to reflect the individual employees performance and departmental as well as bank results.

Remuneration decisions for CEO, Deputy CEO and other identified material risk takers are made based on performance against objectives including business results set out in performance score cards, general individual performance of the role and adherence to the future bank values, risk related policies and procedures. The Nomination Remuneration Corporate Governance Committee takes into account whether the bank/departments are in compliance with Board delegated trigger limits for key credit, liquidity, funding, rate of return, earnings, capital and market risk limits for which information/reports received from Risk/Compliance/Internal auditor/External auditor are relied upon.

Audit/Compliance and other identified approved positions (finance/Operations/Risk etc.) do not carry business profit targets in their goal sheets and hence are compensated independent of the business profit achievements. The remuneration decisions for them are thus based on achievement of key results in their respective domain as set out in performance score cards, general individual performance of the role and adherence to the future bank values, risk related policies and procedures.

In respect of all other staff members, bonus will be paid depending upon their individual job responsibilities and Key Performance objectives.

RISK ASSESSMENT FRAMEWORK

Risk forms a key part of the remuneration structure at the bank and is embedded in the assessment and allocation of variable compensation. Risk Management practices are governed by an integrated framework of policies (including risk charter and risk policies). Current and future risks are also included in the bank-wide key performance measures including a separately risk weighted risk measure and an assessment based on behavioral and cultural measures which consider adherence to the risk management framework. The key risks and measures are updated periodically to ensure compliance with the regulatory standards. Additionally, the bank updates periodically to ensure alignment with the risk appetite. There has been no change in these measures in the past year.

The bank's NRCG keeps abreast with the Bank's performance against the risk management framework. The NRCG will use this information when considering remuneration to ensure the return, risk and remuneration are aligned. In assessing performance, Board/ERCB/Audit Committee relies on the following:

- Feedback received by the Board/ERCB from the Head of Risk concerning risk behaviours and outcomes during the financial year.
- Internal Audit/External Audit/CBB/Compliance reports.
- Management reports.
- Compliance with Board delegated trigger limits for key credit, liquidity, funding, rate of return, earnings volatility, market risk limits etc.

MALUS AND CLAWBACK FRAMEWORK

The bank's remuneration policy allows the NRCG/Board to respond in instances where new information would change the variable pay decisions made in previous years and or decisions to be made in the current year. As a result, the awarded performance-based pay may be forfeited in full or in part if granted on the basis of unsustainable results (back testing) or may be clawed back if granted on a deliberately erroneous foundation.

COMPONENTS OF VARIABLE REMUMERATION

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 in equal proportion over a period of 3 years
Upfront phantom share awards	The portion of variable compensation that is awarded and issued in the form of phantom shares on conclusion of the performance evaluation process for each year
Deferred phantom shares	The portion of variable compensation that is awarded in the form of phantom shares in equal proportion over a period of 3 years

All deferred awards are subject to malus provision.The value of phantom shares that are issued will be linked to the Net Asset Value (NAV) on the redemption date.

DEFERRED COMPENSATION

Approved persons and material risk-takers (other than approved persons engaged in risk management, internal audit, operations, financial controls, AML and compliance) whose total annual remuneration (including all benefits) is in excess of BD100000 shall be subject to deferral of variable remuneration as follows:

Elements of variable remuneration	CEO and Deputy CEO	5 highest paid business line emp.	All other covered staff	Deferral period	Retention	Malus	Clawback
Upfront Cash	40%	-	-	Immediate	-	-	Yes
Deferred Cash	10%	-	-	3 years*	-	Yes	Yes
Deferred Phantom shares	50%	-	-	3 years*	6 months	Yes	Yes

Details of Remuneration paid

A. Board of Directors

The aggregate remuneration paid by the bank to its Directors in the form of sitting fees is as per the below table :-

	2014	2013
Sitting fees	68	62

B.1. Employee Remuneration

2014 Amounts in BD 000's

(BD'000)	Number of staff	Fixed Remuneration		Sign on bonuses	Guaranteed bonuses	Variable Remuneration					Total
						Upfront		Deferred			
		Cash	Others	Cash/Shares	Cash/Shares	Cash	Shares	Cash	Shares	Others	
Approved persons											
- Business Line	4	306	68	0	0	71	0	11	55	0	511
- Control and support	5	221	33	0	0	59	0	0	0	0	313
Other Material risk takers	1	45	8	0	0	12	0	0	0	0	65
Other staff	79	1200	283	0	0	442	0	0	0	0	1925
Total	89	1772	392	0	0	584	0	11	55	0	2814

Other staff costs amounting to BD 100(000's) relate to indirect staff expenses such as training, recruitment, levy and other costs, have not been considered in the above table.

2013 Amounts in BD 000's

(BD'000)	Number of staff	Fixed Remuneration		Sign on bonuses	Guaranteed bonuses	Variable Remuneration					Total
						Upfront		Deferred			
		Cash	Others	Cash/Shares	Cash/Shares	Cash	Shares	Cash	Shares	Others	
Approved persons											
- Business Line	4	274	27	0	0	117	0	0	0	0	418
- Control and support	5	201	17	0	0	43	0	0	0	0	261
Other Material risk takers	1	41	4	0	0	8	0	0	0	0	53
Other staff	74	1081	213	0	0	268	0	0	0	0	1562
Total	84	1597	261	0	0	436	0	0	0	0	2294

Other staff costs amounting to BD 148 (000's) relate to indirect staff expenses such as training, recruitment, levy and other costs, have not been considered in the above table.

B.2. Deferred Awards

2014 Amounts in BD 000's

	Cash BD'000	Shares		Total BD'000
		Number	BD'000	
Opening balance	0	0	0	0
Awarded during the year	11	34365	55	66
Paid out/released during the year	0	0	0	0
Service, performance and risk adjustments	0	0	0	0
Bonus share adjustment	0	0	0	0
Closing balance	11	34365	55	66

There were no deferred awards for the year 2013 as the new remuneration policy is applicable for the year 2014 onwards.

"Future Bank is committed to the best practices in the area of corporate governance, in letter and in spirit. The Bank believes that good corporate governance is much more than complying with legal and regulatory requirements."

MAJOR SHAREHOLDERS, VOTING RIGHTS & DIRECTORS' INTERESTS

Major Shareholders (5% and above)

Name	Nationality	No. of Shares
Ahli United Bank through its Trustee arrangements with Dana Trust	Bahraini	27,700,000
Bank Saderat Iran	Iranian	27,700,000
Bank Melli Iran	Iranian	27,700,000

Distribution schedule of each class of equity security, setting out the number of holders and percentage in the following categories:

Categories	No. of Shares	No. of Shareholders	% of Outstanding Shares
Less than 1%	------	------	------
1% up to less than 5%	------	------	------
5% up to less than 10%	------	------	------
10% up to less than 20%	------	------	------
20% up to less than 50%	83,100,000	3	100
50% and above	------	------	------
Total	**83,100,000**	**3**	**100**

Class of Equity

Class Type	No. of Holders	Voting Rights
Ordinary shares 83,100,000	3	83,100,000

Directors' Interest and details of shareholding by Directors and their related parties:
None of the Directors or their related parties had any shareholding in the Bank as at 31 December, 2014

CEO'S STATEMENT & MANAGEMENT REVIEW

Arriving at the milestone occasion of its 10th Anniversary, Futurebank marked a decade of successful operations in the Kingdom of Bahrain in 2014. This period was underscored by a highly encouraging and stable financial performance, which reflected upon the Bank's journey of resilience, as well as the strength of its core capabilities, which promise to take it to greater heights in the future.

I am therefore pleased to announce that Futurebank achieved a record Net Profit of BD 17.9 million in 2014 as compared to BD 11 million in the previous year, an increase by 62.1 percent which set a new benchmark for financial success, spanning the Bank's entire history. This consistent growth is credited to the strength of the Bank's tested and proven prudent approach and its resilience towards achieving its core strategic mission. The period under review was therefore heightened by optimism and greater sense of stability, wherein a host of initiatives aimed at strengthening Futurebank's financial capabilities and its core business assets were undertaken. Our efforts remain firmly in place as does our commitment to maintain Futurebank's continuous drive towards prosperity through perseverance and profitable results.

Other key performance ratios which marked this year's turnaround financial performance include Futurebank's average return on assets increasing from 2 to 3 percent and average return on equity moving up from 10.3 percent to 14.8 percent during the period under review.

"The proven effectiveness of our business strategy throughout the last decade now serves as a source of confidence and reflects on our positive outlook for the new era which lies ahead."

OPERATING ENVIRONMENT

During 2014, Futurebank worked diligently to build upon a number of opportunities aligned with its broader strategic mission. Celebrating the advent of its 10th anniversary, the Bank took on a steady approach to prepare for the upcoming era of growth and prosperity.

According to the annual Index of Economic Freedom, Bahrain remains one of the Middle East / North Africa (MENA) region's most economically free country overall being ranked 18th out of 178 economies worldwide.

The Mena region however faces structural and institutional problems, and private-sector growth continues to lag far behind levels needed to provide adequate employment opportunities for its growing population.

In spite of increased volatility being witnessed in the global oil markets, economic growth in Bahrain during 2014 has remained robust with clear indications that spending on infrastructure projects is significantly boosting the momentum of the non-oil sector. This impetus serves as an important source of economic resilience at a time of renewed weakness in much of the global economy.

With this in mind, the Bank ventured to protect the quality and viability of its asset base, while accelerating its growth and profitability framework and posted a very encouraging Balance Sheet in 2014, registering an increase of 3.2 percent from the previous year's position of BD 578.8 million in 2013 to BD 597.2 million in the current year.

The growth in our Net Loan portfolio from BD 113.3 million in 2013 to BD 156.1 million in the current year, accounts for an increase of 37.7 percent as compared to that of the previous year reflects on the leverage, expertise and capability which Futurebank possesses to serve its large and mid-sized corporate customers.

Our robust financial performance over this period also enabled us to extend a vast degree of support to our customer's needs. This drive resulted in Futurebank posting a 7.5percent increase (year on year basis) on our overall customer deposits in the current fiscal year, which went up from BD 157.3 million in 2013 to BD 169.2 million in 2014.

In order to protect the asset quality, the bank has taken a number of steps to strengthen its asset monitoring and recovery mechanism. Sustained efforts especially by the special assets management team on this front yielded good results, with gross NPA dropping by 6.4 percent. The gross NPA stood at 6.9 percent as on 31.12.2014 in comparison to 13.3 percent as on 31 December 2013.

In line with our prudent practices, the bank continued to provide 100 percent specific provisions on impaired loans resulting in a zero percent net NPA. The bank holds collective impairment provisions amounting to BD 9.5 million (BD 8.4 million last year) representing 5.7 percent of the performing loans, well above the minimum regulatory requirement, reflecting the bank's prudent and conservative provisioning policy.

On the operational side, the new operating environment which transpired after the Bank shifted to its new state-of-the art headquarter building, necessitated an increase in its maintenance costs, incurred on the new building premises. In conjunction with the increase in staffing costs, and other technical infrastructure costs incurred in order to maintain its technological edge and keep up with competitive market dynamics in this highly digitized era, Futurebank's overall operating expenses for 2014 increased by 20.6 percent from the previous year, and amounted to BD 5.4 million. However these costs remained well within the bank's budgeted expenditure. The cost to income ratio stood at 25.3 percent notably one of the lowest within Bahrain's retail bank's industry average of 47.6%.

CORPORATE, COMMERCIAL & RETAIL BANKING

The performance of our Corporate banking business this year has been particularly pleasing. Corporate banking strengthened its focus on enhancing customer satisfaction and convenience. Futurebank retains an unrivalled track record of servicing the needs of both large and medium sized corporate clients, with generations making use of its comprehensive range of banking and financial solutions. This portfolio currently encompasses working capital, trade finance and term loan products and facilities. The Bank's offerings are also geared towards the more discerning needs of high net worth Individuals in Bahrain. Futurebank's corporate banking activities focus on institutional banking inside of the Kingdom of Bahrain and the wider Middle East region. These range from the bilateral deals for corporate organizations, small & medium enterprises, banks and financial institutions to cross border financing with other reputed corporates.

Commercial advances considered on a gross basis, rose from BD 136.9 million in December 2013 to BD 177.9 million in December 2014, registering a robust growth of 29.8 percent with the corporate segment forming a major component of the Bank's commercial portfolio. Corporate advances grew by 24.3 percent from BD 123.5 million to BD 153.5 million as the Bank continued to expand its loan portfolio and diversify its activities, identifying new opportunities while increasing its penetration of markets where it has enjoyed a long-established presence.

On the Retail Banking front, Futurebank continued to extend a wide spectrum of retail banking products, centered on mortgage finance, personal loans and auto financing, while expanding its base and stature within the Kingdom of Bahrain. The volume of retail loans disbursements, witnessed an increase of 80.2percent, up from BD 13.5 million to BD 24.4 million during the current year.

Looking ahead, the Bank aims to strengthen its product offerings, and engage in cross selling to enhance the effectiveness of its customer services platform. These goals will ensure the growth of its market share within the local retail banking market.

The year under review thus served as another opportunity to enrich and engage our loyal customer base in Bahrain. Within this context and as we look ahead, we will continue to provide services to retail and corporate clientele, on a selective basis, while ensuring that Futurebank's unique brand of banking services become ever more accessible to the market at large.

INFORMATION TECHNOLOGY

Futurebank's emphasis on embracing and employing the latest technological means to deliver on its service promise to its customers continued to serve as a priority during 2014. Numerous IT related initiatives were undertaken, including necessary upgrades, timely inspections and reconfigurations of the core banking systems.

The ever changing market conditions coupled with the inherent requirement for banks to devise and execute sound business decisions in the most effective manner possible, accentuates the significance of business IT infrastructure. In this light, the Bank's required software programmes were continuously upgraded. In addition, the Bank's robust Wincor ATM network was also upgraded during 2014, from the previously operational Microsoft Windows XP powered platform to the newly installed Windows 7 OS version. The Bank's PC network also followed suit, with every workstation duly being upgraded to the Windows 7 OS environment.

A reconfiguration of Ministry of Interior (MOI) Lines was also carried out. This ensured that all of the Bank's CCTV systems installed at its Branches as well as its ATMs are now connected to the MOI. This new surveillance gateway meets with the newly initiated guidelines set forth by the CBB and MOI.

Futurebank also continued to align its technological prowess with ISO 27001 standards. The Bank continued to strengthen its safety capabilities across the entire spectrum of its banking transactions. Professional companies were engaged to carry out periodic penetration testing, as regular physical checks were also conducted at all ATMs.

Futurebank's focus on IT serves as a key strategic tool, employed to achieve superior standards of customer service, as there is an increasing demand for the digitization of business processes and services going forward. This transformation brings with it a much greater demand for the Bank's IT function to work closely with the rest of the Bank's key constituents, in order to bridge their requirements with desirable outcomes and results. An increasing line of business involvement with the Bank's IT function enables it to achieve the Bank's business objectives.

RISK MANAGEMENT

Futurebank's focus on cultivating best practices in its operational and risk management framework remained a priority throughout 2014.

On the operational front, the Bank reviewed its Business Continuity Process Manual and carried out extensive tests within the new Al-Seef headquarters building environment to simulate and ensure better emergency responses and business continuity contingencies. Furthering this goal, a management level sub-committee named "Safety and Security Committee" was initiated to continuously oversee & improve the security apparatus. This follows up on the shifting to the new Futurebank HQ Building which took place earlier last year and in the wake of the recent civil unrest incidents which were witnessed in Bahrain.

On the credit risk side, Futurebank set forth a number of initiatives directly aimed at strengthening its risk mitigation policies. A Credit Culture Improvement Committee was set up with the primary objective of making improvements to the Bank's credit policies, identifying any short comings in the client's financial structure and making recommendations towards improving the Bank's overall risk culture. An action plan was evolved to address vital concerns related to Futurebank's credit culture improvement. Follow-up meetings were held at consistent intervals to monitor the proposed strategy and outcome of this action plan. These efforts have resulted in numerous improvements being implemented by the Bank across the pre-approval, assessment, as well as the post sanctioning and follow-up stages.

The Bank continues to gear up and enhance the quality of its loans, in order to optimally partake in upcoming growth opportunities.

Compliance with regulatory and statutory requirements is also an ongoing process. The Bank is aware of its responsibility in observing all regulatory provisions and best international practices related to its functioning. The Bank's Compliance Unit in keeping with the Central Bank of Bahrain (CBB) guidelines, acts as a focal point for regulatory compliance and other best practice compliance principles. Anti–money laundering constitutes an important focus area for the compliance function, in addition to disclosure standards, adherence to best practices and conflict of interest. The Bank also installed a new compliance monitoring tool from Bench Matrix, which serves on a fully automated, holistic level to synergize all regulatory activities, internal policies and procedures under one framework.

HUMAN RESOURCES

As a leading financial institution, Futurebank's Human Resources mandate is aligned with its comprehensive business strategy and the ever-evolving needs of the market. The Bank's HR function oversees vital organizational changes and sets benchmarks for employee knowledge, skills and professional conduct, along with any necessary upgrades to banking operations, in order to ensure Futurebank's competitiveness and leading edge in the market.

In 2014, a number of initiatives were carried out by HR, including extensive employee training sessions. Aligned with Futurebank's goal of becoming a learning-based organization, an estimated 1639 training hours were dedicated during the year towards increasing the team's knowledge base. These programs are envisioned to continue well into the future. A focus on employee retention and recognition was also placed into play in 2014, with the launch of the Bank's Employee Recognition Program, which will serve to extend Long service awards along with Annual "Employee of the year" merit awards.

The upkeep and wellbeing of all staff and personnel at Futurebank is a key priority of the HR function. The Bank's Medical and Social Awareness programs were also furthered this year, to promote better health and lifestyle awareness amongst its staff members.

FUTURE OUTLOOK

Throughout the year 2014, Futurebank remained fully engaged in meeting the growing needs and aspirations of its customers and shareholders, while partnering the ever evolving needs of its stakeholders in Bahrain. The proven effectiveness of our business strategy throughout the last decade now serves as a source of confidence and reflects on our positive outlook for the new era which lies ahead.

With economic and business activity continuing to stabilize across the Kingdom, we worked diligently to fortify the Bank's sustained ability to deliver steady and robust financial growth in the coming years. This optimistic outlook has resulted in much groundwork being covered across all facets of the Bank's operations, in preparation for future opportunities which are sure to arise in Bahrain as well as the rest of the region.

The Bahrain economy stands on the threshold of a major transformation with expectations of more policy initiatives by the government. All Indications point at infrastructure projects continuing to boost the local economy in the years ahead. We therefore envision stable market conditions which will encourage lending and liquidity in support of a positive economic outlook across the Kingdom, as well as the wider region.

Futurebank will also benefit from the widely acknowledged and growing recovery in the real estate sector, which is currently re-emerging from a major learning curve. Our strategic intent is to create value for our clients and to bring competitive advantage to all of their activities.

Looking ahead, we are entering the next phase of implementing our new initiatives set by the Board. Our focus will remain on furthering our performance and taking it to even higher levels, as well as initiating activities which will facilitate steady progress towards our 2015 targets. Although we believe the upcoming period is sure to present us with numerous challenges, we are certain that our determination to work more closely with our stakeholders, will serve as a key element in our success moving forward, allowing us to mutually identify sustainable solutions. With our due diligence framework in place, our solid performance during the year, inspires us to push onwards for an active, effective and sustainable future.

On the wider horizon; beyond the Kingdom of Bahrain, our prudent approach compels us to continue monitoring the state of regional and international financial markets and shaping our offerings to meet market needs and conditions. We also intend to reach out to interests in markets, where we envision steady opportunities opening up, as the long standing international sanctions on Iran begin to ease up.

On our milestone 10th anniversary, I take this opportunity to extend my deepest gratitude to all the professionals who come together to give Futurebank its distinctive edge, along with our valued clients and our esteemed shareholders for their immense support over the last decade. I also extend my fullest gratitude to the gracious authorities in Bahrain for their thorough guidance and unwavering commitment to Futurebank's sustained and ongoing success.

Mr. Gholam Souri
Chief Executive Officer & Managing Director

GROUP MANAGEMENT

1. **MR. GHOLAM SOURI**
   Chief Executive Officer & Managing Director
   MBA in Banking from Iranian Banking Institution. Over 29 years of international banking experience holding various senior managerial positions in Bank Saderat Iran as: General Manager of International Division & Regional Office Dubai; General Manager, Bank Saderat Iran Branches. Joined the Bank in 2004. Appointed as CEO w.e.f. July 2010.

2. **MR. ABBAS FATEMI**
   Deputy Chief Executive Officer & Deputy Managing Director Finance, IT & Operations
   BA in English Language, Tehran University. Over 45 years of banking experience in Bank Melli Iran. Assistant Director of Bank Melli Iran, International Division, Tehran; Manager of Bank Melli Iran, Dubai Main Branch for 7 years. Joined the Bank in 2004.

3. **MR. MOHAN SHENOY YARMAL**
   Head of Treasury & Investment
   Master's Degree in Commerce (M.Com) from the University of Mysore, India. Over 37 years of wholesale banking experience holding various senior positions in Bank Saderat Iran, OBU, Bahrain. Joined the bank since inception.

4. **MR. VISTASP BURJOR SOPARIWALLA**
   Head of Finance
   B.Com, Chartered Accountant. Over 25 years of banking experience spanning Financial Control, Operations & Treasury services holding successively senior managerial positions. Prior work experience primarily with BNP PARIBAS, Bank of Bahrain & Kuwait and Bahraini Saudi Bank. Joined the Bank in 2006.

5. **MR. K. SURESH KUMAR**
   Head of Corporate Banking
   CAIIB from Indian Institute of Bankers, Mumbai. Over 29 years of banking experience mainly in Corporate Credit-Marketing, Appraisal, Risk & Remedial Management at United Bank of India, Oman International Bank, IDBI Bank and as Senior Vice President at Mizuho Corporate Bank. Joined the Bank in 2005.

6. **MR. MILIND VINAYAK KAMAT**
   Head of Risk
   B.Com, Chartered Accountant. Over 28 years of banking experience holding various positions in various banks; Union Bank of India, Bank of Bahrain & Kuwait, Mumbai and as Vice President at Calyon Bank. Joined the Bank in 2005.

7. **MR. U.P.RAVIPRAKASH**
   Head of internal Audit
   B.Sc. in Maths from Chennai University (India), CAIIB from Indian Institute of Bankers (India). CIA from Institute of Internal Auditors (USA). Over 33 years of banking experience mainly in Internal Audit, Operations, Corporate Banking/SME Credit and Retail Banking with State Bank of India. Held senior managerial positions in State Bank of India and worked as Assistant General Manager. Joined the bank in November 2008.

8. MR. JALIL AL-SHEHABI

Head of Compliance & MLRO

Advanced Banking Diploma. Over 33 years of banking experience holding various senior managerial positions mainly Banking Operations, Internal control, Internal Audit and compliance / MLRO at various Banks in Bahrain. Joined the Bank in March 2007.

9. MR. RAMGOPAL SUNDRAM

Head of Operations Department

Bachelor's Degree in Commerce. Over 30 Years of banking experience mainly in banking operations, trade finance and retail banking with Syndicate Bank, ING Bank, Centurion Bank and HDFC Bank Limited as Assistant Vice President. Joined the Bank in January 2010.

10. MR. HOSSEIN REZAEE NICO

Head of Systems, Administration and Services

Master's Degree in International Business from Wollonong University, Australia. Over 25 years of banking experience holding various senior managerial positions mainly Information Technology & Systems, Treasury and Investment, Trade Finance, Strategic Planning and Developments. Joined the Bank in August 2013.

11. MR. PRIYAN MELEDATH

Head of Information Technology

Over 18 years of enriching experience in Banking - IT Sector, qualified in IT and Accounting. Prior to joining Future bank, was the Regional Head of Information Technology Department of Bank Melli Iran, Dubai, UAE. Joined Future bank in January 2007.

12. MRS. MAHA MURAD ALI

Head of Human Resources

Diploma in HRP from the Chartered Institute of Personnel Development (CIPD).Advanced Diploma in Insurance, Diploma in Computer Engineering. Over 16 years of work experience, of which 8 years of experience was in the Human Resources field and holding various managerial positions. Joined Future Bank in August 2005.

13. MR. MEHDI HABIBOLAH RASHIDI

Head of Tehran Representative Office

Master of Business Administration from Oklahoma State University; Oklahoma, USA. Over 34 years of international banking experience holding various managerial positions at Central Bank of Iran till May 2004. Foreign exchange expert and Director of Treasury Department in ECO Trade and Development Bank, Turkey. Joined the Bank in March 2010.

** Not present in management line-up photo.*

GROUP MANAGEMENT COMMITTEES

TERMS OF REFERENCE OF THE VARIOUS MANAGEMENT COMMITTEES

All the below mentioned meetings are chaired by the CEO and the Managing Director. All the meetings are held on a monthly basis, except for the Disclosure Committee which is held on a half yearly basis, the Senior Management Committee meeting which is held on a fortnightly basis and the Senior Credit Committee meeting which is held on a weekly basis.

Senior Management Committee

Reviews and monitors progress on strategic initiatives, including regulatory, financial, operational and compliance issues.

Asset Liability Committee

Sets guidelines for the overall management of the liquidity risk and interest rate risk; determines the funding strategy of the Bank in order to maximise net interest income at minimal risk.

Senior Credit Committee

Implements the Credit Policy as authorised by the Board (inclusive of approval of the credit-related proposals) renewal of facilities, business services and reviews new credit-related products.

Risk Management Committee

Oversees the implementation, interpretation and follow-up of the risk policy and establishes guidelines for all lending activities to promote a sound risk culture within the Bank.

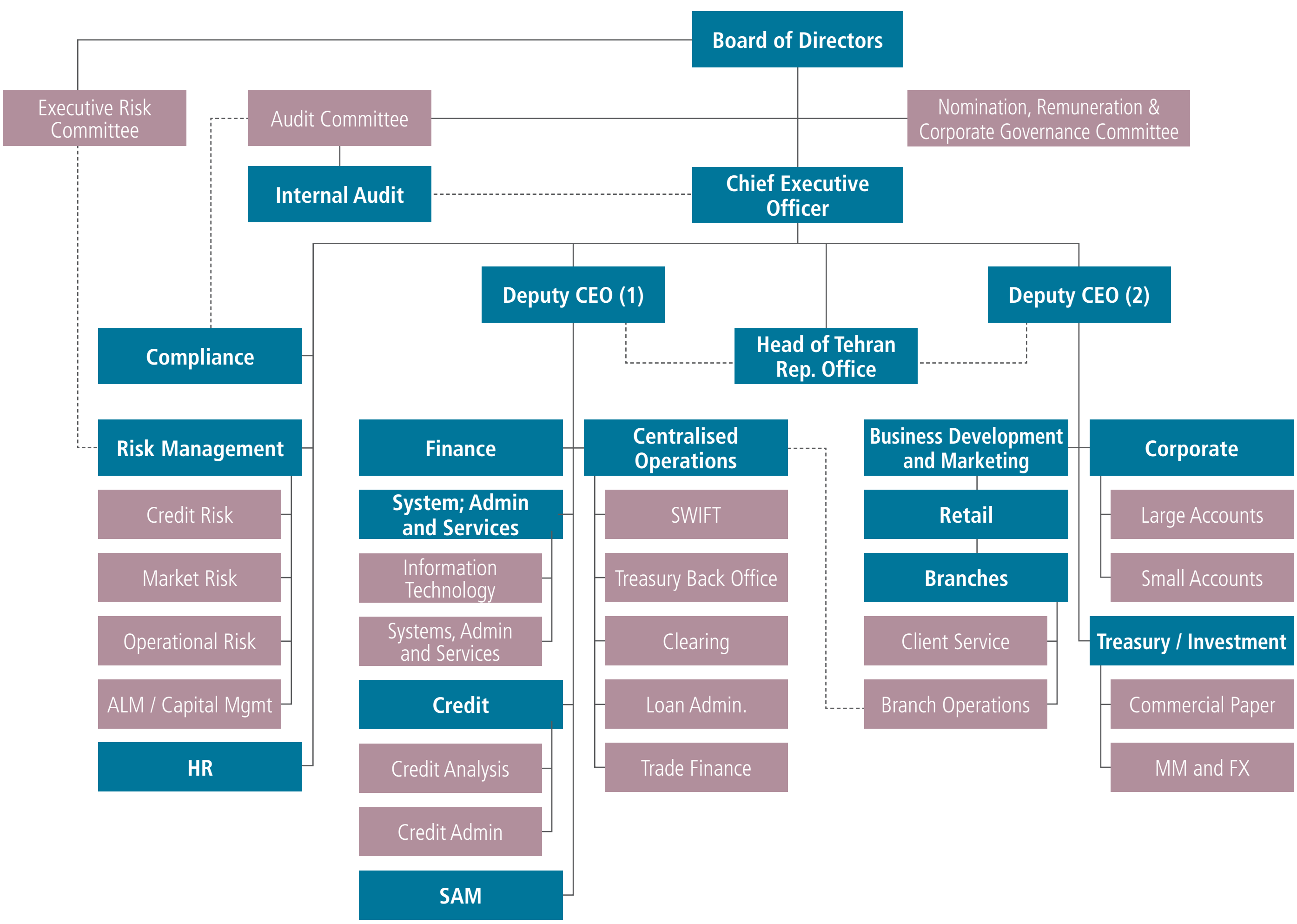
Information Technology Committee

Reviews and manages the overall IT strategy, with a focus on the projects under implementation and provides a forum for user-IT interface.

Disclosure Committee

Enables the Bank to adhere to the disclosure requirements and provides guidelines to be followed for the relevant disclosures required as per regulation.

ORGANISATION CHART



Arriving at the milestone occasion of its 10th Anniversary, Futurebank marked a decade of successful operations in the Kingdom of Bahrain in 2014. This period was also underscored by a highly encouraging and stable financial performance, which reflected upon the Bank's journey of resilience, as well as the strength of its core capabilities, which promise to take it to greater heights in the future.

FINANCIAL REVIEW

INCOME STATEMENT

In its tenth year of operations, the bank achieved a record net profit of BD 17.9 million, registering a very significant increase of 62.1 percent over last year's net profit of BD 11.0 million. This exemplary growth in net profits is primarily attributed to the steady revenue earned by the Bank, in terms of its net interest income, increase in non-interest income, lower provisioning requirement in the current year as compared to its previous year and also an improvement in the recovery of non performing debts which were fully provided for in the previous years.

In spite of the challenging operating environment witnessed during 2014, the operating income of the bank rose to BD 21.4 million from BD 20.5 million in the previous year, marking an increase by 4.3 percent over the previous year's level. This indicates a firm resilience in the operating income of the Bank and its ability to sustain itself. Overall, this financial performance reflected upon the Bank's consistent performance across all of its principal business activities, as amply reflected in its Return on Average Equity ratio, which increased to 14.8 percent on a higher capital base for the full year, as compared to 10.3 percent in the previous year 2013.

The Bank's net interest income witnessed a marginal improvement of 2.4 percent in 2014, rising from BD 20.4 in the previous year to BD 20.9 million. This result was achieved mainly due to the lower interest expenditure incurred by the Bank on its borrowings costs. Despite a quantum increase in the volume in loans & advances during the current year, margins remained under pressure in the face of competitive market conditions. The Bank's increased focus on the local and regional markets during the current year, coincided with a corresponding drop in the interbank placements of the bank.

Considering the markets within which the Bank operates, and despite a minor reduction, Futurebank's overall ability to sustain its margins helped the Bank to maintain its earnings, as well as increase its profitability to viable levels. Prudent use of liquidity positions and the deployment of net available funds resulted in sustaining the net interest margin, although at a lower level at 3.5 percent when compared to the previous year's level of 3.7 percent.

The bank also managed to control its exposure to IRR (Iranian rial) despite its significant drop during the year. The consequent net loss on the Foreign exchange income was curtailed to BD 0.12 million as compared to BD 0.38 million in the previous year.

The fee and commission income together with other operating income was higher at BD 0.66 million as compared to the previous year of BD 0.54 million, i.e. a rise of 23.6 percent in 2014, on a year-on-year basis. This was mainly derived from commission income, earned on the fresh financing deals carried out by the Bank on some note-worthy, major corporate client deals finalized within Bahrain, as well as the wider Middle East. The Bank's operating expenses increased from BD 4.5 million to BD 5.4 million, for a comparative 20.6 percent increase over the previous year. This increment was mainly attributed to rising costs related to staffing the bank's operations, maintenance of the new state-of-the art building, and enhancements to the Bank's technical infrastructure and computer software maintenance expenditure, necessitated towards the development of IT, as well as inflationary increases in other maintenance costs. The increase in staff costs by 19.3% over the previous year was mainly due to salaries and other inflationary increase. Despite the increase as outlined above, the cost to income ratio was well under control, within the overall budgetary expenditure and stood at only 25.3%, as compared to 21.9% in 2013 - notably one of the lowest figures in the industry, and a true testament to the Bank's operational efficiency and ability to contain revenue expenditures.

The Bank follows stringent norms for its provisioning requirements in line with the International Accounting Standard (IAS) 39 on its non-performing portfolio. Efforts towards reducing the non-performing portfolio bore fruit & the Bank successfully recovered a substantial amount of its impaired assets during the year, whilst at the same time ensuring that new specific provision charges created on its existing portfolio were kept to the bare minimum. Thus during the year there was net recovery of BD 1.9 million on the impaired loan portfolio as compared to net additional provisions being made to the extent of BD 4.5 million in the previous year. This recovery was largely possible due to the concerted efforts of the Special Asset management team formed internally within the bank with a special focus on recoveries.

Stringent provisioning requirements ensured that the bank continued to maintain the specific Provision Coverage ratio up to 100 percent. This notable achievement is unparalleled across Futurebank's history and also ensured that the Bank's non-performing loans were fully covered, to further strengthen the bank's Balance sheet.

In addition to the specific provision, the bank now holds significantly higher collective impairment provision to the extent of BD 9.5 million, up from BD 8.4 million in the previous year.

BALANCE SHEET

The Bank's balance sheet has grown from BD 578.8 million to BD 597.2 million. This represents a modest increase of 3.2 percent in the Bank's total assets, which under the current economic scenario of restrictions is credible.

This growth in the Balance sheet size was mainly driven by underlying business growth, led by the increase in the loans and advances portfolio, growth in Investments and an increase in customer deposits.

The Bank holds a good mix of Treasury bills, bonds & sukuks under its investments portfolio. All together, this portfolio increased by BD 5.4 million over the previous year, growing from BD 47.1 million in 2013 to BD 52.5 million in 2014. This achievement is attributed mainly to the increased investment activity across the regional market.

There was a drop in the interbank portfolio which decreased from BD 370.4 million to BD 341.8 million, a decrease by BD 28.6 million, i.e. by 7.7 percent as compared to the previous year. The Inter-bank portfolio now comprises of 57.2 percent of the Bank's total assets, compared to 64 percent in the previous year.

The liquidity policy is aimed at ensuring that the bank can meet its financial obligation when they fall due. Sufficient volumes of high quality liquid instruments are held to meet bank deposit maturities and undrawn facilities and to satisfy customer demands for deposit withdrawals. The source and maturity of assets and liabilities are diversified to avoid any undue concentration of funding requirements at any single time or from any single source. A significant portion of our deposits although repayable on demand or at short notice as per their contractual maturity patterns have traditionally, formed a stable deposit base. The Bank continues to retain substantial liquidity, with cash and placements with the Central Bank (including investments in sukuks & financial instruments) aggregating to BD 67.8 million as at the year-end 2014 compared to BD 49.1 million in the previous year.

Throughout the year, the Bank continued to adopt a flexible approach to its asset mix which was instrumental in yielding better returns. The Bank's asset allocation model has continued to focus more on small and medium term business, besides the corporate customers which comprise of the core elements of its Loans & Advances portfolio.

Net Loans & Advances increased from BD 113.3 million to BD 156.1 million, reflecting on an increment of BD 42.8 million, up by 37.7 percent as compared to the previous year. This was possible mainly due to the Bank's shifting focus on increasing bilateral loans with other GCC and Bahraini based customers. Thus the gradual reduction witnessed during earlier years due to the repayment of the Iranian portfolio was reversed. The Loans portfolio now comprises of 26.1 percent of the Bank's total assets, compared to 19.6 percent in the previous year.

Inter-bank deposits continue to form major sources of funding for the Bank towards its Inter-bank portfolio. The ratio of Inter-bank deposits to total liabilities and the shareholders fund stood at 48.3 percent, as compared to 51.8 percent in the previous year. For the year ended 2014, the loans to customer deposit ratio stood at 92.3 percent, compared to 72 percent in the previous year, reflecting better utilisations.

With the Bank increasing its focus on local business, customer deposits grew by BD 11.9 million i.e. by 7.5 percent to stand at BD 169.2 million as at year end 2014, up from BD 157.3 million at the end of 2013. Equity before appropriation increased to BD 133.4 million at the end of 2014, up from BD 115.6 million at the end of the previous year. Equity to Total assets accounted for 22.3 percent of the Total assets of the Bank, as compared to 20.0 percent in the previous year.

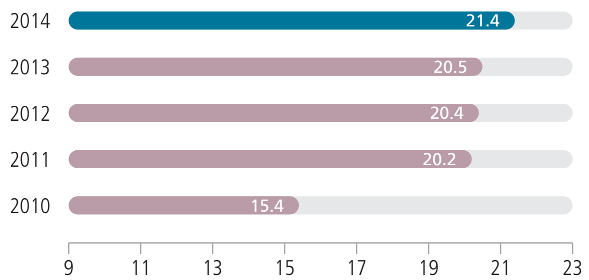
The recent regulatory changes taking shape across global financial markets served well to inspire optimism, encouraging individual markets to overcome the financial hurdles and maintain investor confidence. Within this context, Futurebank will strengthen its focus on sectorial funding and has been proactively ensuring the maintenance of strong liquidity and the capital positions to grow and expand its business and customer base. Towards this goal the Bank has ensured its adherence to the capital requirements regulations, as well as its compliance with the Capital Adequacy standards towards the Basel-II requirement, along with its Pillar III disclosures.

The Bank's Capital adequacy ratio stood at a very healthy 26.4 percent as compared to 23.8 percent in the previous year, which is higher than the minimum requirement of 12 percent, as prescribed by the Central Bank of Bahrain (CBB) for banks operating in Bahrain. The above ratio is based on the guidelines issued by the CBB which are in line with those issued by the Basel Committee for measuring risk weighted assets.

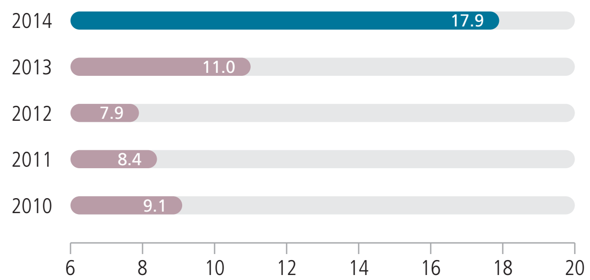
The recent regulatory changes taking shape across global financial markets served well to inspire optimism, encouraging individual markets to overcome the financial hurdles and maintain investor confidence.

FINANCIAL REVIEW

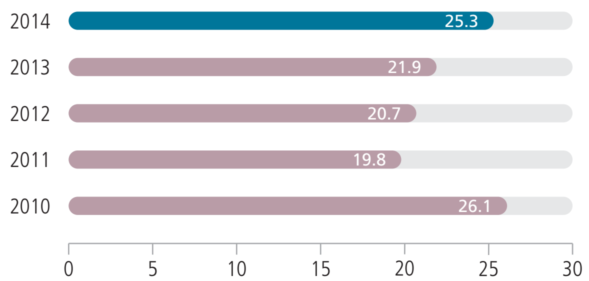
Total Income (BD millions)



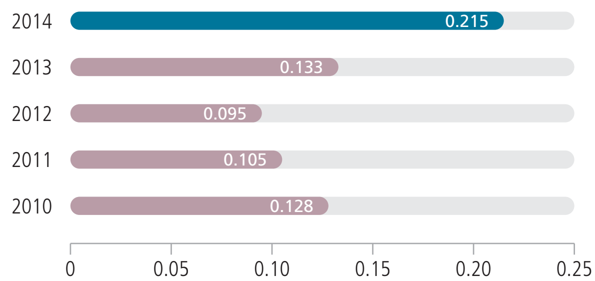
Net Profit (BD millions)



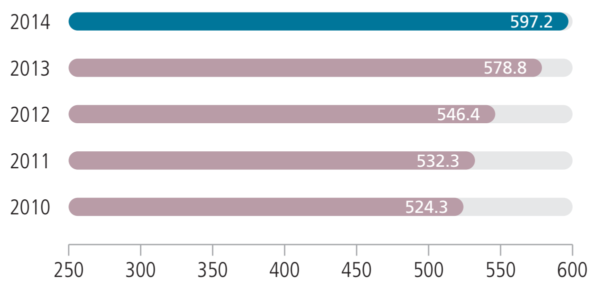
Cost / Income Ratio (Per cent)



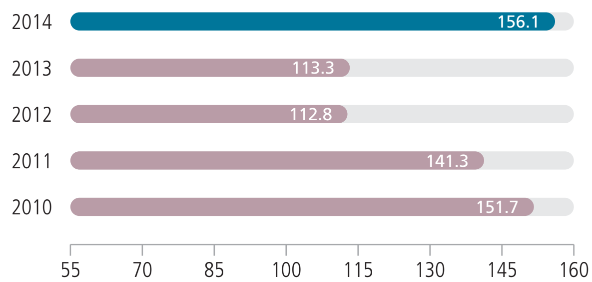
Earning per Share (BD)



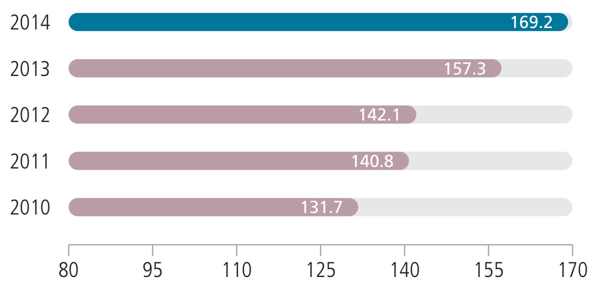
Total Assets (BD millions)



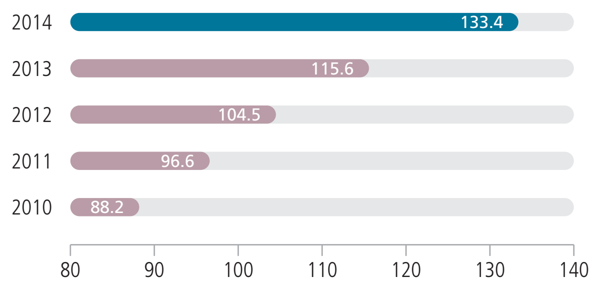
Loans and Advances (BD millions)



Customer Deposits (BD millions)



Shareholders' Equity (BD millions)



INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF FUTUREBANK B.S.C. (C)

Report on the financial statements

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

Responsibility of the board of directors for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

Report on other regulatory requirements

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

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

b) the financial information contained in the directors' report is consistent with the financial statements;

c) we are not aware of any violations during the year of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1, applicable provisions of Volume 6 and CBB directives), or the terms of the Bank's memorandum and articles of association that would have had a material adverse effect on the business of the Bank or on its financial position; and

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

Other matter

The financial statements of the Bank as at and for the year ended 31 December 2013 were audited by another auditor whose audit report dated 30 January 2014 expressed an unqualified opinion on those financial statements.

KPMG

5 February 2015

KPMG Fakhro, a Bahrain partnership registered with Ministry of Industry and Commerce (MOIC) Kingdom of Bahrain and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

STATEMENT OF FINANCIAL POSITION as at 31 December 2014

	Note	2014 BD'000s	2013 BD'000s
ASSETS			
Cash and balances with central banks	5	34,053	35,159
Due from banks	6	341,798	370,371
Treasury bills – Government of Bahrain	7	15,658	-
Loans and advances to customers	8	156,059	113,294
Non-trading investment securities	9	36,854	47,069
Other assets	10	4,084	3,788
Property and equipment	12	8,649	9,144
TOTAL ASSETS		597,155	578,825
LIABILITIES and EQUITY			
LIABILITIES			
Due to banks		233,304	237,450
Customers' deposits	13	169,156	157,337
Medium term bank borrowings	14	55,125	62,531
Other liabilities	15	6,146	5,946
Total liabilities		463,731	463,264
EQUITY			
Share capital	16	83,100	83,100
Statutory reserve	17	9,527	7,741
Retained earnings		40,797	24,720
Total equity		133,424	115,561
TOTAL LIABILITIES AND EQUITY		597,155	578,825

The financial statements consisting of pages 33 to 70 were approved by the Board of Directors on 5 February 2015 and signed on its behalf by:

Dr. Abdolnaser Hemmati
Chairman

Mr. Gholam Souri
Chief Executive Officer and Managing Director

The accompany notes 1 to 28 form an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME for the year ended 31 December 2014

	Note	2014 BD'000s	2013 BD'000s
Interest income	18	29,183	29,095
Interest expense	19	(8,332)	(8,740)
Net interest income		20,851	20,355
Net fees and commissions income	20	575	472
Net loss from foreign exchange		(119)	(387)
Other income		90	66
Total income		21,397	20,506
Staff cost		2,914	2,442
Depreciation		673	694
Other operating expenses		1,834	1,359
Total operating expenses		5,421	4,495
Profit before impairment allowances		15,976	16,011
Net impairment reversal/ (charge) on loans	8	1,887	(4,515)
Net impairment charges on other assets		-	(479)
Profit for the year		17,863	11,017
Other comprehensive income for the year		-	-
Total comprehensive income for the Year		17,863	11,017

Dr. Abdolnaser Hemmati
Chairman

Mr. Gholam Souri
Chief Executive Officer and Managing Director

The accompany notes 1 to 28 form an integral part of these financial statements.

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

2014	Share capital BD'000s	Statutory reserve BD'000s	Retained earnings BD'000s	Total BD'000s
Balance at 1 January 2014	83,100	7,741	24,720	115,561
Total comprehensive income for the year	-	-	17,863	17,863
Transfer to statutory reserve	-	1,786	(1,786)	-
Balance at 31 December 2014	83,100	9,527	40,797	133,424

2013	Share capital BD'000s	Statutory reserve BD'000s	Retained earnings BD'000s	Total BD'000s
Balance at 1 January 2013	83,100	6,639	14,805	104,544
Total comprehensive income for the year	-	-	11,017	11,017
Transfer to statutory reserve	-	1,102	(1,102)	-
Balance at 31 December 2013	83,100	7,741	24,720	115,561

The accompany notes 1 to 28 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS for the year ended 31 December 2014

	Note	31 December 2014 BD'000s	31 December 2013 BD'000s
OPERATING ACTIVITIES			
Net profit for the year		17,863	11,017
Adjustments for non-cash items:			
Depreciation		673	694
Provision for loan losses - net	8	(1,887)	4,515
Impairment of other assets	8	-	479
Write off of equipment		2	1
Foreign exchange (gain)/ loss on medium term bank borrowings		(7,406)	2,656
		9,245	19,362
Changes in operating assets and liabilities:			
Mandatory reserve deposit with the Central Bank of Bahrain		(1,125)	(548)
Due from banks		(1,002)	30,693
Loans and advances to customers		(40,878)	(5,047)
Other assets		(296)	(731)
Due to banks		(4,146)	3,675
Customers deposits		11,819	15,274
Other liabilities		200	(176)
Net cash (used in)/ from operating activities		(26,183)	62,502
INVESTING ACTIVITIES			
Purchase of non-trading investments		(72,208)	(85,784)
Proceeds from maturity of non-trading investments		66,765	92,785
Purchase of equipment		(180)	(54)
Net cash (used in)/ from investing activities		(5,623)	6,947
(DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		(31,806)	69,449
Cash and cash equivalents at the beginning of the year		381,784	312,335
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	11	349,978	381,784

The accompany notes 1 to 28 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2014

1. ACTIVITIES

Future Bank B.S.C. (c) ("the Bank") is a closed Bahrain Joint Stock Company incorporated on 1 July 2004 following the merger of the Bahrain commercial branches of Bank Melli Iran (BMI) and Bank Saderat Iran (BSI) and the offshore banking unit of BSI. The Bank operates in the Kingdom of Bahrain under a retail banking license issued by the Central Bank of Bahrain and is engaged in commercial banking activities through its four branches in the Kingdom of Bahrain. The address of the Bank's registered office is P. O. Box 785, Manama, Kingdom of Bahrain.

2. BASIS OF PREPARATION

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Bahrain Commercial Companies Law 2001.

b) Basis of measurement

These financial statements are prepared under the historical cost convention.

c) Functional and presentation currency

These financial statements are presented in Bahraini Dinar (BD) being the functional currency of the Bank. All amounts have been rounded to the nearest thousands, except when otherwise indicated.

d) New International Financial Reporting Standards and Interpretations

(i) New standards, amendments and interpretations effective from 1 January 2014

The following standards, amendments and interpretations, which became effective as of 1 January 2014, are relevant to the Bank.

a) Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'. The amendments have been applied retrospectively.

The adoption of this amendment had no significant impact on the financial statements.

b) Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash- generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.

The application of these amendments at the Bank level had no material impact on the disclosures in the Bank's financial statements.

(ii) New standards, amendments and interpretations issued but not yet effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2015, and have not been applied in preparing these financial statements. Those which are relevant to the Bank are set out below. The Bank does not plan to early adopt these standards.

a) IFRS 9 - Financial Instruments

IFRS 9 published in July 2014, replaces the existing IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2014

2 BASIS OF PREPARATION (continued)

d) New International Financial Reporting Standards and Interpretations (continued)

(ii) New standards, amendments and interpretations issued but not yet effective (continued)

a) IFRS 9 - Financial Instruments (continued)

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 9.

b) Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 prohibits entities from using a revenue based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted if the intangible asset is expressed as a measure of revenue or when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016.

The above amendments are not expected to have a material impact on the financial statements of the Bank.

c) Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

The amendments to IAS 19 clarify how an entity should account for contributions made by employees or third parties to define benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognize the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees periods of service using the project unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees periods of service.

The above amendments are not expected to have a material impact on the financial statements of the Bank.

d) Annual improvements to IFRSs 2010-2012 cycle and 2011-2013 cycle

The annual improvements to IFRSs to 2010-2012 and 2011 -2013 cycles include a number of amendments to various IFRSs. Most amendments will apply prospectively for annual periods beginning on or after 1 July 2014; earlier application is permitted (along with the special transitional requirement in each case), in which case the related consequential amendments to other IFRSs would also apply.

The amendments are not expected to have any material impact on the financial statements of the Bank.

The following are the key amendments in brief:

- The amendments to **IFRS 2** changes the definitions of "vesting condition" and "market condition" ; and add definitions for "performance condition" and "service condition" which were previously included in the definition of vesting condition.
- The IASB has clarified that, in issuing **IFRS 13** and making consequential amendments to **IAS 39** and **IFRS 9**, it did not prevent entities from measuring short term receivables and payables that have no stated interest rate at their invoiced amounts without discounting, if the effect of not discounting is not material. IFRS 13 has also been amended to clarify that portfolio exception applies to contracts in the scope of IAS 39 and IFRS 9 regardless of whether they meet the definition of a financial asset or financial liability under IAS 32.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2014

2 BASIS OF PREPARATION (continued)

d) New International Financial Reporting Standards and Interpretations (continued)

(ii) New standards, amendments and interpretations issued but not yet effective (continued)

d) Annual improvements to IFRSs 2010-2012 cycle and 2011-2013 cycle (continued)

- The amendments to **IAS 16** and **IAS 38** remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses. The accumulated depreciation (amortization) is eliminated against the gross carrying amount of the asset.

- The amendments to **IAS 24** clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required. The reporting entity will also need to disclose other transactions with the management entity under the existing disclosure requirements of IAS 24.

3. USE OF JUDGEMENTS AND ESTIMATES

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Information about judgements and estimates made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is set out below.

a) Going concern

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

b) Impairment losses on loans and advances and non-trading investments securities

The Bank reviews its loans and advances portfolio at each reporting date to assess whether an allowance for impairment should be recorded in the statement of comprehensive income. In particular, judgement by the Bank's management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in possible future changes to such allowance.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these financial statements are consistently applied and are consistent with those used in the previous year except for re-classification of available-for-sale debt investments (refer note 9). The significant accounting policies adopted in the preparation of these financial statements are set out below:

a) Foreign currency translation

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

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Foreign currency translation (continued)

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the statement of financial position date. All differences are taken to the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

b) Financial assets and financial liabilities

(i) Recognition

The Bank initially recognises loans and advances and customer deposits on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial assets

The Bank classifies its financial assets into one of the following categories:

- loans and receivables (notes 4(d) and 4(e));
- held-to-maturity (note 4(f)); and
- available-for-sale (note 4(g)).

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

(iii) Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Bank also derecognises certain assets when it writes off balances pertaining to the assets deemed to be uncollectible.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Financial assets and financial liabilities (continued)

(v) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(vi) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price.

Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(vii) Identification and measurement of impairment

An assessment is made at each reporting date and periodically during the year to determine whether there is any objective evidence that financial assets, not carried at fair value through profit or loss, are impaired. Financial assets are impaired when objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Financial assets and financial liabilities (continued)

(vii) Identification and measurement of impairment (continued)

(i) Financial assets carried at amortised cost

The Bank considers evidence of impairment for loans and advances at both a specific asset and collective level. All individually significant loans and advances are assessed for specific impairment. Those not found to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

Held to maturity investment securities are assessed for impairment on an individual basis.

In assessing collective impairment the Bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and the new financial asset is recognised at fair value. The impairment loss before an expected restructuring is measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

  Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

(ii) Available-for-sale investments

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

In the case of equity investments classified as available-for-sale, a 'significant' or 'prolonged' decline in the fair value of the investment below its cost is an objective evidence for impariment. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that instrument previously recognised is removed from other comprehensive income and recognised in profit or loss. Available for sale investments for which there is no market price or at the methods from which to derive reliable fair value which carried at cost less impairment. Impairment losses on equity investments classified as AFS are reversed through other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Cash and cash equivalents

'Cash and cash equivalents' include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the acquisition date are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

d) Due from banks and loans and advances to customers

Due from banks and loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. Due from banks and loans and advances to customers are classified as loans and receivables. These are initially measured at fair value (being the transaction price at inception) plus incremental direct transaction costs and subsequently measured at amortised cost using the effective interest method, net of interest suspended and provisions for impairment.

When the Bank purchases a financial asset (or non-financial asset) and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date, the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's financial statements.

e) Investment securities measured at amortised cost

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

f) Held-to-maturity investments

'Held-to-maturity investments' are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

g) Available-for-sale investments

'Available-for-sale investments' are non-derivative investments that are designated as available- for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise unquoted equity securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost less impairment.

Dividend income is recognised in profit or loss when the Bank becomes right to receive it is established.

h) Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other income in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Property and equipment (continued)

Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Land is not depreciated.

The estimated useful lives of significant items of property and equipment are as follows:

	Years
Premises	30
Equipment	5
Motor vehicles and office furniture	5

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

i) Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the Cash-Generating Unit ("CGU") to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit, and then to reduce the carrying amounts of the other assets in the cash-generating unit on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

j) Customers' deposits, due to banks and medium term borrowings

Customer's deposits, due to banks and medium term borrowings are the Bank's sources of debt funding.

Customer's deposits, due to banks and medium term borrowings are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

k) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Financial guarantees

'Financial guarantees' are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument.

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. All such guarantees are treated as memorandum liabilities and are disclosed as part of contingent liabilities.

Financial guarantees are initially recognised in the financial statements at fair value, in 'other liabilities', being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is taken to the statement of profit or loss in 'net provision for impairment'. The premium received is recognised in the statement of profit or loss in 'fees and commission income' on a straight line basis over the life of the guarantee.

m) Lease payments

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

n) Repossessed property

In certain circumstances, property is repossessed following the foreclosure on loans and advances that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and reported within 'other assets'.

o) Statutory reserve

In accordance with the Bahrain Commercial Companies Law 2001, 10% of the net profit is appropriated to a statutory reserve, until it reaches 50% of the paid up share capital. This reserve is not normally distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

p) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity.

q) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income and expense presented in the statement of profit or loss include interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

r) Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.

Other fees and commission income – including loan administration and account servicing fees – are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2014

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

s) Dividends

Dividend income is recognised when the right to receive income is established. Dividends are presented in other income.

t) Retirement benefits cost

Pensions and other social benefits for Bahraini employees are covered by the Social Insurance Organization scheme to which employees and the Bank contribute monthly on a fixed-percentage-of salaries basis. The Bank's contribution to this scheme, which represents a defined contribution scheme under International Accounting Standard 19 – Employee Benefits, is expensed as incurred.

Expatriate employees on limited-term contracts are entitled to leaving indemnities payable under the Bahrain Labour Law, based on length of service and final remuneration. Provision for this unfunded commitment which represents a defined benefit plan under International Accounting Standard 19 - Employee Benefits, has been made by calculating the notional liability had all such employees left at the reporting date.

u) Other expenses

All other expenses are recognized in the period in which they are incurred on an accrual basis.

5. CASH AND BALANCES WITH CENTRAL BANKS

	2014 BD'000s	2013 BD'000s
Cash in hand	2,204	1, 954
Balances with the Central Bank of Bahrain:		
Current account	689	591
Mandatory reserve deposit	6,260	5,135
Time deposit	12,700	20,800
Current account with the Central Bank of Iran	12,200	6,679
	34,053	35,159

Mandatory reserve deposit is not available for use in the day-to-day operations of the Bank.

6. DUE FROM BANKS

	2014 BD'000s	2013 BD'000s
Nostro accounts	20,675	21,359
Placements	314,207	349,012
Bills discounted	6,916	-
	341,798	370,371

Placements include a Euro blocked deposit equivalent to BD 16.14 million (31 December 2013: BD 18.31 million) with a shareholder, Bank Saderat Iran ("BSI"). This deposit is backed by a deposit of an equivalent amount placed with the Bank by BSI.

7. TREASURY BILLS

These are short term treasury bills issued by the Government of the Kingdom of Bahrain, and are carried at amortised cost. In 2013, these were part of non-trading investments (note 9).

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2014

8. LOANS AND ADVANCES TO CUSTOMERS

	2014 BD'000s	2013 BD'000s
Corporate	153,523	123,484
Retail	24,352	13,513
	177,875	136,997
Less: provision for impairment	(21,816)	(23,703)
	156,059	113,294

The movement on provision for impairment is as follows:

	2014			2013		
	Retail BD'000s	Corporate BD'000s	Total BD'000s	Retail BD'000s	Corporate BD'000s	Total BD'000s
At 1 January	779	22,924	23,703	952	18,414	19,366
Charge for the year	50	1,213	1,263	36	9,952	9,988
Recoveries	(84)	(3,066)	(3,150)	(164)	(5,309)	(5,473)
Amounts written off	-	-	-	(45)	(133)	(178)
At 31 December	745	21,071	21,816	779	22,924	23,703
Specific provision	745	11,567	12,312	779	14,553	15,332
Collective provision	-	9,504	9,504	-	8,371	8,371
Total provision	745	21,071	21,816	779	22,924	23,703

	2014 BD'000s	2013 BD'000s
Individual allowance for impairment		
Balance at 1 January	15,332	11,939
Charge for the year	130	9,044
Recoveries	(3,150)	(5,473)
Write-offs	-	(178)
Balance at 31 December	12,312	15,332
Collective allowance for impairment		
Balance at 1 January	8,371	7,427
Charge for the year	1,133	944
Balance at 31 December	9,504	8,371
Total allowance for impairment	21,816	23,703

The estimated value of collateral held by the Bank against individually impaired loans amounted to BD 24.3 million as at 31 December 2014 (31 December 2013: BD 33.5 million). The collateral consists of cash, equity securities and properties. The Bank also obtains guarantees from banks and corporates. The utilisation of the above collaterals will be on a customer by customer basis and will be limited to the customer's total exposure.

8. LOANS AND ADVANCES TO CUSTOMERS (continued)

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of the new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate. As at the reporting date, the Bank has renegotiated loans with a carrying value of BD 9.9 million as at 31 December 2014 (31 December 2013: BD 12.1 million).

9. NON-TRADING INVESTMENTS

	2014 BD'000s	2013 BD'000s
Investments at amortised cost	36,401	-
Available-for-sale investments	10	46,605
Held-to-maturity investments	443	464
	36,854	47,069

	2014				2013
	Carried at amortised cost BD'000s	Available-for-sale BD'000s	Held to maturity BD'000s	Total BD'000s	Total BD'000s
Corporate bonds	14,424	-	443	14,867	16,782
Government bonds	-	-	-	-	302
Treasury bills	-	-	-	-	12,112
Sukuks	21,977	-	-	21,977	17,863
Equity	-	10	-	10	10
	36,401	10	443	36,854	47,069

Re-classifications out of available-for-sale investment securities

The Bank has re-assessed its categorisation of non-trading investments and re-classified available-for-sale investments comprising sukuks and bonds of BD 34,483 thousand and treasury bills of BD 12,112 thousand at fair value to investments at amortised cost due to non-availability of active market quotes. Treasury bills have been disclosed separately on the face of the statement of financial position. The re-classifications were made with effect from 1 January 2014 at carrying value as at that date. The reclassification did not have an impact on the previously reported total comprehensive income or equity. During the year ended, additional net treasury bills of BD 3,547 thousand, and net bonds and sukuks of BD 1,918 thousand were purchased (note 7).

The effective interest rates on reclassified available-for-sale debt securities at 1 January 2014 that were held at the reporting date ranged from 0.72% to 8%, with expected recoverable cash flows of BD 36.4 million.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2014

10. OTHER ASSETS

	2014 BD'000s	2013 BD'000s
Interest receivable	2,930	2,482
Sundry debtors and prepayments	124	276
Repossessed asset (land)	1,030	1,030
	4,084	3,788

11. CASH AND CASH EQUIVALENTS

	2014 BD'000s	2013 BD'000s
Cash and balances with central banks excluding mandatory reserve deposit (Note 5)	27,793	30,024
Due from banks with original maturities of ninety days or less	322,185	351,760
	349,978	381,784

12. PROPERTY AND EQUIPMENT

	Land and buildings BD'000s	Furniture, equipment & vehicles BD'000s	Capital work in progress BD'000s	2014 Total BD'000s	2013 Total BD'000s
Cost					
At 1 January	7,430	3,649	72	11,151	11,108
Additions	-	214	48	262	56
Disposals	-	(38)	(82)	(120)	(13)
At 31 December	7,430	3,825	38	11,293	11,151
Depreciation					
1 January	203	1,804	-	2,007	1,323
Charge for the year	204	469	-	673	693
Disposals	-	(36)	-	(36)	(9)
At 31 December	407	2,237	-	2,644	2,007
Net book value					
At 31 December 2014	7,023	1,588	38	8,649	9,144
At 31 December 2013	7,227	1,845	72	-	9,144

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2014

13. CUSTOMERS' DEPOSITS

	2014 BD'000s	2013 BD'000s
Current and call accounts	28,698	26,248
Savings accounts	9,462	8,740
Term deposit accounts	130,996	122,349
	169,156	157,337

14. MEDIUM TERM BORROWINGS

	2014		2013	
	Interest rate	BD'000s	Interest rate	BD'000s
Bank Saderat Iran (Euro 30 million) *(repayable in bullet in January 2017)*	Libor + 25 Basis Points	13,781	Libor + 25bps	15,633
Bank Melli Iran (Euro 30 million) *(repayable in bullet in November 2017)*	Libor + 25 Basis Points	13,781	Libor + 25bps	15,633
Bank Melli Iran (Euro 30 million) *(repayable in bullet in August 2017)*	Libor + 150 Basis Points	13,781	Libor + 150bps	15,633
Bank Tejarat Iran (Euro 30 million) *(repayable in bullet in May 2017)*	Libor + 25 Basis Points	13,782	Libor + 25bps	15,632
		55,125		62,531

The Bank has not had any defaults of principal, interest or other breaches with respect to its medium term borrowings during the years ended 31 December 2014 and 2013.

15. OTHER LIABILITIES

	2014 BD'000s	2013 BD'000s
Interest payable	767	742
Staff related accruals	1,475	996
Accounts payable	2,453	2,406
Other	1,451	1,802
	6,146	5,946

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2014

16. SHARE CAPITAL

	2014 BD'000s	2013 BD'000s
Authorised share capital		
100 million (2013: 100 million) ordinary shares of BD 1 each	100,000	100,000
Issued and fully paid share capital		
83.1 million (2013: 83.1 million) ordinary shares of BD 1 each	83,100	83,100

17. STATUTORY RESERVE

As required by the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net profit for the year has been transferred to a statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equates to 50% of the paid up share capital. This reserve is non distributable, except in circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

18. INTEREST INCOME

	2014 BD'000s	2013 BD'000s
Loans and advances to customers	12,232	11,737
Due from banks	14,672	15,387
Non-trading investments and treasury bills	2,279	1,971
	29,183	29,095

19. INTEREST EXPENSE

	2014 BD'000s	2013 BD'000s
Due to banks	3,987	4,015
Customers' deposits	3,877	4,169
Medium term borrowings	468	556
	8,332	8,740

20. NET FEES AND COMMISSIONS INCOME

	2014 BD'000s	2013 BD'000s
Fees and commissions income	576	483
Fees and commissions expense	(1)	(11)
	575	472

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2014

21. RELATED PARTY TRANSACTIONS

Related parties represent shareholders, directors and key management personnel of the Bank, and entities controlled, jointly controlled or significantly influenced by such parties. Transactions with related parties are conducted on an arm's length basis. Placements and Loans and advances to related parties are performing and no provision have been booked against these.

Details of balances and transactions with related parties are as follows:

	2014 BD'000s	2013 BD'000s
Statement of financial position		
Shareholders and related parties		
Placements and Bank balances with shareholders (included in due from banks) *	173, 903	174,032
Deposits from shareholders (included in due to banks) *	22, 992	25,052
Medium term borrowings *	41, 344	46,898
Directors and key management personnel		
Loans and advances	33	30
Deposits	355	276

	2014 BD'000s	2013 BD'000s
Statement of profit or loss and other comprehensive income		
Interest income from shareholders*	5,197	5,614
Interest expense *	1,045	938

* These relate to two of the Bank's shareholders.

Key management compensation

The key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank directly or indirectly. The key management comprises the executive directors and the heads of various departments.

The compensation for key management personnel, including executive directors for the year is as follows:

	2014 BD'000s	2013 BD'000s
Salaries and other short term benefits	769	655
End of service benefits	36	30
	805	685
Directors' sitting fees	68	62

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2014

22. COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments

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

Letters of credit, guarantees (including standby letters of credit) and acceptances commit the Bank to make payments on behalf of customers. The Bank has the following credit related commitments:

	2014 BD'000s	2013 BD'000s
Commitments on behalf of customers:		
Letters of Guarantee	5,001	4,315
Letters of Credit	1,235	-
Undrawn loan commitments	17,196	16,911
	23,432	21,226

Other Commitments:

The Bank's commitments in respect of operating leases are as follows:

	2014 BD'000s	2013 BD'000s
Within one year	229	225
One to five years	140	120
	369	345

23. FINANCIAL RISK MANAGEMENT

Introduction

Risk is inherent in the Bank's activities and it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk and operational risk.

Risk management framework

The risk management framework is summarised through the risk charter of the Bank approved by the board of directors. The objective of the risk charter is to define the board framework consisting of policies and procedures for the management of credit, operational, market and liquidity risks. It also defines the roles and responsibilities of various committees, such as board, executive risk committee of the Board (ERCB), asset liability management committee (ALCO), risk committee (RMC), and the risk management department (RMD). The board of directors is ultimately responsible for identifying and controlling risks; however, there are separate independent committees responsible for managing and monitoring risks. The overall control for risks lies with the Executive Risk Committee of the Board.

Board of directors

The board of directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Executive Risk Committee of the Board (ERCB)

The ERCB, set up in February 2012, is responsible for assisting the Board in implementation of the risk management framework and maintenance of adequate and capable infrastructure to support the framework. ERCB is also responsible for reviewing regularly any significant risk issues highlighted by Head of Risk or the RMC and to recommend to the Board suitable amendments to the risk management framework including risk strategy and policies.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2014

23. FINANCIAL RISK MANAGEMENT (continued)

Audit committee

The audit committee is responsible for ensuring the Bank's internal controls and systems are properly tested. The audit committee is also responsible for ensuring that the Bank meets various regulatory guidelines and undertakes continuous disclosure in line with the accounting and regulatory standards.

Risk management committee

The risk management committee has overall responsibility of day to day supervision and management of risks and reports to the Board level ERCB.

Risk management department

The risk management department is responsible for implementing and maintaining risk related procedures to ensure that independent reporting and control processes exist.

Asset liability management committee

The asset liability management committee (ALCO) is the management's governing committee mainly responsible for market and liquidity risks pertaining to on statement of financial position and off statement of financial position items by optimising liquidity constraints, profitability expectations, foreign exchange exposures, income and asset volatility and capital adequacy requirements.

Risk measurement and reporting systems

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

Information compiled from all the businesses is examined and processed in order to analyse, control and identify risks on a timely basis. This information is presented and explained to the board of directors, the executive risk committee, and the head of each business division. The reports include aggregate credit exposure, analysis of lending portfolio by sectors, ratings and security as well as country exposure. The liquidity and interest rate risk related ratios are reported and discussed in the monthly ALCO meetings. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Head of Risk submits detailed report to the ERCB in addition to analysis of portfolio with particular focus on the quality of the lending portfolio. The Board receives a comprehensive overview through the minutes of ERCB and other reports produced by Risk Management Department (RMD) such as ten largest watch listed borrower accounts, ten largest non-performing borrower accounts.

Risk mitigation

Significant risk mitigation techniques are applied in the area of credit and operational risk. The Bank actively uses collateral to reduce its credit risks.

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

The main types of collateral obtained are as follows:

- For retail lending, charges over real estate properties and cash margin;
- For commercial lending in Bahrain, charges over real estate properties, mortgages over the related assets and cash margins; and
- For lending outside Bahrain (mainly Iran) collateral of shares listed on the Tehran Stock Exchange.

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

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

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2014

23. FINANCIAL RISK MANAGEMENT (continued)

Risk mitigation (continued)

Operational risk is mitigated through a set of internal controls which are part of the Bank's Standard Operating Procedures (SOPs). The Bank has implemented dedicated software to monitor key risk indicators (KRI) and loss events. The data is gathered by business coordinators and validated by respective supervisors before it is loaded into the software. Threshold breaches, if any, are reported to the operational risk sub-committee for suitable action. The entire operational risk management process was also recently reviewed by the Bank's internal audit function.

Excessive risk concentration

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

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

The Bank has exposure to the following risks from financial instruments:

- credit risk;
- liquidity risk;
- market risks; and
- operational risks.

A) CREDIT RISK

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers, amounts due from other banks, and investment in debt securities.

The Bank manages credit risk by setting limits for individual borrowers, and Banks of borrowers and for geographical and industry segments. The Bank also monitors credit exposures, and continually assesses the creditworthiness of counterparties. In addition, the Bank obtains security where appropriate, and collateral arrangements with counterparties, and limits the duration of exposures. Regular audits of business units and the Bank's credit processes are undertaken by internal audit.

(i) Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral but after impairment allowance, if any.

	Gross maximum exposure 2014 BD'000s	Gross maximum exposure 2013 BD'000s
Balances with central banks	31,849	33,205
Treasury Bills	15,658	-
Due from banks	341,798	370,371
Loans and advances to customers	156,059	113,294
Non-trading investments	36,844	47,059
Other assets	2,939	2,543
	585,147	566,472
Commitments and contingent liabilities	6,236	4,315
Total credit risk exposure	591,383	570,787

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2014

23. FINANCIAL RISK MANAGEMENT (continued)

A) CREDIT RISK (continued)

(i) Maximum exposure to credit risk without taking account of any collateral and other credit enhancements (continued)

Credit quality analysis

The table below sets out information about the credit quality of financial assets and the allowance for impairment held by the Bank against those assets.

31 December 2014	Loans and advances to customers BD'000s	Balances with banks and central banks BD'000s	Debt securities and treasury bills BD'000s	Commitments and guarantees BD'000s
Maximum exposure to credit risk				
Carrying amount	156,059	373,647	52,502	-
Amount committed/guaranteed	-	-	-	6, 236
At amortised cost				
Grade A -Exceptional	9,952	31,849	37,636	783
Grade B - Very good	21,625	-	-	2
Grade C - Good	41,484	341,798	-	4,945
Grade D - Satisfactory	39,302	-	-	14
Grade D^- - Acceptable	39,864	-	-	456
Grade E^+ - Weak list	4,438	-	-	-
Grade E - Watch list	8,897	-	-	-
Grade X - Substandard	6,257	-	-	-
Grade Y - Doubtful	4,353	-	-	36
Grade Z - Loss	1,703	-	-	-
Not rated*	-	-	14,866	-
Total gross amount	177,875	373,647	52,502	
Allowance for impairment	(21, 816)	-	-	
Net carrying amount	156,059	373,647	52,502	

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2014

23. FINANCIAL RISK MANAGEMENT (continued)

A) CREDIT RISK (continued)

(i) Maximum exposure to credit risk without taking account of any collateral and other credit enhancements (continued)

Credit quality analysis (continued)

31 December 2013	Loans and advances to customers BD'000s	Balances with banks and central banks BD'000s	Debt securities and treasury bills BD'000s	Commitments and guarantees BD'000s
Maximum exposure to credit risk				
Carrying amount	113,294	403,576	47,059	-
Amount committed/guaranteed	-	-	-	4, 315
At amortised cost				
Grade A -Exceptional	6,612	33, 205	29,975	707
Grade B - Very good	13,070	-	-	2
Grade C - Good	34,312	370,371	-	3,016
Grade D - Satisfactory	30,220	-	-	15
Grade D⁻ - Acceptable	21,378	-	-	506
Grade E⁺ - Weak list	5,946	-	-	-
Grade E - Watch list	10,129	-	-	-
Grade X - Substandard	8,347	-	-	-
Grade Y - Doubtful	5,272	-	-	69
Grade Z - Loss	1,711	-	-	-
Not rated*	-	-	17,084	-
Total gross amount	136,997	403,576	47,059	
Allowance for impairment	(23,703)	-	-	
Net carrying amount	113,294	403,576	47,059	

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2014

23. FINANCIAL RISK MANAGEMENT (continued)

A) CREDIT RISK (continued)

(i) Maximum exposure to credit risk without taking account of any collateral and other credit enhancements (continued)

Credit quality analysis (continued)

	Loans and advances to customers		Due from banks & balances with central banks		Debt securities and treasury bills		Commitments and guarantees	
	2014 BD'000s	2013 BD'000s	2014 BD'000s	2013 BD'000s	2014 BD'000s	2013 BD'000s	2014 BD'000s	2013 BD'000s
Off balance sheet								
Financial guarantees								
Grade A -Exceptional	-	-	-	-	-	-	783	707
Grade B - Very good	-	-	-	-	-	-	2	2
Grade C - Good	-	-	-	-	-	-	4,945	3,016
Grade D - Satisfactory	-	-	-	-	-	-	14	15
Grade D⁻ - Acceptable	-	-	-	-	-	-	456	506
Grade Y – Doubtful	-	-	-	-	-	-	36	69
Total exposure	-	-	-	-	-	-	6,236	4,315
Loans with renegotiated terms								
Gross carrying amount	9,886	12,110	-	-	-	-	-	-
Impaired amount	8,226	10,672	-	-	-	-	-	-
Allowance for impairment	(8,226)	(10,672)	-	-	-	-	-	-
Net carrying amount	9,886	12,110	-	-	-	-	-	-
Neither past due nor impaired								
Grade A -Exceptional	9,917	6,429	31,849	33,205	37,636	29,975	-	-
Grade B - Very good	21,608	13,064	-	-	-	-	-	-
Grade C - Good	37,522	30,285	341,798	370,371	-	-	-	-
Grade D - Satisfactory	33,420	29,292	-	-	-	-	-	-
Grade D⁻ - Acceptable	39,656	20,970	-	-	-	-	-	-
Grade E⁺ - Weak list	-	5,407	-	-	-	-	-	-
Grade E - Watch list	8,897	9,922	-	-	-	-	-	-
Not rated	-	-			14,866	17,084		
	151,020	115,369	373,647	403,576	52,502	47,059	-	-
Past due but not impaired								
1-30 days	10,566	5,552	-	-	-	-	-	-
30-60 days	3,976	539	-	-	-	-	-	-
60-90 days	-	207	-	-	-	-	-	-
	14,542	6,298	-	-	-	-	-	-
Individually impaired								
Grade X - Substandard	6,257	8,347	-	-	-	-	-	-
Grade Y - Doubtful	4,353	5,273	-	-	-	-	-	-
Grade Z - Loss	1,702	1,712	-	-	-	-	-	-
	12,312	15,332	-	-	-	-	-	-
Allowance for impairment								
Individual	12,312	15,332	-	-	-	-	-	-
Collective	9,504	8,371	-	-	-	-	-	-
Total allowance for impairment	21,816	23,703	-	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2014

23. FINANCIAL RISK MANAGEMENT (continued)

A) CREDIT RISK (continued)

(i) Maximum exposure to credit risk without taking account of any collateral and other credit enhancements (continued)

Impaired loans and investment debt securities

The Bank's accounting policy for impairment is set out in Note 4(b)(vii).

The Bank regards a loan and advance or a debt security as impaired in the following circumstances.

- There is objective evidence that a loss event has occurred since initial recognition and the loss event has an impact on future estimated cash flows from the asset.
- A loan is overdue for 90 days or more.

  A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. Loans that are subject to a collective impairment provision are not considered impaired.

Impaired loans and advances are graded X to Z in the Bank's internal credit risk grading system.

Loans and investment debt securities that are past due but not impaired

Loans and investment debt securities that are 'past due but not impaired' are those for which contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Bank.

Loans with renegotiated terms

The Bank's accounting policy in respect of renegotiated loans is set out in Note 4(b)(vii).

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 4(b)(vii).

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Bank Audit Committee regularly reviews reports on forbearance activities.

For the purposes of disclosures in these financial statements, 'loans with renegotiated terms' are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Bank has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Bank had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayment or write-off.

Irrespective of whether loans with renegotiated terms have been derecognised, they remain disclosed as impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and there are no other indicators of impairment.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2014

23. FINANCIAL RISK MANAGEMENT (continued)

A) CREDIT RISK (continued)

(i) Maximum exposure to credit risk without taking account of any collateral and other credit enhancements (continued)

Impaired loans and investment debt securities (continued)

	2014 BD'000s	2013 BD'000s
Loans and advances to customers:		
Retail	-	35
Corporate	9,886	12,075
Total renegotiated loans	9,886	12,110

(ii) Collateral

The Bank holds collateral against loans and advances in the form of mortgage interests over property, other securities, cash deposits and guarantees. The Bank accepts sovereign guarantees and guarantees from well reputed local or international banks, well established local or multinational large corporate and high net-worth private individuals. Estimates of fair value are based on the value of collateral assessed at the time of the borrowing, and are regularly updated.

Collateral generally is not held against due from banks, and no such collateral was held at 31 December 2014 or 2013.

As estimate is made at the time of borrowing of the fair value of collateral and other security enhancement held against loans and advances to customers and Banks is shown below

	Loans and advances to customers		Due from Banks and financial institutions	
	2014 BD'000s	2013 BD'000s	2014 BD'000s	2013 BD'000s
Against past due or impaired				
Property	13,479	16,659	-	-
Equity	10,854	16,881	-	-
Against neither past due nor impaired				
Property	179,903	133,996	-	-
Equity	101,322	88,123	-	-
Others	18,388	16,601	-	-
	323,946	272,260	-	-

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2014

23. FINANCIAL RISK MANAGEMENT (continued)

A) CREDIT RISK (continued)

(iii) Concentrations of credit risk

The Bank monitors concentrations of credit risk by geographical location and industry sector. An analysis of concentration of credit risk from loans and advances, financial guarantees and investment securities is shown below.

	2014		2013	
	Assets BD'000s	Financial guarantees BD'000s	Assets BD'000s	Financial guarantees BD'000s
Geographic region:				
Domestic (Bahrain)	160,835	5,001	126,477	4,315
Iran and Middle East countries*	424,260	1,235	439,936	-
Europe and North America	52	-	59	-
	585,147	6,236	566,472	4,315
Industry sector:				
Trading and manufacturing	48,908	1,926	39,748	108
Banks and financial institutions	427,749	3	451,997	3
Construction and real estate	61,599	4,149	36,873	4,174
Others	46,891	158	37,854	30
	585,147	6,236	566,472	4,315

* A substantial part of these exposures relate to Iran.

As of 31 December 2014, the exposure to a single largest counterparty amounts to BD 123.3 million (2013: BD 130.8 million).

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

31 December 2014

	Less than 30 days BD'000s	31 to 60 days BD'000s	61 to 90 days BD'000s	Total BD'000s
Loans and advances to customers				
Retail	129	-	-	129
Corporate*	10,437	3,976	-	14,413
	10,566	3,976	-	14,542

23. FINANCIAL RISK MANAGEMENT (continued)

A) CREDIT RISK (continued)

(iv) Aging analysis of past due but not impaired loans per class of financial assets (continued)

31 December 2013

	Less than 30 days BD'000s	31 to 60 days BD'000s	61 to 90 days BD'000s	Total BD'000s
Loans and advances to customers				
Retail	600	108	18	726
Corporate*	4,952	431	189	5,572
	5,552	539	207	6,298

* Subsequent to the year end, BD 4.1 Million (2013: BD 5.4 million) of the corporate loans and advances portfolio have been transferred from the past due but not impaired loans category to neither past due nor impaired upon collection of the related over dues.

The above past due loans and advances include those that are only past due by a few days.

B) MARKET RISK

'Market risk' is the risk that changes in market prices – such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) – will affect the Bank's income or the value of its holdings of financial instruments. The objective of the Bank's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Bank's solvency while optimising the return on risk.

Overall authority for market risk is vested in ALCO. ALCO sets up limits for each type of risk in aggregate and for portfolios. The Bank Risk Management Committee is responsible for the development of detailed risk management policies (subject to review and approval by board of directors) and for the day-to-day review of their implementation.

The Bank employs a range of tools to monitor and limit market risk exposures. These are discussed below, separately.

The Bank is exposed to the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by the Risk Management Department in its day-to-day monitoring activities.

(i) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank's management believe that the Bank is not exposed to material interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities as the repricing of assets and liabilities occur at similar intervals.

Overall interest rate risk positions are managed by treasury, which uses investment securities, advances to banks and deposits from banks to manage the overall position arising from the bank's activities.

The Bank does not undertake any trading activities.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2014

23. FINANCIAL RISK MANAGEMENT (continued)

B) MARKET RISK (continued)

(i) Interest rate risk (continued)

The following table is a summary of the Bank's interest rate gap position on interest bearing assets and liabilities.

31 December 2014	Less than 3 months BD'000s	3 - 6 months BD'000s	6 - 12 months BD'000s	1 - 5 years BD'000s	Non Interest Sensitive BD'000s	Carrying amount BD'000s
Interest bearing assets						
Cash and balances with central banks	12,700	-	-	-	21,353	34,053
Treasury bills	15,658	-	-	-	-	15,658
Due from banks	317,783	-	3,340	-	20,675	341,798
Loans and advances to customers	61,042	17,362	31,188	46,467	-	156,059
Non-trading investment securities	27,837	4,530	4,477	-	10	36,854
	435,020	21,892	39,005	46,467	42,038	584,422
Interest bearing liabilities						
Due to banks	217,101	-	16,203	-	-	233,304
Customers' deposits	69,178	20,610	27,036	14,172	38,160	169,156
Medium term bank borrowings	55,125	-	-	-	-	55,125
	341,404	20,610	43,239	14,172	38,160	457,585
	93,616	1,282	(4,234)	32,295	3,878	126,837

31 December 2013	Less than 3 months BD'000s	3 - 6 months BD'000s	6 - 12 months BD'000s	1 - 5 years BD'000s	Non Interest Sensitive BD'000s	Carrying amount BD'000s
Interest bearing assets						
Cash and balances with central banks	20,800	-	-	-	14,359	35,159
Treasury bills	12,112	-	-	-	-	12,112
Due from banks	349,012	-	-	-	21,359	370,371
Loans and advances to customers	48,692	15,981	26,971	21,650	-	113,294
Non-trading investment securities	25,917	4,552	4,478	-	10	34,957
	456,533	20,533	31,449	21,650	35,728	565,893
Interest bearing liabilities						
Due to banks	219,078	-	18,372	-	-	237,450
Customers' deposits	74,787	17,729	22,379	7,455	34,987	157,337
Medium term bank borrowings	62,531	-	-	-	-	62,531
	356,396	17,729	40,751	7,455	34,987	457,318
Total Interest Sensitivity Gap	100,137	2,804	(9,302)	14,195	741	108,575

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2014

23. FINANCIAL RISK MANAGEMENT (continued)

B) MARKET RISK (continued)

(i) Interest rate risk (continued)

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and financial liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered include a 100 basis point (bp) parallel fall or rise in all interest rates.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates by major currencies, with all other variables held constant, of the Bank's statement of comprehensive income.

	2014		2013	
	Increase in basis points	Impact on net interest income BD'000s	Increase in basis points	Impact on net interest income BD'000s
US Dollars	100	298	100	288
Bahraini Dinars	100	331	100	267
Euro	100	(153)	100	(167)
Iranian Rials	100	7	100	3

The impact of a similar decrease in basis points will be approximately opposite to the impact disclosed above.

Increases or decreases in net interest income as a result of interest rate movements has a corresponding effect on retained earnings which in turn affects the reported equity.

(ii) Currency risk

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

Exposures denominated in Gulf Cooperation Council (GCC) currencies (other than Kuwaiti Dinar) are effectively pegged to the USD and hence the Bank's exposure to foreign exchange risk on these currencies is limited.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2014 and 2013. The analysis calculates the effect of a reasonably possible movement of the currency exchange rate against the Bahrain Dinar with all other variables held constant on the statement of comprehensive income. A negative amount in the table reflects a potential net reduction in statement of profit or loss and other comprehensive income, while a positive amount reflects a net potential increase.

	2014		2013	
Currency	% Change in exchange rate	Effect on profit BD'000s	% Change in exchange rate	Effect on profit BD'000s
Euro	10	534	10	95
Swiss Francs	10	(1)	10	(2)
Iranian Rials	20	368	20	63

(iii) Equity price risk

Equity price risk is the risk that the value of an instrument will fluctuate as a result of changes in equity market prices, whether caused by factors specific to an individual investment, issuer or all factors affecting all instruments traded in the market. The Bank has no significant exposure to equity price risk as at 31 December 2014 and 2013.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2014

23. FINANCIAL RISK MANAGEMENT (continued)

C) LIQUIDITY RISK

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

The Bank's board of directors sets the Bank's strategy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to ALCO. The Bank uses the maturity ladder (time bucket) approach for managing its liquidity. The Treasury department manages the Bank's liquidity position on a regular basis and reviews daily reports covering the liquidity position of the Bank. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. To limit liquidity risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis. The Bank has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains a statutory deposit with the Central Bank of Bahrain equal to 5% of customer deposits denominated in Bahraini Dinars. The Bank also maintains limits on the ratio of net liquid assets to customer liabilities, set to reflect market conditions. Net liquid assets consist of cash, short term bank deposits and liquid debt securities available for immediate sale, less deposits for banks and other issued securities and borrowings due to mature within the next month. The liquidity profile of customer deposits has been determined on the basis of the effective maturities indicated by the Bank's deposit retention history.

The maturity profile of management's best estimate of expected maturities of the assets and liabilities at 31 December 2014 was as follows:

	Up to 1 month BD'000s	1 to 3 Months BD'000s	3 to 6 months BD'000s	6 months to 1 year BD'000s	Total up to 1 year BD'000s	1 to 3 years BD'000s	Over 3 years BD'000s	No fixed maturity BD'000s	Total BD'000s
Assets									
Cash and balances with central banks	27,793	-	-	-	27,793	-	-	6,260	34,053
Due from banks	241,662	96,664	-	3,340	341,666	132	-	-	341,798
Treasury bills	3,060	9,707	891	2,000	15,658	-	-	-	15,658
Loans and advances to customers	7,849	11,063	16,448	48,325	83,685	43,453	28,921	-	156,059
Non-trading investments	4,075	3,580	16,710	-	24,365	6,358	6,121	10	36,854
Other assets	1,541	632	96	303	2,572	1,314	198	-	4,084
Property and equipment	-	-	-	-	-	-	-	8,649	8,649
Total assets	285,980	121,646	34,145	53,968	495,739	51,257	35,240	14,919	597,155
Liabilities									
Due to banks	182,973	34,127	-	16,204	233,304	-	-	-	233,304
Customers' deposits	13,168	12,694	-	-	25,862	143,294	-	-	169,156
Medium term borrowings	-	-	-	-	-	55,125	-	-	55,125
Other liabilities	5,634	148	38	78	5,898	238	10	-	6,146
Total liabilities	201,775	46,969	38	16,282	265,064	198,657	10	-	463,731
Net liquidity gap	84,205	74,677	34,107	37,686	230,675	(147,400)	35,230	14,919	
Cumulative liquidity gap	84,205	158,882	192,988	230,674	230,675	83,275	118,505	133,424	

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2014

23. FINANCIAL RISK MANAGEMENT (continued)

C) LIQUIDITY RISK (continued)

The maturity profile of management's best estimate of expected maturities of the assets and liabilities at 31 December 2013 was as follows:

	Up to 1 month BD'000s	1 to 3 Months BD'000s	3 to 6 months BD'000s	6 months to 1 year BD'000s	Total up to 1 year BD'000s	1 to 3 years BD'000s	Over 3 years BD'000s	No fixed maturity BD'000s	Total BD'000s
Assets									
Cash and balances with central banks	30,024	-	-	-	30,024	-	-	5,135	35,159
Due from banks	188,108	181,961	-	302	370,371	-	-	-	370,371
Loans and advances to customers	8,178	9,395	11,591	44,476	73,640	35,441	4,213	-	113,294
Non-trading investments	4,900	7,855	3,343	3,000	19,098	21,838	6,123	10	47,069
Other assets	1,265	966	59	226	2,516	1,230	42	-	3,788
Property and equipment	-	-	-	-	-	-	-	9,144	9,144
Total assets	232,475	200,177	14,993	48,004	495,649	58,509	10,378	14,289	578,825
Liabilities									
Due to banks	185,564	33,514	-	18,372	237,450	-	-	-	237,450
Customers' deposits	12,238	11,801	-	-	24,039	133,298	-	-	157,337
Medium term borrowings	-	-	-	-	-	62,531	-	-	62,531
Other liabilities	5,439	160	31	72	5,702	240	4	-	5,946
Total liabilities	203,241	45,475	31	18,444	267,191	196,069	4	-	463,264
Net liquidity gap	29,234	154,702	14,962	29,560	228,458	(137,560)	10,374	14,289	
Cumulative liquidity gap	29,234	183,936	198,898	228,458	228,458	90,898	101,272	115,561	

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2014 based on contractual undiscounted repayment obligations. Repayments which are subjected to notice are treated as if notice were to be given immediately.

As at 31 December 2014	On demand BD'000s	less than 3 months BD'000s	3 to 6 months BD'000s	6 to 12 months BD'000s	1 to 3 years BD'000s	Total BD'000s
Financial liabilities						
Due to banks	31,661	185,716	54	16,267	-	233,698
Customers' deposits	41,562	66,784	21,118	27,608	15,652	172,724
Medium term borrowings	-	102	102	204	55,994	56,402
	73,223	252,602	21,274	44,079	71,646	462,824
Contingencies and commitments	928	1,968	143	2,530	667	6,236
Total undiscounted financial liabilities	74,151	254,570	21,417	46,609	72,313	469,060

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2014

23. FINANCIAL RISK MANAGEMENT (continued)

C) LIQUIDITY RISK (continued)

As at 31 December 2013	On demand BD'000s	less than 3 months BD'000s	3 to 6 months BD'000s	6 to 12 months BD'000s	1 to 3 years BD'000s	Total BD'000s
Financial liabilities						
Due to banks	1,862	217,588	72	18,454	-	237,976
Customers' deposits	36,532	74,244	18,133	22,796	8,197	159,902
Medium term borrowings	-	786	786	1,573	68,942	72,087
	38,394	292,618	18,991	42,823	77,139	469,965
Contingencies and commitments	110	137	1,922	433	1,713	4,315
Total undiscounted financial liabilities	38,504	292,755	20,913	43,256	78,852	474,280

D) OPERATIONAL RISK

'Operational risk' is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and innovation. In all cases, Bank policy requires compliance with all applicable legal and regulatory requirements.

The board of directors has delegated responsibility for operational risk to the Executive Risk Committee of the Board (ERCB), which is responsible for the development and implementation of controls to address operational risk. There is an Operational Risk Management Committee (ORMC), which along with the Risk department is responsible for operationalizing the ERCB's approved operational risk management policy and procedure framework. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of Key Risk Indicators (KRIs),operational losses, incidents and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including insurance where this is cost effective.

Compliance with Bank standards is supported by a programme of Risk and Control Self-Assessment (RCSA) reviews facilitated by the Risk Department and periodic reviews undertaken by Internal Audit. The results of RCSA reviews and Internal Audit reviews are discussed with the Operational Risk Management Committee, Risk Management Committee and the ERCB, with summaries submitted to the Audit Committee and senior management of the Bank.

Legal risk and claims

Legal risk is the risk arising from the potential that unenforceable contracts, lawsuits or adverse judgments can disrupt or otherwise negatively affect the operations of the Bank. The Bank has developed controls and procedures to identify legal risks and mitigate any potential losses.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2014

24. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The Bank's financial instruments have been classified in accordance with the measurement basis as follows:

As at 31 December 2014	Loans & receivables BD'000s	Held-to-maturity BD'000s	Available-for-sale BD'000s	Others at amortised cost BD'000s	Total BD'000s
Balances with central banks	31,849	-	-	-	31,849
Treasury bills	15,658	-	-	-	15,658
Due from banks	341,798	-	-	-	341,798
Loans and advances to customers	156,059	-	-	-	156,059
Non-trading investments	-	443	10	36,401	36,854
Other assets	2,939	-	-	-	2,939
Total assets	548,303	443	10	36,401	585,157
Due to banks	-	-	-	233,304	233,304
Customers' deposits	-	-	-	169,156	169,156
Medium term borrowings	-	-	-	55,125	55,125
Other liabilities	-	-	-	6,146	6,146
Total liabilities	-		-	463,731	463,731

As at 31 December 2013	Loans & receivables BD'000s	Held-to-maturity BD'000s	Available-for-sale BD'000s	Others at amortised cost BD'000s	Total BD'000s
Balances with central banks	33,205	-	-	-	33,205
Treasury bills	12,112	-	-	-	12,112
Due from banks	370,371	-	-	-	370,371
Loans and advances to customers	113,294	-	-	-	113,294
Non-trading investments	-	464	10	34,483	34,957
Other assets	2,543	-	-	-	2,543
Total assets	531,525	464	10	34,483	566,482
Due to banks	-	-	-	237,450	237,450
Customers' deposits	-	-	-	157,337	157,337
Medium term borrowings	-	-	-	62,531	62,531
Other liabilities	-	-	-	5,946	5,946
Total liabilities	-	-	-	463,264	463,264

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2014

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Financial assets and liabilities not measured at fair value

All the Bank's financial assets and financial liabilities are measured at amortised cost, except for available-for-sale equity securities which are measured at cost, less impairment as their fair value cannot be readily determined.

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

31 December 2014	Level 1 BD'000s	Level 2 BD'000s	Level 3 BD'000s	Fair value BD'000s	Carrying value BD'000s
Financial assets					
Cash and balances with banks	-	34,053	-	34,053	34,053
Treasury bills	-	15,658	-	15,658	15,658
Due from banks	-	341,798	-	341,798	341,798
Loans and advances to customers	-	156,059	-	156,059	156,059
Non-trading investment securities	-	21,977	14,877	36,854	36,854
	-	569,545	14,877	584,422	584,422
Financial liabilities					
Due to banks	-	233,304	-	233,304	233,304
Customers' deposits	-	169,156	-	169,156	169,156
Medium term bank borrowings	-	55,125	-	55,125	55,125
	-	457,585	-	457,585	457,585

25. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

31 December 2013	Level 1 BD'000s	Level 2 BD'000s	Level 3 BD'000s	Fair value BD'000s	Carrying value BD'000s
Financial assets					
Cash and balances with banks	-	35,159	-	35,159	35,159
Due from banks	-	370,371	-	370,371	370,371
Loans and advances to customers	-	113,294	-	113,294	113,294
Non-trading investment securities	-	29,975	17,094	47,069	47,069
	-	548,799	17,094	565,893	565,893
Financial liabilities					
Due to banks	-	237,450	-	237,450	237,450
Customers' deposits	-	157,337	-	157,337	157,337
Medium term bank borrowings	-	62,531	-	62,531	62,531
	-	457,318	-	457,318	457,318

The Bank's effective yield on the loans and advances and non-trading investments are within the normal range of market rates prevailing at the reporting date and therefore, their fair values are considered to approximate their carrying values.

The fair value of majority of other financial instruments approximated their respective book values due to their short-term nature or because they are at floating interest rates.

26. CAPITAL MANAGEMENT

a) Capital adequacy

The Bank's regulator, the Central Bank of Bahrain ("CBB"), sets and monitors capital requirements for the Bank. The primary objective of the Bank's capital management is to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains healthy capital ratios. The Bank has adopted an Internal Capital Assessment and Adequacy Plan (ICAAP) under which it regularly subjects its capital requirements based on its 3 year business plan to various stress tests. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders, or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The Bank's risk asset ratio, calculated in accordance with specific limits agreed with the Central Bank of Bahrain, is as follows:

	2014 BD'000s	2013 BD'000s
Tier 1 capital	133,424	115,561
Tier 2 capital	6,086	5,936
Capital base	139,510	121,497
Credit risk weighted exposure	486,845	474,907
Operational risk weighted exposure	38,233	35,084
Market risk weighted exposure	3,055	935
Total risk weighted exposure	528,133	510,926
Capital adequacy	26.4%	23.8%
Minimum requirement	12.0%	12.0%

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2014

27. DEPOSIT PROTECTION SCHEME

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

28. COMPARATIVE FIGURES

Certain prior year amounts have been regrouped to conform to the current year presentation. Such regrouping did not affect previously reported comprehensive income or equity.

PILLAR III DISCLOSURES - BASEL II

CONTENTS

QUALITATIVE DISCLOSURES For the year ended 31 December 2014

RISK MANAGEMENT

Management of risk involves the identification, measurement, ongoing monitoring and control of all financial and non financial risks to which the Bank is potentially exposed. It is understood that risks cannot be eliminated but can be effectively controlled and mitigated. This involves continuous monitoring of the political, economic and market conditions as also the creditworthiness of the Banks' counterparts. To achieve this objective the Bank has decided to use the best management practices supported by skilled and experienced people and appropriate technology.

The Board of Directors of the Bank assumes ultimate responsibility for the risk management function through a comprehensive set of policies and strategies which are subject to periodic review. The Board defines the risk appetite of the Bank through such policies and strategies which ultimately provide necessary direction and framework for all activities undertaken by the Bank. In order to assist the Board in its overview function a Board level Risk Committee (ERCB), chaired by an independent director was formed in April 2012.The Senior Management, under the direct supervision of the Board is responsible for establishing procedures for implementation of these policies and strategies.

The Risk function at Future Bank was formally set up in September 2005. Over a span of a more than eight years the Bank has managed to cover various areas of risk management. The overall risk management activity is enunciated through a Risk Charter which lays down the overall framework of strategies, infrastructure, policies and procedures. It also summarizes the committee structure adopted by the Bank for management of risk. The Risk Management Committee (RMC) set up with the representation of Senior Management, reports to the Board Level Risk Committee (ERCB). The RMC is chaired by the CEO and is responsible for day to day implementation, interpretation and follow up of the risk policies. The terms of reference of the RMC broadly include the implementation of all policies relating to management of Credit, Market, liquidity and Operational risks on an ongoing basis. There are three sub committees to specifically monitor Operational Risk, Credit Risk (Performing loans) and SAM (Special Assets Management or Non Performing Loans). These sub committees report to the RMC. The Head of Risk reports to the CEO with a dotted line to the Board.

Based on Central Bank of Bahrain's (CBB) guidelines, a risk profiling audit of the Bank was conducted by an independent external auditor and the report was sent to the CBB. Based on the gaps identified in the report, the Bank had submitted a time bound action plan to the CBB. The Basel Steering Committee followed up on this action plan and all gaps pointed out in the report were closed in 2012.

During 2013 another audit was conducted by KPMG at the behest of CBB which covered Banks control functions. As regards Risk Management KPMG observed certain gaps in Operational risk most of which were closed during 2013. Few remaining gaps mainly relating the BCP set up were closed during 2014.

The Risk Management Department (RMD) is responsible for the day-to-day management of risk which includes setting up and maintenance of various portfolio based limits, monitoring of these limits, reporting all excesses and anomalies to RMC and follow up with respective front office representatives for regularization.

Internal audit assesses whether the policies and procedures are complied with and if necessary, suggest ways of improving internal controls. A separate internal control function is in place under the Finance Department and looks after various internal control issues.

The risks associated with the Banks' business are broadly categorized into credit, market, liquidity and operational risks. These are discussed in following sections.

CREDIT RISK

Credit risk is the potential financial loss arising due to counterpart default or counterpart failure to perform as per agreed terms. The objective of credit risk management is to ensure that all credit exposures are undertaken and managed within the parameters defined in the credit risk policy and the risk reward relationship is maintained. The Bank has adopted a RAROC model for credit decision making. All credit activities of the Bank are guided by a set of principles and procedures as described in this policy document.

The credit approval process follows the well accepted principle of joint signatories under which the credit proposal is marketed by front office and processed by Credit Department. The approval levels are well defined with clear delegations in terms of amount and tenor. In case of relatively risk free exposures such as cash collateralized loans, sub delegations are permitted under the policy.

The Bank has adopted an elaborate rating system separately for retail, corporate and bank customers with appropriate weight age to quantitative and qualitative factors. Rating is mandatory for all credit decisions. The entire portfolio of the Bank has been segregated into three broad categories namely; the investment grade assets (Ratings A to D minus); the judgmental grade (Weak list E + and Watch list E); and the classification grade assets (Ratings X, Y and Z) which are the Non Performing Assets (NPA). For external classifications, where available the Bank relies on **FITCH** ratings for counterparties and country risk.

QUALITATIVE DISCLOSURES For the year ended 31 December 2014

CREDIT RISK (continued)

The Bank follows an elaborate procedure for approval of connected party transactions. All connected party limits are subject to the same ceilings as proposed by CBB. On taking office, board members disclose to the Bank all interests and relationships which could or might be seen to affect his ability to perform his duties as a Board member. The Compliance department ensures that the directors, on an annual basis, disclose and update information on his actual and potential conflicts of interest and maintains such records. Further, the directors inform the entire Board of (potential) conflicts of interest in their activities with, and commitments to other organizations as they arise and abstain from voting on the matter in accordance with the relevant provisions contained in our Conflict of interest policy. This disclosure includes all material facts in the case of a contract or transaction involving the director.

Limits are also in place to monitor various credit concentrations by counterpart / group, country, sector, ratings, products etc. The day-to-day monitoring of individual borrowers or counterparty exposures is the responsibility of the respective business units. The Credit Administration unit (CAD) ensures that credit facilities are released after proper approval and against proper documentation and is in charge of activating the customer limits. The CAD ensures that other parameters such as ratings, sector codes etc. are properly maintained in the system. It also monitors past dues, expired credits and any other exceptions and ensures proper classification of assets and reports to Credit Monitoring Committee. Bank's credit risk policy incorporates detailed guidelines on acceptability of various types of collaterals, haircuts, frequency of valuation and guidelines on selection of external valuers. Collaterals are valued on daily basis in case of shares and in case of Title Deeds with a minimum frequency of one year. The main types of guarantors currently accepted by the Bank are corporate and quasi-government entities. The creditworthiness of these guarantors is assessed by the Bank through the same credit rating model as used for borrowers. During 2014 a special committee named Credit Culture Improvement Committee was formed in order to look into gaps observed by Internal Audit Department. This committee is chaired by Deputy CEO. This committee managed to bring about perceptible improvements to the overall Credit process.

A remedial unit is in place to manage the NPA accounts and follow up of loans on which legal action has been taken. The Bank follows the Basel II norm of 90 days default for classifying a loan as non-performing / impaired category. Interest / other income is immediately suspended upon classification of an asset as NPA. The Bank follows IAS – 39 guidelines for making specific provisions in respect of its impaired assets. In addition to specific provision, a collective impairment provision is held which is based on higher of 1% of the performing portfolio or the probability of default (PD) of external rating agencies which have been mapped to the Bank's internal rating categories on a best effort basis. Bank is considering further possible improvements to this methodology. The SAM accounts are managed by the SAM unit and monthly progress reports are provided to the SAM committee. All provisions are recommended by the Risk Department and approved by the Risk Committee.

The Bank has adopted standardized approach for capital computation under credit risk.

LIQUIDITY, INTEREST & CURRENCY RISK (BANKING BOOK)

Liquidity risk is the risk of the Bank failing to meet its commitments unless it raises funds at unreasonable prices or is forced to sell its assets at whatever price. It arises out of funding mismatch.

At Future Bank the liquidity and interest risks are managed through the mechanism of Assets Liability Management Committee (ALCO). The Bank uses the maturity ladder (time buckets) approach for managing its liquidity. For interest rate risks the Bank considers the interest reset dates. The limits for each time bucket of the maturity ladder, the cumulative outflow of cash for each time bucket and limits on each gap as approved by the Board are reviewed and monitored by ALCO. It is the Bank's policy to keep its assets in high quality liquid assets such as inter-bank placements to ensure that funds are available to meet maturing liabilities, undrawn facilities and deposit withdrawals. As part of this policy Bank regularly invests in T-Bills and Sukuks issued by Central Bank of Bahrain. A substantial portion of Bank's deposits is made up of retail, current and fixed deposit accounts which, though payable on demand or at short notice, have traditionally formed part of a stable deposit base and a source of stable funds. For the purpose of Interest Rate Risk in the Banking book Loan prepayments are not considered unless the borrower has notified the bank about his intention to prepay. Similarly the non interest bearing deposits such as saving / current account are classified under Non interest sensitive bucket. The Bank has also adopted a liquidity contingency plan which was tested.

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. As the Bahraini Dinar is pegged to the US Dollar, the currency risk is minimized. The Board has approved limits for open positions which are monitored by the RMD on daily basis.

The Bank does not have trading portfolios and therefore not exposed to interest and / or currency risk on that count. The Treasurer is responsible for day-to-day management of liquidity, interest and FX risk arising in the banking book with direct reporting to Senior Management and ALCO.

QUALITATIVE DISCLOSURES For the year ended 31 December 2014

MARKET RISK

Market Risk is defined as the risk of potential losses in the on and off balance sheet positions, arising out of adverse movements in interest rates, equity prices, exchange rates, commodity prices and derivatives. This risk arises from the asset–liability mismatch, changes in yield curve, and changes in the volatilities in the market value of derivatives.

The magnitude of market risk carried on the balance sheet is minimal. At present the Bank does not trade in foreign exchange for its own account nor does it carry open positions except for its nostros. The Bank is also not trading in commodities.

The Bank currently holds no trading portfolio and therefore application of Value at Risk (VaR) techniques is not relevant for the time being. The Bank has invested certain amounts in Euro Bonds issued by Iran government owned corporations. The FX risk relating to these bonds is already covered. In addition, the Bank is also indirectly exposed to loss on account of depreciation of Iranian Rial as it has granted loans designated in BD in Bahrain against Iranian Rial deposits issued in Iran. The exchange risk is being monitored on a regular basis.

In Bahrain, the Bank is indirectly exposed to the Real Estate sector as major portion of its lending portfolio in Bahrain (66.89%) is secured by real estate mortgage.

Bank is indirectly exposed to market risk on Iranian equities as major portion of its offshore credit portfolio (35.53 %) is secured by listed Iranian stocks. A policy is in place to diversify this risk into various stocks to avoid concentrations, to obtain adequate cushion to protect against possible fall in prices, regular monitoring, with top up and sell down thresholds.

OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss resulting from failed processes, technology, people or external events. It includes reputation risk. The Bank has put in place standard operating procedures which comply with the high standards of internal control. In the process, the activities have been segregated into back office and front office in accordance with international best practices. During 2010 Bank's Standard Operating Procedures (SOPs) were re-engineered in order to reflect the changes required through implementation of a new Core Banking module. Based on the revised SOPs a fresh RCSA review was also conducted in subsequent years.

The IT security processes were re-engineered and streamlined through an ISO audit. The management information system (MIS) is being strengthened with particular focus on exception management. The Internal Audit Department is considered as the final layer of internal control which reports directly to the Audit Committee of the Board.

A Business Continuity plan is in place and under review, in order to ensure continuity of essential services to customers in case of occurrence of any calamity resulting in disruption of normal business activity. Similarly, a disaster recovery infrastructure for system recovery is in place and was also tested.

The Bank has set up an alternate BCP site and also conducted successful BCP testing in April 2014.

An operational risk management policy and procedure framework has been functional which defines key operational risk areas, key control standards and key risk indicators in line with the Basel II recommendations. The Bank currently follows the basic indicator approach for operational risk. The operational risk sub committee is in charge of implementation of the operational risk policy and reports to the RMC. The RMD implements operational risk procedures. A dedicated software is in place to monitor operational risk.

No penalty was paid by the bank to the regulatory authorities during the year 2014 pertaining to the above period.

CAPITAL ADEQUACY ASSESSMENT PROCESS AND PILLAR II RISKS (ICAAP)

The Bank follows standardized approach for credit and market risks and the basic indicator approach for operational risk. A capital management policy has been approved by the Board under which the Bank has defined threshold limits for capital adequacy ratio with a minimum capital requirement ratio of 12% (same as required by the CBB) and a maximum threshold level. Within this range, 3 trigger ratios are defined i.e. internal target ratio, lower trigger ratio, and ICAAP capital adequacy ratio to enable the Bank to assess the adequacy of the capital to support current and future activities. Action points are triggered in case of breach of any of the lower trigger ratios. The ICAAP capital adequacy ratio represents the capital position which the Bank will maintain as buffer over 12% to accommodate any capital requirements under Pillar II and effects of stress test on the level of capital required. In order to manage the Pillar II risks the Bank has adopted risk diversification policies by geographic, sector, rating classifications. Stress tests are performed at annual intervals and reported to the Board.

QUALITATIVE DISCLOSURES For the year ended 31 December 2014

CAPITAL ADEQUACY ASSESSMENT PROCESS AND PILLAR II RISKS (ICAAP) (continued)

For example the geographic areas are broken into six categories under the country risk management policy based on country ratings. Exposure limits have been set up on each category. Similarly sector limits and rating wise limits have been defined under the credit risk policy to avoid concentration risk. Currently the geographic risk is concentrated to one country i.e. Iran apart from Bahrain.

The Bank follows the CBBs definition of large exposure limits and all credit approvals are based on adherence to the maximum limit of 15% of capital base except those specifically approved by the CBB. All large exposures are monitored by the RMD and a report is presented to the Risk Committee on a monthly basis. Certain sensitive exposures such as connected party exposure and Iran exposure are monitored on a daily basis.

The bank is required to appropriate 10% of its annual net profit to the statutory reserve, not exceeding a ceiling of 50% of its share capital. The bank is also required to take the prior approval of the CBB for distribution of dividend. Except for this there are no restrictions on the transfer of funds. Any credit obligation which remains unpaid on the due date is considered as past due on the next succeeding day. All past dues are closely monitored through daily and monthly reports. The rating model adopted by the Bank automatically downgrades an account to weak list (rating E+) or watch list (rating E) depending upon the length of the past dues. An account is downgraded to impaired asset if the past due status extends beyond 90 days. Provisions are made based on IAS 39 requirements.

In addition all NPAs are subjected to yearly revaluation of security based on independent valuations and the NPV is based on 4 year discounting of the lowest value in order to ensure that all provisions are made on a conservative basis. The Bank has adopted a policy of minimum 15% provision on all NPAs irrespective of the availability of collaterals or cash flows. In addition 100% provision is required to be made in respect of any NPA with gross exposure up to BD 100,000. The Bank also follows a cooling period of 6 months satisfactory performance before upgrading any restructured asset to performing category. As a conservative measure, the Bank has provided additional specific provision so as to raise the level of specific provisions to 100% of the entire NPA portfolio.

A collective impairment provision (CIP) is also maintained as additional cushion based on the PDs for each rating category. Since the Bank does not have its own PDs in the absence of adequate historical data, the PDs of external rating agencies have been mapped to the Bank's internal rating categories on a best effort basis. The CIP so arrived at is subject to a minimum amount of 1% of performing loans portfolio i.e. higher of the two methodologies.

In order to minimize potential legal risks, the Bank has adopted best practices in lending activities especially in the area of consumer lending which includes dissemination of information relating to products, tariffs etc. through various media including website, literature and documentation, complaint disposal mechanism, staff training etc. There were no material legal claims against the Bank as of 31 December 2014. An independent Compliance department is functional which monitors the compliance risk.

The Bank has adopted a policy for conducting stress testing on various portfolios in order to determine additional capital requirements as part of its ICAAP. Bank has already stressed its projected 3 year balance sheet based on 9 stress scenarios and arrived at the regulatory and internal capital ratios. This is an ongoing process whereby the capital will be stressed based on the 3 year business projections. The Bank has also conducted impact analysis based on the new Basel 3 guidelines which shall be applicable from 1.1.2015. Based on the analysis there will be no adverse impact of the higher Capital threshold requirements being proposed by CBB as bank is adequately cushioned in terms of Tier 1 capital.

PILLAR III - DISCLOSURES

In line with CBB guidelines the Bank has put in place a Disclosure Policy approved by its Board. The policy defines a framework for the disclosure obligations and a disclosure committee is in place which oversees the entire process.

DEPOSIT PROTECTION SCHEME

Deposits held with the Bank are covered by the Deposit Protection Scheme (the Scheme) established by CBB regulations concerning the establishment of a Deposit Protection Scheme and Deposit Protection Board. No liability is due until one of the member commercial banks associated with the Scheme is unable to meet its deposit obligations.

QUANTITATIVE DISCLOSURES For the year ended 31 December 2014

DISCLOSURE -1 CAPITAL STRUCTURE

	BD '000	
NET AVAILABLE CAPITAL	Tier 1	Tier 2
Paid-up share capital	83,100	-
Reserves:		
Statutory reserve	9,527	-
Retained earnings	40,797	-
Collective impairment provision subject to 1.25% of credit risk weighted assets	-	6,086
NET AVAILABLE CAPITAL	133,424	6,086
TOTAL ELIGIBLE CAPITAL BASE (Tier 1 + Tier 2)		139,510

DISCLOSURE - 2 - A. CAPITAL REQUIREMENT FOR CREDIT, MARKET AND OPERATIONAL RISKS

	BD '000	BD '000
	Risk Weighted Assets*	Capital Requirement
Claims on sovereign	12,200	1,464
Claims on public sector entities	3,976	477
Claims on banks	298,019	35,762
Claims on corporate	102,141	12,257
Regulatory retail portfolios	740	89
Mortgage	55,992	6,719
Past due exposure	1	-
Equity investments	15	2
Holding real estate	9,083	1,090
Other assets	4,680	562
TOTAL CREDIT RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)	486,847	58,422
TOTAL OPERATIONAL RISK CAPITAL REQUIREMENT (BASIC INDICATOR APPROACH)	38,233	4,588
TOTAL MARKET RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)**	3,055	367
TOTAL CAPITAL REQUIREMENT	528,135	63,377

* Exposures post credit risk mitigation and credit conversion.
** Market risk capital requirement only relates to foreign exchange risk.

QUANTITATIVE DISCLOSURES For the year ended 31 December 2014

DISCLOSURE - 2 - A. CAPITAL REQUIREMENT FOR CREDIT, MARKET AND OPERATIONAL RISKS (continued)

	BD '000	BD '000
	Risk Weighted Assets	Capital Requirement
Maximum market risk	2,438	305
Minimum market risk	63	8

DISCLOSURE - 2 - B. CAPITAL ADEQUACY RATIOS

Tier 1	Capital Adequacy Ratio (Tier 1 Capital / Risk weighted exposures)	25.26%
Total	Capital Adequacy Ratio (Total Capital / Risk weighted exposures)	26.42%

DISCLOSURE - 3 CREDIT RISK EXPOSURES BEFORE CREDIT RISK MITIGATION

	BD '000	
	As at 31 December 2014	Average monthly balance
Balances with central banks	31,849	29,934
Due from banks	341,798	352,625
Loans and advances to customers	156,059	141,129
Non-trading investments	36,844	37,971
Interest receivable and other assets	2,939	2,740
Treasury bills	15,658	14,961
TOTAL FUNDED EXPOSURES	585,147	579,360
Contingent liabilities	6,236	4,843
Undrawn loan commitments	17,196	16,916
TOTAL UNFUNDED EXPOSURES	23,432	21,759
TOTAL CREDIT RISK EXPOSURE	608,579	601,119

The Bank has calculated the average monthly balance based on the month end balances for the year ended 31 December 2014.

QUANTITATIVE DISCLOSURES For the year ended 31 December 2014

DISCLOSURE - 4 GEOGRAPHIC DISTRIBUTION OF CREDIT RISK EXPOSURES

	BD '000			
	GCC countries	Iran and Middle East countries	Europe	Total
Balances with central banks	19,649	12,200	-	31,849
Due from banks	55	341,691	52	341,798
Loans and advances	103,161	52,898	-	156,059
Non-trading investments	21,977	14,866	-	36,843
Interest receivable and other assets	327	2,611	-	2,938
Treasury bills	15,659	-	-	15,659
TOTAL FUNDED EXPOSURES	160,828	424,266	52	585,146
Contingent liabilities	5,001	1,235	-	6,236
Undrawn loan commitments	17,196	-	-	17,196
TOTAL UNFUNDED EXPOSURES	22,197	1,235	-	23,432
TOTAL CREDIT RISK EXPOSURE	183,025	425,501	52	608,578

DISCLOSURE - 5 SECTORAL CLASSIFICATION OF CREDIT RISK EXPOSURES

	BD '000		
	Funded	Unfunded	Total
Manufacturing	7,346	-	7,346
Construction	20,042	822	20,864
Financial	427,703	3	427,706
Trade	41,562	5,028	46,590
Personal / Consumer finance	17,193	2,342	19,535
Commercial real estate financing	41,557	13,152	54,709
Transport	9,932	215	10,147
Other	19,811	1,869	21,680
TOTAL CREDIT RISK EXPOSURE	585,146	23,431	608,577

QUANTITATIVE DISCLOSURES For the year ended 31 December 2014

DISCLOSURE - 6 CREDIT CONCENTRATION GREATER THAN 15% INDIVIDUAL OBLIGOR LIMIT

	BD '000
Counterparty A	123,339
Counterparty B	50,564
Counterparty C	39,763
Counterparty D	37,636
Counterparty E	27,083
Total credit exposures in excess of 15% individual obligor limit	278,385

None of the individual exposures qualify for capital deductions from tier 1 and tier 2 capital due to their short term nature.

DISCLOSURE - 7 RESIDUAL CONTRACTUAL MATURITY

	BD '000				
	Up to one month	One month to three months	Over three months to one year	Over one year to five years	Total
Balances with central banks	25,589	-	-	6,260	31,849
Due from banks	241,662	96,664	3,340	132	341,798
Loans and advances to customers	46,548	6,763	30,374	72,374	156,059
Non-trading investments	4,075	3,580	16,710	12,479	36,844
Treasury bills	3,060	9,707	2,891	-	15,658
Interest receivable and other assets	735	735	-	1,469	2,939
TOTAL FUNDED EXPOSURES	321,669	117,449	53,315	92,714	585,147
Contingent liabilities	1,493	1,403	2,673	667	6,236
Undrawn loan commitments	712	5,913	10,570	1	17,196
TOTAL UNFUNDED EXPOSURES	2,205	7,316	13,243	668	23,432
TOTAL	323,874	124,765	66,558	93,382	608,579

Note: The Bank had no assets, liabilities or off balance sheet items with maturities exceeding five years.

QUANTITATIVE DISCLOSURES For the year ended 31 December 2014

DISCLOSURE - 8 SECTORAL BREAKDOWN OF IMPAIRED LOANS AND PROVISIONS

	BD '000				
	Impaired loans	Specific provision	Recoveries during the Year	Written off during the year	Collective impairment provision*
Manufacturing	2,395	2,395	299	-	75
Construction	2,849	2,849	22	-	3,577
Trade	266	266	1		1,096
Personal / Consumer finance	190	190	39		126
Commercial real estate financing	5,302	5,302	907		41
Residential Real Estate Financing	40	40	2		3,454
Transport	778	778	-		808
Other	493	493	-		327
TOTAL	12,313	12,313	1,270	-	9,504

*The collective impairment provision does not relate to the impaired loans.

DISCLOSURE - 9 GEOGRAPHICAL DISTRIBUTION OF IMPAIRMENT PROVISIONS

	BD '000		
	GCC countries	Iran and Middle East countries	Total
Specific impairment provision	9,917	2,395	12,312
Collective impairment provision	8,632	872	9,504
TOTAL	18,549	3,267	21,816

QUANTITATIVE DISCLOSURES For the year ended 31 December 2014

DISCLOSURE - 10 MOVEMENT IN PROVISION FOR LOANS AND ADVANCES

	BD '000						
	Retail			Corporate			
	Specific	Collective	Total retail Provision	Specific	Collective	Total corporate Provision	Total
At 1 January 2013	779	-	779	14,553	8,371	22,924	23,703
Charge for the period	50	-	50	80	1,133	1,213	1,263
Recoveries	(84)	-	(84)	(3,066)	-	(3,066)	(3,150)
Net provision	(34)	-	(34)	(2,986)	1,133	(1,853)	(1,887)
Amounts written off	-	-	-	-	-	-	-
At 31 December 2014	745	-	745	11,567	9,504	21,071	21,816

The provision relates entirely to non-bank exposures.

DISCLOSURE - 11 IMPAIRED LOANS - AGE ANALYSIS

i) By Geographical region

	BD '000				
	Three months to one year	One to three years	Over three years	Total	%
GCC Countries	4,298	58	5,562	9,918	81%
Iran and Middle East Countries	-	-	2,395	2,395	19%
TOTAL	4,298	58	7,957	12,313	100%
	35%	0%	65%	100%	

ii) By Industry Sector

	BD '000				
	Three months to one year	One to three years	Over three years	Total	%
Manufacturing	-		2,395	2,395	19%
Construction	23	-	2,827	2,850	23%
Trade	49	19	197	265	3%
Personal / Consumer finance	35	13	142	190	2%
Commercial real estate financing	4,191	7	1,104	5,302	43%
Residential real estate financing		19	21	40	0.0%
Transport	-	-	778	778	6%
Other	-	-	493	493	4%
TOTAL	4,298	58	7,957	12,313	100%
	35%	0%	65%	100%	

QUANTITATIVE DISCLOSURES For the year ended 31 December 2014

DISCLOSURE - 12 PAST DUE BUT NOT IMPAIRED LOANS - AGE ANALYSIS

i) By Geographical region

	BD '000				
	Less than 30 days	31 to 60 days	61 to 90 days	Total	%
GCC Countries	6,596	-	-	6,596	45%
Iran and Middle East Countries	3,970	3,975	-	7,945	55%
TOTAL	10,566	3,975	-	14,541	100%
	73%	27%	0.00%	100%	

ii) By Industry Sector

	BD '000				
	Less than 30 days	31 to 60 days	61 to 90 days	Total	%
Trade	1,632	-	-	1,632	11%
Personal / Consumer finance	248	-	-	248	2%
Manufacturing	3,970	-	-	3,970	27%
Transport	-	3,975	-	3,975	27%
Other	4,716	-	-	4,716	32%
TOTAL	10,566	3,975	-	14,541	100%
	73%	27%	0.00%	100%	

DISCLOSURE - 13 RESTRUCTURED CREDIT FACILITIES

	BD '000
Balance of restructured credit facilities at 1 January 2014	37,663
Amount of loans restructured during the period	9,886
Restructured credit facilities repaid / settled	(9,103)
Balance of restructured credit facilities at 31 December 2014	38,446

Restructured credit facilities have no significant impact on the Bank's present and future earnings. The basic nature of concessions granted is extension of the repayment period in order to suit the repayment ability of the customer.

QUANTITATIVE DISCLOSURES For the year ended 31 December 2014

DISCLOSURE - 14 ELIGIBLE FINANCIAL COLLATERAL AND GUARANTEES

	BD '000			
	Credit exposure	Eligible CRM	Secured by Guarantee	Credit expsoures after CRM
Claims on sovereign	69,485			69,485
Claims on public sector entities	11,335	7,359		3,976
Claims on banks	298,095			298,095
Claims on corporate	122,651	20,510	-	102,141
Regulatory retail portfolio	1,317	330		987
Equity investments	10			10
Mortgage	57,251			57,251
Past due exposure	1			1
Holding real estate	8,053			8,053
Other assets	4,680			4,680
TOTAL	572,878	28,199	-	544,679

DISCLOSURE - 15 INTEREST RATE RISK

	BD '000				
	Less than three months	Three months to one year	Over one year	Non-interest sensitive	Total
ASSETS					
Cash and balances with central banks	12,700	-	-	21,353	34,053
Due from banks	317,783	3,340	-	20,675	341,798
Loans and advances to customers	61,042	48,550	46,467	-	156,059
Non-trading investments	27,837	9,007	-	10	36,854
Treasury bills	15,658	-	-	-	15,658
	435,020	60,897	46,467	42,038	584,422
LIABILITIES					
Due to banks	217,101	16,203	-	-	233,304
Medium term borrowings	55,125	-	-	-	55,125
Customers' deposits	69,178	47,646	14,172	38,160	169,156
	341,404	63,849	14,172	38,160	457,585
Total interest sensitivity gap	93,616	(2,952)	32,295	3,878	
Cumulative interest sensitivity gap	93,616	90,664	122,959	126,837	

QUANTITATIVE DISCLOSURES For the year ended 31 December 2014

DISCLOSURE - 15 INTEREST RATE RISK (continued)

INTEREST RATE RISK - SENSITIVITY ANALYSIS

	BD '000	
	Increase in basis points	Impact on statement of income
United States Dollar	200	597
Bahraini Dinar	200	662
Euro	200	(306)
Iranian Rials	200	13

The impact of a 200 basis point decrease in interest rates will be approximately opposite to the impact disclosed above.

DISCLOSURE - 16 EQUITY INVESTMENT

	BD '000	
	Risk weighted assets	Capital requirement
Privately held	15	2
TOTAL	15	2

DISCLOSURE - 17 GAINS (LOSSES) ON EQUITY INVESTMENTS

There were no realised or unrealised gains (losses) from equity investments during the year.