

Annual Report

2014



Laying a new Compass....
For a Better Future.



PROFILE

Established in 1957 as Bahrain's first locally owned Bank, NBB has grown steadily to become the country's leading provider of retail and commercial banking services.

With a major share of the total domestic commercial banking market and the largest network of 25 branches and 59 ATMs, the Bank plays a key role in the local economy.

At the same time, the Bank continues to diversify and develop capabilities to capture business opportunities in the Gulf region and international markets. Our branches in Abu Dhabi and Riyadh lead the way in this initiative.

Publicly listed on the Bahrain Bourse, the Bank is owned 51% by private and institutional shareholders, mainly Bahrainis, and 45% by Bahrain Mumtalakat Holding Company, which is 100% owned by the Government of the Kingdom of Bahrain.

Market driven and customer led, the Bank harnesses the latest technology to people skills, enabling its 557 employees to deliver highly professional services for retail and corporate customers.



**His Royal Highness
Prince Khalifa bin Salman
Al Khalifa**
Prime Minister



**His Royal Majesty
King Hamad bin Isa
Al Khalifa**
King of The Kingdom of Bahrain



**His Royal Highness
Prince Salman bin Hamad
Al Khalifa**
Crown Prince, Deputy
Supreme Commander and
First Deputy Prime Minister

CONTENTS

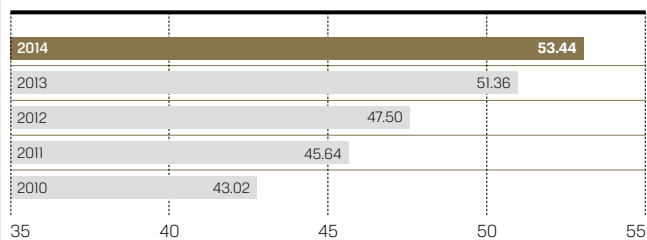
Financial Summary	04
Board of Directors	08
Board of Directors' Report	10
Statement of the Chief Executive Officer	12
Corporate Governance	14
Executive Management	24
Review of Operations	28
Financial Review	38
Risk Management	42
Remuneration Report	48
Financial Statements	
Report of the Auditors to the Shareholders	55
Statement of Financial Position	56
Statement of Profit or Loss	57
Statement of Comprehensive Income	58
Statement of Changes in Equity	59
Statement of Cash Flows	60
Notes to Financial Statements	61
Risk and Capital Management Disclosures	99
Contact Directory	112

FINANCIAL SUMMARY

	2014	2013	2012	2011	2010
Earnings (BD millions)					
Net interest income	59.58	59.82	61.92	55.37	48.70
Other income	29.63	24.83	24.69	24.55	23.18
Operating expenses	29.19	27.45	27.34	26.61	25.83
Profit for the year	53.44	51.36	47.50	45.64	43.02
Cash Dividend	23.52	32.93	21.38	25.66	23.33
Financial Positions (BD millions)					
Total assets	2,738.46	2,749.23	2,654.56	2,388.65	2,274.05
Loans and advances	780.97	859.39	888.25	972.07	950.80
Investment securities	999.49	997.72	757.83	650.21	656.22
Earning Assets	2,580.92	2,596.84	2,515.83	2,259.50	2,151.00
Total deposits	2,321.34	2,366.25	2,321.85	2,103.10	2,000.30
Customers' deposits	2,154.85	2,083.54	2,077.90	1,905.49	1,768.47
Shareholders' equity	378.02	363.14	318.94	274.73	262.97
Key Performance Indicators					
Earnings					
Return on average equity	14.42%	15.06%	16.00%	16.98%	17.06%
Return on average assets	1.95%	1.90%	1.88%	1.96%	1.96%
Earnings per share (fils)	57	55	50	49	46
Cost-to-income ratio	32.72%	32.43%	31.57%	33.30%	35.93%
Earnings per employee (BD 000's)	96	92	85	80	74
Capital					
Shareholders' equity as per cent of total assets	13.80%	13.21%	12.01%	11.50%	11.56%
Total liabilities to shareholders' equity (times)	6.24	6.57	7.32	6.61	6.91
Average total liabilities to average equity (times)	6.40	6.92	6.99	6.76	7.20
Capital adequacy	34.29	31.22	27.86	25.05	22.85

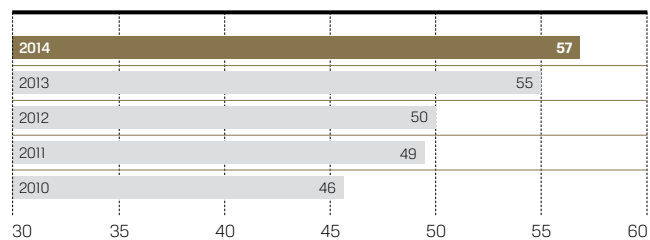
PROFIT FOR THE YEAR

BD millions



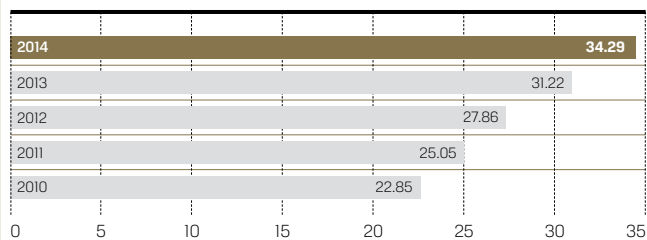
EARNINGS PER SHARE

Bahraini fils



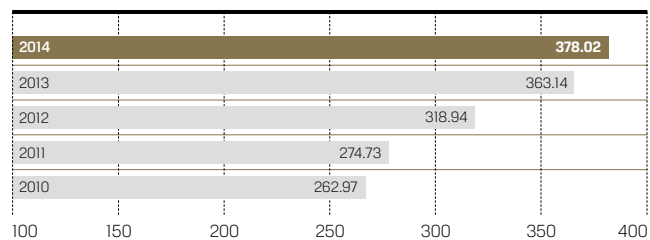
CAPITAL ADEQUACY

Per cent



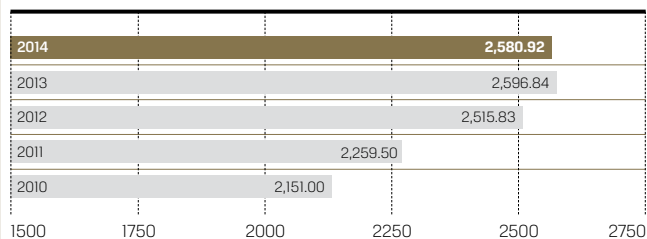
EQUITY

BD millions



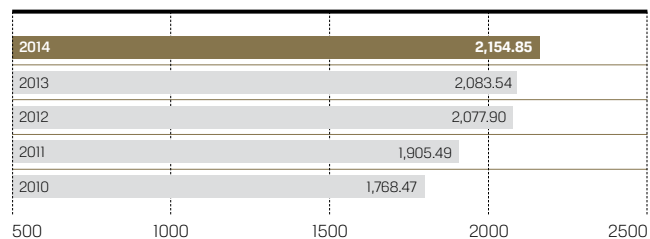
EARNINGS ASSETS

BD millions



CUSTOMERS' DEPOSITS

BD millions



RATINGS

FOREIGN CURRENCY

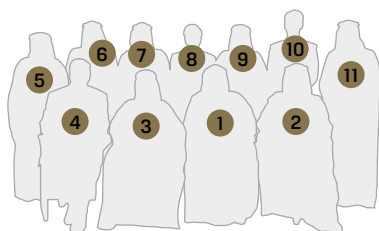
Moody's	FSR D+	Long Term Baa2	Short Term P2	
FITCH	Viability Rating bbb	Long Term BBB	Short Term F3	Support 2
Capital Intelligence	Financial Strength A	Long Term BBB	Short Term A2	Support 1

utilising our deep-rooted
local knowledge to
venture forth into new
regions of opportunities





BOARD OF DIRECTORS



1. FAROUK YOUSUF KHALIL ALMOAYYED
Chairman

2. Dr. ESSAM ABDULLA FAKHRO
Deputy Chairman

3. ABDULLA YOUSIF AKBAR ALIREZA
Deputy Chairman

4. ALI HUSSAIN YATEEM
Director

5. HUSSAIN SULTAN AL GHANEM
Director

**6. SH. RASHID BIN SALMAN MOHAMED
AL KHALIFA**
Director

7. KHALID YOUSIF ABDUL RAHMAN
Director

**8. ABDUL RAZAK ABDULLA
HASSAN AL QASSIM**
Director

9. FAWZI AHMED KANOO
Director

10. MIR ZULFEKAR ALI
Director

11. KHALID OMAR AL ROMAIHI
Director

FAROUK YOUSUF KHALIL ALMOAYYED**Chairman**

Non-independent and Non-executive
Appointed to the Board in 1997
Chairman : Nomination & Remuneration Committee

Chairman: Y. K. Al Moayyed & Sons; Al Moayyed International Group; Ashrafs; Bahrain Duty Free; Bahrain Hotels Company; Ahlia University; National Finance House; Bahrain Insurance Holding Company.
Director: Investcorp Bank B.S.C.

DR. ESSAM ABDULLA FAKHRO**Deputy Chairman**

Non-independent and Non-executive
Appointed to the Board in 2008
Chairman: Executive Committee
Member: Nomination & Remuneration Committee

Chairman: Bahrain Cinema Company, Abdulla Yousif Fakhro & Sons Group.
Director: Bahrain Mumtalakat Holding Company BSC (c).

ABDULLA YOUSIF AKBAR ALIREZA**Deputy Chairman**

Independent and Non-executive
Appointed to the Board in 1984
Chairman: Audit Committee
Member: Nomination & Remuneration Committee

Chairman: Yousuf Akbar Alireza and Sons.
Director: Bahrain Ship Repair and Engineering Company Co BSC.

ALI HUSSAIN YATEEM**Director**

Independent and Non-executive
Appointed to the Board in 1985
Deputy Chairman: Executive Committee
Member: Nomination & Remuneration Committee

Vice Chairman: Ali & Mohamed Yateem Group of Companies W.L.L.

KHALID YOUSIF ABDUL RAHMAN**Director**

Independent and Non-executive
Appointed to the Board in 2001
Deputy Chairman: Audit Committee

Deputy Chairman: Awal Dairy Company.
Director and Member of the Executive Committee: Bahrain Ship Repair and Engineering Company.
Director: Bahrain Saudi Transport Company.

HUSSAIN SULTAN AL GHANEM**Director**

Non-independent and Non-executive
Appointed to the Board in 2004
Member: Audit Committee

Undersecretary, Human Resources; Prime Minister's Court

ABDUL RAZAK ABDULLA HASSAN AL QASSIM**Director**

Non-independent and Executive
Appointed to the Board in 2009
Member: Executive Committee

Chairman: Bahrain Islamic Bank (BisB); Benefit Company; Bahrain Association of Banks.
Deputy Chairman, Chairman of Executive Committee and Member of Nomination & Remuneration Committee: Bahrain Telecommunication Company (Batelco)
Deputy Chairman: Umniah Mobile Company (Jordan); Dhivehi Raajeyge Gulhn plc. (Dhiraagu), Maldives; Sure Guernsey Limited; Sure Jersey Limited; Sure Isle of Man Limited
Board Member: The Crown Prince International Scholarship Programme; Deposit and URIA Protection Board at Central Bank of Bahrain.

FAWZI AHMED KANOO**Director**

Independent and Non-executive
Appointed to the Board in 2010
Member: Executive Committee

Chairman: Abdulrahman Jassim Kanoo Co WLL.
Deputy Chairman: Yusuf Bin Ahmed Kanoo Group, Bahrain.
Executive Director: Bahrain Ship Repairing & Engineering Co BSC.
Director: Bahrain Hotels Company.

KHALID OMAR AL ROMAIHI**Director**

Non- independent and Non-executive
Appointed to the Board in 2014
Member: Audit Committee

Managing Director and Owner of The Palace Boutique Hotel in Kingdom of Bahrain.
Chairman: Bahrain Airport Company (BAC).
Director: Economic Development Board (EDB).

MIR ZULFEKAR ALI**Director**

Non- independent and Non-executive
Appointed to the Board in 2014
Member: Executive Committee

Chief Investment Officer, Bahrain Mumtalakat Holding Company BSC (c).
Director: GEMS MENASA Holding Ltd and Gulf Air Holding Company.

SH. RASHID BIN SALMAN MOHAMED AL KHALIFA**Director**

Non-independent and Non-executive
Appointed to the Board in 2014
Member: Executive Committee

Retired Banker and Independent Consultant for Investment and Banking Services.

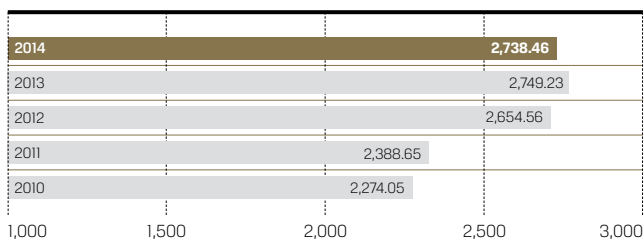
BOARD OF DIRECTORS REPORT



FAROUK YOUSUF KHALIL ALMOAYYED
Chairman

The Board of Directors of National Bank of Bahrain takes pleasure in presenting the 58th Annual Report of the Bank together with the financial statements for the year ended 31 December 2014.

TOTAL ASSETS BD millions



GENERAL OPERATING ENVIRONMENT

The performance of the global economy has been volatile during 2014 due to geo political situation and the sharp decline in the oil prices towards the end of the year. While the year started on a positive note, significant uncertainties resulted in doubts about the strength and speed of economic recovery. The pattern of growth was uneven with widening differences between various regions. While the U.S economy continues to show strong and steady growth, Euro zone is facing real growth challenges while Asia and emerging market growth has slowed down considerably.

The GCC economies are expected to show a relatively strong growth in excess of 4.0 percent in 2014 largely driven by strong momentum in the non oil sector with moderate growth in the oil sector. However, the sharp decline in oil prices towards the later part of the year is likely to result in significant challenges as we head into 2015.

Bahrain's economic growth for 2014 is expected to be boosted by numerous infrastructure projects initiated during the year. According to the Economic Development Board, the annual pace of headline growth for the first three quarters of year taken together was 4.6 percent with the oil sector recording a growth rate of 6.0 percent and non oil sector achieving a growth of 4.3 percent. The growth during the first three quarters have been broad based with all sectors of the oil and more importantly non oil economy showing pronounced pickup in growth rates. The Economic Development Board forecasts a full year growth of 4.2 percent.

OVERALL PERFORMANCE

Against this background, National Bank of Bahrain maintained growth momentum and achieved a Net Profit of BD 53.44 million (US\$ 142.12 million) for the year 2014 compared to BD 51.36 million (US\$ 136.60 million) for the previous year, an increase of 4.0 percent. These results reflect the sustained progress made by the Bank and our ability to enhance returns to our shareholders. Return on Equity at 14.42 percent and Return on Assets at 1.95 percent remains strong by regional and international standards. The Bank is well capitalized with strong liquidity and a diversified asset portfolio.

Customer deposits continue to show steady growth and stands at BD 2,154.85 million (US\$ 5,730.98 million) as at 31 December 2014 compared to BD 2,083.54 million (US\$ 5,541.33 million) as at 31 December 2013, reflecting a growth of 3.4%. Total Earning Assets stood at BD 2,580.92 million (US\$ 6,864.16 million) as at 31 December 2014 compared to BD 2,596.84 million (US\$ 6,906.45 million) as at the previous year end. The Bank continues to have a well diversified portfolio of assets. Capital Adequacy continues to remain at a healthy level of 34.3 percent before the proposed appropriations.

NBB's continues to actively support the development of the Kingdom's economy. In meeting with this objective, the Bank took several initiatives during the year. The focus of Personal Banking was to expand the distribution network and offer products and services in line with the changing preferences of our customers mainly in the area of technology initiatives besides strengthening customer relationships. The focus of the Business Banking was to support the corporate and commercial business segments by structuring suitable products and services to meet their business requirements. Regionally, the Bank's strategy of selective expansion at Abu Dhabi and Riyadh is progressing as planned. Treasury & Investment Group played a major role during the year by deploying the surplus liquidity in several domestic and regional issues.

The prospects for 2015 appear to be challenging given the current global economic situation and the significant drop in the oil prices in the last few months. The Board of Directors take this opportunity to reaffirm their commitment to meet the expectations of all stakeholders while maintaining the highest standards of corporate governance in all its business dealings.

Details of the Bank's financial position and performance are elaborated in the Financial Review section and the Financial Statements.

RECOMMENDED APPROPRIATIONS

Based on the results, the Board of Directors has recommended for approval by the shareholders the following appropriations:

	Bahraini Dinars
Adjusted retained earnings as at 1 January 2014	121,795,869
2013 appropriations	(35,499,518)
2014 Net income	53,437,706
Total	139,734,057
Cash Dividend (25 %)	23,522,400
Donations and contributions	2,671,885
Transfer to general reserve	14,113,440
Retained earnings carried forward after 2014 appropriations	99,426,332
Total	139,734,057

DONATIONS AND CONTRIBUTIONS

The Board is recommending the allocation of BD 2.67 million to the Donations and Contributions programme, representing 5 per cent of 2014 profits available for distribution. The cumulative allocation under the programme, since its inception in 1980, is now BD 37.01 million.

Details of the Bank's Donations & Contribution programme are contained in the Corporate Social Responsibility section of the Annual Report.

CORPORATE GOVERNANCE

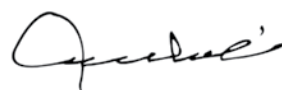
The Board recognizes that good governance is a vital ingredient in the success of any organization and is fully committed to protect the interest of all its stakeholders. The Bank is in compliance with the requirements of the Code of Corporate Governance issued by the Ministry of Industry and Commerce and the CBB's Rulebook. A detailed report on the Bank's compliance with the Corporate Governance Code is elaborated in the Corporate Governance Report section of the Annual Report.

ACKNOWLEDGEMENTS

The Directors, on behalf of the shareholders, take this opportunity to express their gratitude and sincere appreciation to His Majesty King Hamad bin Isa Al Khalifa - the King of Bahrain, to His Royal Highness Shaikh Khalifa bin Salman Al Khalifa - the Prime Minister, to His Royal Highness Shaikh Salman bin Hamad Al Khalifa - the Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister, Government ministries and institutions - especially the Ministry of Finance and the Central Bank of Bahrain, for their guidance, kind consideration and support.

The Directors would like to take this opportunity to welcome Sheikh Rashid Bin Salman Mohamed Al Khalifa as a member of the Board of Directors and look forward to his contribution towards the continued success of the Bank.

The Directors also extend their thanks and appreciation to the staff of the Bank whose dedicated service and commitment has played a vital role in the achievements of the Bank over the years and to all our valued customers and friends for their continuous support and the confidence reposed by them in the National Bank of Bahrain.



FAROUK YOUSUF KHALIL ALMOAYYED

Chairman
21 January 2015

STATEMENT OF THE CHIEF EXECUTIVE OFFICER

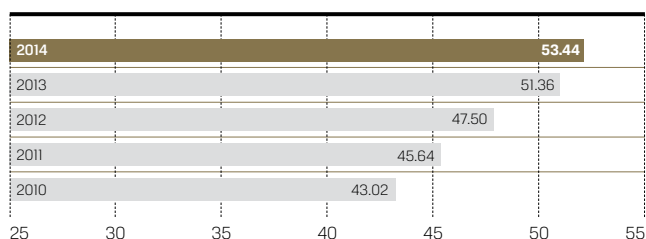


ABDUL RAZAK ABDULLA HASSAN AL QASSIM
Chief Executive Officer & Director

2014 was another successful year for National Bank of Bahrain with record profitability backed by steady progress in the underlying business of the Bank. Key performance indicators continue to be healthy as the Bank progresses with implementation of its strategic plan by offering enhanced products and services to its customers.

NET PROFIT FOR THE YEAR

BD millions



2014 was another successful year for the Bank and we continue to maintain growth momentum backed by a healthy balance sheet and a strong capital position. We are pleased to report a Net Profit of BD 53.44 million (US\$ 142.12 million), the highest ever achieved by the Bank, compared to BD 51.36 million (US\$ 136.60 million) for the previous year, an increase of 4.0 percent. Return on Average Equity of 14.42 %, Return on Average Assets of 1.95 % and Cost to Income Ratio of 32.7 % remain healthy by international and regional standards. The results for 2014 is a clear reflection of the Bank's continued ability to generate steady revenue streams while efficiently managing operating costs backed by prudent business practices.

The Total Balance Sheet of the Bank stood at to BD 2,738.46 million (US\$ 7,283.13 million) as at 31st December 2014 compared to BD 2,749.23 million (US\$ 7,311.76 million) as at 31st December 2013. Total Earning Assets stood at BD 2,580.92 million (US\$ 6,864.16 million) in a well diversified portfolio of loans, investments, Treasury Bills and Bank placements. Liquidity position remains comfortable with Liquid Assets (Cash and balances with central banks, Treasury Bills and Placements) representing 32.4 percent of Total Assets. Capital Adequacy Ratio at 34.3 % before the proposed appropriations is among the strongest and well above the regulatory requirements.

During the year 2014 the Bank continued to strengthen its position in the domestic market through several initiatives targeted towards the Bank's diversified and growing customer base.

Personal Banking witnessed improvement in both lending and deposit business as the Bank initiated several targeted marketing campaigns to further increase its dominant position in this segment. Another area of focus was expanding product offerings on card business. With the largest distribution network of branches and ATMs, the Bank continues to capitalize on its footprint besides taking several technology initiatives to meet the changing preferences of its customers.

Business Banking focused on expanding its product and services to the corporate and commercial segments by structuring various packages to meet the specific requirements of its customers. In general, Business Banking adopted a segmented approach where preferred sectors within the market were penetrated, to diversify the Bank's loan portfolio and risk.

The Bank's selective regional expansion is progressing as per plan. In Abu Dhabi, the focus is on developing bilateral relationship with strong local corporates. In Riyadh, the Bank's focus is on developing business with the middle market segment that meets our risk appetite. In line with our medium term strategic plan, we will strengthen our attention on further developing business in these two largest economies in the GCC. The Bank also participated in several syndications and bilateral deals to top tier financial institutions in the region.

The Treasury, Overseas Branches & Operations Group played an important role during the year in efficiently deploying the Bank's surplus liquidity in primary bond issues by the Government of Bahrain and other short term securities at attractive yields. The Division was also successful in generating capital gains from the tightening of spreads in the GCC markets and increased revenue through gapping activities in GCC / international markets and higher FX business.

The Bank acquired 25.8 percent stake in Bahrain Islamic Bank (BisB) during 2013 to have a footprint in the Islamic banking space. As a key shareholder, NBB plays an active role in the strategic positioning of BisB and the results have been encouraging with BisB reporting steady profitability during the year.

Human Capital continues to be a crucial pillar of the Bank while growing the business in a highly competitive market. Hence, the Bank continues to give top priority to staff development. Several development initiatives were undertaken during the year to address differing developmental needs at various levels of the staff. The Executive Management development continued by nominating the executives to international Leadership Development Programs at Darden Business School and Harvard Business School. Career planning program focused on high potential middle management and junior management staff with a clear horizon linked with specific development objectives. In order to enhance technical banking skills of the staff at operational level, delivery of various training programs also continued in a steadfast manner. The Bank also implemented the directives of the Central Bank of Bahrain regarding Sound Remuneration Practices with an objective of aligning employees' interest with the Bank's shareholders' interest. Such alignment will go a long way in creating value for all the stakeholders of the Bank in a balanced manner.

Looking ahead, there are significant uncertainties particularly for the region with lower oil prices challenging growth prospects. We are hopeful the regional authorities will effectively utilise the surplus funds accumulated over the years along with the required policy initiatives to maintain growth. Bahrain's economy is expected to benefit from increased government spending and deployment of GCC Development Fund. The Economic Development Board forecasts 4.5 percent non-oil sector growth and 3.6 percent headline growth in 2015. The increased focus on infrastructure and other social development projects will provide additional business opportunities for the domestic financial institutions. NBB with a strong capital base, adequate liquidity and the largest distribution network is well positioned to capitalize on such increased business opportunities. We reaffirm our strong commitment to meet the expectations of our customers while reassuring our shareholders of continued progress in the years ahead.



ABDUL RAZAK ABDULLA HASSAN AL QASSIM

Chief Executive Officer & Director

The Board of Directors is responsible for the overall governance of National Bank of Bahrain. The Board ensures that high ethical standards are established across the Bank and regularly reviews the Bank's compliance with the Central Bank of Bahrain (CBB) regulations regarding corporate governance. The Board recognizes that good corporate governance is a vital ingredient in the creation of sustainable shareholder value and protecting the interests of all stakeholders

Maintaining the best standards of corporate governance has provided the Bank's customers, counterparties, shareholders, regulators, employees and rating agencies with a high degree of confidence in our institution; achieved an appropriate balance between long-term growth and short-term objectives; created a sound portfolio of assets, a stable customer base, income diversity as well as the ability and resources to face economic cycles and uncertainties. The Board has set the moral tone for the Bank with a high degree of intolerance for any instances of malpractice, fraud and unethical behaviour and ensured the highest degree of adherence to laws, rules and regulations.

BOARD OF DIRECTORS

The Board comprises of eleven members and its composition is governed by the Bank's Memorandum and Articles of Association. Four members of the Board of Directors are appointed by Bahrain Mumtalakat Holding Company, which holds 45% of the Bank's share capital and one member by Social Insurance Organization, which holds 11.1% of the Bank's share capital. The remaining six members of the Board of Directors are elected by secret ballot at the ordinary general meeting of the shareholders, by a simple majority of valid votes. The six members of the Board of Directors elected by the shareholders remain in office for a term not exceeding three years, which may be renewed. In order to be eligible for being nominated for directorship, the individuals concerned should meet the 'fit and proper' criteria established by the Central Bank of Bahrain and their appointment is subject to prior approval by the Central Bank of Bahrain. The present Board of Directors was elected at the Annual General Meeting in 2012 and their term expires at the Annual General Meeting to be held in 2015.

On joining NBB's Board, all Directors are provided with a "Directors Kit" which includes the Bank's Memorandum and Articles of Association, key policies, terms of reference of the Board and its sub-committees and Corporate Governance guidelines. Induction sessions are also held with the Chairman and Chief Executive Officer which focuses on business profile, opportunities, challenges and risks faced by the Bank.

In accordance with the definitions stipulated by the CBB, Directors are categorised as executive, non-executive, independent and non-independent. The Board currently comprises of ten non-executive Directors, out of which four are independent, and one executive director who is designated as the Chief Executive Officer and Director. The roles of the Chairman and the Chief Executive Officer are separate and exercised by different persons.

The Board's primary responsibility is to deliver sustainable value to all stakeholders by charting the strategic direction of the Bank as well as setting the risk appetite and the overall capital structure of the Bank. The Board is also responsible for monitoring Management's running of the business within the agreed framework. The Board seeks to ensure that the Management strikes an appropriate balance between long-term growth and the short-term objectives. The Board is ultimately accountable and responsible for the affairs and performance of the Bank. Accordingly, the main functions of the Board are:

- Maintain an appropriate Board Structure.
- Maintain an appropriate management and organization structure in line with the Bank's business requirements.
- Plan the strategic future of the Bank, approve annual business plans, approve and monitor major initiatives.
- Monitor the operations framework of the Bank and the integrity of internal controls.
- Ensure compliance with laws and regulations.
- Monitor the Bank's performance and approve financial results, ensure transparency and integrity in stakeholders reporting including financial statements.
- Evaluate periodically the Board's own performance including that of Board sub-committees.
- Assure equitable treatment of all shareholders including minority shareholders.

The Chairman is mainly responsible for the leadership of the Board, ensuring that it operates effectively and fully discharges its legal and regulatory responsibilities.

The Board of Directors meets regularly throughout the year and maintains full and effective control over strategic, financial, operational, internal control and compliance issues. As per its terms of reference, the Board shall meet at least once every calendar quarter.

In its role as the primary governing body, the Board of Directors provides oversight for the Bank's affairs and constantly strives to improve and build on the Bank's strong corporate governance practices. The business performance of the Bank is reported regularly to the Board of Directors. Performance trends as well as performance against budget and prior periods are closely monitored. Financial information is prepared using appropriate accounting policies, in accordance with International Financial Reporting Standards as promulgated by the International Accounting Standards Board and are consistently applied. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets.

The Board of Directors has unlimited authority within the overall regulatory framework. The Board has delegated approval authorities to its sub-committees and members of Management; all transactions falling outside the delegated limits are referred to the Board for approval. In addition, the Board approves on a yearly basis the annual budget, risk strategy and operating limits for various activities of the Bank.

COMMITTEE OF THE BOARD OF DIRECTORS

The Board has set up several sub-committees which provide effective support to the full Board in carrying out its responsibilities. These include the Executive Committee, the Audit Committee and the Nomination & Remuneration Committee.

EXECUTIVE COMMITTEE

The Executive Committee comprises of not more than six Board members selected and appointed by the Board, with at least two of the members being independent directors. The Committee shall meet at least four times a year. The role of the Committee is to assist the Board of Directors in fulfilling its responsibilities with regard to lending, investment, as well as any other matters not delegated to a specific Board Committee. Accordingly, the Committee is empowered to approve specific credit and investment proposals, review budgets, plans, major initiatives for eventual submission to the Board for approval, and to monitor the Bank's performance against business plan objectives.

AUDIT COMMITTEE

The Audit Committee comprises of four non-executive Board members selected and appointed by the Board, two of which are independent directors. The Committee shall meet at least four times a year. The primary function of the Committee is to reinforce the internal and external audit process and assist the Board of Directors in fulfilling its responsibility in ensuring an effective system of internal control and risk management. In addition, the Committee is also responsible for reviewing and recommending changes to the Bank's corporate governance policy framework based on regulatory requirements or industry best practices. The Audit Committee is responsible for overseeing the selection of the external auditors for appointment and approval at the shareholders' meeting, reviewing the integrity of the Bank's financial reporting, reviewing the activities and performance of internal audit function and reviewing compliance with relevant laws, regulations and code of conduct.

The Audit Committee is supported by the Internal Audit Department, which regularly monitors the system of internal controls. Monitoring includes an assessment of the risks and controls in each operating unit and matters arising therefrom are reported to the Audit Committee on a regular basis.

CORPORATE GOVERNANCE

NOMINATION & REMUNERATION COMMITTEE

The Nomination & Remuneration Committee comprises of four Board members selected and appointed by the Board, two of which are independent directors. The Committee shall meet at least twice a year. The role of the Committee is to assist the Board in fulfilling its responsibilities with regard to the nomination and remuneration policy of the Bank. The Nomination & Remuneration Committee has the mandate for identifying persons qualified to become members of the Board, CEO, CFO, corporate secretary, and any other officers as considered appropriate by the Board and recommending them to the Board. The Committee also has the responsibility of reviewing and

recommending the remuneration policies for the board of directors and senior management.

BOARD MEETINGS AND ATTENDANCE

The Board of Directors and the sub-committees of the Board meet regularly to effectively discharge their responsibilities. For meeting the requirements of the Corporate Governance Code and the CBB Rulebook, the Bank considers attendance of Directors at Board and sub-committee meetings. A summary of the Board meetings and sub-committee meetings held during the year 2014 and attendance are detailed below:

Name of the Director	Board		Executive Committee		Audit Committee		N & RC		Total		
	Total No. of meetings	Meetings Attended	Total No. of meetings	Meetings Attended	Total No. of meetings	Meetings Attended	Total No. of meetings	Meetings Attended	Total No. of meetings	Meetings Attended	% of Meetings attended
Farouk Y K Almoayyed Chairman	6	6					4	4	10	10	100%
Dr. Essam A Fakhro Deputy Chairman	6	5	4	4			2	2	12	11	92%
Abdulla Y Akbar Alireza Deputy Chairman	6	4			5	3	4	3	15	10	67%
Ali Hussain Yateem Director	6	6	4	4			4	4	14	14	100%
Khalid Y Abdul Rahman Director	6	6			5	5			11	11	100%
Hussain S A Ghanem Director	6	6			5	5			11	11	100%
Abdul Razak Al Qassim Chief Executive Officer & Director	6	6	4	4					10	10	100%
Fawzi Ahmed Kanoo Director	6	5	4	4	1	1			11	10	91%
Khaled Omar Al Romaihi Director	6	5			4	4			10	9	90%
Mir Zulfekar Ali Director	6	6	4	4					10	10	100%
Sh.Rashid Bin Salman Mohamed Al Khalifa Director	3	3	2	2					5	5	100%

Includes attendance through conference calls

DATES OF MEETINGS AND ATTENDANCE DETAILS:

Board Meeting: Total number of meetings held: 6

Members	Meeting Dates					
	21/1/2014	10/03/2014	15/04/2014	21/07/2014	30/10/2014	18/11/2014
Farouk Y K Almoayyed Chairman	✓	✓	✓	✓	✓	✓
Dr. Essam A Fakhro Deputy Chairman	✓	✓	X	✓	✓	✓
Abdulla Y Akbar Alireza Deputy Chairman	✓	✓	X	X	✓	✓
Ali Hussain Yateem Director	✓	✓	✓	✓	✓	✓
Khalid Y Abdul Rahman Director	✓	✓	✓	✓	✓	✓
Hussain S A Ghanem Director	✓	✓	✓	✓	✓	✓
Abdul Razak Al Qassim Chief Executive Officer & Director	✓	✓	✓	✓	✓	✓
Fawzi Ahmed Kanoo Director	✓	✓	X	✓	✓	✓
Khaled Omar Al Romaihi Director	✓	✓	✓	✓	✓	X
Mir Zulfekar Ali Director	✓	✓	✓	✓	✓	✓
Sh.Rashid Bin Salman Mohamed Al Khalifa Director (from July 2014)				✓	✓	✓

Includes attendance through conference calls

CORPORATE GOVERNANCE

EXECUTIVE COMMITTEE MEETINGS

Total number of meetings held: 4

Members	Meeting Dates			
	10/02/2014	15/06/2014	9/10/2014	9/12/2014
Dr. Essam Abdulla Fakhro, Deputy Chairman & Chairman of Executive Committee	✓	✓	✓	✓
Ali Hussain Yateem, Director & Deputy Chairman of Executive Committee	✓	✓	✓	✓
Abdul Razak Al Qassim, Chief Executive Officer & Director	✓	✓	✓	✓
Fawzi Ahmed Kanoo, Director	✓	✓	✓	✓
Mir Zulfekar Ali, Director	✓	✓	✓	✓
Sh. Rashid Bin Salman Mohamed Al Khalifa, Director (member of Executive Committee from July 2014)			✓	✓

Includes attendance through conference calls

AUDIT COMMITTEE MEETINGS

Total number of meetings held: 5

Members	Meeting Dates				
	21/1/2014	15/04/2014	21/07/2014	23/10/2014	30/10/2014
Abdulla Yousif Akbar Alireza, Deputy Chairman & Chairman of Audit Committee	✓	X	X	✓	✓
Khalid Yousif Abdul Rahman, Director & Deputy Chairman of Audit Committee	✓	✓	✓	✓	✓
Hussain Sultan Al Ghanem, Director	✓	✓	✓	✓	✓
Fawzi Ahmed Kanoo, Director	✓				
Khalid Omar Mohammed Al Romaihi, Director		✓	✓	✓	✓

During January 2014, the Board of Directors has approved the reconstitution of the Audit Committee to include Khalid Omar Mohammed Al Romaihi as a new Audit Committee Member replacing Fawzi Ahmed Kanoo.

NOMINATION & REMUNERATION COMMITTEE MEETINGS

Total number of meetings held: 4

Members	Meeting Dates			
	21/1/2014	15/4/2014	28/10/2014	7/12/2014
Farouk Yousuf Khalil Almoayyed, Chairman of the Board and Chairman of the NRC	✓	✓	✓	✓
Dr. Essam Abdulla Fakhro, Deputy Chairman (member of NRC from July 2014)			✓	✓
Abdulla Yousif Akbar Alireza, Deputy Chairman	✓	X	✓	✓
Ali Hussain Yateem, Director	✓	✓	✓	✓

MANAGEMENT STRUCTURE

The Board has established a management structure that clearly defines roles, responsibilities and reporting lines, the details of which are annexed to this report.

Within the management structure there are separate committees responsible for Business Review, Development and Planning; Credit; Asset/Liability Management; Human Resources; Operational Risk Management and Business Continuity Planning. These committees, comprising of members of the senior management, meet on a regular basis to discuss and decide on the various strategic and tactical issues within their respective areas.

The Compliance Officer reports directly to the CEO and has direct access to the Board of Directors through the Audit Committee. The

Corporate Secretary has direct access to the Board of Directors as per the requirements of Corporate Governance.

PERFORMANCE EVALUATION OF BOARD AND SUB-COMMITTEES

The Board of Directors has conducted a self evaluation of the performance of the Board and its sub-committees for the year 2014. This was carried out through the completion of a structured questionnaire on the effectiveness and contribution of each member against certain pre-defined criteria as per the mandate of the Board and each Board sub-committee. The Nomination and Remuneration Committee is responsible for overseeing the process and the findings were presented to the Board of Directors in Jan 2015 which confirms that NBB's Board and its sub-committees continue to operate with a high level of effectiveness.

RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST

Directors have a duty under CBB regulations as well as the Bank's corporate governance policy to avoid situations in which they may have conflicts of interest with those of the Bank, unless they are specifically authorized by the Board of Directors. This includes potential conflicts that may arise when a Director takes up a position with another company or has any material transactions with the Bank.

The Bank has policies and procedures for handling related party transactions including loans and advances to directors, senior management and their related parties, as well as transactions and agreements in which a director or an employee has a material interest. In addition, exposures to directors and senior management are governed by the regulations of the CBB. Details of related party transactions are disclosed in Note 27 of the financial statements.

As per the Bank's policy, the Directors concerned do not participate in decisions in which they have or may have a potential conflict of interest. Having reviewed all such transactions during 2014, it was concluded that there were no transactions involving potential conflict of interest which need to be brought to the attention of the shareholders.

CODE OF CONDUCT

The Board has adopted a comprehensive Code of Conduct that provides a framework for directors, officers and employees on the conduct and ethical decision making integral to their work. All officers and employees subscribe to this Code and are expected to observe high standards of integrity and fairness in their dealings with customers, regulators and other stakeholders.

WHISTLE BLOWER POLICY

The Board has adopted a Whistle blower policy which provides all employees with the opportunity to report in good faith, any instances they observe regarding unethical and improper practices or any other wrongful conduct of a financial or legal nature in the Bank. The policy is available on the website of the Bank.

COMMUNICATION STRATEGY

The Bank has a public disclosure policy approved by the Board of Directors. The Bank is committed to support the timely and accurate disclosure of material information in accordance with the requirements set out in the rules and regulations of the CBB and the Bahrain Bourse as well as other applicable laws, to facilitate efficient capital market activities. The Bank believes in the principle of transparency about its financial performance thus enabling all stakeholders to have access to such information on a timely basis. The external auditors review the system of internal controls considered necessary for them to form an opinion on the financial statements. In addition to the annual audit, the external auditors conduct reviews on the Bank's quarterly financial statements. These statements are subsequently published in the newspapers and posted on the Bank's website in accordance with regulatory requirements. The annual report including the complete financial statements for the current financial year and a minimum of three preceding financial years are provided on the Bank's website.

DIRECTORS AND SENIOR MANAGEMENT INTERESTS

The number of shares held by directors, senior management and their related parties as at 31 December 2014 is as follows:

Name	Type of shares	31 Dec 2014	31 Dec 2013
Farouk Yousuf Khalil Almoayyed, Chairman.	Ordinary	15,470,893	15,470,893
Dr. Essam Abdulla Fakhro, Deputy Chairman*	Ordinary	6,739,764	8,172,620
Abdulla Yousif Akbar Alireza, Deputy Chairman	Ordinary	9,993,037	9,993,037
Ali Hussain Yateem, Director	Ordinary	32,709,485	32,709,485
Khalid Yousif Abdul Rahman, Director	Ordinary	14,306,685	14,306,685
Hussain Sultan Al Ghanem, Director	Ordinary	-	-
Abdul Razak Abdulla Hassan Al Qassim, Director and Chief Executive Officer	Ordinary	139,174	139,174
Fawzi Ahmed Kanoo, Director	Ordinary	56,127	54,127
Khalid Omar Al Romaihi, Director	Ordinary	-	-
Mir Zulfekar Ali, Director	Ordinary	-	-
Sh. Rashid Salman Mohamed Al Khalifa , Director	Ordinary	-	-
Total		79,415,165	80,946,021
As a % of the total number of shares		8.4%	8.6%

* The reduction in the holdings of Dr. Essam Abdulla Fakhro, Deputy Chairman by 1,432,856 shares since he is no longer Chairman in a related company which holds shares in NBB.

DIRECTORS AND SENIOR MANAGEMENT TRADING DURING THE YEAR 2013

The details of trading in the Bank's shares during the year by Directors, senior management and their related parties are as follows:

Name	Type of shares	Purchase / Sale	No of shares	Date of transaction
Fawzi Ahmed Kanoo , Director	Ordinary	Purchase	2,000	15/09/2014

REMUNERATION

Board of Directors Remuneration Policy

The Board of Directors is paid an annual remuneration as approved by the shareholders at the Annual General Meeting. While the amount of remuneration is not directly linked to the performance of the Bank, factors such as the Bank's performance, industry comparison and the time and effort committed by the directors to the Bank, are considered for determining the total remuneration. Directors remuneration is accounted as an expense as per International Accounting Standards and CBB regulations, the payment of which is subject to approval by the shareholders at the Annual General Meeting. In addition, the members are paid sitting fees for the various sub-committees of the Board of Directors.

Employees Remuneration Policy

The employees of the Bank are critical for the Bank's success and future business sustenance. Hence, it is imperative to recruit and retain talented resources from the competitive employment market. In order to achieve this objective, the Bank's remuneration policy is developed to attract, retain and motivate the best talent. Accordingly, employee remuneration and benefits are reviewed and revised in the context of business performance, industry and local practices.

A detailed report on employee remuneration is elaborated in the Remuneration Report section of the Annual Report.

Remuneration of Board Members, Senior Management and Fees Paid to External Auditors

The aggregate remuneration paid to board members and senior management personnel are disclosed in the Remuneration Report.

KPMG Fakhro was the Bank's external auditors for the financial year ended 31 December 2014. The details of fee paid to the auditors during the year 2014 for audit and other services are held at the Bank's premises, which is available to eligible shareholders upon specific request.

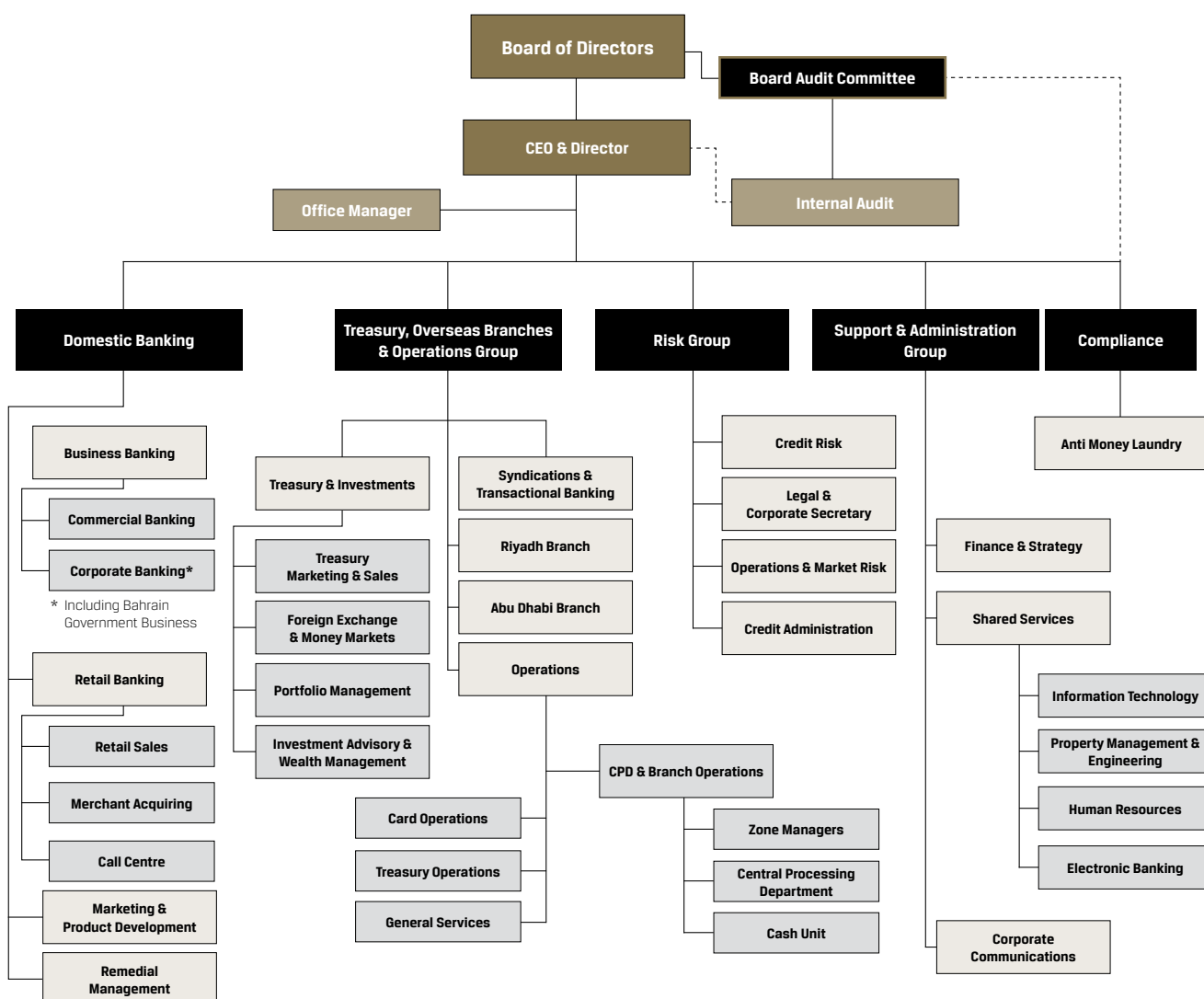
Status of Compliance with CBB's Corporate Governance Guidelines (High Level Controls Module)

Banks are required to comply with the High Level Controls (HC) Module of the CBB Rulebook, 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

1. HC 1.3.13 states that no director of a bank should hold more than 3 directorships in public companies in Bahrain, with the provision that no conflict of interest may exist, and the Board should not propose the election or re-election of any director who does. Two of the Bank's Directors, Mr. Farouk Almoayyed and Mr. Fawzi Kanoo hold more than 3 directorships in public companies in Bahrain. However, the Bank is of the opinion that this does not impact the effectiveness and efficiency of the Board of Directors, as the Directors concerned provide adequate attention to their responsibilities as Directors of the Bank, and there are no conflicts of interest between their other directorships and that of the Bank.
2. HC 1.4.6 states that the Chairman of the Board of Directors should be an independent director. The Bank's Chairman, Mr. Farouk Almoayyed is not treated as an independent director, taking into account the business transactions that the Bank has with the Almoayyed Group controlled by Mr. Farouk Almoayyed. The Bank is of the view that this does not compromise the high standards of corporate governance that the Bank maintains as (i) the business transactions are entered into on 'arms length' basis following transparent tendering and approval processes (ii) the Bank follows strict policies to manage conflicts of interest in Board decisions (iii) Directors who are interested parties in business proposals considered by the Bank do not participate in decisions related to such proposals.

ORGANISATION STRUCTURE



EXECUTIVE MANAGEMENT

ABDUL RAZAK ABDULLA HASSAN AL QASSIM

Chief Executive Officer and Director

Master's degree in Management Sciences and a Sloan Fellowship from MIT (Massachusetts Institute of Technology, USA). Mr. Al Qassim joined NBB in 1977 after seven years with Chase Manhattan Bank and Standard Chartered Bank. Member of Asset/Liability Committee, Business Review, Development and Planning Committee, Credit Committee and Human Resources Committee. Chairman of the Board of Directors of Bahrain Islamic Bank (BisB); Chairman of Benefit Company; Chairman of Bahrain Association of Banks; Deputy Chairman, Chairman of Executive Committee and Member of Nomination & Remuneration Committee at Bahrain Telecommunication Company (Batelco); Deputy Chairman of Umniah Mobile Company (Jordan); Deputy Chairman of Dhivehi Raajeyge Gulhn plc. (Dhiraagu), Maldives; Deputy Chairman of Sure Guernsey Limited; Sure Jersey Limited and of Sure Isle of Man Limited; Board Member of the Crown Prince International Scholarship Programme; Board Member of Deposit and URIA Protection Board at Central Bank of Bahrain. He assumed his present position in 2008.

KHALID ALI JUMA

General Manager – Support & Administration Group

Executive Diploma from University of Virginia, USA. He also attended a number of training courses inside the Kingdom of Bahrain and abroad. Mr. Juma joined NBB in 1972. Chairman of Operations Risk Management Committee, Chairman of Business Continuity Planning Committee, Member of Asset/Liability Committee, Member of Business Review, Development & Planning Committee and Member of Human Resources Committee. Board Director of Benefit Company. He assumed his present position in 2014.

ABDUL AZIZ ABDULLA AL AHMED

**General Manager
Domestic Banking Group**

Executive Diploma from University of Virginia, USA. He also attended a number of training courses inside the Kingdom of Bahrain and abroad. Mr. Abdul Aziz joined NBB in 1974. Member of Asset/Liability Committee, Business Review, Development and Planning Committee and Credit Committee. Board Member of Bahrain Commercial Facilities Company (BCFC) and Board Member of National Motor Company. Mr. Abdul Aziz has over 41 years of banking experience. He assumed his present position in 2011.

HUSSAIN SAYED ALI AL HUSSAINI

General Manager – Treasury & Overseas Branches & Operations Group

MBA in Marketing and Management, DePaul University, USA; PMD (Programme for Management Development) from Harvard Business School, Boston, USA; B.A. in Economics, Concordia University, Canada. Mr. Al Hussaini joined NBB in 1982. Member of Asset/Liability Committee, Business Review, Development and Planning Committee, Business Continuity Planning Committee and Credit Committee. Vice Chairman of the Board of Directors and Vice Chairman of the Investment Committee of the Securities and Investment Company (SICO), Board Member and Executive Committee Chairman of Esterad Investment Company. Member of Delta Mu Delta - Chicago USA, Interarab Cambist Associations, International Securities Market Association, Harvard Business School – Alumni Club, USA, Bahrain Financial Market Association. He assumed his present position in 2014.

BRUCE CHARLES WADE

**General Manager
Risk Group**

Master of Business Administration and Bachelor of Applied Science from Queensland University of Technology, Australia and Graduate Diploma, Applied Finance and Investment, Securities Institute of Australia. Mr. Wade joined NBB in 2014 after more than 30 years banking experience including Saudi Hollandi Bank, Riyadh Bank, nine years with Citibank

and eleven years with Bank of Tokyo Group. Member Asset/Liability Committee, Business Review, Development and Planning Committee, Business Continuity Planning Committee, Operational Risk Management Committee and Credit Committee. Fellow Australian Institute of Company Directors, Fellow Financial Services Institute of Australasia, Member Finance and Treasury Association Limited and Senior Certified Treasury Professional. He assumed his present position in 2014.

ABDULLA ABDUL RAHMAN HUSSAIN

**Executive Assistant General Manager
Shared Services**

Harvard Business School Graduate of Advanced Management Programme, Boston, USA; Master of Business Administration in Marketing from University of Bahrain, Post Graduate Diploma in Finance from University of Bahrain, Bachelor of Science in Computer Sciences from US. Mr. Hussain joined NBB in 2008 after more than 23 years of experience in Banking, professional services, technology, program management and e-Business. Member of Asset/Liability Committee, Business Review, Development and Planning Committee, Business Continuity Planning Committee and Operational Risk Management Committee. Board member and Chairman of Executive Committee of Benefit Company. He assumed his present position in 2014.

ABDUL MONEM YOUSIF AL BANNA

**Executive Assistant General Manager
Internal Audit**

CPA from Illinois, USA; BS in Accounting, University of Bahrain. Mr. Al Banna joined NBB in 1989. Member of Business Review, Development and Planning Committee, Business Continuity Planning Committee and Operational Risk Management Committee. Secretary of the Audit Committee of NBB's Board of Directors. Member of Board of Directors and Member of the Audit and Risk Committee of Oasis Capital B.S.C (closed) He assumed his present position in 2011.

JASSIM MOHAMED AL HAMMADI
Executive Assistant General Manager
Operations

Master of Business Administration, University of Glamorgan, UK, Executive Diploma from University of Bahrain, Advance and Intermediate Diploma from BIBF, Bahrain. Mr. Al Hammadi joined NBB in 1974. He has several years of experience in Financial Control, Customer Services, Card Business, Retail Banking, Operations and Anti-money laundering. Member of Business Review, Development and Planning Committee, Business Continuity Planning Committee and Operational Risk Management Committee. Member of the Bankers Society of Bahrain- ATM Security Committee. He assumed his present position in 2014

AHMED JASIM MURAD
Executive Assistant General Manager
Business Banking

Executive Management Diploma from Darden Graduate School of Business. Bachelor of Business Marketing, St. Edward's University – Austin, Texas, USA. Associate Diploma in Commercial Studies, University of Bahrain. Moreover, he attended number of training courses inside the Kingdom of Bahrain and abroad. Mr. Murad joined NBB in 1997 and has acquired working experience in different departments such as Retail, Commercial, and Corporate Banking. Member of the NBB Credit Committee. Director of Ghetha Fund Company B.S.C (c). He assumed his present position in 2014.

FAROUK ABDULLA KHALAF
Executive Assistant General Manager -
Riyadh Branch, KSA

Member of the Chartered Institute of Management Accountants, U.K. Mr. Farouk joined NBB in 1986 after several years experience with Gulf International Bank, Aluminum Bahrain (ALBA) and British Bank of the Middle East, Bahrain. Member of the Credit Committee. He assumed his present position in 2012.

NADER KARIM AL MASKATI
Assistant General Manager –
Syndications & Transactional Banking

Executive Management Diploma from Darden Graduate School of Business Administration, USA. Master Degree in Finance and Post Graduate Diploma in Marketing from Bahrain University. B.Sc in Economics & Political Sciences from Cairo University. Mr. Al Maskati joined NBB in 1993 after several years experience with National Bank of Abu Dhabi. Member of the Credit Committee. He assumed his present position in 2009.

REYAD NASSER AL NASSER
Assistant General Manager – Central
Processing & Branch Operations

Master of Business Administration from Dublin University, USA and Accounting Diploma from University of Bahrain. Advance Diploma in Banking from BIBF. Mr. Al Nasser joined NBB in 1981 and worked extensively in various NBB branches in the capacity of Branch Manager. He assumed his present position in 2014.

FATIMA ABDULLA BUDHAISH
Assistant General Manager
Credit Risk

Executive Management Diploma from Darden Graduate School of Business; Certified Public Accountant, (USA); Executive MBA from University of Bahrain. Mrs. Budhaish joined NBB in 2004 after five years with BBK and has over 16 years' professional experience. Member of Asset/Liability Committee, Business Continuity Planning Committee and Credit Committee. Board member of Bahrain Islamic Bank and Chairman of Risk Management Committee. She assumed her present position in 2013.

KHALIFA MOHAMED AL ANSARI
Assistant General Manager
Information Technology

Executive Management Diploma from Darden Graduate School of Business. MSc in Management Information Technology from University of Sunderland UK. Mr. Al Ansari joined NBB in 1997 after 3 years with Reuters, 4 years with Gulf Air and has over 23 years of professional experience. Member of Business Continuity Planning Committee and Operational Risk Management Committee. He assumed his present position in 2014.

VENKATA SUBRAMANIAM RAJU
Assistant General Manager
Finance & Strategy

Chartered Accountant from the Institute of Chartered Accounts of India. Mr. Raju joined NBB in 2008 after several years of experience with Oman International Bank (Oman), and has over 30 years of professional experience. Member of Asset/Liability Committee, Business Review, Development and Planning Committee and Operational Risk Management Committee. He assumed his present position in 2014

HASSAN HUSSAIN HAMAD
Assistant General Manager – Legal
Department and Corporate Secretary

LLB, University of Khartoum 1981, Legal Profession Certificate (Bar Examination) 1982, Proper Advocate since 1983. Mr. Hamad joined NBB in 2003 after one and a half years with Trowers & Hamlins (Muscat), and 4 years with National Bank of Umm Al Qaiwain UAE. He has over 30 years experience covering all major legal disciplines including but not limited to corporate, commercial and banking laws. He assumed his present position in 2014.

GHANEYA MOHSIN AL DERAZI
Assistant General Manager
Commercial Banking

MBA from University of Wales, UK and an Executive Management Diploma from Darden Graduate School of Business, USA. Ms. Al Derazi joined NBB in 1994. She has several years of experience in Trade Finance, Financial Institutions, Corporate Banking and Commercial Banking. She assumed her present position in 2014

building strong
bonds as we seek
out long-lasting
regional partnerships







KHALID ALI JUMA
General Manager
Support & Administration Group

NBB Mobile Banking product has been awarded the 2014 ICT Award by CNME in recognition of delivering ground-breaking business value through innovative application of technologies in the banking and financial services sector for the entire Middle East.

INFORMATION TECHNOLOGY

The year 2014 has been a very active year for Information Technology department with multiple initiatives being embarked upon to introduce new banking channels and improve customer experience on the existing services. In addition, various projects were carried out to improve internal efficiency and the security posture of the bank. Furthermore, adequate resources and efforts were invested to ensure compliance regulatory projects and internal controls.

The Bank has successfully implemented an innovative and state-of-the-art Mobile Banking Service(MBS) which was well received by our customers. This product was developed and delivered with advanced and unique functionality and features to improve the customer experience. NBB Mobile Banking product has been awarded the 2014 ICT Award by CNME in recognition of delivering ground-breaking business value through innovative application of technologies in the banking and financial services sector for the entire Middle East.

To facilitate our Corporate and SME customers to process payment to their Merchant customers, IT department designed and implemented a vendor payment automation system that was developed in-house. This solution enables and automates the central processing department to efficiently manage vendor payment processes by both internal transfer and through Swift for other bank account holders. In addition, this product instantly updates the Merchant's customer about their payment status.

CBB mandated banks to be Foreign Account Tax Compliance Act (FATCA) compliance this year. IT department developed and implemented a compliance solution called the FATCA Manager. This solution was fully developed in-house with real-time integration with the core-banking systems to retrieve seamlessly, information about the bank customers. IT department successfully executed the 'Re-carding of Debit Card' for our NBB customers that were expiring on Dec-2014. Around 150,000 new cards were issued and migrated to new card verification method that has an enhanced security feature to enforce PIN when used in a PIN entry capable terminals. Moreover, to protect the bank card customers from fraud attacks, the bank proactively implemented transaction denial services based on various conditions such as country, currency and transaction type.

To keep in line with Industry standards and to meet the payment card industry (PCI) pin standards, merchants were provided with more efficient and secure POS terminals. These POS machines have enhanced security features with unique key per terminal. In addition, to encourage green environment, we have enhanced our ATM services to provide option on whether to print receipt or otherwise and we have received positive customer response in this regard. Some of the other key cards projects include KSA switchware migration and ATM upgrade for optional receipt.

NBB core network infrastructure components underwent a major technological upgrade in an effort to focus on enhancing network and systems performances, resulting in an improved and efficient service to our customers. As a part of this upgrade the underlying software system platforms were also upgraded. This has made NBB's core infrastructure more secured, resilient and scalable.

Throughout the year our cyber security efforts were sustained in performing Cyber security vulnerability assessment (PT), security monitoring on key application & infrastructure, Anti-phishing and other project based security controls in line with CBB requirement. Beside this, the disaster recovery capabilities were periodically tested to assess bank's readiness to switch to the Disaster Recovery site in case of an unforeseen disastrous situation.

HUMAN RESOURCES

During 2014, NBB recruited more than 70 Bahraini graduates from the market and provided them an opportunity to become able professionals in the Banking & Finance industry. With the conscious efforts to focus on Bahraini recruitment, the Bank has increased Bahrainization to 93.7% during 2014.

While doing so, NBB stayed committed towards development of existing staff members through the Internal Job Opportunities (IJO) program. This program, on a continuous basis, reviews the abilities and competencies of existing staff members and the most deserving candidates are offered higher level positions in the Bank, rather than recruiting for such positions from the market.

In addition to the above, NBB remained focused on the career development of high potential Bahraini employees through the Career Planning program and Executive Trainee program. This year, 14 young and deserving Bahraini employees have been enrolled in to the Executive Trainee program with an objective to provide them fast track career growth towards middle management positions. This program relies on "on-the-job" (OJT) development balanced with class room training sessions.

In order to stay competitive in changing business environment, while at the same time giving opportunity for career growth to capable senior level staff, NBB restructured its organization. The new structure is aligned with the strategic initiatives of the Bank and is effective in creating succession layers for the leadership roles which are essential to ensure sustainability of business in the longer term.

Numerous training programs were conducted during the year in order to build functional and leadership competencies of the staff, resulting in average training of 5.94 man-days per employee covering 80% of eligible staff under training.

Continuing with the legacy of community development and corporate social responsibility, NBB enrolled 18 university students in its Summer Internship Program. These students were placed in various departments of the Bank for a period of 2 months in order to gain hands-on experience of banking field through on-the-job training. This program has proved to a valued mechanism for bridging the gap between the banking industry and academic institutions.

In addition to the above, 2014 saw substantial changes in the CBB's approach towards regulating variable remuneration of executives in the Bank. The CBB deployed new rules for the licensed banks regarding Sound Remuneration Practices. These rules, being comprehensive in nature, have substantially impacted the Bank's earlier policy on Variable Remuneration i.e. Bonus. To this effect, the Bank has developed a new policy for deciding variable remuneration of senior executives in the Bank in order to fully comply with the regulations of the CBB.

The rules have also mandated the Bank to design and implement entirely new policy on Share Incentive Scheme. The objective behind Share Incentive Scheme is to align the senior management's interests with share holders. A part of the variable compensation of senior management will now be delivered through shares of the Bank, which will have deferred vesting and retention periods in order to ensure that the risk taken by the Bank while achieving profit targets does not go unnoticed while compensating the senior management of the Bank who is involved in critical business decisions.

Multiple approaches undertaken in both the Variable Remuneration Policy and Share Incentive Scheme policy have made the overall compensation policy of the Bank much more robust and effective by balancing its objectives with those of the Shareholders.

REVIEW OF OPERATIONS

CORPORATE SOCIAL RESPONSIBILITY

Since the Bank opened its doors in January 1957, it has remained at the heart of the community and taken the community to heart. Several decades on, our commitment to supporting our country's social welfare and contributing to the betterment of people's lives continues undiminished. The community was where NBB began its voyage and the community would always be the root of our organization.

NBB has a long history, dating back to 1980, of involvement in community affairs and supporting noble and worthwhile causes in the Kingdom. We believe in building prosperity by extending support to a broad range of causes, which would enhance the life of the community in general, and the people in particular.

We are determined that the community we serve also benefits from our success and translate that determination to practice by setting aside five per cent of the Bank's annual net profit for allocation among various programmes and foundations/projects aimed at social welfare, health care and the underprivileged sections of our society.

We know that NBB ultimately owes its success to its customers and to the communities in which it operates. Society is demanding even more vigorously that businesses work in a sustainable way. We have the same opinion. Just as we are proud to be a successful part of the social fabric, we are determined to promote public inclusion, helping to bring vulnerable and under privileged groups into the vibrant social and economic interaction, the rest of us take for granted.

Our employees also make significant contributions as volunteers sharing their skills, financial and business knowledge and the benefit of their experience with the student community. This includes participating in a broad range of training seminars and work shops, for the benefit of students from educational establishments, particularly those enrolled in H.H. The Crown Prince's Scholarship programme that is aimed at the development of vision and leadership capabilities among Bahrain's future government and business leaders.

It has been the Bank's priority to develop its business in a socially and environmentally way while simultaneously addressing the business interests of our stakeholders. The Bank has also taken an active role and responsibility in assisting local communities to achieve their aspirations. This is done through a combined effort of philanthropy and volunteer work.

In 2014 we contributed over BD 0.95 million, through our donations and contributions programme, primarily directed towards health care, social welfare, supporting educational institutions including government schools, research studies and in ensuring that the less privileged among us are put on the path to a more secure future. The Bank has set aside BD 37 million since the inception of the Donation and Contributions programme in 1980.

We consider it an honour, our duty and our privilege, to be able to serve the community in more ways than just providing banking services.

PROJECTS

Charity Funds Support

2014 was the nineteenth consecutive year that the Bank has provided assistance to all the local charity funds registered with the Ministry of Social Development. During the past eighteenth years about BD 1.73 million has been contributed by the Bank to the local charity funds that provide basic sustenance to poor families and under privileged people across the Kingdom. This year, during the Holy Month of Ramadan, the Bank distributed nearly 7,700 coupons to purchase foodstuffs totaling BD 150,000. The amount was allocated to local charitable societies and organization, who in turn distributed these coupons to those families who are in dire need for help and support during the month of Ramadan.

On the occasion of Eid Al Fitr and Eid Al Adha, the Bank organised the purchase and distribution of gift items for occupants and staff of the NBB Home for the Aged, NBB Home for Disabled Children, Bahrain Mobility International as well as for the children in the Hope Institute for the Blind and the Bahraini Institute for the Blind.

SUPPORT TO GOVERNMENT SCHOOL STUDENTS

In 2014, more than 20,000 needy government school students benefited from the annual winter clothing donation programme. NBB allocated BD 150,000 this year for the programme, which covered all government schools in the Kingdom of Bahrain.

SPONSORSHIP

NBB has demonstrated a leading role in supporting a unique number of important activities and events. Major activities in which the Bank participated as a key sponsor during 2014 were:

- Support the Bahrain International Garden Show
- Support the Bahrain International Airshow
- Support to the National Campaign for Aiding the People in Gaza organized by the Royal Charity Organization
- IMF/World Bank Meetings- Washington DC. (Banks in Bahrain Showcase Reception) organized by the Banker's Society of Bahrain and Economic Development of Bahrain
- Supporting the event for highlighting what Bahrain can offer as a cosmopolitan, peace-loving country, in London
- Support the Euromoney Bahrain Conference
- Sponsor The 2nd Turkey-GCC Business & Investment Forum organized by the Bahrain Chamber of Commerce and Industry
- Support the "Bahrain Noor Elain Quiz" organized by Ministry of Information

- Support Al Basta Market organized by the Southern Governorate
- Support Spring of Culture Festival
- Sponsor the 6th Information Technology Forum organized by the University of Bahrain
- Sponsor the International Poetry Day organized by the Writers & Literature Association
- Sponsoring The 11th Gulf Heart Association (GHA) conference
- Support the National Campaign of Cancer Awareness

Included among the major beneficiaries of the Donations and Contributions programme this year were:

- Beit Al Qur'an
- Umm Al-Darda' Al-Sughra Center For Quranic Studies
- Rehabilitation Centre for Handicapped Children
- Bahrain Cancer society
- Children & Mother Welfare Society
- Hope Institute for Handicapped
- Women & Child Information Centre
- Bahrain Society for Child Development
- Sultan Bin A. Aziz Centre for Hearing & Speech
- The Saudi Bahraini Institute for The Blind
- Bahrain National Heredity Anemia Society
- Bahraini disabled Sports Committee
- Bahrain Down Syndrome Society
- Al Rahma Centre
- Bahrain Diabetes Society
- Bahraini Association for Intellectual Disability & Autism
- The Bahrain Young Ladies Assn/Aisha Yateem Family Counseling Center
- Migrant Workers protection Society
- Minors Estate Directorate
- Child Care Home
- Al Sanable Orphans Care
- NBB Home for the Aged
- Muharraq Social Welfare Centre
- UCO Parents Care Centre
- Al Manar Parents Care Centre
- Bahrain Philanthropic Society
- Bahrain Red Crescent Society
- Al Noor Charity Welfare
- Husan Al Jawar Society

MAJOR PROJECTS

Major projects financed and charity contributions made since the beginning of the donations and contributions programme:

Health Services:

- Building and equipping NBB Dair health centre.
- Financing and furnishing the NBB Arad health centre and physiotherapy wing.
- Providing Salmaneya Medical Centre with two advanced general purpose x-rays, an ambulance, dialysis machines and a urology endoscopy system.
- New ECO cardiogram machine for Shaikh Mohamed Bin Khalifa cardiac centre.
- Annual financial support to Shaikh Mohammed Bin Khalifa Cardiac Centre at the Bahrain defence force hospital.
- Upgradation of BDF's computer systems.

Social Welfare Schemes

- Building and furnishing the NBB home for the aged.
- Building and furnishing the friendship Kindergarten for the Blind.
- Building and furnishing the NBB home for disabled children and providing a bus with special equipment.
- Supplying 2 specially manufactured buses for Bahrain mobility international and Muharraq Social Welfare Centre.
- Annual financial support to all the facilities built by the Bank.

Educational facilities

- Construction of administration and registration buildings for the University of Bahrain
- Building and furnishing the NBB public library in Muharraq.
- Providing the University of Bahrain with "horizon", a fully automated library system and 2 PC laboratories, the e-learning centre in addition to annual financial support for many years.
- Contribution to the new Shaikh Isa library.
- Installation of air conditioning in all government primary schools.
- Annual financial support to the university student fund.
- Computerised library system for Women and children information centre.
- Renovation of Abdulla Al Zayed House in Muharraq in coordination with Shaikh Ebrahim bin Mohamed Al Khalifa Centre for Culture & Research



ABDUL AZIZ ABDULLA AL AHMED
General Manager
Domestic Banking

Business Banking adopted a segmented approach where preferred sectors within the market were penetrated, to diversify the Bank's loan portfolio and risk.

DOMESTIC BANKING GROUP

BUSINESS BANKING

Year 2014 has been a demanding year for Business Banking due to the growing competition from traditional and non-traditional institutions in the local market, the slow pace of business within the SME sector and the real estate sector not yet fully normalized. While the Bank remained prudent and continued to be very selective regarding exposures to certain sectors, the same was compensated by maximizing business in other areas / segments.

By monitoring the market closely, selecting acceptable projects that suit NBB lending criteria and focusing on projects that add value to the Bahrain economy, we were able to streamline our business, maintain our strong financial position and sustain our market leadership position by serving our valued customers for all their requirements.

Several strategies were adopted to reach our goal. Focus remained on Commercial banking which continued to target the middle-market segment. In general, Business Banking adopted a segmented approach where preferred sectors within the market were penetrated, to diversify the Bank's loan portfolio and risk. The focus was on sectors where the Bank lacked presence, by structuring products that suited both parties i.e. the clients and the Bank. This resulted in enhancing the loan book through strengthening ties with its valued clients.

Business Banking also focused on understanding the business and operational cycle of existing clients to customize products that suited their business model and cash flow, which was fruitful in terms of increasing business with existing clients and increasing market presence through acquisition of new names.

As a result, new assets were booked, underlying NBB's commitment to the local economy in general and firm belief that the Kingdom is well positioned to withstand the prevailing economic conditions. Moreover, the units were successful in attracting new deposits, where depositors preferred to keep their deposits with the bank for its well-established reputation for both safety and stability.

We are confident that the economy of Bahrain will show strong growth next year and 2015 will be an eventful year in which many large ticket Corporate projects will start to materialize, with companies like Alba, Bapco, Bahrain Airport all looking to expand their production / capacity. Anticipating this growth, NBB Business Banking is already taking the necessary steps to sustain its position in funding the upcoming new projects.

Business Banking will continue to improve its products and services for the benefit of the customers of the Bank. The unit also looks forward to 2015 with optimism, based on improving market situation, strong deal flows in the pipeline and kick-starting of major projects and support of the Government. We are confident that we are strongly positioned to meet our customers' needs in 2015 and beyond.

PERSONAL BANKING

The economy grew during the year, but growth was not uniform across sectors. With all retail banks focusing their resources on select sectors, the operating environment was extremely challenging. Banks reduced pricing on retail loans as a relatively lower risk option. Working within difficult operating conditions, new packages and campaigns were launched for retail customers. We built on our strengths of door-step service through sales channels, improved turnaround times through automation and the largest branch network channel in the Kingdom. In line with our objective of supporting retail customers, very competitive loan rates were introduced which was well received by customers. This strategy was supported through below the line campaigns like branch merchandising, bulk messaging and data mining to cross-sell to existing customer base, which helped the division in enhancing booking volumes and income.

In line with the Bank's objective of encouraging savings habit among customers, the bank's flagship saving scheme "Al Watani Savings" was revamped and relaunched with a catchy prize package, to engage the attention and establish high recall among customers. Attractive cash prizes were offered, including monthly, grand and mega prizes, which were designed to change the lives of many of the winners. A creative campaign was designed and launched through various media including innovative channels like the Bahrain Bourse ticker. In order to enable the widest participation and encourage all customers to save, enrolment in the campaign continued to be extremely customer friendly wherein all savings and Savewave accounts with the minimum balance were automatically included in the draws.

The Taabeya card continued its successful run with the portfolio increasing significantly. Campaigns were run to enhance the cardholder base, especially for Taabeya cards. Sales campaigns were held at college campuses where students were targeted for the cards, with an incentive of pre-paid credit to the card account. A cross-sell campaign was also conducted wherein customers with high usage were issued a pre-approved Mastercard Taabeya card with a bonus credited to the card account. We had discussions with various Government and semi-Govt organizations to encourage the pre-paid card as a viable alternative to cash payments, and we believe that it will have increasing usage in the future for this purpose.

The Titanium card portfolio was significantly enhanced by proactively offering the Titanium card to select cardholders, as an upgrade on their existing card. The Bank tied up with various merchant partners to bring special offers and add value to its cardholders, for example a promotion with Gulf Air wherein cardholders would receive attractive discount on their purchase through NBB card on GF website.

In an effort to bring banking services nearer to customers, the direct sales distribution channel was strengthened and used as an effective sales tool. By offering customers service at their door-step, the direct sales team was able to canvass business from a growing number of customers. Sales promotions were implemented in various Ministries and Government offices to interact directly with customers and potential customers.

Technology is being leveraged to significantly enhance service levels for customers. Mobile Banking service is being augmented currently to offer better and innovative functionalities and convenience to customers, with focus on enabling more payment channels through the mobile medium. Discussions are on with eGov Authority to integrate our on-line banking to the eGov site for payment services, which we expect to finalise shortly. The Bank also extended the facility of the credit card 'payment gateway' to new merchants, which will enhance business for both merchant partner and the Bank as well as facilitating on-line payments for customers.

Focus on Customer service continues to be a priority area for the business and in line with this objective our 24x7 Call center continued to focus on its core function of handling customer queries and complaints, to ensure that resolution of the same was done to the customer's satisfaction within agreed time lines. We will continue to streamline the Call center workflow and processes to ensure high levels of customer satisfaction. In addition to its service role, Call Center put in additional efforts to contribute to the Bank's business and be a revenue generator. Throughout the year, outbound calling program was maintained wherein potential customers were proactively called to canvass for the bank products and create sales leads. Call center also conducted cross-selling campaign for inbound calls, where sales efforts were made on customers who called in regarding queries or complaints. Call Center resources were also utilised for monitoring card transactions during non working hours, providing warning in case of suspicious transactions and taking appropriate action.

Personal Banking units will continue to enhance their products and services and we are optimistic about 2015. The multiplier effect of various major projects expected to be launched during the year by the public sector as well as Government sector is expected to create opportunities in the retail space also. We are therefore confident of enhancing the base of our valued clients and meeting our objectives in 2015 and beyond.



HUSSAIN SAYED ALI AL HUSSAINI

General Manager

Treasury, Overseas Branches & Operations

We will continue to devote resources to bolster existing business and will continue efforts in finding and offering the best of breed investment products, creating value for and delivering better returns to our investors, emphasizing capital preservation and risk-adjusted returns.

TREASURY, OVERSEAS BRANCHES & OPERATIONS GROUP

Global growth slowed more than expected from an annualized rate of 3.9% in the second half of 2013 to 2.7% in 2014. The downside surprise was mainly due to weaker recovery in Europe as the region continues to overcome legacies from the crisis and in Japan where negative effects on demand can be traced to an increase in consumption tax. Among emerging markets, China picked up in the second half of the year due to stimulus measures by the government but domestic demand remained weak in many major economies, particularly Latin America.

Activity in the GCC economies accelerated slightly in mid-2014, driven by higher oil production and government spending. Average growth for the GCC is projected to be around 4.5% in 2014-2015. Turmoil in Iraq has thus far had little effect on the rest of the region.

Sub-par growth and low inflation continued to allow global central banks to keep benchmark interest rates at historically low levels and implement nontraditional stimulus programs. While the U.S. has officially ended quantitative easing, Europe has just begun its fight against deflation. Global equity markets continue to rally as the unprecedented liquidity in the financial system benefits risky assets. Credit spreads benefited as well and are 40-50bps tighter on the year.

Markets have handled the end of Federal Reserve QE program quite well and interest rates in the United States are expected to move higher in the second half of 2015. Main concerns for 2015 will be whether the growth in U.S. is strong enough to decouple from the rest of the world. Geopolitical factors in Ukraine and Mideast will remain in focus also.

PORTFOLIO MANAGEMENT UNIT

Interest rates remained at historically low levels globally with rates in the Eurozone trading below zero. The unit took advantage of continued tightening of spreads by booking capital gains in GCC papers which were deemed historically expensive and reallocating into undervalued paper particularly Bahrain government.

We carried forward our strategy of effectively hedging the portfolios long term fixed rate risk and replace it with floating risk. This strategy should be effective as the Federal Reserve begins to raise short term interest rates next year and our funding begins to rise. Over 70% of

the investment portfolio is currently floating or less than one year maturity. We continue to hedge with liquid plain vanilla swaps with very strong counterparties. Liquid G-7 bonds were added to the portfolio throughout the year at attractive levels for diversification. Market timing strategies were utilized to take advantage of the limited volatility producing capital gains throughout the year. These strategies coupled with a high level of diversification provided the unit with above average returns.

FOREIGN EXCHANGE & MONEY MARKETS UNIT

The historical trend of low global money market interest rates and slow economic growth persisted in 2014 and continued to prove to be challenging for the unit. Despite that fact, the FX & Money Market unit managed to surpass its budgeted targets by focusing on prudent arbitrage investments opportunities in GCC and major foreign currency markets. In addition to, implementing profitable FX spot and forward transactions, as well as FX derivatives strategies.

Furthermore, during the year the unit instigated a number of short term securities investments, as well as aggressively participating in the short term Government of Bahrain conventional and Islamic issues that enhanced overall profitability.

TREASURY MARKETING & SALES UNIT

The Unit has efficiently captured excellent level of FX transactions during the year that enabled it to achieve its budgeted income for 2014.

Additionally, the unit has continued to offer competitive deposit rates compared to our affiliates to maintain high volumes of customers' deposits. Good part of these deposits was booked for long term tenors. Aspiring to accomplish its objective of providing Total Treasury Solutions, the unit continued to coordinate with Business Banking & Investment Unit to structure long term investment products to satisfy clients' hedging requirements.

Through its new work force structure, the unit is fully equipped with the required skills to extend its efforts towards serving the bank's clients and fulfill their requirements.

INVESTMENT ADVISORY & WEALTH MANAGEMENT UNIT

The Investment Advisory and Wealth Management Unit provides asset management services with a primary focus on mutual funds and custody services. The Unit's customer base includes institutions, corporates, financials & insurance companies and high net worth individuals.

In the area of mutual funds, the MEDA Fund, which is available for local and GCC investors has achieved almost 29.3% as of October-end 2014, outperforming the benchmark of 19.1%. However, with the great challenges that occurred in the capital markets, the demand on mutual investment funds was lackluster.

In the area of custody services, despite the competition in what is generally a hotly contested market and negative environment in the capital markets, the unit continues to gain more market share capitalising upon its competitive edge in terms of competitive fees structure, providing clients with market access and trade execution services on various types of fixed income securities (bonds and sukuk) across local and regional markets. Assets Under Management (AUM) grew by 21% in 2014.

On the proprietary book side, the Bank continues to stick to its cautious approach in its investment activities and hence has not deployed any new funds for proprietary book during 2014. Despite adopting a conservative approach due to increasing markets uncertainty, the Bank will remain open for any investment opportunities in local and regional markets.

Moving forward, we will continue to devote resources to bolster existing business and the Unit will continue its efforts in finding and offering the best of breed investment products, creating value for and delivering better returns to our investors, emphasizing capital preservation and risk-adjusted returns.

In recognition of its consistent, high-quality performance and standard in the fund transfer operations, the Bank was awarded the JP Morgan Quality Recognition Award 2014 for excellence in US Dollar processing. This is the 13th consecutive year that NBB has earned this recognition, which not only illustrates NBB's leading presence in the global financial services market but also aptly demonstrates the Bank's long-term commitment to maintain highest standard of quality.

SYNDICATIONS & TRANSACTIONAL BANKING

During 2014, the name of the Unit has been changed to Syndications & Transactional Banking to demonstrate our focus on Syndicated transactions, both through origination and participation in primary deals, and also by being active in secondary markets to purchase good quality loans. As a result, we succeeded by participating in several new facilities in the Kingdom of Bahrain and the Gulf region such as term loans to Arab Banking Corporation, Commercial Bank of Qatar, Mashreq Bank and Ahli Bank Q.S.C. In addition, we continued to pursue bilateral facilities to top tier financial institutions in GCC countries.

A particular focus of the Unit this year was on Know Your Customer (KYC) aspect in terms of securing transactions involving other financial institutions to ensure that such transactions comply with different rules and regulations. One of the major achievements of the Unit was to register NBB on the international Swaps & Derivatives Association (ISDA) website as an Adherent Entity to European Market Infrastructure Regulations (EMIR). This was an important step to ensure a smooth operation of our activities with different European Financial Institutions.

Also NBB became compliant during the year with FATCA regulations and we have communicated with other banks that NBB's name has been included in the first list of participant's foreign financial institutions on the IRS website.

On the corporate finance side, NBB joined a group of an international bank and a regional bank to submit a proposal to a key corporate client for assuming the financial advisory role with respect to a new major industrial project.

CENTRAL OPERATIONS

NBB has always strived to maintain the highest standards of services in funds transfer operations and in 2014, the Bank remained committed to this strategic initiative. In recognition of its consistent, high-quality performance and standard in the fund transfer operations, the Bank was awarded the JP Morgan Quality Recognition Award 2014 for

excellence in US Dollar processing. JP Morgan presents this award to selected U.S. Dollar clearing clients who achieve outstanding straight-through results by properly formatting their Swift payments. Less than one percent of JP Morgan's total funds transfer clients are able to meet the criteria for this award. This is the 13th consecutive year that NBB has earned this recognition, which not only illustrates NBB's leading presence in the global financial services market but also aptly demonstrates the Bank's long-term commitment to maintain highest standard of quality.

In 2014 the Central Operations had a key role in the successful implementation and launching of NBB's Mobile Banking initiative, adding more service channels to the existing services for our customers, who can now enjoy remote access to their accounts and do banking at any time from any place. The bank participated as a key player in the initiation of the EFTS - Electronic Funds Transfer System as national project owned by Central Bank of Bahrain and hosted by BENEFIT. EFTS is scheduled to be implemented in the 3rd quarter of 2015.

RIYADH BRANCH

2014 was a year of consolidation with a focus on further building the strong business profile built over the past two years. In this regard, a revised Target Market and Asset Acceptance Criteria was introduced, all existing relationships were reviewed and a more vigilant and prudent scrutiny measures introduced on new proposals in order to strengthen the overall asset profile of the branch.

A strategic plan for the branch calls for Saudi Operations to be the second most contributor to the Bank's Asset and Income with significant growth planned in the coming years. To meet this objective, the branch has invested significantly in a new core system, introduced limited Islamic Banking Products and developed Riyadh Branch staff. The branch also managed to attract talented and qualified Saudis to fill positions of Relationship Managers, Review Officer and Compliance Officer.

During 2014, Compliance Section reviewed all accounts to ensure full compliance with SAMA and CBB rules and regulations. In addition, several in-house training modules were organized for staff to alert them on new rules, amendments and directives of SAMA with regards to account opening, fees, charges and commissions and FATCA regulations. Selective members of staff were also sent for training at the Head Office in Bahrain and to Institute of Bankers in Riyadh.

Overall, the branch established a strong foundation which would be leveraged in the years ahead.

ABU DHABI BRANCH

Abu Dhabi branch continued its focus on growing bilateral business in the corporate banking space. Customer-centricity and high service levels saw Forex profits soar as more business was sourced through existing relationships. The integration of LC module with our existing core banking system streamlined processing and enhanced service levels to our clients. Trade finance still makes up a major portion of the business pipeline and continues to generate a steady commission income stream.

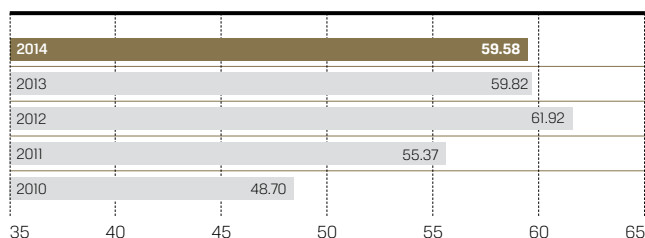
The UAE approved a draft federal budget of AED 49.1 billion (\$13.4 billion) for 2015. GDP is expected to grow at 4.6% in 2014 and 4.5% in 2015, with non-oil sector expected to be the main contributor. Oil-fuelled growth is expected to slow down due to weakening oil prices, while non-oil growth is expected to grow by 5.9% this year with megaprojects in the construction sector leading to such non oil growth.

The UAE economy is generally believed to have recovered from the 2008 crisis. In line with the positive economic environment Abu Dhabi branch put in place an aggressive three-year plan to exploit business opportunities in niche sectors contributing to the UAE's growth including contracting, manufacturing, trading. NBB Abu Dhabi is optimistic it can capitalize on opportunities in these sectors and grow the business in 2015.

FINANCIAL REVIEW

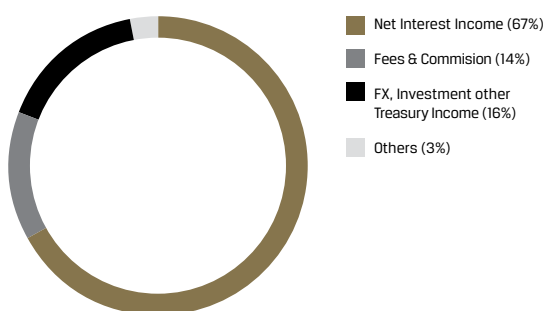
NET INTEREST INCOME

BD millions

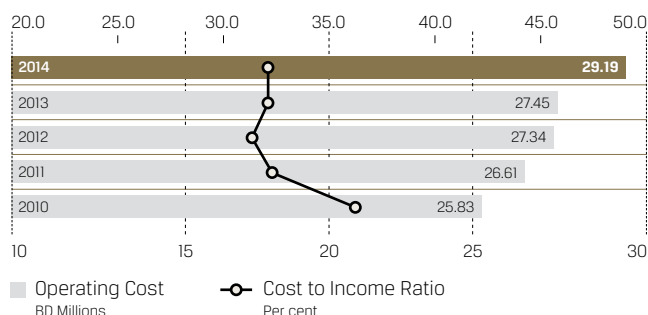


COMPOSITION OF TOTAL INCOME

Per cent



OPERATING COST AND COST TO INCOME RATIO



OVERVIEW

The financial position of the Bank remains strong with a steady and consistent improvement in the overall performance during the year 2014. The Bank focused on a balanced growth within the overall prudent risk management framework. This resulted in the Bank delivering a net Profit of BD 53.44 million for 2014, the highest ever achieved by the Bank, compared to BD 51.36 million for 2013, an increase of 4.0 percent.

At year-end 2014, the Bank's Total Balance Sheet stood at BD 2,738.46 million, compared to BD 2,749.23 million at year-end 2013. While Loans and advances showed a decline due to certain major repayments and lack of quality lending opportunities, the available funds were efficiently deployed in Investment securities and Treasury Bills to maintain the overall interest margin. As a result, the total Earning Assets stood at to BD 2,580.92 million at year-end 2014 compared to BD 2,596.84 million at year-end 2013.

Key performance indicators continue to remain strong with Return on Average Equity at 14.42 per cent and a Return on Assets of 1.95 percent for the year 2014. Earnings Per Share improved from 54.6 fils in 2013 to 56.8 fils for 2014. Efficiency Ratio for 2014 was 32.7 percent compared to 32.4 percent for the previous year. The Bank continues to have a strong capital adequacy ratio of 34.3 percent before the proposed appropriations calculated in accordance with Basel 2 and Central Bank of Bahrain guidelines. Liquidity continues to be comfortable with liquid assets (Cash and balances with central banks, Treasury bills and Placement with financial institutions) representing 32.4 per cent of total assets.

NET INTEREST INCOME

Net Interest Income at BD 59.58 million for the year reflects a marginal decrease of 0.4 percent over 2013. The decrease is largely attributable to the lack of growth in commercial lending opportunities and reduced returns on deployment of surplus liquidity due to very low short term interest rates. As a result, the net interest margin, on average total assets, was 2.17 per cent in 2014 compared to 2.21 per cent in 2013.

OTHER INCOME

Total Other Income for the year of BD 29.63 million showed a strong growth of 19.3 percent compared to what was recorded in the previous year of BD 24.83 million. The growth was attributable to increased business volumes resulting in higher Commission and Exchange Income, besides higher Dividend Income on the Bank's equity and increased contribution from the Bank's Associates.

Details of Other Income, with comparative figures for the previous year, are set out in Note 24 to the Financial Statements.

OPERATING EXPENSES

Operating Expenses at BD 29.19 million showed an increase of 6.3 percent over the previous year actual of BD 27.45 million. Staff Expenses were maintained with a minimum increase from BD 19.58 million in 2013 to BD 19.60 million in 2014. Other Operating Expenses increased

to BD 9.59 million in 2014 from BD 7.87 million in 2013, this is largely on account of Bank's contribution to the Deposit Protection Fund effective 2014 as mandated by the Central Bank of Bahrain, in addition to various initiatives to improve operational efficiency and enhance customer service. Operating efficiency ratio increased marginally from 32.4 percent in 2013 to 32.7 percent for the year 2014 due to the contribution to Deposit Protection Fund.

PROVISIONS

The Bank follows International Accounting Standard 39 and Central Bank of Bahrain regulations for assessing the adequacy of provisions for loan losses. Provisions for individually impaired credit exposures are determined by discounting expected future cash flows. Impairment and uncollectability is also measured on a portfolio basis, for a homogenous group of loans and advances not individually identified as impaired, on the basis of estimates of incurred losses inherent within the loans and advances portfolio that have not been specifically identified at the balance sheet date. The estimates are based on internal risk ratings, historical default rates adjusted considering current observable data, rating migrations, loss severity, macroeconomic outlook and other relevant factors that reflect the effect of current conditions on the loan book. Based on the ongoing assessment of the provision requirement and the Bank's continued emphasis on having a strong balance sheet, an amount of BD 6.08 million was provided towards impairment on loans and advances during the year. Further, a provision of BD 0.50 million was made for impairment on equity investments due to decrease in the market value of the investments.

Non-performing loans continue to be closely monitored which amounted to BD 85.69 million at the end of 2014 compared to BD 66.74 million at the end of 2013. This includes one large exposure where scheduled repayments have not been met and for which the Bank holds adequate security. Details of the Bank's non-performing loans, provisions and movements therein during the year are detailed in Note 7 to the Financial Statements

ASSETS

Total Assets stood at BD 2,738.46 million as at 31 December 2014, reflecting a marginal decrease of 0.4 percent over BD 2,749.23 million recorded in the previous year. Total Earning Assets stood at BD 2,580.92 million as at 31 December 2014 compared to BD 2,596.84 million as at the previous year end, reflecting a marginal decrease of 0.6 percent. Loans & Advances decreased during the year due to certain major repayments and lack of quality lending opportunities. This reduction in loans was deployed in liquid assets such as Placements with Banks & Financial Institutions. The Bank has a well diversified asset profile with Loans and Advances representing 28.5 percent of the total assets, while Treasury Bills represents 17.9 percent, Placements with Banks & Financial Institutions represent 10.4 percent; Investment securities represent 36.5 percent and Others 6.7 percent of the total assets.

The loan portfolio is diversified with widespread participation in domestic market and broadening of business relationships in Bahrain

in line with the Bank's strategy of focusing on the active sectors of the domestic economy. Loans and Advances portfolio is concentrated principally in Bahrain and other GCC countries. Based on contractual maturity terms, 40.0 per cent of the current portfolio matures within one year and 71.9 per cent is due to mature within 3 years of the balance sheet date.

At the year-end, the Bank's Investment portfolio of BD 999.49 million (2013: BD 997.72 million) consisted mainly of debt and equity securities while a small portion represents investments in mutual funds designated at Fair Value Through Profit or Loss. A substantial portion i.e. 99.4 per cent of the total debt portfolio is in investment grade securities.

Notes 29 and 30 to the Financial Statements provide details of the distribution of Total Assets by geographical region and industry.

LIABILITIES

Customer Deposits at year-end 2014 stood at BD 2,154.85 million compared to BD 2,083.54 million at previous year-end. The Bank continues to be successful in generating customer deposits resulting from its dominant position in the domestic market and leveraging its image as a safe and sound financial institution in the Kingdom of Bahrain.

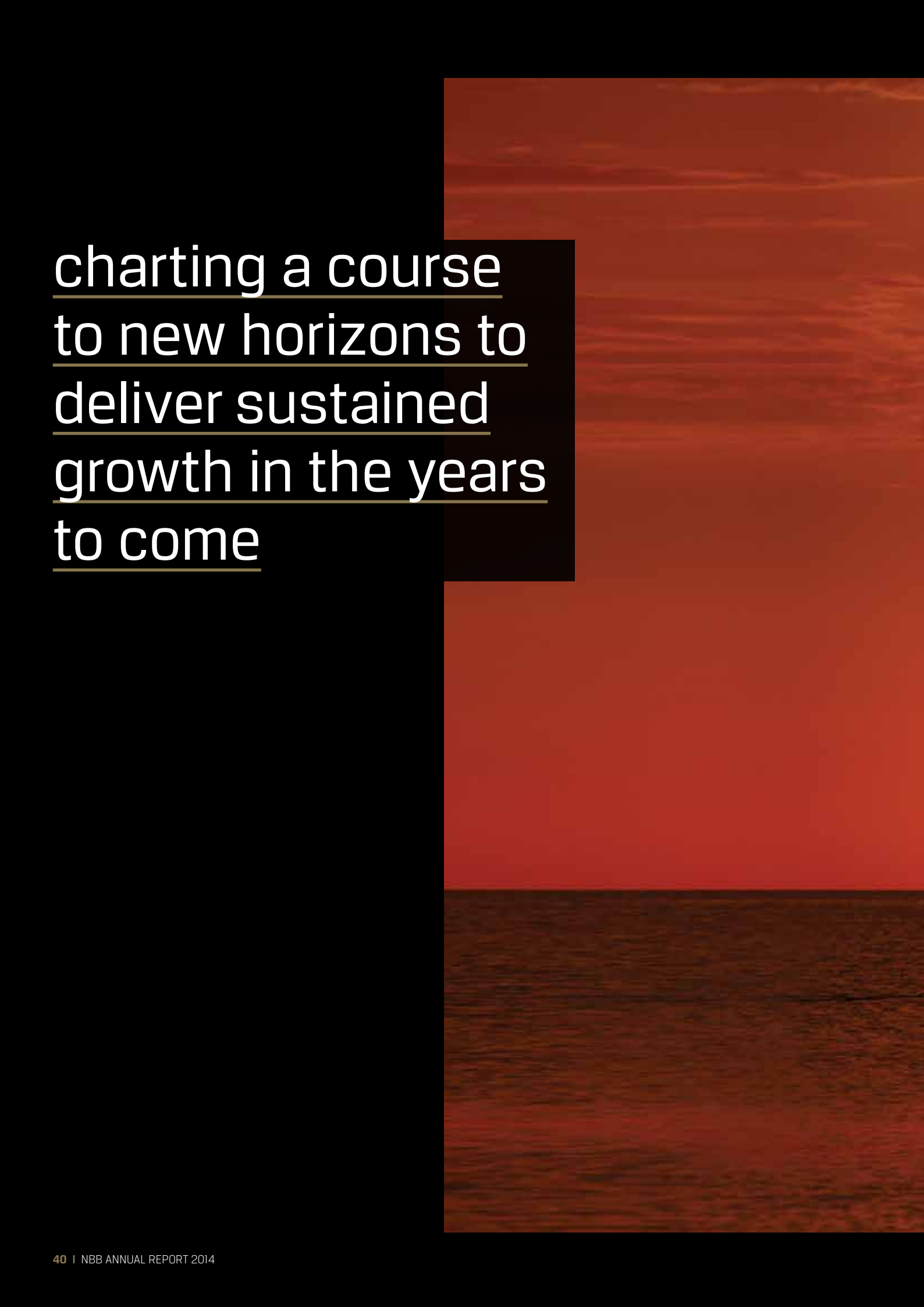
Borrowings under repurchase agreements and Due to banks and financial institutions stood at BD 166.49 million at year-end 2014, compared to BD 282.71 million as at year-end 2013. Customers Deposits continue to be the major source of funding with the ratio of Customers' Deposits to Total Liabilities at 91.3 percent at year-end 2014.

CAPITAL STRENGTH

Shareholders' Equity, inclusive of proposed appropriations, reflected a balance of BD 378.02 million as at year-end 2014, compared to BD 363.14 million as at the previous year, an increase of 4.1 percent. At the year-end, Shareholders' Equity as a percentage of Total Assets was 13.8 per cent.

The Bank's capital adequacy ratio at the balance sheet date was 34.3 per cent with Tier 1 ratio at 32.0 per cent before the proposed appropriations. The ratios have been calculated in accordance with the Basel 2 and Central Bank of Bahrain guidelines.

The Bank's capital adequacy ratio, encompassing credit, operational and market risk, is well above the Basel requirement of 8 per cent and also comfortably above the minimum level of 12 per cent set by the Central Bank of Bahrain. Note 41 to the Financial Statements and Risk and Capital Management disclosures provide further details on capital adequacy. The main factors that contribute to the Bank's strong capital adequacy ratio are high capital base, low risk profile of on-balance sheet and off-balance sheet exposures which includes significant exposures to low risk weighted assets namely governments, public sector undertakings, banks and financial institutions.



charting a course
to new horizons to
deliver sustained
growth in the years
to come

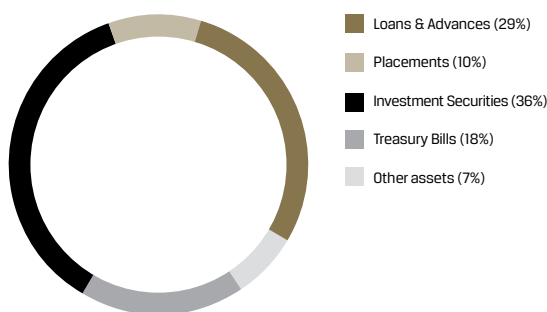




BRUCE WADE
General Manager
Risk

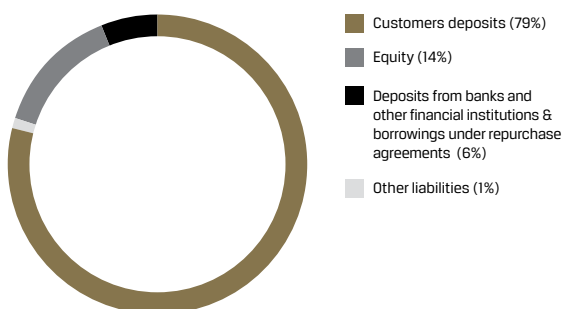
COMPOSITION OF TOTAL ASSETS

Per cent



COMPOSITION OF TOTAL LIABILITIES AND EQUITY

Per cent



RISK MANAGEMENT

In a world characterised by high integration of global financial markets, innovation in financial products, extensive use of derivatives, market volatility, large scale regulatory changes and focus on governance and remuneration structures, the management of risk is a key issue for every bank. NBB has over the years, developed risk management into a core competence and remains well positioned to meet these challenges. The Bank evaluates risk in terms of the impact on income and asset values. The evaluation reflects the Bank's assessment of the potential impact on its business on account of changes in political, economic and market conditions and in the credit worthiness of its clients. Risk management at NBB has always been prudent and proactive with the objective of achieving the optimum balance between risk and expected returns.

Risk arises from the Bank's lending and investment activities as carried out by the various units. Corporate Banking is responsible for lending to large corporate entities in Bahrain. Regional Banking handles credit facilities to leading corporate entities in other countries of the GCC. The Trade Finance and Financial Institutions unit is involved in identifying and financing trade flows between the GCC region and the rest of the world. Commercial Banking's responsibilities cover the borrowing requirements of small to medium-sized companies based in Bahrain. Personal Banking handles lending to individuals in Bahrain and other retail services. Treasury and Investments is responsible for all the treasury and capital market related activities of the Bank, and the Abu Dhabi and Riyadh Branches serve the UAE and Saudi Arabian markets respectively.

The overall authority for risk management in the Bank is vested in the Board of Directors. The Board authorises appropriate Credit, Operational and Market risk policies as well as suitable operational guidelines based on the recommendation of Management. Approval authorities are delegated to different functionaries in the hierarchy depending on the amount, type of risk and collateral security. The Bank has established committees that decide on all risk issues and authorities are properly structured.

Integral to the Bank's risk management system is the internal audit department that plays a role in evaluating the independence and overall effectiveness of the Bank's risk management functions. A periodic review of risk assets is conducted by the department to confirm that established policies, procedures and approved terms are complied with, and to review asset quality and highlight areas of concern so that corrective action can be taken in time.

The Risk Group (RG) of the Bank provides the necessary support to the business units in all areas of risk management. This division functions independently of the business units to analyse risks and put forth its recommendations prior to approval by the delegated authorities. The

Bank promotes healthy debate among the business units and RG to achieve an optimum balance between risk and return.

The Bank's risk management process encompasses the various dimensions of risk as follows:

CREDIT RISK

Credit Risk represents the potential financial loss as a consequence of a customer's inability to honour the terms and conditions of the credit facility. Such risk is measured with respect to counterparties for both on-balance sheet assets and off-balance sheet items.

The Bank has well laid out procedures, not only to appraise but also to regularly monitor credit risk. Regular reviews are carried out for each account and risks identified are mitigated in a number of ways, which include obtaining collateral and counter-guarantees from shareholders and/or third parties. Adequate margins are maintained on the collateral to provide a cushion against adverse movement in the market price of collateral.

In addition to rigorous credit analysis, the terms and conditions of all credit facilities are strictly implemented by the Credit Administration Department. An internal grading system and review process ensures prompt identification of any deterioration in credit risk and consequent implementation of corrective action. The Bank's internal ratings are based on a 10-point scale that takes into account the financial strength of a borrower as well as qualitative aspects, to arrive at a comprehensive snapshot of the risk of default associated with the borrower. Ratings are further sub-divided into categories which reflect estimates of the potential maximum loss if default occurs. Risk Ratings assigned to each borrower are reviewed at least on an annual basis. Regular monitoring of the portfolio enables the Bank to exit accounts that evidence deterioration in risk profile.

The Bank follows stringent criteria in setting credit limits for countries and financial institutions. Prudent norms have also been implemented to govern the Bank's investment activities. Not only are regular appraisals conducted to judge the credit worthiness of the counterparty but day-to-day monitoring of financial developments across the globe ensures timely identification of any event affecting the risk profile.

The Bank enters into derivative contracts in the normal course of business to meet customer requirements and to manage its own exposure to fluctuations in interest and exchange rates. The credit risk arising from a derivative contract is calculated by taking the cost of replacing the contract, where its mark to market value is positive, together with an estimate for the potential future change in the value of the contract. The credit risk on contracts with a negative mark to market value is restricted to the potential future change in their market value. Details of derivative contracts are contained in Note 17 to the Financial Statements.

The Bank has systems and procedures in place to generate alerts in case of past dues in any account. A stringent classification process is followed for all accounts with past dues of over 89 days. The Bank applies rigorous standards for provisioning and monitoring of non-performing loans. Level of provisions required is determined based on the security position, repayment source, discounted values of cash flows, etc. Adequate provisions are carried to guard against inherent risks in the portfolio.

LEGAL RISK

Legal Risk manages and mitigates the legal risks of the Bank through prompt review and advice on transaction documents; regular review of standard documentation to ensure the Bank's interests are protected; negotiate with counterparties/lawyers; keep abreast of latest developments in domestic and international banking, corporate and other laws and regulations and initiate corrective action when the Bank's business is likely to be affected.

In-house expertise independently ensures the above objectives are properly maintained. In addition, firms of international repute have been retained by the Bank to advise on foreign law related matters and represent the Bank in legal proceedings before foreign legal authorities as and when such representation is required.

LIQUIDITY RISK

Liquidity Risk is classified as the potential inability of the bank to meet its financial obligations on account of a maturity mismatch between assets and liabilities. Liquidity risk management ensures that funds are available at all times to meet the funding requirements of the Bank.

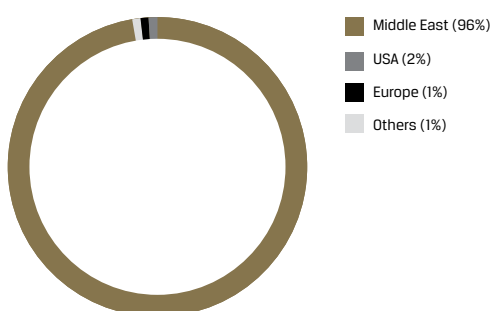
The asset/liabilities management of the Bank ensures various liquidity criteria that need to be complied with, such as minimum level of liquid assets, gap limits, ratio of liquid assets to total assets, etc.

The Bank maintains adequate Cash and Balances with Central Banks in liquid assets such as inter-bank placements and treasury bills. The ratio of liquid assets to total assets as at 31 December 2014 was 32.4 per cent. The high level of liquidity enables the Bank to meet fluctuating customer borrowings and drawdowns comfortably.

The Bank's ability to maintain a stable liquidity profile is primarily on account of its success in retaining and growing its customer deposit base. The marketing strategy of the Bank has ensured a balanced mix of demand and time deposits. As a result of its successful deposit and asset-liability management strategies, the Bank is a net placer of funds in the interbank market and is not dependent on volatile short-term borrowings.

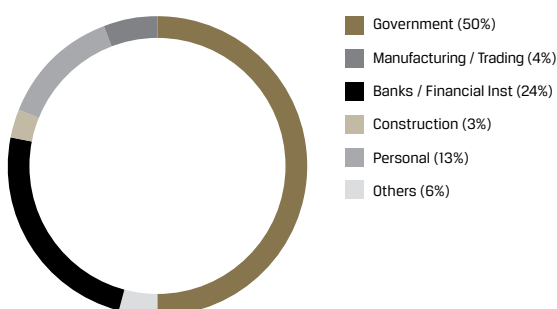
GEOGRAPHICAL DISTRIBUTION OF ASSETS

Per cent



SECTOR DISTRIBUTION OF ASSETS

Per cent



The Treasurer closely monitors the maturity profile of assets and liabilities so that adequate liquidity is maintained at all times. The asset and liability maturity profile by individual asset and liability category based on contractual repayment arrangements is detailed in Note 35 to the Financial Statements. As at 31 December 2014, 49.12 per cent of assets were scheduled to mature within three months. Substantial investment securities with contractual maturities of more than three months can also be readily liquidated. Considering the effective maturities of deposits based on retention history and in view of the ready availability of liquid investments, the Bank is able to ensure that sufficient liquidity is always available. Proper contingency plans exist and can be implemented on a timely basis to minimise the risk associated with dramatic changes in market conditions. The Asset Liability Committee (ALCO) chaired by the Chief Executive Officer, reviews the liquidity gap profile, liquidity scenarios and projections, and addresses strategic issues concerning liquidity.

INTEREST RATE RISK

Interest Rate Risk is measured by the extent to which changes in market interest rates impact margins, net interest income and the economic

value of the Bank's equity. The Bank's asset and liability management process is utilised to manage interest rate risk through the structuring of on-balance sheet and off-balance sheet portfolios. Net interest income will be affected as a result of volatility in interest rates to the extent that the re-pricing structure of interest bearing assets differs from that of liabilities. The Bank's goal is to achieve stable earnings growth through active management of the assets and liabilities mix while selectively positioning itself to benefit from near-term changes in interest rate levels.

The Bank uses interest rate gap analysis to measure the interest rate sensitivity of its annual earnings due to re-pricing mismatches between rate sensitive assets, liabilities and derivatives positions. The interest rate sensitivity graph illustrates the Bank's re-pricing gap structure as at 31 December 2014. A negative gap denotes liability sensitivity and a positive gap denotes asset sensitivity. Note 32 to the Financial Statements gives details of the Bank's exposure to interest rate risk.

Modified Duration analysis is used to measure the interest rate sensitivity of the fixed income portfolio. Modified Duration gives the percentage change in value of the portfolio following a 1% change in yield. Modified Duration of the Bank's fixed income portfolio was 2.35 per cent on 31 December 2014. This implies that a 1% parallel upward shift in the yield curve could result in a drop in the value of the portfolio by BD 10.76 Million. Interest rate swaps and forward rate agreements are used to manage the interest rate risk. The Treasurer is primarily responsible for managing interest rate risk. Reports on overall positions and risks are submitted to senior management for review and positions are adjusted if deemed necessary. In addition, ALCO regularly reviews the interest rate sensitivity profile and its impact on earnings. Strategic decisions are made with the objective of producing a strong and stable interest income over time.

MARKET RISK

Market Risk is classified as the risk to the value of the trading portfolio arising from changes in interest rates, foreign exchange, commodity and equity prices. The Bank's trading activities are governed by conservative policies, stringent adherence to controls and limits, strict segregation of front and back office duties, regular reporting of positions, regular independent review of all controls and limits and rigorous testing of pricing, trading and risk management systems. The limits are set annually and regularly reviewed. Quality and rating are the main criteria in selecting a trading asset.

The Bank uses the Standardised Method to calculate Capital Charge for Market Risk, the capital that is required to be held on account of the various risk factors affecting the trading book and currency positions. Capital requirement on account of interest rate risk, foreign exchange risk, equity risk, commodity risk and options risk are calculated separately and then summed up to arrive at the total market risk

capital requirement of the Bank. The following table shows the capital charges as at 31 December 2014:

Particulars (BD'000)	Capital Charge
Interest Rate Risk	380.79
Equities Risk	89.98
Foreign Exchange Risk	30.74
Commodities Risk	-
Options Risk	-
Total minimum capital required for market risk	501.51
Multiplier	12.5
Market Risk weighted exposure under the Standardized Method	6,268.89

During the period January to December 2014, the maximum capital requirement as per Standardized Method was BD 1.46 Million on 17/09/2014 while the minimum capital requirement was BD 0.26 Million on 25/10/2014.

OPERATIONAL RISK

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Bank has well laid out procedures and systems that set out the methodologies for carrying out specific tasks. These systems and procedures are constantly reviewed and revised to address potential risks.

The Operational Risk management department within the Risk Group independently monitors and manages all aspects of operational risk on a bank wide basis. The Bank has established an Operational Risk Management Committee (ORMC) to supervise, monitor and review operational risk issues and ensure that adequate mitigants are developed and implemented for all operational risk issues. The Risk and Control Self Assessment (RCSA) programme provides the ORMC with a compact, comparative view of operational risks, along with their measure in terms of likelihood of occurrence and probable impact across various units of the Bank, and also provides a basis to evaluate and prioritise the requirement of control enhancements and new mitigation approaches in a structured manner.

In addition to the RCSA programme, the Bank also uses Key Risk Indicators (KRIs) as a tool to monitor operational risk. KRIs are statistics and/or metrics which provide insight into the Bank's operational risk position. KRIs have been designed with thresholds that indicate increasing level of risk, thereby providing an indication of severity

and the requirement to take corrective action. KRI results are tracked regularly by the Operational Risk management department and reviewed by the ORMC. Further, Operational Risk Department assess risks in all new products, services, products processes and agreement before the same are implemented.

The scope of the Bank's internal audit department encompasses audits and reviews of all business units, support services and branches. The internal audit process focuses primarily on assessing risks and controls and ensuring compliance with established policies, procedures and delegated authorities. New products and services are also reviewed by the internal audit department and assessed for operational risk prior to their implementation. The internal audit department is operationally independent and reports significant internal control deficiencies to the Audit Committee.

The Bank has a well-established Business Continuity Plan as well as an off-site computer back-up centre that provides full system support to the Bank's operations in case of an emergency in the information technology systems. The Business Continuity Plan and the computer back-up centre are regularly tested to ensure readiness for seamless switchover in case of any emergency.

Necessary procedures and systems have been put in place to protect the Bank from money laundering activities.

REPUTATION AND FIDUCIARY RISK

Reputation risk is defined as the current and prospective impact on earnings and capital arising from negative public opinion that would impact the ability to establish new relationships or services or to continue servicing existing relationships. Management of reputation risk is an inherent feature of the Bank's corporate culture which is embedded as an integral part of the internal control systems. Besides identification and management of risks, the internal control system also incorporates as an ethos the maintenance of business practices of the highest quality towards its customers, shareholders, regulators and general public and fiduciary and non-fiduciary clients. Through its policies and practices, NBB ensures that proper screening of clients' risk profiles and performance expectations are conducted prior to making investment products or services available to them. Furthermore, once a product or service is sold, appropriate risk and performance projections are clearly communicated and funds placed under management are treated with due care and professionalism.

All the aspects of risk mentioned above are reviewed regularly at each meeting of the Board of Directors and the Executive Committee based on a comprehensive risk report. This integrated approach to risk management also serves the Bank in achieving its objective of protecting the interests of shareholders and customers.

leveraging our solid
business structure to
confidently expand
into new territories





REMUNERATION REPORT

REMUNERATION REPORT

The Bank's total compensation policy, which includes Variable Remuneration, sets out the Bank's policy on remuneration for directors and senior management and the key factors that were taken into account in setting the policy.

During the year, the Bank has adopted the Sound Remuneration Practices issued by the Central Bank of Bahrain and has proposed revisions to its variable remuneration framework. The revised policy framework and incentive components are subject to the approval of the shareholders in the upcoming annual general meeting. Once approved, the policy will be effective for the 2014 annual performance incentives and would be fully implemented for future periods.

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

REMUNERATION STRATEGY

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

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

1. Fixed pay
2. Benefits
3. Annual performance bonus

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

The Bank's remuneration policy in particular, considers the role of each employee and has set guidance depending on whether an employee is a Material Risk Taker and/or an Approved Person in business line, control or support functions. An Approved Person is an employee whose appointment 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 ensure alignment between what we pay the employees and the Bank's business strategy, we assess employees' performance against annual and long-term financial and non-financial objectives summarized in line with our performance management system. This assessment also takes into account adherence to the Bank's values, risk, compliance measures and above all acting with integrity. Altogether, performance is therefore judged not only on what is achieved over the short and long-term but also importantly on how it is achieved, as the Bank believes the latter contributes to the long-term sustainability of the business.

NRC ROLE AND FOCUS

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

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

- Approve, monitor and review the remuneration system to ensure the system operates as intended.
- Approve the remuneration policy and amounts for each Approved Person and Material Risk-Taker, as well as total variable remuneration to be distributed, taking account of total remuneration including salaries, fees, expenses, bonuses and other employee benefits.
- Ensure remuneration is adjusted for all types of risks and that the remuneration system takes into consideration employees that earn same short-run profit but take different amount of risk on behalf of the bank are treated differently.
- Ensure that for Material Risk Takers, variable remuneration forms a substantial part of their total remuneration.
- Review the stress testing and back testing results before approving the total variable remuneration to be distributed including salaries, fees, expenses, bonuses and other employee benefits.
- Carefully evaluate practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. The NRC will question payouts for income that cannot be realized or whose likelihood of realization remains uncertain at the time of payment.
- Ensure that for approved persons in risk management, internal audit, operations, financial controls and compliance functions the mix of fixed and variable remuneration is weighted in favor of fixed remuneration.
- Recommend Board member remuneration based on their attendance and performance and in compliance with Article 188 of the Bahrain Commercial Companies Law.

- Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves not to use personal hedging strategies or remuneration-and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements.

The Board of Directors has established the Nomination & Remuneration Committee in order to address the above mentioned objectives. Details of the committee, including the meeting dates, are included under the Corporate Governance Report. The aggregate remuneration paid to the NRC members during the year in the form of sitting fees amounted to BHD 6,500/-.

EXTERNAL CONSULTANTS

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

SCOPE OF APPLICATION OF THE REMUNERATION POLICY

The remuneration policy has been adopted on a Bank-wide basis and shall apply to its overseas branches and subsidiaries.

BOARD REMUNERATION

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

REMUNERATION REPORT

VARIABLE REMUNERATION FOR STAFF

The variable remuneration is performance related and consists primarily of the annual performance bonus award. The variable remuneration reward is linked to achieving the financial and operational targets set each year, the individual performance of the employees in achieving those targets, and their contribution to the Bank's strategic objectives.

The Bank has a Board approved framework to develop a transparent link between performance and variable remuneration. The framework is designed on the basis that the combination of financial performance and achievement of other non-financial factors, would, all other things being equal, deliver a target bonus pool for the employees. The bonus pool is then adjusted to take account of risk via the use of risk-adjusted measures (including forward-looking considerations). In the framework adopted in determining the variable remuneration pool, the NRC aims to balance the distribution of the Bank's profits between shareholders and employees.

The key performance metrics at the bank level include a combination of short term and long term measures and include profitability, solvency, liquidity and growth indicators.

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

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

For the overall Bank to have any funding for distribution of bonus pool; thresholds of financial targets have to be achieved. The performance measures ensure that the total variable remuneration is generally considerably reduced where subdued or negative financial performance of the Bank occurs. Furthermore, the target bonus pool as determined

above is subject to risk adjustments in line with the risk adjustment and linkage framework. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

The total variable remuneration paid to all employees including the Share Incentive Scheme is within the range of 10% to 10.5% of the net profit before bonus.

REMUNERATION OF CONTROL FUNCTIONS

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

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

VARIABLE COMPENSATION FOR BUSINESS UNITS

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

RISK ASSESSMENT FRAMEWORK

The purpose of the risk linkages is to align variable remuneration to the risk profile of the Bank. In its endeavor to do so, the Bank considers both quantitative measures and qualitative measures in the risk assessment process. Both quantitative measures and human judgement play a role in determining risk adjustments. The risk assessment process encompasses the need to ensure that the remuneration policy is designed to reduce employees' incentives to take excessive and undue risk, is symmetrical with risk outcomes and has an appropriate mix of remuneration that is consistent with risk alignment.

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

Risk adjustments take into account all types of risks, including intangible and other risks such as reputation risk, liquidity risk and the cost of capital. The Bank undertakes risk assessment to review financial and operational performance against the business strategy and risk performance prior to distribution of the annual bonus. The Bank ensures that total variable remuneration does not limit its ability to strengthen its capital base.

The NRC keeps itself abreast with the Bank's performance against the risk management framework. The NRC will use this information when considering remuneration to ensure the return, risk and remuneration are aligned.

In years where the Bank suffers material losses in the financial performance, the risk adjustment framework includes several adjustments, viz., reduction of Bonus pool, possible changes to vesting period, additional deferrals and malus or clawback provisions.

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

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

MALUS AND CLAWBACK FRAMEWORK

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

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

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

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

REMUNERATION REPORT

COMPONENTS OF VARIABLE REMUNERATION

Variable remuneration has following main components:

Upfront cash	The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year.
Deferred Cash	The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of 3 years
Upfront share awards	The portion of variable compensation that is awarded and issued in the form of shares on conclusion of the performance evaluation process for each year.
Deferred shares	The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over a period of 3 years

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

DEFERRED COMPENSATION

Employees in the grade of Senior Manager and above shall be subject to deferral of variable remuneration as follows:

Element of variable remuneration	GMs and above	5 highest paid business emp.	SMs, AGMs and EAGMs	Deferral period	Retention	Malus	Clawback
Upfront cash	40%	40%	50%	immediate	-	-	Yes
Upfront shares	-	-	10%	immediate	6 months	Yes	Yes
Deferred cash	10%	10%	-	3 years*	-	Yes	Yes
Deferred share awards	50%	50%	40%	3 years*	6 months	Yes	Yes

* the deferral vests on a pro-rata basis over a 3 year period

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

DETAILS OF REMUNERATION PAID

(a) Board of Directors:

(BD '000)	2014
• Sitting Fees	27
• Remuneration	440
• Others	-

(b) Employee remuneration

2014

(BD '000)	Number of Staff	Fixed Remuneration		Sign on Bonuses	Guaranteed Bonuses	Variable Remuneration					Total
		Cash	Others	(Cash / Shares)	(Cash / Shares)	Upfront		Deferred			
						Cash	Shares	Cash	Shares	Others	
Approved Persons											
- Business Lines	7	1,463	307	0	0	636	3	155	787	0	3,351
- Control & Support	12	1,181	270	0	0	375	61	18	332	0	2,237
Other Material Risk Takers	5	266	78	0	0	121	24	0	97	0	586
Other Staff	503	6,655	2,877	0	0	2,931	19	0	76	0	12,558
Overseas Staff	30	588	246	0	0	30	0	0	0	0	864
TOTAL	557	10,153	3,778	0	0	4,093	107	173	1,292	0	19,596

FINANCIAL STATEMENTS

Report of the Auditors to the Shareholders	55
Statement of Financial Position	56
Statement of Profit or Loss	57
Statement of Comprehensive Income	58
Statement of Changes in Equity	59
Statement of Cash Flows	60
Notes to Financial Statements	61

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS



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21 January 2015

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of National Bank of Bahrain BSC (the "Bank"), which comprise the statement of financial position as at 31 December 2014, the statements of profit or loss, 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), the CBB Capital Markets Regulations and associated resolutions, the Bahrain Bourse rules and procedures 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.

KPMG Fakhro
Partner Registration No. 100
21 January 2015

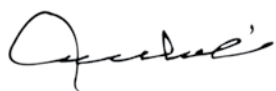
KPMG Fakhro, a Bahrain partnership registered with Ministry of Commerce and Industry (MOIC), Kingdom of Bahrain and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

		2014		2013	
	Note	BD millions	US\$ millions	BD millions	US\$ millions
Assets					
Cash and balances at central banks		111.07	295.37	108.39	288.30
Treasury bills	4	491.42	1,306.97	570.10	1,516.21
Placements with banks and other financial institutions	5	283.88	755.00	146.25	388.96
Trading securities	6	0.56	1.50	0.57	1.52
Loans and advances	7	780.97	2,077.05	859.39	2,285.61
Investment securities	8	999.49	2,658.21	997.72	2,653.50
Investment in associates	9	24.60	65.43	22.81	60.65
Interest receivable and other assets	10	33.48	89.05	30.09	80.02
Property and equipment	19	12.99	34.55	13.91	36.99
Total assets		2,738.46	7,283.13	2,749.23	7,311.76
Liabilities					
Due to banks and other financial institutions	11	138.33	367.90	252.82	672.38
Borrowings under repurchase agreements	12	28.16	74.90	29.89	79.49
Customer deposits	13	2,154.85	5,730.98	2,083.54	5,541.33
Interest payable and other liabilities	14	39.10	103.98	19.84	52.76
Total liabilities		2,360.44	6,277.76	2,386.09	6,345.96
Equity					
Share capital	20	94.09	250.24	94.09	250.24
Statutory reserve	21	47.05	125.13	47.05	125.13
General reserve	21	32.40	86.17	32.40	86.17
Other reserves and retained earnings	21	204.48	543.83	189.60	504.26
Total equity		378.02	1,005.37	363.14	965.80
Total liabilities and equity		2,738.46	7,283.13	2,749.23	7,311.76

The Board of Directors approved the financial statements consisting of pages 56 to 97 on 21 January 2015 and signed on their behalf by :



Farouk Yousuf Khalil Almoayyed
Chairman



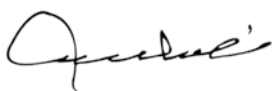
Abdul Razak A. Hassan Al Qassim
Chief Executive Officer & Director

The accompanying notes 1 to 43 are an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2014

	Note	2014		2013	
		BD millions	US\$ millions	BD millions	US\$ millions
Interest income	23	75.76	201.48	76.77	204.17
Interest expense	23	(16.18)	(43.04)	(16.95)	(45.08)
Net interest income		59.58	158.44	59.82	159.09
Other income	24	29.63	78.79	24.83	66.05
Total operating income		89.21	237.23	84.65	225.14
Staff expenses	25	19.60	52.12	19.58	52.08
Other expenses		9.59	25.50	7.87	20.93
Total operating expenses		29.19	77.62	27.45	73.01
Profit before provisions & Tax		60.02	159.61	57.20	152.13
Impairment provisions on loans and advances	7	(6.08)	(16.17)	(5.28)	(14.04)
Impairment provisions on investments		(0.50)	(1.32)	(0.35)	(0.93)
Income tax expense		-	-	(0.21)	(0.56)
Profit for the year		53.44	142.12	51.36	136.60
Basic and diluted earnings per share	38	56.8 fils	15 cents	54.6 fils	15 cents



Farouk Yousuf Khalil Almoayyed
Chairman



Abdul Razak A. Hassan Al Qassim
Chief Executive Officer & Director

The accompanying notes 1 to 43 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	2014		2013	
	BD millions	US\$ millions	BD millions	US\$ millions
Profit for the year	53.44	142.12	51.36	136.60
Other comprehensive income:				
Items that are or may be reclassified to profit or loss:				
Fair value reserve (available-for-sale securities):				
Net change in fair value	(3.87)	(10.29)	17.10	45.48
Net amount transferred to profit or loss	(0.35)	(0.93)	(2.39)	(6.36)
Share of other comprehensive income of associate	(0.42)	(1.12)	0.46	1.23
Total other comprehensive income for the year	(4.64)	(12.34)	15.17	40.35
Total comprehensive income for the year	48.80	129.78	66.53	176.95

The accompanying notes 1 to 43 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

For the year ended 31 December 2014									
In BD millions	Note	Share capital	Statutory reserve	General reserve	Fair value reserve	Donation and charity reserve	Retained earnings*	Total BD millions	US\$ millions
Balance at 1 January 2014		94.09	47.05	32.40	57.24	10.57	121.79	363.14	965.80
2013 appropriations									
Cash dividend at 35%		-	-	-	-	-	(32.93)	(32.93)	(87.58)
Transfer to donations and charity		-	-	-	-	2.57	(2.57)	-	-
Balance after 2013 appropriations		94.09	47.05	32.40	57.24	13.14	86.29	330.21	878.22
Comprehensive income for the year:									
Profit for the year		-	-	-	-	-	53.44	53.44	142.12
Other comprehensive income		-	-	-	(4.64)	-	-	(4.64)	(12.34)
Total comprehensive income for the year		-	-	-	(4.64)	-	53.44	48.80	129.78
Utilisation of donation and charity reserve		-	-	-	-	(0.99)	-	(0.99)	(2.63)
Balance at 31 December 2014	20-22	94.09	47.05	32.40	52.60	12.15	139.73	378.02	1,005.37

* The appropriations for the year 2014 will be submitted to the shareholders at the annual general meeting. These appropriations include BD 23.52 million for cash dividend at 25% (2013: 35%), BD 2.67 million for donations and contributions and a transfer of BD 14.11 million from retained earnings to general reserve. The Board of Directors has also proposed a one for ten bonus issue through utilization of BD 9.41 million from general reserve and the transfer of BD 4.70 million from General Reserve to Statutory Reserve.

For the year ended 31 December 2013									
In BD millions	Note	Share capital	Statutory reserve	General reserve	Fair value reserve	Donation and charity reserve	Retained earnings	Total BD millions	US\$ millions
Balance at 1 January 2013		85.54	42.77	32.40	42.07	9.15	107.01	318.94	848.25
2012 appropriations									
Cash dividend at 25%		-	-	-	-	-	(21.38)	(21.38)	(56.86)
Bonus shares issued at 10%		8.55	-	(8.55)	-	-	-	-	-
Transfer to donations and charity		-	-	-	-	2.37	(2.37)	-	-
Transfer to general reserve		-	-	12.83	-	-	(12.83)	-	-
Transfer to statutory reserve		-	4.28	(4.28)	-	-	-	-	-
Balance after 2012 appropriations		94.09	47.05	32.40	42.07	11.52	70.43	297.56	791.39
Comprehensive income for the year:									
Profit for the year		-	-	-	-	-	51.36	51.36	136.60
Other comprehensive income		-	-	-	15.17	-	-	15.17	40.35
Total comprehensive income for the year		-	-	-	15.17	-	51.36	66.53	176.95
Utilisation of donation and charity reserve		-	-	-	-	(0.95)	-	(0.95)	(2.54)
Balance at 31 December 2013	20-22	94.09	47.05	32.40	57.24	10.57	121.79	363.14	965.80

The accompanying notes 1 to 43 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

		2014		2013	
	Note	BD millions	US\$ millions	BD millions	US\$ millions
CASH FLOWS FROM OPERATING ACTIVITIES:					
Profit for the year		53.44	142.12	51.36	136.60
Adjustments to reconcile net income to net cash from operating activities :					
Depreciation		1.92	5.11	2.04	5.43
Impairment provisions on loans and advances	7	6.08	16.17	5.28	14.04
Impairment provisions on investments		0.50	1.32	0.35	0.93
Share of profit of associates		(2.40)	(6.39)	(1.95)	(5.19)
Profit for the year after adjustments		59.54	158.33	57.08	151.81
CHANGES IN OPERATING ASSETS AND LIABILITIES					
Balances with central banks (mandatory cash reserves)		(7.54)	(20.05)	6.94	18.46
Treasury bills		187.07	497.53	(124.57)	(331.30)
Placement with banks and other financial institutions		24.12	64.15	57.96	154.15
Trading securities		0.01	0.03	(0.06)	(0.16)
Loans and advances		72.35	192.42	23.58	62.71
Investment securities		10.84	28.83	(231.94)	(616.86)
Interest receivable and other assets		(9.81)	(26.09)	(6.24)	(16.60)
Due to banks and other financial institutions		(114.49)	(304.49)	84.29	224.18
Borrowings under repurchase agreements		(1.73)	(4.60)	(45.52)	(121.06)
Customer deposits		71.31	189.65	5.64	15.00
Interest payable and other liabilities		8.32	22.13	6.07	16.14
Net cash generated from / (used in) operating activities		299.99	797.84	(166.77)	(443.53)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Investment in associate		-	-	(17.50)	(46.54)
Dividend recieved from associate		0.19	0.51	0.16	0.43
Purchase of property and equipment, net		(1.00)	(2.66)	(1.16)	(3.09)
Net cash used in investing activities		(0.81)	(2.15)	(18.50)	(49.20)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Dividends paid		(32.93)	(87.58)	(21.38)	(56.86)
Donations and charities paid		(0.99)	(2.63)	(0.95)	(2.54)
Net cash used in financing activities		(33.92)	(90.21)	(22.33)	(59.40)
Net increase / (decrease) in cash and cash equivalents		265.26	705.48	(207.60)	(552.13)
Cash and cash equivalents at 1 January	15	342.41	910.66	550.01	1,462.79
Cash and cash equivalents at 31 December	15	607.67	1,616.14	342.41	910.66

The accompanying notes 1 to 43 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

1. ACTIVITIES

National Bank of Bahrain BSC, a public shareholding company, was incorporated in the Kingdom of Bahrain by an Amiri decree in January 1957. The Bank is licensed by Central Bank of Bahrain as a conventional retail bank.

The overseas branches in Abu Dhabi (United Arab Emirates) and Riyadh (Kingdom of Saudi Arabia) operate under the laws of those respective countries.

The Bank is principally engaged in providing retail and wholesale commercial banking services, treasury and investment activities and investment advisory services.

The Bank's registered address is National Bank of Bahrain BSC, P.O.Box 106, NBB Tower, Government Avenue, Manama, Kingdom of Bahrain. The shares of the Bank are listed on the Bahrain Bourse, Manama, Kingdom of Bahrain.

2. SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), the requirements of the Bahrain Commercial Companies Law 2001 and the Central Bank of Bahrain and Financial Institutions Law 2006.

b. Basis of preparation

The financial statements of the Bank are presented in Bahraini Dinar (BHD) being the functional currency of the Bank. The US Dollar (US\$) amounts are presented for the convenience of the reader. The Bahraini Dinar has been translated to US dollar at the rate of BHD 0.376 to US\$ 1 (2013: BHD 0.376 to US\$ 1).

The financial statements have been prepared on the historical cost convention except for financial instruments at fair value through profit or loss, available-for-sale investments and derivative financial instruments which are measured at fair value. The principal accounting policies applied in the preparation of these financial statements have been consistently applied to all the years presented except as described below:

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 on 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 application of this amendment had no significant impact on the financial statements of the Bank.

b) Amendments to IAS 36 on 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 had no significant impact on the financial statements of the Bank.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

c) Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness. The amendments have been applied retrospectively.

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

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

The following standards and interpretations have been issued and are expected to be relevant to the Bank in future periods, with effective dates on or after 1 January 2015.

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 de-recognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018. The Bank is assessing the potential impact on its financial statements resulting from the application of this standard.

b) IFRS 15 - Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual periods beginning on or after 1 January 2017. The application of this standard will have no significant 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 defined 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 amendments apply retrospectively for annual periods beginning on or after 1 July 2014. The above amendments will have no significant 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 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 are permitted (along with the special transitional requirement in each case), in which case the related consequential amendments to other IFRSs would also apply.

The above amendments will have no significant impact on the financial statements of the Bank.

iii) Early adoption of standards

The Bank did not early adopt new or amended standards in 2014.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

c. Foreign currencies

Foreign currency transactions:

Foreign currency transactions are initially recorded at rates of exchange prevailing at the value date of the transactions. Monetary assets and liabilities in foreign currencies are translated to respective functional currencies at the rates of exchange prevailing at the statement of financial position date. Realised and unrealised exchange gains or losses are recognised in the statement of profit or loss and included in "other income".

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in statement of profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised directly in other comprehensive income as part of fair value changes.

Foreign operations:

The assets and liabilities of the overseas branches are translated into Bahraini Dinar at spot exchange rate at the reporting date. The income and expenses of these overseas branches for the period are translated into Bahraini Dinar at average exchange rates. Differences resulting from the translation of the opening net investment in these overseas branches are recognised in other comprehensive income.

d. Use of estimates and management judgement

The Bank's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements.

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the application of standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of profit or loss, the Bank makes judgements as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets within credit risk characteristics and objective evidence of impairment similar to those in the portfolio to assess impairment.

The Bank classifies some non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances – for example selling an insignificant amount close to maturity – the Bank is required to reclassify the entire category as available-for-sale. Accordingly, the investments would be measured at fair value instead of amortized cost.

The Bank considers that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below cost. The determination of significant or prolonged decline requires judgement. In making this judgement, the Bank evaluates among other factors, the normal volatility in share price for the specific equity instrument and also the general market index. In addition, the Bank considers impairment when there is evidence of deterioration in the financial health of the investee company, industry and sector performance, changes in technology and operational and financing cash flows.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period or in the period of the revision and future period if the revision affects both current and future periods.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

e. Accounting for income and expenses

i) Interest income and expenses are recognised in the statement of profit or loss on an accrual basis using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. The application of the effective interest rate method has the effect of recognising interest income and interest expense evenly in proportion to the amount outstanding over the period to maturity or repayment. In calculating the effective interest rate, cash flows are estimated taking into consideration all contractual terms of the financial instrument but excluding future credit losses.

ii) Fees and commissions that are integral to the effective interest rate of a financial asset or liability are included in the calculation of the effective interest rate. Other fees and commissions are recognised as the related services are performed or received, and are included in fee and commission income.

iii) Dividend income is recognised when the right to receive a dividend is established.

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

The Bank has different retirement benefit schemes for its employees in Bahrain and its overseas branches, which are in accordance with the relevant labour laws of the respective countries. The retirement benefit scheme is in the nature of a 'Defined Contribution Plan' for employees who are covered by the social insurance pension schemes in Bahrain and the overseas branches. Other employees are entitled to leaving indemnities payable in accordance with the employment agreements or under the respective labour laws, based on length of service and final remuneration. This liability, which is unfunded, is considered as a 'Defined Benefit Plan' which represents a defined benefit scheme under IAS 19, and is provided for on the basis of the cost had all such employees left at the statement of financial position date. The cost of providing these retirement benefits is charged to the statement of profit or loss.

The Bank has a voluntary employees saving scheme. The Bank and the employees contribute monthly on a fixed percentage of basic salary to the scheme. The scheme is managed and administered by a board of trustees who are the employees of the Bank. The Bank's share of contribution to this scheme is charged to the statement of profit or loss.

v) Other expenses are recognised in the period in which they are incurred on an accrual basis.

f. Financial assets and liabilities

i) Investments at fair value through profit or loss comprise investments designated at inception at fair value through profit or loss and trading investments.

Investments designated at fair value through profit or loss: Investment securities which are acquired with an intent to hold for an indefinite period of time, and are managed, evaluated and reported internally on a fair value basis are designated as investments at fair value through profit or loss. These investments are carried at fair value based on quoted market prices, fund manager quotes or amounts derived from cash flow models as appropriate. Any unrealised gains and losses arising from changes in fair value are recognised in the statement of profit or loss.

Trading securities: Securities which are either acquired for the purpose of generating profit from short-term fluctuations in price or are included in a portfolio in which a pattern of short-term profit taking exists are categorised as trading securities. These securities are initially recognised at fair value and subsequently measured at fair value based on quoted market bid prices. Realised and unrealised gains and losses on trading securities are included in the statement of profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

ii) Held-to-maturity investments

Held-to-maturity investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank positively intends, and is able, to hold until maturity. Held-to-maturity investments are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method, less any impairment losses.

iii) Available-for-sale investments

Investments which are non-derivative and which are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity, changes in interest rates or concerns with respect to credit deterioration are categorised as available-for-sale investments. Available-for-sale investments which comprise both debt and equity investments are initially recognised at fair value, including transaction costs, and subsequently measured at fair value based on quoted market prices, brokers quotes or amounts derived from cash flow models as appropriate. Unrealised gains and losses arising from changes in the fair values of available-for-sale investments are recognised in other comprehensive income. The cumulative fair value adjustments on available-for-sale investments which are sold or otherwise disposed of and which had previously been recognised in other comprehensive income are transferred to the statement of profit or loss.

iv) Investment securities measured as at amortised cost:

Investments measured as at amortised cost are those non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market. Investment securities measured as at amortised cost are stated at amortised cost, less provision for impairment.

v) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are stated at amortised cost, adjusted for changes in fair value under any effective hedging arrangement, less provision for impairment.

vi) Customer deposits

Customer deposits are initially recognised at their fair value and subsequently measured at their amortised cost using the effective interest method.

vii) Financial guarantees

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

Financial guarantees are initially recognised at fair value (which is the premium received on issuance). The premium received is amortised over the life of the financial guarantee. The guarantee liability (the notional amount) is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). The unamortised portion of the premium on these financial guarantees is included under other liabilities.

viii) Derivative financial instruments

All derivative financial instruments are initially recognised at cost, being the fair value at contract date, and are subsequently re-measured at their fair values. Fair values are obtained from quoted market prices in active markets including recent market transactions, and valuation techniques including discounted cash flow models and option pricing models as appropriate. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in same statement of profit or loss line as the hedged item. In the case of fair value hedges that meet the criteria for hedge accounting, any gain or loss arising from remeasuring the hedging instruments to fair value as well as the related changes in fair value of the item being hedged are recognised in the statement of profit or loss under other income.

In the case of cash flow hedges that meet the criteria of hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion, if any, is recognised in the statement of profit or loss.

All derivative financial instruments are recognised in the statement of financial position as either assets (positive fair values) or liabilities (negative fair values).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

ix) Repos and Reverse repos

Where securities are sold subject to a commitment to repurchase them at a specified future date (repo) and at a predetermined price, they are not derecognised and the consideration received is classified as Borrowings under Repurchase Agreements. The difference between the sale and repurchase price is treated as an interest expense and accrued over the life of the repo agreement using the effective yield method. Conversely, securities purchased under a commitment to resell them at a specified future date (reverse repo) and at a predetermined price are not recognised in the statement of financial position and the consideration paid is recorded in Placements with Banks and Other Financial Institutions. The difference between the purchase and resale price is treated as an interest income and accrued over the life of the reverse repo agreement using the effective yield method.

x) Cash and cash equivalents

Cash and cash equivalents comprise cash, balances at central banks excluding mandatory cash reserves, placements with banks and other financial institutions that mature within three months of the date of placement, and short-term highly liquid investments that are readily convertible to cash and which are subject to an insignificant risk of change in value and mature within three months of the date of acquisition and are used by the Bank in the management of its short term commitments.

xi) 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.

xii) 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 a financial instrument using quoted market prices in an active market for that instrument. This includes listed equity and debt securities. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

For unlisted debt securities fair value is based on brokers quotes, recent arm's length transactions between knowledgeable, willing parties (if available) and discounted cash flow analyses with accepted economic methodologies for pricing financial instruments.

xiii) Categorisation of financial assets

The categorisation of financial assets into fair value through profit or loss, available-for-sale and held-to-maturity is done on the basis of the management intent at the time these securities are acquired and laid down investment policies.

xiv) Identification and measurement of impairment

At each reporting date, the carrying amount of the Bank's financial assets not carried at fair value through profit or loss is reviewed to determine whether there is objective evidence that a specific asset may be impaired. Financial asset(s) is impaired when objective evidence demonstrates 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(s) that can be estimated reasonably. If any such evidence exists, the recoverable amount of the asset is estimated to determine the extent of impairment.

Objective evidence that financial assets are impaired include significant financial difficulty of the borrower or issuer, default or delinquency of a borrower, the restructuring of a loan or advance by the Bank on terms the Bank would not consider otherwise, indicators that a borrower or issuer will enter bankruptcy or the disappearance of an active market for a security.

Impairment losses on assets carried at amortised cost are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset shall be reduced directly or through use of an allowance account. The amount of the loss shall be recognized in statement of profit or loss. When subsequent event causes the amount of impairment losses to decrease, the impairment loss is reversed through statement of profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

The Bank considers evidence of impairment for loans and advances at both specific and collective level.

All individually significant loans and advances are assessed for specific impairment. Specific provision for impairment, pertaining to individually significant impaired loans and advances, is determined based on the difference between the net carrying amount and the estimated recoverable amount of the loans and advances, measured at the present value of estimated future cash flows from such loans and advances and discounting them based on their original effective interest rate. If a loan has a floating interest rate, the discount rate is the current effective rate determined under the contract.

Impairment and uncollectability is also measured and recognised on a portfolio basis for a group of loans and advances with similar credit risk characteristics, that are not individually identified as impaired, on the basis of estimates of losses that have been incurred but not yet specifically identified within the loans and advances portfolio at the statement of financial position date. The estimates are based on internal risk ratings, historical default rates, rating migrations, loss severity, macroeconomic and other relevant factors with historic loss experience being adjusted to reflect the effect of prevailing economic and credit conditions.

Loans and advances are written off after all reasonable attempts at restructuring and possible courses of action to achieve recovery have been exhausted and the possibility of any further recovery is considered to be remote.

In case of debt securities classified as available-for-sale, the bank assesses individually whether there is an objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. The amount of impairment loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less impairment loss previously recognised in the statement of profit or loss. If, in subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the statement of profit or loss, then the impairment loss is reversed through the statement of profit or loss.

For an investment in equity security classified as available-for-sale, a significant or prolonged decline in fair value below cost is an objective evidence of impairment. Where there is an objective evidence of impairment, the amount of impairment loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in the statement of profit or loss. Any subsequent recovery in fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

xv) De-recognition of financial assets and liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

If the terms of the financial assets 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 de-recognized. 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 recognized at fair value. The impairment loss before an expected restructuring is measured as follows:

- If the expected restructuring will not result in derecognition of existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of 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 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

g. Impairment of non-financial assets

At each statement of financial position date, the Bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets 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 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognised in the statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized in the statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

h. Investment in associates

Associates are those entities in which the Bank has significant influence, but not control or joint control, over their financial and operating policies. Significant influence is presumed to exist when the Bank holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method and are recognised initially at cost, which includes the transaction costs. The financial statements of the Bank include its share of the income and expenses and equity movements of associates, after adjustments to align the accounting policies with those of the Bank, from the date that significant influence commences until the date that significant influence ceases. On cessation of significant influence, even if an investment in an associate becomes an investment in a joint venture, the entity does not re-measure the retained interest. When the Bank's share of losses exceeds its interest in an associate, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Bank has an obligation or has made payments on behalf of the associate.

i. Property and equipment

Property and equipment are initially recorded at cost and subsequently stated at cost less accumulated depreciation and impairment losses. Land is not depreciated and is stated at cost at the date of acquisition. Where an item of property and equipment comprises major components having different useful lives, they are accounted for separately. The cost of an item of property and equipment comprises its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be put to its intended use. Depreciation is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives of the property and equipment. The estimated useful lives are as follows:

Buildings	20 to 40 years
Furniture and Equipment	3 to 8 years

The residual value and the useful life of property and equipment are reviewed periodically and, if expectations differ from previous estimates, the change is recognised prospectively in the statement of profit or loss over the remaining estimated useful life of the property and equipment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

j. Other 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.

k. Off-setting

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

l. Settlement date accounting

All "regular way" purchases and sales of financial assets except for derivatives are recognised on the settlement date i.e. the date the Bank receives or delivers the asset. Regular way purchases and sales are those that require delivery of assets within the time frame generally established by regulation or convention in the market place. Derivative transactions are recognised on trade date i.e. the date the bank contracts to purchase or sell.

m. Proposed appropriations

Dividends and other proposed appropriations are recognised as a liability in the period in which they are approved by the shareholders.

n. Remuneration policy

Board of Directors - The remuneration of the Board of Directors is approved by the shareholders. In addition, directors are paid nominal fees for attending meetings of the sub-committees of Board.

Employees - The Bank's remuneration policies, which are approved by the Board of Directors, are applicable for all employees including the Chief Executive Officer. The remuneration primarily consists of monthly salaries and allowances. The Bank also has a discretionary profit sharing scheme based on the net income for the year and considering the employees' performance during the year.

o. Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenue and incur expenses, including revenues and expenses that relate to transactions with any of the other components of the Bank. All operating results of the operating segments are reviewed regularly by the Chief Executive Officer to make decisions about resource allocation and assess its performance, and for which discrete financial information is available.

p. Earnings per share

The Bank presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

q. Income tax liability

The Bank's operations in Bahrain and Abu Dhabi are not liable to income tax. Riyadh branch is subject to income tax in accordance with the Saudi Income Tax Law. Income tax, if any, is charged to the statement of profit or loss.

r. 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'.

s. Fund administration

The Bank acts as a trustee/manager and in other capacities that result in holding or placing of assets on behalf of trust or other institutions. These assets and income arising thereon are not included in the Bank's financial statements as they are not assets of the Bank.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. FINANCIAL RISK MANAGEMENT

The Bank is exposed to the following types of risks:

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

Risk Management Framework

The overall authority for risk management in the Bank is vested in the Board of Directors. The Board authorises appropriate credit, liquidity and market risk policies as well as operational guidelines based on the recommendation of Management. The Bank has established various committees that review and assess all risk issues. Approval authorities are delegated to different functionaries in the hierarchy depending on the amount, type of risk and nature of operations or risk. The Risk Group of the Bank provides the necessary support to Senior Management and the business units in all areas of risk management. This Group functions independent of the business units and reports directly to the Chief Executive Officer.

The Audit Committee of the Board is responsible for monitoring compliance with the Bank's policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by the Internal Audit division, which undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee and to Management.

The Bank's risk management policies are established to identify and analyse the risk faced by the Bank, to set appropriate limits and controls, and to monitor risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Bank's activities. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit Risk

Credit risk represents the potential financial loss as a consequence of a customer's inability to honour the terms and conditions of a credit facility. Such risk is measured with respect to counterparties for both on-balance sheet assets and off-balance sheet items.

The Bank has well laid out procedures, not only to appraise but also regularly monitor credit risk. Credit appraisal is based on the financials of the borrower, performance projections, market position, industry outlook, external ratings (where available) track record, account conduct, repayment sources and ability, tangible and intangible security, etc. Regular reviews are carried out for each account and risks identified are mitigated in a number of ways, which include obtention of collateral, counter-guarantees from shareholders and/or third parties. Adequate margins are maintained on the collaterals to provide a cushion against adverse movement in the market price of collateral.

The Credit Review Department of the Bank analyses risks and puts forth its recommendations prior to approval by the appropriate authorities. In addition to rigorous credit analysis, the terms and conditions of all credit facilities are strictly implemented by the Credit Administration Department. An internal grading system and review process ensures prompt identification of any deterioration in credit risk and consequent implementation of corrective action.

The Bank's internal ratings are based on a 10-point scale, which takes into account the financial strength of a borrower as well as qualitative aspects to arrive at a comprehensive snapshot of the risk of default associated with the borrower. Ratings are further sub-divided into categories, which reflect estimates of the potential maximum loss in an event of default. Risk Ratings assigned to each borrower are reviewed at least on an annual basis. Regular monitoring of the portfolio enables the Bank to identify accounts, which witness deterioration in risk profile. Consumer credit facilities which are granted based on pre-defined criteria such as salary assignment, maximum repayment obligation as a percentage of salary etc., are excluded from this rating system.

The Bank also uses the ratings by established rating agencies, viz., Moody's, Standard & Poor and Fitch as part of the appraisal process while considering exposures to rated entities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

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. Liquidity risk management ensures that funds are available at all times to meet the funding requirements of the Bank.

The asset/liabilities management policies of the Bank define the proportion of liquid assets to total assets with the aim of minimising liquidity risk. The Bank maintains adequate liquid assets such as inter-bank placements, treasury bills and other readily marketable securities, to support its business and operations. The Treasury department monitors the maturity profile of assets and liabilities so that adequate liquidity is maintained at all times. The Asset Liability Committee (ALCO) chaired by the Chief Executive Officer reviews the Liquidity Gap Profile and the Liquidity scenario and addresses strategic issues concerning liquidity.

Market Risk

Market Risk is the risk of potential losses arising from movements in market prices of interest rate related instruments and equities in the trading portfolio and foreign exchange and commodities holdings throughout the Bank. The Bank's trading activities are governed by conservative policies that are clearly documented, by adherence to comprehensive limit structures set annually and by regular reviews. Quality and rating are the main criteria in selecting a trading asset. The Bank uses the standardized method for allocating market risk capital based on the risk assessed for underlying factors of interest rate risk, equity risk, foreign exchange risk, options risk and commodity risk. Daily reports in this regard are submitted to senior management for review and decision making purposes.

Operational Risk

Operational Risk is the risk of monetary loss on account of human error, fraud, systems failures or the failure to record transactions. The Bank has well laid out procedures and systems that set out the methodologies for carrying out specific tasks. These systems and procedures are constantly reviewed and revised to address any potential risks.

The scope of the Bank's Internal Audit division encompasses audits and reviews of all business units, support services and branches. The internal audit process focuses primarily on assessing risks and controls and ensuring compliance with established policies, procedures and delegated authorities. New products and services are reviewed by the Internal Audit division and assessed for operational risks prior to their implementation. The Internal Audit division is operationally independent and reports significant internal control deficiencies to the Audit Committee.

Capital Management

The Bank's policy is to maintain sufficient capital to sustain investor, creditor and market confidence and to support future development of the business. The impact of the level of capital on return on shareholder's equity is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Central Bank of Bahrain's (CBB) Basel II guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1st January 2008. The Bank ensures that the capital adequacy requirements are met on a consolidated basis and also with local regulator's requirements, if any, in countries in which the Bank has branches. The Bank has complied with regulatory capital requirements throughout the year.

In August 2014, the Central Bank of Bahrain issued the final regulation to give effect to the Basel III framework which comes into effect on 1 January 2015. The Basel III framework significantly revises the definition of regulatory capital. The framework emphasises common equity as the predominant component of tier 1 capital by adding a minimum common equity tier 1 (CET 1) capital ratio. The Basel III rules also require institutions to hold capital buffers. For the purpose of calculating CET 1 capital, the regulatory adjustments (deductions) including amounts above the aggregate limit for significant investments in financial institutions, mortgage servicing rights, and deferred tax assets from temporary differences, will be deducted from CET1 over a phased manner to be fully deducted by 1 January 2019. The Bank's current capital position is sufficient to meet the new regulatory capital requirements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

4. TREASURY BILLS

Treasury bills are short-term in nature. These include treasury bills issued by the Government of Bahrain and Government of Saudi Arabia. They also include short-term Islamic Sukuk issued by the Government of Bahrain.

As at 31 December	2014		2013	
	BD '000	US\$ '000	BD '000	US\$ '000
Government of Bahrain	481,404	1,280,330	560,064	1,489,532
Government of Saudi Arabia	10,017	26,641	10,031	26,678
Total	491,421	1,306,971	570,095	1,516,210

5. PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Placements with banks and other financial institutions are part of the Bank's money market activities and comprises short-term lending to banks and other financial institutions.

As at 31 December	2014		2013	
	BD '000	US\$ '000	BD '000	US\$ '000
Placements with banks	275,982	733,995	146,248	388,957
Placements with other financial institutions	7,896	21,000	-	-
Total	283,878	754,995	146,248	388,957

As at 31 December	2014		2013	
	BD '000	US\$ '000	BD '000	US\$ '000
Current and call accounts	10,125	26,928	13,786	36,665
Placements-Term	273,753	728,067	132,462	352,292
Total	283,878	754,995	146,248	388,957

6. TRADING SECURITIES

As at 31 December	2014		2013	
	BD '000	US\$ '000	BD '000	US\$ '000
Equity securities	562	1,495	573	1,524
Total	562	1,495	573	1,524

7. LOANS AND ADVANCES

a) As at 31 December	2014		2013	
	BD '000	US\$ '000	BD '000	US\$ '000
Loans and advances to non-banks	750,643	1,996,391	859,688	2,286,404
Loans and advances to banks	69,188	184,011	32,647	86,827
Less: Provision for impairment	(38,859)	(103,348)	(32,944)	(87,617)
Total	780,972	2,077,054	859,391	2,285,614

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

7. LOANS AND ADVANCES (CONTINUED)

b) Loans and advances are of a floating rate nature, since as per the Bank's loan agreements, the Bank reserves the right to change the rate of interest at any time in the event of money market fluctuations and/or other credit/banking considerations which may be set out from time to time by the Bank and/or any governmental or regulatory authority.

c) As at 31 December 2014, the amount of floating rate loans for which interest was being reset by the Bank on agreed dates and based on an agreed fixed margin over a benchmark interest rate, amounted to BD 277.70 million (US\$ 738.56 million) [31 December 2013: BD 383.79 million (US\$ 1,020.72 million)].

d) In accordance with the Bank's policy and the Central Bank of Bahrain guidelines, loans on which payments of interest or repayments of principal are 90 days past due, are defined as non-performing. The following is the ageing schedule of non-performing and other impaired and past due loans and advances. The table shows the time period since the date of last repayment of principal or interest by the customer.

As at 31 December	2014		2013	
	BD '000	US\$ '000	BD '000	US\$ '000
Over 3 months to 1 year	22,179	58,987	3,167	8,423
1 to 3 years	52,253	138,971	57,106	151,878
Over 3 years	11,262	29,952	6,467	17,199
Total	85,694	227,910	66,740	177,500

Loans that are "past due below 90 days but not impaired" are those for which contractual interest and 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. As at 31 December 2014, loans past due below 90 days but not impaired amounted to BD 2.26 million (US\$ 6.01 million) [31 December 2013: BD 4.92 million (US\$ 13.07 million)].

As at 31 December 2014, the principal outstanding of the non-performing loans portfolio on which interest is not being accrued amounted to BD 85.25 million (US\$ 226.74 million) [31 December 2013: BD 66.00 million (US\$ 175.53 million)].

e) 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 de-recognized and the renegotiated loan recognized as a new loan.

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forebearance activities') to maximise collection opportunities and minimize the risk of default. During 2014, credit facilities amounting to BD 34.09 million (US\$ 90.66 million) were restructured [2013: BD 42.65 million (US\$ 113.43 million)]. Restructuring concessions mainly related to deferral of loan installments to assist customers overcome temporary cash crunch situations or to realign the repayment with the borrowers'/projects' revised cash flow projections and amending the terms of loan covenants. Due to minor nature of concessions, there was no significant impact on the Bank's provisions on loans and advances impairment and present and future earnings.

f) The Bank holds collateral against loans and advances to customers in the form of lien over deposits, mortgage over properties and/or shares and sovereign/ bank guarantees. As at 31 December 2014, loans and advances amounting to BD 241.19 million (US\$ 641.46 million) [31 December 2013: BD 280.29 million (US\$ 745.45 million)] was fully collateralized and loans and advances amounting to BD 10.24 million (US\$ 27.23 million) [31 December 2013: BD 10.36 million (US\$ 27.55 million)] were partly collateralized with a collateral value of BD 6.17 million (US\$ 16.41 million) [31 December 2013: BD 4.25 million (US\$ 11.30 million)].

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

7. LOANS AND ADVANCES (CONTINUED)

g) Exposure to credit risk

As at 31 December	2014		2013	
	BD '000	US\$ '000	BD '000	US\$ '000
TOTAL CARRYING AMOUNT	780,972	2,077,054	859,391	2,285,614
1. Individually impaired				
Substandard	74,023	196,870	55,585	147,832
Doubtful	472	1,255	543	1,444
Loss	11,199	29,785	10,612	28,223
Individually impaired net of interest in suspense	85,694	227,910	66,740	177,500
Specific provision for impairment	(27,705)	(73,684)	(21,494)	(57,165)
Individually impaired carrying amount	57,989	154,226	45,246	120,335
2. Past due below 90 days but not impaired				
Gross amount	2,260	6,011	4,916	13,074
Collective impairment provision	(34)	(90)	(68)	(181)
Past due but not impaired carrying amount	2,226	5,921	4,848	12,893
3. Neither past due nor impaired by internal rating				
Rated 1	28,499	75,795	33,015	87,806
Rated 2	21,433	57,003	25,433	67,641
Rated 3	143,580	381,862	124,846	332,037
Rated 4	116,299	309,306	205,090	545,452
Rated 5	64,871	172,529	97,698	259,835
Rated 6	35,633	94,769	3,594	9,559
Rated 7	22,550	59,973	47,415	126,104
Not rated *	299,012	795,244	283,588	754,223
Gross amount	731,877	1,946,481	820,679	2,182,657
Collective impairment provision	(11,120)	(29,574)	(11,382)	(30,271)
Carrying amount of neither past due nor impaired	720,757	1,916,907	809,297	2,152,386
Total carrying amount	780,972	2,077,054	859,391	2,285,614

* Includes mainly consumer loans and other facilities that are not assigned any ratings at inception.

h) Impairment provisions for loans and advances

Movements during the year	Specific		Collective		Total	
	Impairment Provision		Impairment Provision		Impairment Provisions	
Amounts in BD '000's	2014	2013	2014	2013	2014	2013
At 1 January	21,494	16,016	11,450	11,753	32,944	27,769
Net charge for the year	6,863	6,145	(778)	(867)	6,085	5,278
Amounts written off against provision	(165)	(75)	(5)	(28)	(170)	(103)
Recoveries, transfers & write backs	(487)	(592)	487	592	-	-
At 31 December	27,705	21,494	11,154	11,450	38,859	32,944

The provisions and interest in suspense relate to loans and advances to non-banks.

In accordance with the Central Bank of Bahrain guidelines, interest on non-performing loans is reversed from income and is accounted for on a cash basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

8. INVESTMENT SECURITIES

Investment securities comprise the following:

As at 31 December	2014		2013	
	BD '000	US\$ '000	BD '000	US\$ '000
Available-for-sale investments	986,218	2,622,920	991,531	2,637,051
Provision for impairment on available-for-sale investments	(11,040)	(29,362)	(10,567)	(28,104)
	975,178	2,593,558	980,964	2,608,947
Investments designated at fair value through profit or loss	780	2,074	779	2,072
Investment securities measured as at amortized cost	23,528	62,574	15,974	42,484
Total investment securities	999,486	2,658,206	997,717	2,653,503

A) Available for sale investments

i. Breakdown of quoted and unquoted securities

As at 31 December	2014		2013	
	BD '000	US\$ '000	BD '000	US\$ '000
Quoted:				
Debt securities	379,421	1,009,098	399,063	1,061,338
Equity securities	61,499	163,561	56,705	150,811
Total	440,920	1,172,659	455,768	1,212,149
Provision for impairment on available-for-sale securities	(11,040)	(29,362)	(10,567)	(28,104)
Total net quoted securities	429,880	1,143,297	445,201	1,184,045
Unquoted:				
Debt securities	532,467	1,416,136	521,489	1,386,939
Equity securities	12,831	34,125	14,274	37,963
Total	545,298	1,450,261	535,763	1,424,902
Provision for impairment on available-for-sale securities	-	-	-	-
Total net unquoted securities	545,298	1,450,261	535,763	1,424,902
Total available-for-sale investments	975,178	2,593,558	980,964	2,608,947

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

8. INVESTMENT SECURITIES (CONTINUED)

ii. Breakdown between fixed rate and floating rate available-for-sale debt securities

As at 31 December	2014		2013	
	BD '000	US\$ '000	BD '000	US\$ '000
Fixed rate debt securities	409,756	1,089,777	446,181	1,186,652
Floating rate debt securities *	502,132	1,335,457	474,371	1,261,625
Total	911,888	2,425,234	920,552	2,448,277

Floating rate debt securities at 31 December 2014 include securities amounting to BD 496.47 million (US\$ 1,320.40 million) [31 December 2013:BD 451.99 million (US\$ 1,202.10 million)] of hedged fixed rate bonds.

iii. Breakdown of available-for-sale debt securities by rating.

The ratings given below are by established rating agencies.

As at 31 December	2014		2013	
	BD '000	US\$ '000	BD '000	US\$ '000
AAA	28,199	74,998	24,890	66,197
AA	22,556	59,989	34,322	91,282
A	40,851	108,646	73,053	194,290
BBB	814,783	2,166,976	778,020	2,069,202
BB+	1,795	4,774	10,267	27,306
Not-rated	3,704	9,851	-	-
Total	911,888	2,425,234	920,552	2,448,277

B) Investments designated at fair value through profit or loss

Fair value through profit or loss investment securities comprise investments as under:

As at 31 December	2014		2013	
	BD '000	US\$ '000	BD '000	US\$ '000
Investments in managed funds	780	2,074	779	2,072
Total	780	2,074	779	2,072

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

9. INVESTMENT IN ASSOCIATES

The Bank has a 25.8% shareholding in Bahrain Islamic Bank. Bahrain Islamic Bank is incorporated in the Kingdom of Bahrain to carry out banking and other financial trading activities in accordance with the teachings of Islam (Shari'a) and operates under a retail banking license issued by the Central Bank of Bahrain.

The Bank has a 34.84% interest in The Benefit Company BSC (c) incorporated in the Kingdom of Bahrain. The company has been granted a license for ancillary services by the Central Bank of Bahrain to provide payment systems, Bahrain Cheque Truncation and other related financial services for the benefit of commercial banks and their customers in the Kingdom of Bahrain.

The Bank has recognised both the investments as equity accounted associates in accordance with IAS 28 "Investment in associates".

Movements during the year	2014		2013	
	BD '000	US\$ '000	BD '000	US\$ '000
At 1 January	22,805	60,651	3,049	8,109
Acquisition during the year	-	-	17,501	46,545
Share of profit/ (loss)	2,403	6,391	1,948	5,181
Dividends received	(188)	(500)	(156)	(415)
Share of change in fair value reserve	(418)	(1,112)	463	1,231
At 31 December	24,602	65,430	22,805	60,651

Shares of Bahrain Islamic Bank are listed on the Bahrain Stock Exchange and the quoted price on 31 December 2014 was BD 0.148 (31 December 2013: BD 0.135). The estimated fair value of the investment based on this price is BD 35.82 million (31 December 2013: BD 32.68 million).

The financial statements of the associates used for applying the equity accounting are as of 30 September 2014 which is different from the reporting date of the Bank. Accordingly, amounts have been adjusted for material transactions, if any, for the period from 30 September 2014 to the Bank's reporting date.

10. INTEREST RECEIVABLE AND OTHER ASSETS

As at 31 December	2014		2013	
	BD '000	US\$ '000	BD '000	US\$ '000
Interest receivable	15,390	40,931	16,188	43,053
Accounts receivable & prepayments	16,549	44,013	6,012	15,989
Positive fair value of derivatives	-	-	6,416	17,064
Others *	1,542	4,101	1,471	3,912
Total	33,481	89,045	30,087	80,018

* Others include BD 1.29 million (US\$ 3.43 million) [31 December 2013: BD 1.29 million (US\$ 3.43 million)] in respect of land and buildings acquired from customers and now held for disposal. The land and buildings are stated at lower of cost and fair value less cost to sell.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

11. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

As at 31 December	2014		2013	
	BD '000	US\$ '000	BD '000	US\$ '000
Current and call accounts	24,927	66,295	29,416	78,234
Term deposits	113,404	301,606	223,400	594,149
Total	138,331	367,901	252,816	672,383

12. BORROWINGS UNDER REPURCHASE AGREEMENTS

Borrowings under repurchase agreements amounts to BD 28.16 million (US\$ 74.90 million) [31 December 2013: BD 29.89 million (US\$ 79.49 million)] and the fair value of the investment securities pledged as collateral amounts to BD 28.17 million (US\$ 74.92 million) [31 December 2013: BD 30.06 million (US\$ 79.95 million)].

13. CUSTOMER DEPOSITS

As at 31 December	2014		2013	
	BD '000	US\$ '000	BD '000	US\$ '000
Repayable on demand or at short notice	1,173,733	3,121,630	1,033,373	2,748,332
Term deposits	981,116	2,609,351	1,050,166	2,792,995
Total	2,154,849	5,730,981	2,083,539	5,541,327

14. INTEREST PAYABLE AND OTHER LIABILITIES

As at 31 December	2014		2013	
	BD '000	US\$ '000	BD '000	US\$ '000
Interest payable	11,066	29,431	9,757	25,950
Creditors & account payables	3,426	9,112	3,973	10,566
Deferred income	1,052	2,798	1,129	3,003
Employee benefits	10,773	28,652	4,710	12,527
Negative fair value of derivatives	12,266	32,622	17	45
Others	514	1,367	253	673
Total	39,097	103,982	19,839	52,764

15. CASH AND CASH EQUIVALENTS

As at 31 December	2014		2013	
	BD '000	US\$ '000	BD '000	US\$ '000
Cash and balances at central banks*	21,289	56,620	26,164	69,585
Treasury bills	318,500	847,074	210,110	558,803
Placements with banks and other financial institutions	267,878	712,441	106,134	282,271
Total	607,667	1,616,135	342,408	910,659

* Exclude balances with central banks of BD 89.78 million (US\$ 238.78 million) [31 December 2013: BD 82.24 million (US\$ 218.72 million)] maintained for the purpose of the cash reserve ratio requirement set by the central banks.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

16. CONTINGENT LIABILITIES AND BANKING COMMITMENTS

The Bank issues commitments to extend credit and guarantees the performance of customers by issuing standby letters of credit and guarantees to third parties. For these instruments, the contractual amount of the financial instrument represents the maximum potential credit risk if the counterparty does not perform according to the terms of the contract. The credit exposure for the contingent liabilities is reduced by obtaining counter guarantees and collateral from third parties. A large majority of these expire without being drawn upon, and as a result, the contractual amounts are not representative of the actual future credit exposure or liquidity requirements of the Bank.

Based upon the level of fees currently charged, taking into account maturity and interest rates together with any changes in the credit worthiness of counter parties since origination, the Bank has determined that the fair value of contingent liabilities and undrawn loan commitments is not material.

As at 31 December	2014		2013	
	BD '000	US\$ '000	BD '000	US\$ '000
Contingent liabilities				
Liabilities on confirmed documentary credits	30,904	82,191	44,117	117,332
Guarantees:				
Counter guaranteed by banks	27,103	72,082	29,445	78,311
Others	71,898	191,218	68,609	182,471
Sub-total	129,905	345,491	142,171	378,114
Banking commitments				
Undrawn loan commitments	16,667	44,327	16,797	44,673
Forward commitments:				
Securities purchased	23,926	63,633	22,700	60,372
Securities sold	1,083	2,880	-	-
Interbank takings	8,300	22,074	5,753	15,301
Sub-total	49,976	132,914	45,250	120,346
Total	179,881	478,405	187,421	498,460

As at 31 December 2014, the remaining period to the contractual date for the forward commitments was within 14 days. On the contractual date these commitments were carried out, and resulted in cash flows in and out of the Bank as represented by the notional principal amount.

17. DERIVATIVE AND FOREIGN EXCHANGE FINANCIAL INSTRUMENTS

The Bank utilises various derivative and foreign exchange financial instruments for trading, asset/liability management and hedging risks. These instruments primarily comprise futures, forwards, swaps and options.

Futures and forward contracts are commitments to buy or sell financial instruments or currencies on a future date at a specified price or yield, and may be settled in cash or through delivery. Swap contracts are commitments to settle in cash on a future date or dates, interest rate commitments or currency amounts based upon differentials between specified financial indices, as applied to a notional principal amount. Option contracts give the acquirer, for a fee, the right but not the obligation, to buy or sell within a limited period a financial instrument or currency at a contracted price.

In respect of the derivative and foreign exchange financial instruments, the contract/notional principal amounts do not represent balances subject to credit or market risk. Contract/notional principal amounts represent the volume of outstanding transactions and are indicators of business activity. These amounts are used to measure changes in the value of derivative products and to determine the cash flows to be exchanged. The replacement cost is the cost of replacing those financial instruments with a positive market value, together with an estimate for the potential future change in the value of the contract, and reflects the maximum credit loss for the Bank had all these counterparties defaulted. For written options, there is no credit risk, as they represent obligations of the Bank. The fair value represents the aggregate of the positive and negative cash flows which would have occurred if the rights and obligations arising from the instrument were extinguished by the Bank in an orderly market as at the reporting date. The fair values of derivative financial instruments such as interest rate swaps and forward rate agreements were calculated using discounted cash flow models based on current market yields for similar types of instruments and the maturity of each instrument. The futures contracts, foreign exchange contracts and interest rate options were revalued using market prices and option valuation models as appropriate.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

17. DERIVATIVE AND FOREIGN EXCHANGE FINANCIAL INSTRUMENTS (CONTINUED)

a) The following table summarises for each type of derivative and foreign exchange financial instrument, the aggregate notional amounts, the replacement cost and the fair value:

Amounts in BD'000		Notional		Replacement cost		Fair value	
As at 31 December		2014	2013	2014	2013	2014	2013
Interest rate contracts							
Interest rate swaps		489,035	435,356	4,272	9,255	(10,943)	6,416
Options		148,625	-	32	-	(80)	-
Sub-total		637,660	435,356	4,304	9,255	(11,023)	6,416
Foreign exchange contracts							
Outright spot and forward contracts		146,432	129,804	549	89	(798)	(170)
Swap agreements		202,970	204,211	890	2,042	(345)	153
Sub-total		349,402	334,015	1,439	2,131	(1,143)	(17)
Total		987,062	769,371	5,743	11,386	(12,166)	6,399

b) The remaining maturity profile by each class of derivative and foreign exchange financial instrument based on contract/notional principal amounts is as follows:

Amounts in BD'000		2014		2013	
As at 31 December		Up to 1 year	More than 1 year	Up to 1 year	More than 1 year
Interest rate contracts					
Interest rate swaps		70,128	418,907	-	435,356
Options		148,625	-	-	-
Sub-total		218,753	418,907	-	435,356
Foreign exchange contracts					
Outright spot and forward contracts		146,432	-	129,804	-
Swap agreements		202,970	-	204,211	-
Sub-total		349,402	-	334,015	-
Total		568,155	418,907	334,015	435,356

18. CAPITAL COMMITMENTS

At 31 December 2014 commitments for capital expenditure amounted to BD 0.40 million (US\$ 1.06 million) [31 December 2013: BD 0.77 million (US\$ 2.05 million)].

19. PROPERTY & EQUIPMENT

	Land		Buildings		Furniture and equipment		Total	
	BD'000	US\$'000	BD '000	US\$'000	BD'000	US\$'000	BD'000	US\$'000
Cost	761	2,024	25,136	66,851	14,855	39,508	40,752	108,383
Accumulated depreciation	-	-	(15,739)	(41,859)	(12,024)	(31,979)	(27,763)	(73,838)
Net book value at 31 December 2014	761	2,024	9,397	24,992	2,831	7,529	12,989	34,545
Net book value at 31 December 2013	761	2,024	10,272	27,319	2,875	7,646	13,908	36,989

The depreciation charge for 2014 amounted to BD 1.92 million (US\$ 5.11 million) [2013: BD 2.04 million (US\$ 5.43 million)]. The above includes capital work in progress at cost. When the asset is ready to use, the same is capitalised and depreciated in accordance with the Bank's policies.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

20. SHARE CAPITAL

	2014		2013	
	BD '000	US\$ '000	BD '000	US\$ '000
Authorised share capital				
1,500,000,000 (2013: 1,500,000,000) ordinary shares of 100 fils each	150,000	398,936	150,000	398,936
Issued and fully paid share capital				
At 1 January 940,896,000 ordinary shares of 100 fils each (2013: 855,360,000 shares of 100 fils each)	94,090	250,239	85,536	227,489
Bonus issue (one for ten shares held)	-	-	8,554	22,750
At 31 December 940,896,000 ordinary shares of 100 fils each (at 31 Dec 2013: 940,896,000 shares of 100 fils each)*	94,090	250,239	94,090	250,239

* The Board of Directors has proposed to increase the issued and fully paid capital of the Bank to BD 103.50 million by the issue of bonus shares at the rate of one additional share for every ten shares held amounting to BD 9.41 million. These shares will rank pari passu with all other shares for future dividends and distribution. This bonus issue is proposed to be made through utilisation of BD 9.41 million from General Reserve.

The distribution of ordinary shares, setting out the number of shares and shareholders and percentage of total outstanding shares in the following categories is shown below:

	31 December 2014			31 December 2013		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	% of total outstanding shares
As at 31 December						
Less than 1%	302,351,251	1,119	32.1%	302,351,251	1,121	32.1%
1% up to less than 5%	110,868,462	6	11.8%	110,868,462	6	11.8%
5% up to less than 10%	-	-	-	66,637,247	1	7.1%
10% up to less than 20%	104,273,087	1	11.1%	-	-	-
20% up to less than 50%	423,403,200	1	45.0%	461,039,040	1	49.0%
More than 50%	-	-	-	-	-	-
Total	940,896,000	1,127	100.0%	940,896,000	1,129	100.0%

The distribution of ordinary shares ownership based on nationality of the shareholders is shown below:

	31 December 2014			31 December 2013		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	% of total outstanding shares
As at 31 December						
Bahraini	886,513,784	1,018	94.2%	886,439,415	1,025	94.2%
Other GCC countries	53,415,776	81	5.7%	53,982,242	82	5.7%
Others	966,440	28	0.1%	474,343	22	0.1%
Total	940,896,000	1,127	100.0%	940,896,000	1,129	100.0%

45% of the Bank's share capital is held by the Bahrain Mumtalakat Holding Co, that is 100% owned by the Government of Bahrain. 11.1% of shares is owned by the Social Insurance Organisation. The rest of the share capital is widely held primarily by the citizens of and entities incorporated in the Kingdom of Bahrain.

The Bank has adopted sound remuneration practices as required under Volume 1 of the CBB Rule Book. Accordingly, the Bank has setup an employee share incentive scheme which is subject to approval by the shareholders in the forthcoming annual general meeting for the year ended 31 December 2014.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

21. RESERVES

a) Statutory reserve

In accordance with the Bahrain Commercial Companies Law 2001, 10 percent of net profit is appropriated to a statutory reserve, which is not normally distributable except in accordance with Article 224 of the law. Such appropriations may cease when the reserve reaches 50 percent of paid up share capital. The Board of Directors has proposed to the shareholders to appropriate BD 4.70 million from General Reserve to Statutory Reserve. The proposed increase in the Statutory Reserve results from the proposed increase in the share capital through bonus issue.

b) General reserve

The reserve has been created in accordance with the Bank's articles of association and underlines the shareholders' commitment to enhance the strong equity base of the Bank.

c) Fair value reserve

The fair value reserve includes the cumulative net change in fair value of available-for-sale investments, excluding impairment losses, until the investment is derecognised or impaired.

d) Donation and charity reserve

Based on the recommendations of the Board of Directors, upon shareholders' approval an amount is transferred from the profit for the year to this reserve. The reserve represents the uncommitted amount of the donations and charities approved by the Shareholders.

22. APPROPRIATIONS

The appropriations relating to the year 2013 were approved at the last annual general meeting held on 10 March 2014.

23. INTEREST INCOME / INTEREST EXPENSE

a) Interest income

For the year ended 31 December	2014		2013	
	BD '000	US\$ '000	BD '000	US\$ '000
Loans and advances to customers	37,104	98,681	40,652	108,117
Loans and advances to banks	926	2,463	831	2,210
Treasury bills	5,316	14,138	4,903	13,040
Placement with banks & other financial institutions	1,413	3,758	2,848	7,574
Investment securities	30,667	81,561	26,424	70,277
Derivative assets held for risk management	332	883	1,110	2,952
Total	75,758	201,484	76,768	204,170

b) Interest expense

For the year ended 31 December	2014		2013	
	BD '000	US\$ '000	BD '000	US\$ '000
Deposits from customers	14,420	38,351	14,008	37,255
Deposits from banks and other financial institutions	635	1,689	607	1,614
Borrowings under repurchase agreements	88	234	170	452
Derivative liabilities held for risk management	1,039	2,763	2,165	5,758
Total	16,182	43,037	16,950	45,079

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

24. OTHER INCOME

For the year ended 31 December	2014		2013	
	BD '000	US\$ '000	BD '000	US\$ '000
a) Fees and commission income				
Fees and commission on loans and advances	9,316	24,777	8,110	21,569
Commission on sale of managed funds	127	338	124	330
Other fees and commission	6,502	17,293	6,417	17,066
Less: fees and commission paid	(3,256)	(8,660)	(3,219)	(8,561)
Sub-total	12,689	33,748	11,432	30,404
b) Other operating income				
Profit on sale of available for sale investments	2,615	6,955	2,694	7,165
Gain / (loss) on fair value through profit or loss investments	55	146	(56)	(149)
Dividend income	3,311	8,806	2,798	7,441
Profit on exchange dealing and transactions	5,597	14,886	5,192	13,809
Profit on trading securities and derivatives	2,386	6,346	122	324
Share of profit of associates	2,403	6,391	1,948	5,181
Other income	570	1,516	703	1,870
Sub-total	16,937	45,046	13,401	35,641
Total other income	29,626	78,794	24,833	66,045

25. STAFF EXPENSES

For the year ended 31 December	2014		2013	
	BD '000	US\$ '000	BD '000	US\$ '000
Salaries, allowances and bonuses	15,819	42,072	15,771	41,944
Social security & gratuity	1,957	5,205	1,966	5,229
Housing & other benefits	1,576	4,191	1,579	4,199
Others	244	649	267	710
Total	19,596	52,117	19,583	52,082

26. SIGNIFICANT NET OPEN FOREIGN CURRENCY POSITIONS

As at 31 December	2014		2013	
	BD '000	US\$ '000	BD '000	US\$ '000
US Dollar (long position) - unhedged	77,756	206,798	138,029	367,098
UAE Dirhams (long position) - unhedged	12,463	33,146	13,716	36,479
Saudi Riyal (long position) - unhedged	26,924	71,606	13,047	34,699
Qatari Riyal (long position) - unhedged	32,391	86,146	64,195	170,731

The Bahraini dinar has a fixed rate of exchange against the US dollar.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

27. RELATED PARTY DISCLOSURES

Certain related parties (major shareholders, directors of the Bank and families and companies of which they are principal owners, key management personnel and associates) were customers of the Bank in the ordinary course of business.

The transactions with these parties were made on an arm's length basis. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. Typically, key management personnel include the Chief Executive Officer and persons directly reporting to him. Balances at the reporting date in regard to related parties and transactions during the year with related parties comprised the following:

Amounts in BD'000	Majority Shareholder		Directors & Key Management Personnel		Associates	
As at 31 December	2014	2013	2014	2013	2014	2013
Loans and advances	20,921	60,919	7,817	12,537	-	-
Treasury bills, bonds and equities	1,280,985	1,318,633	-	-	24,602	22,805
Customers' deposits	225,953	213,664	55,500	50,909	4,657	4,104
Contingent liabilities for irrevocable commitments, guarantees and other contingencies	19,617	29,478	3,402	3,957	-	-
For the year ended 31 December	2014	2013	2014	2013	2014	2013
Loans advanced	88,134	35,835	11,714	12,037	-	-
Loans repaid	129,555	32,775	17,279	9,775	-	-
Net increase / (decrease) in overdrafts	1,423	(2,274)	845	260	-	-
Treasury bills, bonds and equities purchased	1,493,495	1,368,495	-	-	-	17,500
Treasury bills, bonds and equities matured/sold	1,531,143	859,327	-	-	-	-
Interest income	43,359	31,113	402	317	-	-
Interest expense	725	1,106	446	338	23	20
Share of profit of associates	-	-	-	-	2,403	1,948
Directors' remuneration & sitting fees	170	167	297	271	-	-
Short term employee benefits	-	-	3,732	3,487	-	-
Post employment retirement benefits	-	-	672	713	-	-

No impairment losses have been recorded during the year against balances outstanding with related parties and no specific allowance has been made for impairment losses on balances with related parties at the year end.

28. FUND ADMINISTRATION

Third party funds under administration held in trust or in fiduciary capacity are not treated as assets of the Bank and are, accordingly, not included in the statement of financial position. At 31 December 2014, third party funds under administration amounted to BD 1.58 million (US\$ 4.19 million) [31 December 2013 : BD 1.60 million (US\$ 4.26 million)].

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

29. GEOGRAPHICAL DISTRIBUTION

Amounts in BD'000						
	Assets		Liabilities		Contingent liabilities and banking commitments	
As at 31 December	2014	2013	2014	2013	2014	2013
Middle East	2,634,360	2,650,018	2,315,115	2,322,363	410,197	349,782
U.S.A.	43,793	21,828	354	469	489,233	435,494
Europe	22,579	38,908	44,931	49,829	250,841	152,560
Rest of the World	37,725	38,478	41	13,431	16,672	18,956
Total	2,738,457	2,749,232	2,360,441	2,386,092	1,166,943	956,792

30. DISTRIBUTION BY SECTOR

Amounts in BD'000						
	Assets		Liabilities		Contingent liabilities and banking commitments	
As at 31 December	2014	2013	2014	2013	2014	2013
Government	1,358,632	1,426,030	522,688	580,851	60,560	64,371
Manufacturing / trading	117,681	154,297	165,056	178,745	33,302	36,261
Banks / financial institutions	648,871	501,216	219,535	325,021	1,028,617	810,385
Construction	90,448	111,319	87,401	40,576	36,973	35,342
Personal	361,905	355,223	1,190,689	1,136,152	417	426
Others	160,920	201,147	175,072	124,747	7,074	10,007
Total	2,738,457	2,749,232	2,360,441	2,386,092	1,166,943	956,792

31. CONCENTRATION OF CREDIT RISK

The following is the concentration of credit risk by industry and geographical regions:

a) By Industry

Amounts in BD'000								
	Government		Manufacturing/ trading	Banks/ financial institutions	Construction	Personal	Others	Total
As at 31 December 2014	Bahrain	Other countries						
Assets								
Balances at central banks	-	-	-	92,925	-	-	-	92,925
Treasury bills	481,404	10,017	-	-	-	-	-	491,421
Placements with banks and other financial institutions	-	-	-	283,878	-	-	-	283,878
Loans and advances	20,652	-	109,585	95,588	87,462	361,323	106,362	780,972
Investment securities	789,565	46,955	-	99,676	-	-	-	936,196
Interest receivable and other assets	9,914	125	233	2,794	1,261	582	17,838	32,747
Total assets	1,301,535	57,097	109,818	574,861	88,723	361,905	124,200	2,618,139
Contingent liabilities and banking commitments	60,560	-	33,302	41,555	36,973	417	7,074	179,881
Derivatives (notional)	-	-	-	987,062	-	-	-	987,062

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

31. CONCENTRATION OF CREDIT RISK (CONTINUED)

a) By Industry

Amounts in BD'000	Government	Other	Manufacturing/	Banks/				
As at 31 December 2013	Bahrain	countries	trading	financial	Construction	Personal	Others	Total
Assets								
Balances at central banks	-	-	-	90,778	-	-	-	90,778
Treasury bills	560,064	10,031	-	-	-	-	-	570,095
Placements with banks and other financial institutions	-	-	-	146,248	-	-	-	146,248
Loans and advances	59,981	-	145,993	50,226	108,195	354,525	140,471	859,391
Investment securities	749,293	36,978	-	138,305	-	-	12,729	937,305
Interest receivable and other assets	9,348	335	289	3,331	1,574	698	13,618	29,193
Total assets	1,378,686	47,344	146,282	428,888	109,769	355,223	166,818	2,633,010
Contingent liabilities and banking commitments	64,296	75	36,261	41,014	35,342	426	10,007	187,421
Derivatives (notional)	-	-	-	769,371	-	-	-	769,371

The balances at the end of the year are representative of the position during the year and hence average balances have not been separately disclosed.

The above includes certain exposures to customers / counter parties which are in excess of 15% of the Bank's capital base. These have the approval of the Central Bank of Bahrain or are exempt exposures under the large exposures policy of the Central Bank of Bahrain. The table below gives details of these exposures as at 31 December 2014:

Amounts in BD'000		
Counterparty	Counterparty type	Total Exposure
Counterparty A	Sovereign	1,262,857
Counterparty B	Sovereign	304,885
Counterparty C	Sovereign	58,666

(b) By geographical regions:

Amounts in BD'000	Middle	USA	Europe	Rest of	
As at 31 December 2014	East			the World	Total
Assets					
Balances at central banks	92,925	-	-	-	92,925
Treasury bills	491,421	-	-	-	491,421
Placements with banks and other financial institutions	274,617	3,583	998	4,680	283,878
Loans and advances	761,642	-	4,521	14,809	780,972
Investment securities	862,837	40,168	15,219	17,972	936,196
Interest receivable and other assets	30,600	42	1,841	264	32,747
Total assets	2,514,042	43,793	22,579	37,725	2,618,139
Contingent liabilities and banking commitments	160,824	198	17,555	1,304	179,881
Derivatives (notional)	249,373	489,035	233,286	15,368	987,062

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

31. CONCENTRATION OF CREDIT RISK (CONTINUED)

(b) By geographical regions continued:

Amounts in BD'000					
As at 31 December 2013	Middle East	USA	Europe	Rest of the World	Total
Assets					
Balances at central banks	90,778	-	-	-	90,778
Treasury bills	570,095	-	-	-	570,095
Placements with banks and other financial institutions	128,351	5,848	4,973	7,076	146,248
Loans and advances	857,895	-	-	1,496	859,391
Investment securities	860,120	15,947	31,843	29,395	937,305
Interest receivable and other assets	26,556	33	2,092	512	29,193
Total assets	2,533,795	21,828	38,908	38,479	2,633,010
Contingent liabilities and banking commitments	160,774	138	22,423	4,086	187,421
Derivatives (notional)	189,008	435,356	130,137	14,870	769,371

32. INTEREST RATE RISK

Interest Rate Risk is measured by the extent to which changes in the market interest rates impact margins, net interest income and the economic value of the Bank's equity. Net interest income will be affected as a result of volatility in interest rates to the extent that the repricing structure of interest bearing assets differs from that of liabilities. The Bank's goal is to achieve stable earnings growth through active management of the assets and liabilities mix while, selectively, positioning itself to benefit from near-term changes in interest rate levels. The Treasurer is primarily responsible for managing the interest rate risk. Reports on overall position and risks are submitted to senior management for review and positions are adjusted if deemed necessary. In addition, ALCO regularly reviews the interest rate sensitivity profile and its impact on earnings.

The Bank's asset and liability management process is utilised to manage interest rate risk through the structuring of on-balance sheet and off-balance sheet portfolios. The Bank uses various techniques for measuring and managing its exposure to interest rate risk. Duration analysis is used to measure the interest rate sensitivity of the fixed income portfolio. Duration of the portfolio is governed by economic forecasts, expected direction of interest rates and spreads. Modified Duration gives the percentage change in value of the portfolio following a 1% change in yield. Interest rate swaps and forward rate agreements are used to manage the interest rate risk. The Bank uses interest rate gap analysis to measure the interest rate sensitivity of its annual earnings due to re-pricing mismatches between rate sensitive assets, liabilities and derivatives' positions.

Assets and liabilities are placed in maturity buckets based on the remaining period to the contractual repricing or maturity dates, whichever is earlier. Customers' deposits for which no specific contractual maturity or repricing dates exist are placed in ladders based on the Bank's judgment concerning their most likely repricing behavior.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

32. INTEREST RATE RISK (CONTINUED)

The repricing profile and effective interest rate of the various asset and liability categories are as follows:

Amounts in BD'000	Effective interest rate %	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Rate insensitive	Total
As at 31 December 2014								
Assets								
Cash and balances at central banks	-	-	-	-	-	-	111,066	111,066
Treasury bills	0.80%	373,501	117,920	-	-	-	-	491,421
Placements with banks and other financial institutions	0.56%	273,753	-	-	-	-	10,125	283,878
Trading securities	-	-	562	-	-	-	-	562
Loans and advances	4.19%	322,348	62,884	45,033	274,483	76,224	-	780,972
Investment securities	4.62%	23,291	19,133	120,704	404,444	367,844	64,070	999,486
Investment in associates, interest receivable and other assets	-	-	-	-	-	-	58,083	58,083
Property and equipment	-	-	-	-	-	-	12,989	12,989
Total assets		992,893	200,499	165,737	678,927	444,068	256,333	2,738,457
Liabilities and equity								
Due to banks and other financial institutions	0.36%	107,498	5,944	-	-	-	24,889	138,331
Borrowings under repurchase agreements	0.34%	28,164	-	-	-	-	-	28,164
Customer deposits	0.69%	966,280	202,585	116,559	53,975	-	815,450	2,154,849
Interest payable and other liabilities	-	-	-	-	-	-	39,097	39,097
Equity	-	-	-	-	-	-	378,016	378,016
Total liabilities and equity		1,101,942	208,529	116,559	53,975	-	1,257,452	2,738,457
On-Balance sheet interest rate sensitivity gap		(109,049)	(8,030)	49,178	624,952	444,068	(1,001,119)	-
Off-Balance sheet interest rate gap		451,435	37,600	(70,128)	(74,866)	(344,041)	-	-
Cumulative interest rate sensitivity gap		342,386	371,956	351,006	901,092	1,001,119	-	-
Amounts in BD'000	Effective interest rate %	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Rate insensitive	Total
As at 31 December 2013								
Assets								
Cash and balances at central banks	-	-	-	-	-	-	108,408	108,408
Treasury bills	1.03%	376,358	119,228	74,509	-	-	-	570,095
Placements with banks and other financial institutions	1.03%	114,677	13,785	4,000	-	-	13,786	146,248
Trading securities	-	-	573	-	-	-	-	573
Loans and advances	4.40%	401,432	40,160	73,969	276,979	66,851	-	859,391
Investment securities	4.67%	31,132	22,720	21,535	441,296	419,842	61,192	997,717
Investment in associates, interest receivable and other assets	-	-	-	-	-	-	52,892	52,892
Property and equipment	-	-	-	-	-	-	13,908	13,908
Total assets		923,599	196,466	174,013	718,275	486,693	250,186	2,749,232
Liabilities and equity								
Due to banks and other financial institutions	0.39%	219,337	4,064	-	-	-	29,416	252,817
Borrowings under repurchase agreements	1.60%	29,898	-	-	-	-	-	29,898
Customer deposits	0.61%	939,196	338,938	26,751	198	-	778,455	2,083,538
Interest payable and other liabilities	-	-	-	-	-	-	19,839	19,839
Equity	-	-	-	-	-	-	363,140	363,140
Total liabilities and equity		1,188,431	343,002	26,751	198	-	1,190,850	2,749,232
On-Balance sheet interest rate sensitivity gap		(264,832)	(146,536)	147,262	718,077	486,693	(940,664)	-
Off-Balance sheet interest rate gap		397,756	37,600	-	(37,600)	(397,756)	-	-
Cumulative interest rate sensitivity gap		132,924	23,988	171,250	851,272	940,664	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

33. MARKET RISK

a) The Bank uses the Standardised Method for allocating market risk capital.

The following table shows the capital charges as at 31 December
Amounts in BD'000

Risk Type	2014	2013
Interest Rate Risk	380.8	636.1
Equities Risk	90.0	91.7
Foreign Exchange Risk	30.7	65.8
Commodities Risk	-	-
Options Risk	-	-
Total minimum capital required for market risk	501.5	793.6
Multiplier	12.5	12.5
Market Risk weighted exposure under the Standardized Method	6,269	9,920

b) The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in future cash flows or fair values of financial instruments because of changes in market interest rates. The interest rate risk management process is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to an interest rate shock of 200 bps increase/decrease. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

Amounts in BD'000	2014		2013	
	200 bps parallel increase	200 bps parallel decrease	200 bps parallel increase	200 bps parallel decrease
At 31 December	(21,528)	21,528	(24,955)	24,955
Average for the year	(20,116)	20,116	(37,828)	37,828
Minimum for the year	(17,993)	17,993	(23,634)	23,634
Maximum for the year	(23,253)	23,253	(49,041)	49,041

c) The Bank holds investments in quoted equities as part of the available for sale investments. Equity risk is the potential adverse impact due to movements in individual equity prices or general market movements in stock markets. The Bank manages this risk through diversification of investments in terms of geographical distribution and industrial concentration.

Overall non-trading interest rate risk positions are managed by the Treasury division, which uses investment securities, placements with banks, deposits from banks and derivative instruments to manage the overall position arising from the Bank's non-trading activities. The use of derivatives to manage interest rate risk is described in note 17.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

34. SEGMENT INFORMATION

For management purposes, the Bank is organised into the following main strategic business units (SBUs) - Personal Banking, Bahrain Business Banking and Treasury & International Banking. These SBUs are the basis on which the Bank reports its operating segment information.

The Personal Banking and Bahrain Business Banking SBUs provide various banking products and services to the Bank's customers in Bahrain. The SBUs are differentiated based on their respective customer segments. Personal Banking caters to individuals. Bahrain Business Banking caters to government, corporates, small & medium enterprises.

The Treasury & International Banking SBU has the overall responsibility of managing the Bank's liquidity, interest rate, foreign exchange and market risk and provide various banking products and services to Bank's customers outside Bahrain.

Financial information about the operating segments is presented in the following table:

Amounts in BD'000	Personal Banking		Bahrain Business Banking		Treasury & International Banking		Total	
For the year ended 31 December	2014	2013	2014	2013	2014	2013	2014	2013
Interest income	22,394	22,914	12,021	14,556	41,343	39,298	75,758	76,768
Interest expense	(4,751)	(4,358)	(9,330)	(9,161)	(2,101)	(3,431)	(16,182)	(16,950)
Inter-segment interest income/(expense)	3,858	3,872	5,993	6,664	(9,851)	(10,536)	-	-
Net interest income	21,501	22,428	8,684	12,059	29,391	25,331	59,576	59,818
Other income	8,924	8,195	1,716	1,677	18,986	14,961	29,626	24,833
Operating income	30,425	30,623	10,400	13,736	48,377	40,292	89,202	84,651
Result	18,380	18,316	1,079	3,541	37,192	32,497	56,651	54,354
Unallocated corporate expenses							(3,213)	(2,991)
Profit for the year							53,438	51,363

Other information:								
Segment assets	403,554	386,395	316,389	386,712	2,018,514	1,976,125	2,738,457	2,749,232
Segment liabilities & Equity	961,041	865,531	1,035,290	1,151,302	742,126	732,399	2,738,457	2,749,232
Depreciation for the year	585	738	259	242	331	294	1,175	1,274
Provision for impaired assets	384	1,142	2,280	3,969	3,909	517	6,573	5,628

During 2014, the total capital expenditure amounted to BD 1.37 million (US\$ 3.64 million) [2013: BD 1.60 million (US\$ 4.26 million)].

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

34. SEGMENT INFORMATION (CONTINUED)

Segment revenues and expenses are directly attributable to the business segments. The benefit of the Bank's capital has been distributed among the segments in proportion to their total assets employed. Expenses of departments whose services are jointly utilised by more than one segment have been allocated to the relevant segments on an appropriate basis.

Inter-segment interest income and expense represent the interest cost on the excess funds which are automatically transferred by all the other business segments to Treasury and International Banking. The interest rate for calculating interest of such transfers is set once every three months separately for local and foreign currency and is based on the weighted average of market rates for various maturities for each currency.

While the Bank conducts its Banking business primarily through its strategic Business units, it operates from various geographical locations:

- (i) Domestic operations, through its network of branches in the Kingdom of Bahrain and
- (ii) Overseas operations through its branches in the United Arab Emirates and Saudi Arabia.

Financial information about geographical locations is presented in the following table:

Amounts in BD 000's

For the year ended 31 December	Domestic		Overseas		Total	
	2014	2013	2014	2013	2014	2013
Operating income	85,645	80,920	3,557	3,731	89,202	84,651
Profit for the year	55,630	50,102	(2,192)	1,261	53,438	51,363
At 31 December						
Segment assets	2,651,350	2,635,412	87,107	113,820	2,738,457	2,749,232
Segment liabilities & Equity	2,651,350	2,635,412	87,107	113,820	2,738,457	2,749,232

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

35. MATURITY PROFILE AND LIQUIDITY RISK

a) Maturity Profile

The table below shows the maturity profile of total assets and liabilities and equity based on contractual terms, except for Asset Backed securities and Mortgage Backed securities which are based on expected weighted average tenor as it is better representative of the product's maturity profile considering the inherent nature of the products.

Amounts in BD'000 As at 31 December 2014	Up to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Over 20 years	Total
Assets									
Cash and balances at central banks	111,066	-	-	-	-	-	-	-	111,066
Treasury bills	373,501	117,920	-	-	-	-	-	-	491,421
Placements with banks and other financial institutions	283,878	-	-	-	-	-	-	-	283,878
Trading securities	-	562	-	-	-	-	-	-	562
Loans and advances	199,893	44,619	67,876	249,095	129,206	76,623	13,118	542	780,972
Investment securities	24,853	11,906	120,704	254,507	155,581	347,493	21	84,421	999,486
Interest receivable & other assets and property & equipment	19,874	279	1,657	3,519	6,490	-	-	39,253	71,072
Total assets	1,013,065	175,286	190,237	507,121	291,277	424,116	13,139	124,216	2,738,457

Liabilities and equity

Due to banks and other financial institutions	132,387	5,944	-	-	-	-	-	-	138,331
Borrowings under repurchase agreements	28,164	-	-	-	-	-	-	-	28,164
Customers' deposits	1,781,239	203,045	116,561	54,004	-	-	-	-	2,154,849
Interest payable & other liabilities	29,734	587	194	8,582	-	-	-	-	39,097
Equity	23,522	-	-	-	-	-	-	354,494	378,016
Total liabilities and equity	1,995,046	209,576	116,755	62,586	-	-	-	354,494	2,738,457

Amounts in BD'000 As at 31 December 2013	Up to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Over 20 years	Total
Assets									
Cash and balances at central banks	108,408	-	-	-	-	-	-	-	108,408
Treasury bills	376,358	119,228	74,509	-	-	-	-	-	570,095
Placements with banks and other financial institutions	128,463	13,785	4,000	-	-	-	-	-	146,248
Trading securities	-	573	-	-	-	-	-	-	573
Loans and advances	193,531	38,130	104,838	270,177	157,820	80,995	13,900	-	859,391
Investment securities	12,646	30,272	27,142	266,225	180,375	419,842	-	61,215	997,717
Interest receivable & other assets and property & equipment	15,822	467	347	2,016	1,247	8,519	-	38,382	66,800
Total assets	835,228	202,455	210,836	538,418	339,442	509,356	13,900	99,597	2,749,232

Liabilities and equity

Due to banks and other financial institutions	248,753	4,064	-	-	-	-	-	-	252,817
Borrowings under repurchase agreements	29,898	-	-	-	-	-	-	-	29,898
Customers' deposits	1,717,299	339,253	26,771	215	-	-	-	-	2,083,538
Interest payable & other liabilities	12,125	827	125	6,762	-	-	-	-	19,839
Equity	32,931	-	-	-	-	-	-	330,209	363,140
Total liabilities and equity	2,041,006	344,144	26,896	6,977	-	-	-	330,209	2,749,232

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

b) Liquidity risk

The table below shows the undiscounted cash flows of the Bank's financial liabilities and undrawn loan commitments on the basis of their earliest contractual liability. The Bank's expected cash flows on these instruments vary significantly from this analysis; for example customers are expected to maintain stable or increased balances in demand deposits and not all undrawn loan commitments are expected to be drawn down immediately. For derivatives that have simultaneous gross settlement (e.g. forward exchange contracts and currency swaps) the gross nominal undiscounted cash inflow/(outflow) are considered while in the case of derivatives that are net settled the net amounts have been considered.

Amounts in BD'000 At 31 December 2014	Carrying amount	Gross nominal inflow/(outflow)	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years
Non derivative liabilities							
Due to Banks and other financial institutions	138,331	138,476	132,516	5,960	-	-	-
Borrowings under repurchase agreements	28,164	28,172	28,172	-	-	-	-
Customer deposits	2,154,849	2,165,132	1,802,115	187,819	116,154	59,044	-
Total non derivative liabilities	2,321,344	2,331,780	1,962,803	193,779	116,154	59,044	-
Derivative liabilities							
Trading: outflow	-	(350,515)	(247,441)	(56,030)	(47,044)	-	-
Trading: inflow	1,439	349,402	246,955	55,324	47,123	-	-
Total derivative liabilities	1,439	(1,113)	(486)	(706)	79	-	-
Banking commitments	-	-	(22,843)	-	22,843	(16,667)	16,667
Financial guarantees	-	(7,724)	(7,724)	-	-	-	-

Amounts in BD'000 At 31 December 2013	Carrying amount	Gross nominal inflow/(outflow)	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years
Non derivative liabilities							
Due to Banks and other financial institutions	252,817	253,057	248,976	4,081	-	-	-
Borrowings under repurchase agreements	29,898	29,941	29,941	-	-	-	-
Customer deposits	2,083,538	2,088,690	1,859,499	201,951	27,033	207	-
Total non derivative liabilities	2,366,253	2,371,688	2,138,416	206,032	27,033	207	-
Derivative liabilities							
Trading: outflow	-	(334,016)	(270,845)	(24,581)	(38,590)	-	-
Trading: inflow	2,131	333,947	270,013	25,448	38,486	-	-
Total derivative liabilities	2,131	(69)	(832)	867	(104)	-	-
Banking commitments	-	(33,744)	(16,947)	(16,666)	-	(131)	-
Financial guarantees	-	(4,707)	(3,430)	(250)	(1,025)	(2)	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

36. RETIREMENT BENEFIT COSTS

The Bank's obligations to defined contribution pension plans for employees who are covered by the social insurance pension scheme in Bahrain and its overseas branches are recognized as an expense in the income statement. The Bank's contribution for 2014 amounted to BD 0.83 million (US\$ 2.21 million) [2013: BD 0.83 million (US\$ 2.21 million)].

Other employees are entitled to leaving indemnities payable in accordance with the employment agreements or under the respective labour laws. The movement in the provision for leaving indemnities during the year is as follows.

Provision for leaving indemnities

Movements during the year	2014		2013	
	BD 000's	US\$ 000's	BD 000's	US\$ 000's
At 1 January	4,254	11,312	3,678	9,780
Charge for the year	1,069	2,843	1,235	3,285
Paid during the year	(1,082)	(2,878)	(659)	(1,753)
At 31 December	4,241	11,277	4,254	11,312

The Bank has a voluntary Staff Savings Scheme for Bahraini employees. The employees and the Bank contribute monthly on a fixed-percentage-of-salaries basis to the Scheme. The Scheme is managed and administrated by a board of trustees who are the employees of the Bank. The Bank's contribution to the Scheme for 2014 amounted to BD 0.83 million (US\$ 2.21 million) [2013: BD 0.80 million (US\$ 2.13 million)]. As at 31 December 2014, after considering the employer's and employees' contributions, net income accretions and net pay-outs from the Scheme, the net balance of the Scheme, amounted to BD 10.68 million (US\$ 28.40 million) [31 December 2013: BD 9.94 million (US\$ 26.44 million)].

37. LEGAL CLAIMS

As at 31 December 2014, legal suits pending against the Bank aggregated to BD 0.74 million (US\$ 1.97 million) [31 December 2013: BD 0.72 million (US\$ 1.91 million)]. Based on the opinion of the Bank's legal advisors, management believes that no liability is likely to arise from the suits and does not consider it necessary to carry any specific provision in this respect.

38. EARNINGS AND DIVIDEND PER SHARE

	2014		2013	
	BD millions	US\$ millions	BD millions	US\$ millions
Profit for the year	53.44	142.12	51.36	136.60
Dividend proposed at 25% (2013: 35%)	23.52	62.55	32.93	87.58
Weighted average number of shares issued (millions)				
Ordinary shares as at 1 January	940.9	940.9	855.4	855.4
Effect of bonus shares issued during 2013	-	-	85.5	85.5
Weighted average number of ordinary shares (millions) as at 31 December	940.9	940.9	940.9	940.9
Earnings per share	56.8 fils	15 cents	54.6 fils	15 cents
Dividend per share	25 fils	7 cents	35 fils	9 cents

Diluted earnings per share is same as basic earnings per share as the Bank does not have any potential dilutive instruments in issue.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

39. ACCOUNTING CLASSIFICATION

a) The following table provides disclosure of the accounting classification for assets and liabilities:

Amounts in BD 000's		Designated at fair value through profit or loss	Loans and receivables	Available for sale	Others at amortised cost	Total carrying amount
At 31 December 2014	Trading					
Cash and balances at central banks	-	-	111,066	-	-	111,066
Treasury bills	-	-	491,421	-	-	491,421
Placements with banks and other financial institutions	-	-	283,878	-	-	283,878
Trading securities	562	-	-	-	-	562
Loans and advances	-	-	780,972	-	-	780,972
Investment securities	-	780	23,528	975,178	-	999,486
Interest receivable & other assets	-	-	33,481	-	-	33,481
Total	562	780	1,724,346	975,178	-	2,700,866
Due to banks and other financial institutions	-	-	-	-	138,331	138,331
Borrowings under repurchase agreements	-	-	-	-	28,164	28,164
Customer deposits	-	-	-	-	2,154,849	2,154,849
Interest payable & other liabilities	-	-	-	-	28,324	28,324
Total	-	-	-	-	2,349,668	2,349,668

Amounts in BD 000's		Designated at fair value through profit or loss	Loans and receivables	Available for sale	Others at amortised cost	Total carrying amount
At 31 December 2013	Trading					
Cash and balances at central banks	-	-	108,408	-	-	108,408
Treasury bills	-	-	570,095	-	-	570,095
Placements with banks and other financial institutions	-	-	146,248	-	-	146,248
Trading securities	573	-	-	-	-	573
Loans and advances	-	-	859,391	-	-	859,391
Investment securities	-	779	15,974	980,964	-	997,717
Interest receivable & other assets	-	-	30,087	-	-	30,087
Total	573	779	1,730,203	980,964	-	2,712,519
Due to banks and other financial institutions	-	-	-	-	252,817	252,817
Borrowings under repurchase agreements	-	-	-	-	29,898	29,898
Customer deposits	-	-	-	-	2,083,538	2,083,538
Interest payable & other liabilities	-	-	-	-	15,129	15,129
Total	-	-	-	-	2,381,382	2,381,382

39 b. FAIR VALUE HIERARCHY

The Bank measures fair values of financial instruments using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. as 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 where all significant inputs are directly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

39 b. FAIR VALUE HIERARCHY (CONTINUED)

All financial instruments other than those disclosed in table below are classified as level 2.

- (i) Loans and advances: The fair value approximates its carrying value since the majority of loans are floating rate loans which have been disbursed at market rates, and adequate provisions have been taken for those loans with doubt as to collectability.
- (ii) Customers' deposits: The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is deemed to equal the amount repayable on demand, which is represented by the carrying value of the deposits. For interest bearing fixed maturity deposits, the Bank estimates that fair value will approximate their book value as the majority of deposits are of short term nature and as all deposits are at market rates.
- (iii) Other financial assets and liabilities: The fair value is considered to approximate their book values due to their short term nature and negligible probability of credit losses.

The table below analyses financial assets and liabilities carried at fair value, by valuation method.

Amounts in BD 000's At 31 December	2014				2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets held for trading	562	-	-	562	573	-	-	573
Financial assets designated at fair value through profit or loss:								
Managed funds	-	780	-	780	-	779	-	779
Capital Protected Notes	-	-	-	-	-	-	-	-
Available-for-sale financial assets:								
Debt securities	379,421	532,467	-	911,888	399,063	521,489	-	920,552
Equity securities	50,459	-	12,831	63,290	46,138	-	14,274	60,412
Derivative financial assets	-	5,743	-	5,743	-	11,385	-	11,385
Total	430,442	538,990	12,831	982,263	445,774	533,653	14,274	993,701
Derivative financial liabilities	-	17,909	-	17,909	-	4,987	-	4,987

The following table analyses the movement in Level 3 financial assets during the year. There are no transfers between level 1, level 2 and level 3 of the fair value hierarchy.

Amounts in BD 000's	Available for Sale Financial Assets	
	2014	2013
At 1 January	14,274	13,940
Total gains/(losses):		
in income statement	(58)	7
in other comprehensive income	554	327
Purchases	-	-
Settlements	(1,939)	-
Transfers into / (out) of Level 3	-	-
At 31 December	12,831	14,274
Total gain / (loss) for the year included in income statement for assets/liabilities held at 31 December	(58)	(7)

Level 3 comprises unquoted equity investments classified as available for sale which are measured at their net asset values based on the latest financial statements issued by the investee. Sensitivity analysis of the movement in fair value of the financial instruments in the level 3 category financial assets is assessed as not significant to the other comprehensive income and total equity.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

40. AVERAGE BALANCES

The following are the average daily balances for full year:

	2014		2013	
	BD 000's	US\$ 000's	BD 000's	US\$ 000's
Total assets	2,793,844	7,430,436	2,626,723	6,985,965
Total liabilities	2,412,246	6,415,548	2,305,338	6,131,218
Equity	381,598	1,014,888	321,385	854,747
Contingent liabilities and undrawn loan commitments	159,734	424,824	143,300	381,117

41 CAPITAL ADEQUACY

The Bank operates as an independent banking institution with headquarters in Bahrain and branches in Bahrain, United Arab Emirates and Saudi Arabia.

The capital adequacy ratio has been calculated in accordance with Basel 2 and Central Bank of Bahrain guidelines incorporating credit risk, operational risk and market risk. The Bank uses the Standardized approach for computing credit risk. Operational risk is computed using the Basic indicator approach. Market Risk is computed using the Standardized method.

The details of the Bank's capital adequacy calculations under Basel 2 as at 31 December are shown below:

Based on year end balances	2014		2013	
	BD 000's	US\$ 000's	BD 000's	US\$ 000's
Tier 1 Capital	302,677	804,992	284,549	756,779
Tier 2 Capital	21,454	57,059	19,989	53,162
Total Capital Base	324,131	862,051	304,538	809,941
Risk Weighted Exposure:				
Credit Risk	781,013	2,077,162	812,884	2,161,926
Market Risk	6,269	16,673	9,920	26,383
Operational Risk	158,041	420,322	152,559	405,742
Total Risk Weighted Exposure	945,323	2,514,157	975,363	2,594,051
Capital Adequacy Ratio	34.3%		31.2%	
Tier 1 Capital Adequacy Ratio	32.0%		29.2%	

Based on average balances	2014		2013	
	BD 000's	US\$ 000's	BD 000's	US\$ 000's
Tier 1 Capital	263,103	699,742	251,345	668,471
Tier 2 Capital	44,061	117,184	43,115	114,668
Total Capital Base	307,164	816,926	294,460	783,138
Risk Weighted Exposure:				
Credit Risk	794,362	2,112,665	853,005	2,268,630
Market Risk	6,791	18,061	9,562	25,431
Operational Risk	153,930	409,388	147,824	393,149
Total Risk Weighted Exposure	955,083	2,540,114	1,010,391	2,687,210
Capital Adequacy Ratio	32.2%		29.1%	
Tier 1 Capital Adequacy Ratio	27.5%		24.9%	

42. 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.

43. COMPARATIVES

The corresponding figures have been regrouped where necessary to conform with the current year's presentation. The regrouping has not affected previously reported profit for the year or equity of the Bank.

RISK AND CAPITAL MANAGEMENT DISCLOSURES

For the year ended 31 December 2014

EXECUTIVE SUMMARY

The Central Bank of Bahrain's (CBB) Basel 2 guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1 January 2008.

NBB has adopted the Standardised Approach for Credit Risk, Standardised Approach for Market Risk and the Basic Indicator Approach for Operational Risk to determine the capital requirement. This report consists of the Basel Committee's Pillar 3 disclosures and other disclosure requirements as stipulated by the CBB. The report contains a description of the Bank's risk management and capital adequacy policies and practices including detailed quantitative information on capital adequacy.

As at 31 December 2014, the Bank's total risk weighted exposures amounted to BD 945.32 million; Tier 1 Capital and Total Regulatory Capital amounted to BD 302.68 million and BD 324.13 million respectively. Accordingly, Tier 1 Capital Adequacy Ratio and Total Capital Adequacy Ratio were 32.0% and 34.3% respectively. These ratios exceed the minimum capital requirements under the CBB's Basel 2 framework. The Bank's intention is to maintain a Tier 1 capital ratio above 8 per cent and a total capital ratio in excess of 12 per cent.

The Bank views these disclosures as an important means of increased transparency and accordingly has provided extensive disclosures in this report that is appropriate and relevant to the Bank's stakeholders and market participants.

SCOPE OF APPLICATION

The Bank operates as an independent banking institution with headquarters in Bahrain and branches in Bahrain, the United Arab Emirates and Saudi Arabia. The Bank's capital adequacy requirements are computed on a consolidated basis.

RISK AND CAPITAL MANAGEMENT

The Bank is exposed to the following types of risks:

- credit risk
- liquidity risk
- market risk
- interest rate risk
- operational risk

Risk management framework

The overall authority for risk management in the Bank is vested in the Board of Directors. The Board authorises appropriate credit, liquidity and market risk policies as well as operational guidelines based on the recommendation of Management. The Bank has established various committees that review and assess all risk issues. Approval authorities are delegated to different functionaries in the hierarchy depending on the amount, type of risk and nature of operations or risk. The Risk Group (RG) of the Bank provides the necessary support to Senior Management and the business units in all areas of risk management. This Group functions independent of the business units and reports directly to the Chief Executive Officer. The Group comprises of a Credit Review department (responsible for pre-approval analysis of credit/investment proposals as well as risk policy and procedures management), Credit Administration department (responsible for post approval implementation and follow up), Legal department (responsible for management of legal risk) and Risk Management department (responsible for market risk and operational risk).

The Audit Committee of the Board is responsible for monitoring compliance with the Bank's policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by the Internal Audit department, which undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee and to Management.

Credit Risk

Credit Risk represents the potential financial loss as a consequence of a customer's inability to honor the terms and conditions of a credit facility. Such risk is measured with respect to counterparties for both on-balance sheet assets and off-balance sheet items.

The Bank acknowledges that credit risk is an inherent and substantial cost that needs to be set against income. Risk is just one aspect of the triangle for any economic capital system and must be seen in conjunction with capital requirements and returns. The Bank evaluates risk in terms of the impact on income and asset values and the evaluation reflects the Bank's assessment of the potential impact on its business on account of changes in political, economic and market conditions and in the credit worthiness of its clients. Risk management at the Bank has always been conservative and proactive with the objective of achieving a balanced relation between risk appetite and expected returns.

RISK AND CAPITAL MANAGEMENT DISCLOSURES

For the year ended 31 December 2014

Credit Risk (continued)

The Bank monitors and manages concentration risk by setting limits on exposures to countries, sectors, products and counterparty groups. Stringent criteria are used by Credit Review Department in setting such limits and these have ensured that the impact of any adverse developments on the Bank's income stream and capital strength is limited. Prior to launch of any new asset product, based on a comprehensive risk analysis, product specific transaction approval criteria are set. Similarly, prudent norms have been implemented to govern the Bank's investment activities, which specify to the Bank's Treasury department the acceptable levels of exposure to various products, based on its nature, tenor, rating, type, features, etc.

The Bank has well laid out procedures, not only to appraise but also regularly monitor credit risk. Credit appraisal is based on the financials of the borrower, performance projections, market position, industry outlook, external ratings (where available), track record, product type, facility tenor, account conduct, repayment sources and ability, tangible and intangible security, etc. Regular reviews are carried out for each account and risks identified are mitigated in a number of ways, which include obtaining collateral, counter-guarantees from shareholders and/or third parties. Adequate margins are maintained on the collateral to provide a cushion against adverse movement in the market price of collateral. Not only are regular appraisals conducted to judge the credit worthiness of the counterparty but day-to-day monitoring of financial developments across the globe by the Business Units and Credit Review Department ensures timely identification of any events affecting the risk profile.

The Business Units of the Bank are responsible for business generation and initial vetting of proposals to make sure that the Bank's risk acceptance criteria are met. Credit facilities in excess of BD 250,000 or falling outside pre-approved product criteria are referred to Credit Review Department, which analyses the proposal and puts forth its recommendations prior to approval by the appropriate authorities. In addition to rigorous credit analysis, the terms and conditions of all credit facilities are strictly implemented by the Credit Administration Department. An internal grading system and review process ensures prompt identification of any deterioration in credit risk and consequent implementation of corrective action.

The Bank's internal ratings are based on a 10-point scale, which takes into account the financial strength of a borrower as well as qualitative aspects to arrive at a comprehensive snapshot of the risk of default associated with the borrower. Ratings are further sub-divided into categories, which reflect estimates of the potential maximum loss in an event of default. Risk Ratings assigned to each borrower are reviewed at least on an annual basis. Regular monitoring of the portfolio enables the Bank to identify accounts, which witness deterioration in risk profile. Consumer credit facilities which are granted based on pre-defined criteria such as salary assignment, maximum repayment obligation as a percentage of salary, etc are excluded from this rating system.

The Bank also uses the ratings by established rating agencies, viz., Moody's, Standard & Poor and Fitch as part of the appraisal process while considering exposures to rated entities.

For purposes of comparison, the Bank's internal ratings are mapped to Moody's and Standard and Poor (S&P) ratings as under:

Bank's Internal Ratings Scale	Equivalent to Moody's and S&P ratings
1	AAA/Aaa
2	AA/Aa2
3	A/A2
4	BBB+/Baa1
5	BBB-/Baa3
6	BB/Ba2
7	B+/B1
8 - 10	CCC/Caa to C

However, the above mapping is not intended to reflect a direct relationship between the Bank's internal ratings and the corresponding rating of the external agencies since the basis and methodology differ.

Liquidity risk

Liquidity Risk is the potential inability of a bank to meet its financial obligations on account of a maturity mismatch between assets and liabilities. Liquidity risk management ensures that funds are available at all times to meet the funding requirements of the Bank.

The asset/liability management policies of the Bank define the proportion of liquid assets to total assets with the aim of minimising liquidity risk. The Bank maintains adequate liquid assets such as inter-bank placements, treasury bills and other readily marketable securities, to support its business and operations. The Treasury Department monitors the maturity profile of assets and liabilities so that adequate liquidity is maintained at all times.

RISK AND CAPITAL MANAGEMENT DISCLOSURES

For the year ended 31 December 2014

Liquidity Risk (continued)

The Bank's ability to maintain a stable liquidity profile is primarily on account of its success in retaining and growing its customer deposit base. The marketing strategy of the Bank has ensured a balanced mix of demand and time deposits. Stability of the deposit base thus minimises the Bank's dependence on volatile short-term borrowings. Further, investment securities with contractual maturities of more than three months can also be readily liquidated. Considering the effective maturities of deposits based on retention history and in view of the ready availability of liquid investments, the Bank is able to ensure that sufficient liquidity is always available. The Asset Liability Committee (ALCO) chaired by the Chief Executive Officer reviews the Liquidity Gap Profile and the Liquidity scenario and addresses strategic issues concerning liquidity.

Market risk

Market Risk is the risk of potential losses arising from movements in market prices of interest rate related instruments and equities in the trading portfolio and foreign exchange and commodities holdings throughout the Bank. The Bank's trading activities are governed by conservative policies that are clearly documented, by adherence to comprehensive limit structures set annually and by regular reviews. Quality and rating are the main criteria in selecting a trading asset. The Bank uses the standardized method for allocating market risk capital based on the risk assessed for underlying factors of interest rate risk, equity risk, foreign exchange risk, options risk and commodity risk. Daily reports in this regard are submitted to senior management for review and decision making purposes.

Interest Rate Risk

Interest Rate Risk is measured by the extent to which changes in the market interest rates impact margins, net interest income and the economic value of the Bank's equity. Net interest income will be affected as a result of volatility in interest rates to the extent that the re-pricing structure of interest bearing assets differs from that of liabilities. The Bank's goal is to achieve stable earnings growth through active management of the assets and liabilities mix while, selectively positioning itself to benefit from near-term changes in interest rate levels. The Treasurer is primarily responsible for managing the interest rate risk. Reports on overall position and risks are submitted to senior management for review and positions are adjusted if deemed necessary. In addition, ALCO regularly reviews the interest rate sensitivity profile and its impact on earnings.

The Bank's asset and liability management process is utilised to manage interest rate risk through the structuring of on-balance sheet and off-balance sheet portfolios. The Bank uses various techniques for measuring and managing its exposure to interest rate risk. Duration analysis is used to measure the interest rate sensitivity of the fixed income portfolio. Duration of the portfolio is governed by economic forecasts, expected direction of interest rates and spreads. Modified Duration gives the percentage change in value of the portfolio following a 1% change in yield. Interest rate swaps and forward rate agreements are used to manage the interest rate risk. The Bank uses interest rate gap analysis to measure the interest rate sensitivity of its annual earnings due to re-pricing mismatches between rate sensitive assets, liabilities and derivatives positions.

Operational Risk

Operational Risk is the risk of monetary loss on account of human error, fraud, systems failures or the failure to record transactions. In order to manage and mitigate such risks, the Bank ensures that proper systems and resources (financial and personnel) are available to support the Bank's operations. Proper segregation of duties and other controls (including reconciliation, monitoring and reporting) are implemented to support the various operations, especially credit, treasury and electronic banking activities.

Detailed operational guidelines are spelt out in the Operations Manual to specify the steps to be followed in handling any transaction. These steps are designed to mitigate the risks arising from errors, omissions and oversights in dealing with customer instructions and transaction processing. The overriding principles in drawing up operational processes are that transactions must be scrutinized by a "checker" independent from the "originator" prior to booking and that there should be a clear audit trail for post facto scrutiny. The Bank's Fraud Manual and the Code of Conduct provide necessary guidance to mitigate risks and ensure that adequate controls are in place for detecting suspicious transactions. Any changes to operational procedures need to be processed through the Internal Audit Department, who ensure that satisfactory control mechanisms are in place in all procedures.

Specific limits are set up to mitigate and monitor the Bank's exposure including limits on maximum branch cash limit, maximum teller limit, maximum payment authorization limit, signature authorities, etc. Documented policies and procedures, approval and authorization process for transactions, documented authority letters, process of verification of transaction details and activities, reconciliation of key activities, dual custody of financial assets like demand drafts, cheques etc. and insurance coverage of various operational risks are the key pillars of the operational risk management process.

The Bank has an Operational Risk Management Department within the RG to independently monitor and manage all aspects of operational risk on a bank wide basis. The Bank also has a dedicated Operational Risk Management Committee to supervise, monitor and review operational risk issues and ensure that adequate mitigants are developed and implemented for all operational risk issues.

RISK AND CAPITAL MANAGEMENT DISCLOSURES

For the year ended 31 December 2014

Operational Risk (continued)

The scope of the Internal Audit department encompasses audits and reviews of all business units, support services and branches. The internal audit process focuses primarily on assessing risks and controls and ensuring compliance with established policies, procedures and delegated authorities. New products and services are reviewed by the Internal Audit department and assessed for operational risks prior to their implementation. The Internal Audit department is operationally independent and reports significant internal control deficiencies to the Audit Committee.

The Bank has a Business Continuity Plan (BCP) to ensure that the critical activities are supported in case of an emergency. The BCP is approved by the Board of Directors.

Risk Monitoring and Reporting

Systems and processes are in place to regularly monitor and report risk exposures to the Board of Directors and senior management to effectively monitor and manage the risk profile of the Bank.

The Board of Directors is provided with quarterly risk reports covering credit, market, liquidity, operational, concentration and other risks.

Senior management is provided with a daily report on market risk and monthly reports on other risks. Reports on capital adequacy and internal capital adequacy assessment are provided to senior management on a monthly basis. In addition, stress testing on capital adequacy is undertaken once a year or more frequently in times of need and communicated to Board of Directors and senior management for appropriate decisions.

Capital management

The Bank's policy is to maintain sufficient capital to sustain investor, creditor and market confidence and to support future development of the business. The impact of the level of capital on return on shareholder's equity is also considered and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank's capital management framework is intended to ensure that there is sufficient capital to support the underlying risks of the Bank's business activities and to maintain a well-capitalised status under regulatory requirements. The Bank has a comprehensive Internal Capital Adequacy Assessment Process (ICAAP) that includes Board and senior management oversight, monitoring, reporting and internal control reviews, to identify and measure the various risks that are not covered under Pillar 1 risks and to regularly assess the overall capital adequacy considering the risks and the Bank's planned business strategies. The non Pillar 1 risks covered under the ICAAP process include concentration risk, liquidity risk, interest rate risk in the banking book and other miscellaneous risks. The ICAAP also keeps in perspective the Bank's strategic plans, credit growth expectations, future sources and uses of funds, dividend policy and the impact of all these on maintaining adequate capital levels. In addition, the ICAAP process also includes stress testing on the Bank's capital adequacy to determine capital requirement and planning to ensure that the Bank is adequately capitalised in line with the overall risk profile.

The Bank ensures that the capital adequacy requirements are met on a consolidated basis and also with local regulator's requirements, if any, in countries in which the Bank has branches. The Bank has complied with regulatory capital requirements throughout the period.

Prior approval of the Central Bank of Bahrain is obtained by the Bank before submitting any proposal for distribution of profits for shareholders approval.

CAPITAL STRUCTURE AND CAPITAL ADEQUACY

The Bank's paid up capital consists only of ordinary shares which have proportionate voting rights. The Bank does not have any other type of capital instruments.

The Bank's Tier 1 capital comprise of share capital, retained earnings and eligible reserves. Unrealized losses on equity securities classified as available-for-sale are deducted fully from Tier 1. The Bank holds 25.8 % of equity in Bahrain Islamic Bank and the carrying amount of this investment is deducted fully from Tier 1. The Bank also holds 34.8 % of the equity capital of Benefit Company and 50 percent of carrying value of this investment is deducted from Tier 1.

The Bank's Tier 2 Capital comprise of interim profits, collective impairment provisions up to 1.25% of credit risk weighted assets and 45 per cent of unrealized gains arising on revaluation of equity securities classified as available-for-sale. 50 percent of the carrying value of the Bank's investment in Benefit Company is deducted from Tier 2.

The Bank has no subsidiaries and/or investments in insurance companies exceeding 20% of the Bank's capital or the invested company's capital that is required to be deducted from capital.

RISK AND CAPITAL MANAGEMENT DISCLOSURES

For the year ended 31 December 2014

CAPITAL STRUCTURE AND CAPITAL ADEQUACY CONTINUED

Capital structure, minimum capital and capital adequacy:

BD 000's As at 31 December 2014					
Tier 1 capital					
Share Capital					94,090
Statutory Reserve					47,045
General Reserve					32,400
Other Reserves					12,147
Retained Earnings					139,734
Deductions from Tier 1 Capital					(22,739)
Total Tier 1 (A)					302,677
Tier 2 capital					
45% of revaluation reserves on available for sale equity investments					13,946
Collective impairment provision subject to 1.25% of credit risk weighted assets					9,761
Deductions from Tier 2 Capital					(2,253)
Total Tier 2					21,454
Total Capital Base (Tier 1 + Tier 2) (B)					324,131
BD 000's	Credit exposure before credit risk mitigant	Eligible credit risk mitigant	Credit exposure after credit risk mitigant	Risk weighted exposure	Capital Requirement @12%
As at December 2014					
Sovereigns	1,681,839	-	1,681,839	-	-
PSE	135	-	135	-	-
Banks	243,900	28,173	215,727	109,406	13,129
Corporates	349,517	21,448	328,069	213,719	25,646
Regulatory retail	349,319	1,408	347,911	260,933	31,312
Residential mortgages	15,776	-	15,776	11,832	1,420
Past due exposures	58,198	-	58,198	63,774	7,653
Investments in equities/funds	46,414	-	46,414	52,821	6,339
Securitisation exposures	21	-	21	4	-
Other assets	91,946	8,234	83,712	68,524	8,223
Total Credit Risk Exposure	2,837,065	59,263	2,777,802	781,013	93,722
Market Risk				6,269	752
Operational Risk				158,041	18,965
Total Risk Weighted Exposure (C)				945,323	113,439
Capital Adequacy Ratio (B)/(C)				34.29%	
Tier 1 Capital Adequacy Ratio (A)/(C)				32.02%	

RISK AND CAPITAL MANAGEMENT DISCLOSURES

For the year ended 31 December 2014

CREDIT RISK

The Bank has a diversified on and off balance sheet credit portfolio, which are divided into counter party exposure classes in line with the CBB's Basel 2 capital adequacy framework for the standardised approach for credit risk. A high-level description of the counter party exposure classes and the risk weights used to derive the Risk Weighted Assets are as follows:

Sovereigns Portfolio

The sovereign portfolio comprises exposures to governments and their respective central banks. The risk weights are 0% for exposures in the relevant domestic currency of the sovereign, or for any exposures to GCC governments. Foreign currency claims on other sovereigns are risk weighted based on their external credit ratings.

Certain multilateral development banks as determined by the CBB may be included in the sovereign portfolio and treated as exposures with a 0% risk weighting.

PSE Portfolio

Public sector entities (PSEs) are risk weighted according to their external ratings except for Bahrain PSEs, and domestic currency claims on other PSEs that are assigned a 0% risk weight by their respective country regulator, are consequentially allowed a 0% risk weight by CBB for computation purposes.

Banks Portfolio

Claims on banks are risk weighted based on their external credit ratings. A preferential risk weight treatment is available for qualifying short-term exposures to banks in their country of incorporation. Short-term exposures are defined as exposures with an original tenor of three months or less and denominated and funded in the respective domestic currency. The preferential risk weight for short-term claims is allowed on exposures in Bahraini Dinar/US Dollar in the case of Bahraini incorporated banks.

Corporates Portfolio

Claims on corporates are risk weighted based on their external credit ratings. A 100% risk weight is assigned to exposures to unrated corporates. A preferential risk weight treatment is available for certain corporates owned by the Government of Bahrain, as determined by the CBB, which are assigned a 0% risk weight.

Equities Portfolio

The equities portfolio comprises equity investments in the banking book, i.e. the available-for-sale securities portfolio. The credit (specific) risk for equities in the trading book is included in market risk RWAs for regulatory capital adequacy calculation purposes.

A 100% risk weight is assigned to listed equities and funds. Unlisted equities and funds are risk weighted at 150%. Investments in rated funds are risk weighted according to the external credit rating. Investments in companies engaged primarily in real estate are included in other assets and risk weighted at 200%.

In addition to the standard portfolios, other exposures are risk weighted as under:

Past due exposures

All past due loan exposures, irrespective of the categorisation of the exposure are classified separately under the past due exposures asset class. A risk weighting of either 100% or 150% is applied depending on the level of specific provision maintained against the exposure.

Other assets and holdings of securitisation tranches

Other assets are risk weighted at 100%. Securitisation tranches are risk weighted (ranging from 20% to 350%) based on their external credit ratings and resecuritisation tranches are risk weighted (ranging from 40% to 650%) based on their external credit ratings. Exposures to securitisation & resecuritisation tranches that are rated below BB- or are unrated are deducted from regulatory capital rather than subject to a risk weight. Investments in real estate and also in bonds, funds and equities of companies engaged primarily in real estate are included in other assets and risk weighted at 200%.

RISK AND CAPITAL MANAGEMENT DISCLOSURES

For the year ended 31 December 2014

External Credit Assessment Institutions (ECAI)

The Bank uses ratings issued by Standard & Poor's, Moody's and Fitch to derive the risk weightings under the CBB's Basel 2 capital adequacy framework. Where ratings vary between rating agencies, the highest rating from the lowest two ratings is used to represent the rating for regulatory capital adequacy purposes.

The following are gross credit risk exposures considered for Capital Adequacy Ratio calculations comprising of banking book exposures:

BD 000's	
As at 31 December 2014	
Cash and balances at central banks	111,066
Treasury bills	491,421
Placements with banks and other financial institutions	283,878
Loans and advances	792,126
Investment securities	1,000,048
Interest receivable, other assets and property & equipment	71,072
Total assets	2,749,611
Non-derivative banking commitments and contingent liabilities (notional)	179,881
Derivatives (notional)	987,062

The balances above are representative of the position during the period; hence the average balances for the period is not separately disclosed.

INDUSTRY OR COUNTERPARTY EXPOSURE

BD 000's							
As at 31 December 2014							
	Govt	Mfg/ Trdg	Banks/ FIs	Const	Personal	Others	Total
Cash and balances at central banks	-	-	111,066	-	-	-	111,066
Treasury bills	491,421	-	-	-	-	-	491,421
Placements with banks and other financial institutions	-	-	283,878	-	-	-	283,878
Loans and advances	20,948	111,150	96,953	88,711	366,484	107,880	792,126
Investment securities	836,520	7,863	130,941	1,725	-	22,999	1,000,048
Interest receivable, other assets and property & equipment	10,039	233	27,398	1,261	582	31,559	71,072
Total assets	1,358,928	119,246	650,236	91,697	367,066	162,438	2,749,611
Non-derivative banking commitments and contingent liabilities (notional)	60,560	33,302	41,555	36,973	417	7,074	179,881
Derivatives (notional)	-	-	987,062	-	-	-	987,062

The above includes certain exposures to customers / counter parties which are in excess of 15% of the Bank's capital base. These have the approval of the Central Bank of Bahrain or are exempt exposures under the large exposures policy of the Central Bank of Bahrain. The table below gives details of these exposures:

Counterparty	Counterparty Type	Total Exposure
Counterparty A	Sovereign	1,262,857
Counterparty B	Sovereign	304,885
Counterparty C	Sovereign	58,666

RISK AND CAPITAL MANAGEMENT DISCLOSURES

For the year ended 31 December 2014

GEOGRAPHIC DISTRIBUTION OF EXPOSURE

BD 000's As at 31 December 2014	Middle East	USA	Europe	Rest of the world	Total
Cash and balances at central banks	111,066	-	-	-	111,066
Treasury bills	491,421	-	-	-	491,421
Placements with banks and other financial institutions	274,617	3,583	998	4,680	283,878
Loans and advances	772,539	-	4,581	15,006	792,126
Investment securities	926,689	40,168	15,219	17,972	1,000,048
Interest receivable, other assets and property & equipment	68,925	43	1,840	264	71,072
Total assets	2,645,257	43,794	22,638	37,922	2,749,611
Non-derivative Banking commitments and contingent liabilities (notional)	160,824	198	17,555	1,304	179,881
Derivatives (notional)	249,373	489,035	233,286	15,368	987,062

RESIDUAL CONTRACTUAL MATURITY

BD 000's As at 31 December 2014	Up to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Over 20 years	Total
Cash and balances at central banks	111,066	-	-	-	-	-	-	-	111,066
Treasury bills	373,501	117,920	-	-	-	-	-	-	491,421
Placements with banks and financial institutions	283,878	-	-	-	-	-	-	-	283,878
Loans and advances	203,393	45,203	68,851	252,346	130,894	77,605	13,285	549	792,126
Investment securities	24,853	12,468	120,704	254,507	155,581	347,493	21	84,421	1,000,048
Interest receivable, other assets and property & equipment	19,874	279	1,657	3,519	6,490	-	-	39,253	71,072
Total assets	1,016,565	175,870	191,212	510,372	292,965	425,098	13,306	124,223	2,749,611
Non-derivative Banking commitments and contingent liabilities (notional)	51,168	14,713	67,277	27,553	18,940	230	-	-	179,881
Derivatives (notional)	246,955	55,324	265,876	-	74,866	344,041	-	-	987,062

Past due exposures

In accordance with the Bank's policy and Central Bank of Bahrain guidelines, loans on which payment of interest or repayment of principal are 90 days past due, are defined as non-performing.

The Bank has systems and procedures in place to generate alerts in case of past dues in any account. A stringent classification process is followed for all accounts with past dues of over 90 days. The Bank applies rigorous standards for provisioning and monitoring of non-performing loans. Level of provisions required is determined based on the security position, repayment source, discounted values of cash flows, etc and adequate provisions are carried to guard against inherent risks in the portfolio.

The Bank considers evidence of impairment for loans and advances at both specific and collective level.

All individually significant loans and advances are assessed for specific impairment. Specific provision for impairment, pertaining to individually significant impaired loans and advances, is determined based on the difference between the net carrying amount and the estimated recoverable amount of the loans and advances, measured at present value of estimated future cash flows from such loans and advances and discounting them based on their original effective interest rate. If a loan has a floating interest rate, the discount rate is the current effective rate determined under the contract.

RISK AND CAPITAL MANAGEMENT DISCLOSURES

For the year ended 31 December 2014

Impairment and uncollectability is also measured and recognised on a portfolio basis for a group of loans and advances with similar credit risk characteristics, that are not individually identified as impaired, on the basis of estimates of incurred losses that are inherent but not yet specifically identified within the loans and advances portfolio at the statement of financial position date. The estimates are based on internal risk ratings, historical default rates, rating migrations, loss severity, macroeconomic and other relevant factors with historic loss experience being adjusted to reflect the effect of prevailing economic and credit conditions.

Ageing analysis of impaired and past due loans and advances:

BD 000's As at 31 December 2014	
Over 3 months to 1 year	22,179
1 to 3 years	52,253
Over 3 years	11,262
Total	85,694

Geographical location of impaired and past due loans and advances:

BD 000's As at 31 December 2014	Loan Amount	Specific impairment provision	Collective impairment provision
Bahrain	73,840	23,783	8,730
Other GCC countries	11,854	3,922	2,166
Others	-	-	258
Total	85,694	27,705	11,154

Industry/sector wise breakdown of impaired and past due loans and advances:

BD 000's	At 31 December 2014			For the year ended 31 December 2014	
	Loan Amount	Specific impairment provision	Collective impairment provision	Specific impairment Charge	Write offs
Manufacturing/trading	6,707	785	1,565	164	-
Construction	55,676	12,650	1,249	1,915	-
Personal	11,345	10,469	5,160	1,136	170
Others	11,966	3,801	3,180	3,648	-
Total	85,694	27,705	11,154	6,863	170

Movement in impairment provision for loans and advances:

BD 000's	Specific impairment provision	Collective impairment provision	Total impairment provision
At 1 January 2014	21,494	11,450	32,944
Charge & transfers for the year	6,863	(778)	6,085
Amounts written off	(165)	(5)	(170)
Recoveries, transfers & write backs	(487)	487	-
At 31 December 2014	27,705	11,154	38,859

Restructuring

During the year ended 31 December 2014, credit facilities amounting to BD 34.09 million were restructured. Restructuring concessions mainly related to deferral of loan installments to assist customers overcome temporary cash crunch situations or to realign the repayment with the borrowers'/projects' revised cash flow projections. Due to the minor nature of concessions, there was no significant impact on the Bank's provisions for loans and advances impairment and present and future earnings.

RISK AND CAPITAL MANAGEMENT DISCLOSURES

For the year ended 31 December 2014

CREDIT RISK MITIGATION

The reduction of the capital requirement attributable to credit risk mitigation is calculated in different ways, depending on the type of credit risk mitigation, as under:

Adjusted exposure amount: The Bank uses the comprehensive method for eligible financial collateral such as cash and equities listed on a recognized stock exchange. The exposure amount and financial collateral, where applicable, are adjusted for market volatility through the use of supervisory haircuts (for currency mis-matches, price volatility and maturity-mismatches) that are specified by the CBB.

Substitution of counterparty: The substitution method is used for eligible guarantees (only sovereigns, banks or corporate entities with ECAI ratings higher than that of the counterparty; guarantees issued by corporate entities may only be taken into account if their rating corresponds to A- or better) whereby the rating of the counterparty is substituted with the rating of the guarantor.

COLLATERAL AND VALUATION PRINCIPLES

The main collaterals taken for risk mitigation on credit exposures are deposits held by customers, pledge of quoted shares, residential/commercial property mortgage, investment securities, counter-guarantees from other banks, etc. Other risk mitigants considered include salary and end of service benefits assignment for personal loans, personal guarantees of promoters etc. However, for purposes of capital adequacy computation, only eligible collateral recognised under Basel 2 is taken into consideration and there are no significant concentrations in such eligible collateral taken for credit risk mitigation.

The Bank's Credit Policy defines the types of acceptable collateral and the applicable haircuts or loan-to-value ratio. The Bank has a system of independent valuation of collateral. In the case of real estate, valuation is done by independent valuer at regular intervals as stipulated in the Bank's credit policy. In respect of quoted shares and other securities, the valuation is done based on the closing price on the stock exchange. The market value of the collateral is actively monitored on a regular basis and requests are made for additional collateral in accordance with the terms of the underlying agreements. In general, lending is based on the customer's repayment capacity and not the collateral value. However, collateral is considered as a secondary alternative to fall back on in the event of default.

Eligible financial collateral, guarantees and credit derivatives, presented by standard portfolio are as under:

BD 000's		Secured by		
As at 31 December 2014	Gross credit exposure	Financial collateral	Guarantees and credit derivatives	Credit exposure after risk mitigants
Sovereigns	1,681,839	-	-	1,681,839
PSE	135	-	-	135
Banks	243,900	28,173	-	215,727
Corporates	349,517	21,448	-	328,069
Regulatory retail	349,319	1,408	-	347,911
Residential mortgages	15,776	-	-	15,776
Past due exposures	58,198	-	-	58,198
Investments in equities/funds	46,414	-	-	46,414
Securitisation exposures	21	-	-	21
Others assets	91,946	8,234	-	83,712
Total credit risk exposure	2,837,065	59,263	-	2,777,802

On and off-Balance Sheet netting:

The legal documents that the Bank obtains from customers include clauses that permit the Bank to offset the customer's dues to the Bank against the Bank's dues to the customer. Thus, if the same legal entity has obtained credit facilities from the Bank and also maintains credit balance with the Bank, the Bank has the legal right to set-off the credit balances against the dues. In case of certain counter party banks, the Bank has entered into specific netting agreements that provide for netting on and off-balance sheet exposures.

The amount of financial assets and financial liabilities set off under netting agreements amounted to BD 75.28 million at 31 December 2014.

RISK AND CAPITAL MANAGEMENT DISCLOSURES

For the year ended 31 December 2014

MARKET RISK

The Bank uses the standardized method for allocating market risk capital. The Bank has clearly documented policies and procedures for the management and valuation of the trading portfolio. The Treasury Operations department, which is independent of the front office, is responsible for valuation which is done on a daily basis, based on quoted market prices from stock exchanges, independent third parties or amounts derived from cash flow models as appropriate.

The following table shows the capital charges:

BD 000's Risk Type	As at 31-12-2014	Capital Charge		
		Maximum	Minimum	Average
Interest Rate Risk	380.8	1,274	81	422
Equities Risk	90.0	97	77	86
Foreign Exchange Risk	30.7	884	29	90
Commodities Risk	-	-	-	-
Options Risk	-	-	-	-
Total minimum capital required for market risk	501.5			
Multiplier	12.5			
Market Risk weighted exposure under the Standardized Method	6,269			

OPERATIONAL RISK

Whilst the Bank recognizes that operational risks cannot be eliminated in its entirety, it constantly strives to minimise operational risks (inherent in the Bank's activities, processes and systems) by ensuring that a strong control infrastructure is in place throughout the organisation and enhanced where necessary. The various procedures and processes used to manage operational risks are regularly reviewed and updated and implemented through effective staff training, close monitoring of risk limits, segregation of duties, appropriate controls to safeguard assets and records, regular reconciliation of accounts and transactions, and financial management and reporting. In addition, regular internal audit and reviews, business continuity planning and insurance cover are in place to complement the processes and procedures.

The Bank presently follows the Basic Indicator Approach for assessing the capital requirement for Operational Risk. The capital requirement of BD 19.0 million is based on the gross operating income (excluding profit/loss on Investments held under Available for Sale, Held to Maturity categories and any exceptional items of income) for the last 3 years multiplied by 12.5 (the reciprocal of the 8 percent minimum capital ratio) to arrive at the operational risk-weighted exposure

EQUITY POSITION IN BANKING BOOK

The Bank holds certain investments in equity securities as part of its strategic holdings and others are held with the objective of capital appreciation and realizing gains on sale thereof. All equity positions in the Banking book are classified as "Available-for-Sale". The accounting policies for "Available-for-Sale" instruments are described in detail in the Financial Statements under "Significant Accounting Policies".

BD 000's As at 31 December 2014	Balance Sheet Value	Capital Requirement @ 12% of Risk Weighted Assets
Details of Equity Investments:		
Quoted Equities:	50,459	4,446
Unquoted Equities:	12,831	2,240
Total	63,290	6,686
Realised gains (recorded in profit or loss during the year)		-
Net unrealised gains recognised in Equity		30,991
Unrealised losses deducted from Tier 1 Capital		436
45% of unrealised gains recognised under Tier 2 Capital		13,946

RISK AND CAPITAL MANAGEMENT DISCLOSURES

For the year ended 31 December 2014

INTEREST RATE RISK IN BANKING BOOK

Interest Rate Risk is measured by the extent to which changes in the market interest rates impact margins, net interest income and the economic value of the Bank's equity. The Bank's asset and liability management process is utilised to manage interest rate risk through the structuring of on-balance sheet and off-balance sheet portfolios. Net interest income will be affected as a result of volatility in interest rates to the extent that the re-pricing structure of interest bearing assets differs from that of interest bearing liabilities. The Bank's goal is to achieve stable earnings growth through active management of the assets and liabilities mix while, selectively positioning it to benefit from near-term changes in interest rate levels.

Overall non-trading interest rate risk positions are managed by the Treasury division, which uses investment securities, placements with banks, deposits from banks and derivative instruments to manage the overall position arising from the Bank's non-trading activities. Reports on overall position and risks are submitted to senior management for review and positions are adjusted if deemed necessary. In addition, ALCO regularly reviews (at least on a monthly basis) the interest rate sensitivity profile and its impact on earnings. Strategic decisions are made with the objective of producing a strong and stable interest income stream over time.

Duration analysis is used to measure the interest rate sensitivity of the fixed income portfolio. Duration of the portfolio is governed by economic forecasts, expected direction of interest rates and spreads. Modified Duration gives the percentage change in value of the portfolio following a 1% change in yield. Modified Duration of the Bank's fixed income portfolio was 2.35% on 31 December 2014 implying that a 1% parallel upward shift in the yield curve could result in a drop in the value of the portfolio by BD 10.76 million.

Deposits without a fixed maturity are considered as repayable on demand and are accordingly included in the overnight maturity bucket. The Bank usually levies a pre-payment charge for any loan or deposit, which is repaid/withdrawn before the maturity date, unless it is specifically waived. This prepayment charge is to take care of any interest rate risk that the Bank faces on account of such prepayments and accordingly, no assumptions regarding such pre-payments are factored for computation of interest rate risk in the banking book.

RISK AND CAPITAL MANAGEMENT DISCLOSURES

For the year ended 31 December 2014

INTEREST RATE RISK IN BANKING BOOK CONTINUED

The Bank uses interest rate gap analysis to measure the interest rate sensitivity of its annual earnings due to re-pricing mismatches between rate sensitive assets, liabilities and derivatives' positions. The asset and liability re-pricing profile of various asset and liability categories is set out below:

BD 000's As at 31 December 2014	Upto 3 months	3 to 6 months	6 months to 1 year	1 year to 5 years	Over 5 years	Rate insensitive	Total
Assets							
Cash and balances at central banks	-	-	-	-	-	111,066	111,066
Treasury bills	373,501	117,920	-	-	-	-	491,421
Placements with banks and other financial institutions	273,753	-	-	-	-	10,125	283,878
Trading securities	-	562	-	-	-	-	562
Loans and advances*	322,348	62,884	45,033	274,483	76,224	-	780,972
Investment securities**	23,291	19,133	120,704	404,444	367,844	64,070	999,486
Investment in associates, interest receivable, other assets and property & equipment	-	-	-	-	-	71,072	71,072
Total assets	992,893	200,499	165,737	678,927	444,068	256,333	2,738,457
Liabilities and equity							
Due to banks and other financial institutions	107,498	5,944	-	-	-	24,889	138,331
Borrowings under repurchase agreements	28,164	-	-	-	-	-	28,164
Customer deposits	966,280	202,585	116,559	53,975	-	815,450	2,154,849
Interest payable and other liabilities	-	-	-	-	-	39,097	39,097
Equity	-	-	-	-	-	378,016	378,016
Total liabilities and equity	1,101,942	208,529	116,559	53,975	-	1,257,452	2,738,457
On-Balance Sheet interest rate sensitivity gap	(109,049)	(8,030)	49,178	624,952	444,068	(1,001,119)	-
Off-Balance Sheet interest rate sensitivity gap	451,435	37,600	(70,128)	(74,866)	(344,041)	-	-
Cumulative interest rate sensitivity gap	342,386	371,956	351,006	901,092	1,001,119	-	-

* Net of collective impairment provision of BD 11,154.

** Available-for-sale securities at 31 December 2014 include securities amounting to BD28.16 million sold under agreement to repurchase.

The interest rate risk management process is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to an interest rate shock of 200bps increase/ decrease. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

BD 000's As at 31 December 2014	200 bps parallel increase	200 bps parallel decrease
As at year ended above	(21,528)	21,528
Average for the year	(20,116)	20,116
Minimum for the year	(17,993)	17,993
Maximum for the year	(23,253)	23,253

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Commercial Banking

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MARCELINO K. FERNANDES

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Call Centre

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Riyadh Branch

JASSIM MOHAMED AL HAMMADI

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Assistant General Manager
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NADER KARIM AL MASKATI

Assistant General Manager
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ALI JAFFER ALMOULANI

Senior Manager
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Executive Assistant General Manager
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Khalifa Mohamed Al Ansari
Assistant General Manager
Information Technology

V.S M. RAJU
Assistant General Manager
Finance & Strategy

ATUL P. RAJE
Senior Manager
Human Resources

MOHAMED ABDULLA JANAHI
Senior Manager
Property Management & Engineering

TUHIN ROY CHOWDHURY
Manager
Corporate Communications

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General Manager

FATIMA ABDULLA BUDHAISH
Assistant General Manager
Credit Risk

ARIF AMEEN
Senior Manager
Credit Administration

HASSAN HUSSAIN HAMAD
Assistant General Manager
Legal Advisor & Corporate Secretary

NASSER MOHAMED NASSER
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Senior Manager

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Manager
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HASSAN AL WAZZAN
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AIRPORT

Arrivals **17 321212**

Transit **17 321214**

A'ali **17 643438**

Al Esteqlal Highway **17 622611**

Al Muthanna **17 225622**

Asry **17 671007**

Awali **17 756462**

Budaiya **17 696699**

Central Market **17 241242**

Diplomatic Area **17 537466**

East Riffa **17 775284**

Exhibition Avenue **17 714900**

Hamad Town **17 420898**

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Isa Town **17 689555**

Jidhafs **17 552257**

Lulu Road **17 256444**

Main Branch

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Muharraq North **17 322522**

Muharraq Souk **17 343717**

Palace Avenue **17 294191**

Salmaniya **17 250777**

Seef Mall **17 582666**

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