Annual Report **2014**

بنك الخليج المتحد ش.م.ب.

United Gulf Bank B.S.C.

A member of the KIPCO Group

The image of this ivory box from the Nasrid period is reproduced with the kind permission of the Dar al-Athar al-Islamiyyah.

The Dar al-Athar al-Islamiyyah, one of Kuwait's leading cultural organisations, was created to manage activities related to The al-Sabah Collection. The collection includes one of the world's finest assemblages of arts from the Islamic world. The collection consists of over 30,000 priceless objects, including manuscripts, scientific instruments, carpets, fabrics, jewellery, ceramics, ivory, metalwork and glass from countries such as Spain, India, China and Iran.

This year, the annual reports of KIPCO Group companies each feature a different key ivory artifact from The al-Sabah Collection. The images used within the reports reflect KIPCO's commitment to protecting and promoting Kuwait's heritage, while helping to build the nation's future.

The item pictured here (LNS 61) is a box from the Nasrid period, the last Muslim dynasty that ruled Spain from Granada. Made in Spain during the 15th century CE, the box is carved from elephant ivory and is fitted with gilded bronze mounts. The image is reproduced with the kind permission of The al-Sabah Collection, Dar al-Athar al-Islamiyyah.

Contents

H.M. King Hamad Bin Isa Al Khalifa

King of the Kingdom of Bahrain

H.H. Sheikh Sabah Al-Ahmad Al Jaber Al-Sabah

Amir of the State of Kuwait

United Gulf Bank

United Gulf Bank B.S.C (UGB, the Bank) is a leading asset management, merchant and investment banking group, with operations spanning the Middle East and North Africa (MENA) region. From its home base in the Kingdom of Bahrain, and through its regional network of subsidiaries and affiliates, the Bank engages primarily in asset and fund management, merchant banking, private equity, and corporate finance. Other financial business activities include commercial banking, proprietary investments, treasury, brokerage, and savings and pensions. Through its non-financial associate companies, the Bank holds substantial investments in the real estate and industrial sectors. Established in 1980, UGB operates under a conventional wholesale banking licence from the Central Bank of Bahrain, and is listed on the Bahrain Bourse. Over the past 34 years, the Bank has established a reputation for financial strength, sound governance, prudent management and depth of expertise. At the end of 2014, UGB reported total assets under management of US$ 11.6 billion.

UGB's financial subsidiaries and associates include: KAMCO Investment Company (KAMCO), Burgan Bank, FIMBank p.l.c., Manafae Investment Company, North Africa Holding Company, United Gulf Financial Services - North Africa, Al Sharq Financial Brokerage Company and Takaud Savings & Pensions Company B.S.C (c). Non-financial associates include United Capital Transport Company and United Real Estate Company.

UGB is a member of the KIPCO Group, one of the biggest holding companies in the Middle East and North Africa.

A member of the KIPCO Group

The KIPCO Group is one of the biggest holding companies in the Middle East and North Africa, with consolidated assets of US$ 32 billion as at 31 December 2014. The Group has significant ownership interests in over 60 companies operating across 24 countries. The Group's main business sectors are financial services, media, real estate and manufacturing. Through its core companies, subsidiaries and affiliates, KIPCO also has interests in the education and medical sectors.

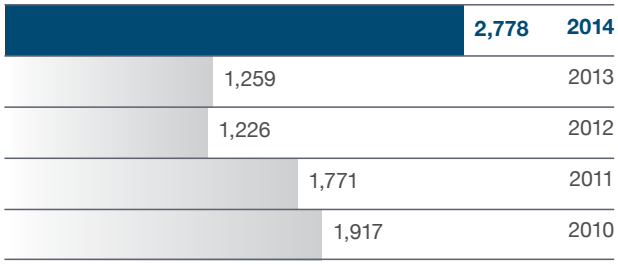
Major Subsidiaries and Affiliates

P.O. Box 5964, Diplomatic Area
UGB Tower, Manama, Kingdom of Bahrain
Tel: +973 17 533 233, Fax: +973 17 533 137
info@ugbbah.com
www.ugbbah.com

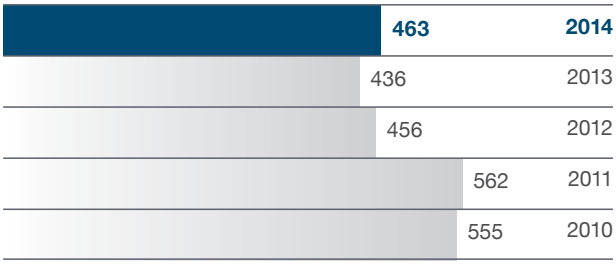
Licensed as a conventional wholesale bank by the Central Bank of Bahrain

Financial Highlights

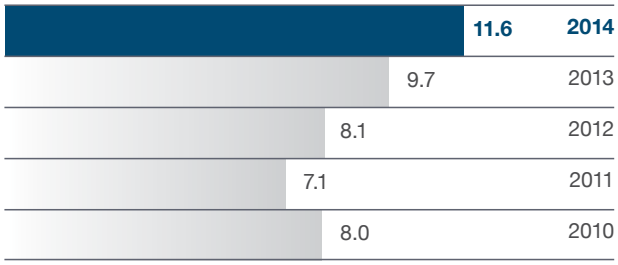
Total Assets US$ million



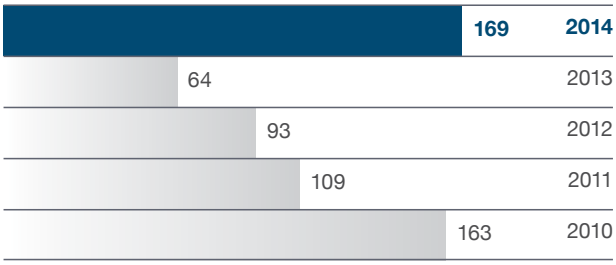
Shareholders' Equity US$ million



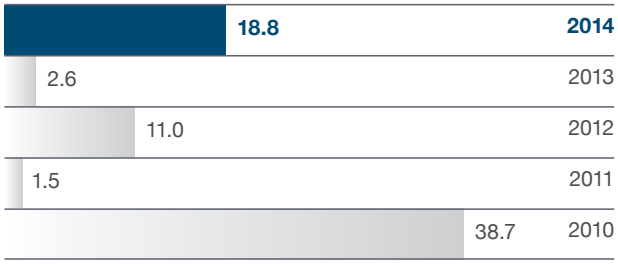
Assets Under Management US$ billion



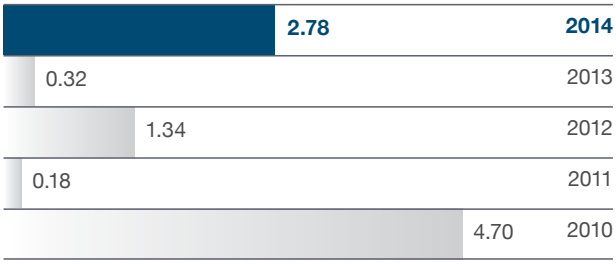
Total Revenue US$ million



Net Income Attributable to Shareholders of the Parent US$ million



Earnings Per Share US$ cents



US$
11.6 billion

Assets Under Management

15.4%

Capital Adequacy Ratio

Financial Summary

	2014	2013	2012	2011	2010
US$ million					
Total Income	169.0	64.3	93.0	108.5	163.2
Investment income	44.2	20.0	28.9	53.6	108.5
Operating income	117.4	33.0	48.7	55.0	114.0
Shareholders' Equity	462.9	436.3	456.2	561.8	554.6
Total Assets	2,777.8	1,258.6	1,225.6	1,770.5	1,917.1
Net Income	18.8	2.6	11.0	1.5	38.7
%					
Return on Average Equity	4.19	0.52	2.17	0.26	7.28
Return on Average Assets	0.93	0.17	0.74	0.08	1.80
Operating Expense / Operating Income	58.6	72.4	58.5	61.2	42.6
Average Equity to Average Assets	22.3	35.9	34.0	30.3	24.8
US$					
Book Value per share	0.567	0.535	0.556	0.682	0.675
Earnings per share - US Cents	2.78	0.32	1.34	0.18	4.7
Cash dividend per share	-	-	-	-	-
Stock dividend per share	-	-	0.118	-	-

Comparatives Averages balances (based on quarterly averages)

US$ million					
Assets	2,617.8	1,258.1	1,454.3	1,801.2	1,980.7
Liabilities	2,056.4	784.6	889.9	1,194.6	1,396.3
Minority Interest	99.0	22.8	27.6	44.0	50.0
Shareholders' Equity	462.5	450.7	536.8	562.6	534.3
	2,617.8	1,258.1	1,454.3	1,801.2	1,980.7
Guarantees and Letters of Credit	145.3	39.4	70.3	55.9	36.8
Commitments	133.9	8.1	39.2	118.1	91.5
Asset Under Management (US$ billion)	11.8	9.3	7.8	7.3	7.6

Chairman's Statement

Looking ahead, we have a cautiously optimistic outlook for UGB in 2015. The Bank is well equipped to face what will undoubtedly be another challenging year for the regional banking industry.

On behalf of the Board of Directors, I have the privilege to present the annual report and consolidated financial statements of United Gulf Bank (UGB) for the period ended 31 December 2014. I am pleased to report that UGB posted a strong overall performance for the year, during which we significantly increased profitability and further strengthened the quality of the Bank's underlying assets.

UGB's financial performance greatly improved in 2014. Total income before interest and other expenses increased to US$ 169.05 million from US$ 64.3 million for the previous year; while total expenses were US$ 68.8 million compared with US$ 23.9 million in 2013. As a result, net profit attributable to shareholders of the parent company increased seven-fold to US$ 18.8 million versus US$ 2.6 million in 2013; with basic earnings per share of 2.78 cents against 0.32 cents for the previous year. Contributions from the Bank's subsidiaries and associated companies increased to US$ 37.3 million from US$ 19.4 million the previous year; while total assets under management grew substantially to US$ 11.6 billion compared with US$ 9.7 billion in 2013.

At the end of 2014, total assets had more than doubled to US$ 2.78 billion from US$ 1.26 billion at the end of the previous year, due to the consolidation of FIMBank; while total equity was US$ 580.4 million compared with US$ 459.6 million at the end of 2013. The Bank retained a strong balance sheet with a consolidated capital adequacy ratio of 15.4 percent, and a healthy level of liquidity. Total liquid assets of US$ 489.4 million represented 18 percent of the balance sheet at the end of the year. During 2014, UGB repaid US$ 230 million of medium-term financing, and raised additional funding of US$ 285 million for longer maturities.

Our financial performance in 2014 constitutes UGB's 24th consecutive year of profitability and 31st year of positive results. This reinforces our track record as a leading asset management, merchant and investment banking, and financial services group in the MENA region.

In June 2014, the international rating agency Capital Intelligence re-affirmed the long term and short term foreign currency ratings of UGB at 'BBB' and 'A3' respectively. The agency noted the Bank's strong ownership and demonstrated financial and liquidity support from KIPCO; and highlighted UGB's good debt repayment record, access to term finance and short-term funding, and the sound quality of its investment portfolio. We regard this as an independent validation of the actions we have taken in recent years to restructure the balance sheet, strengthen the overall quality of assets, and improve the risk profiles of the Bank's key subsidiaries and associate companies.

During the year, UGB consolidated FIMBank, in which equity ownership was increased to 61.2 percent from 30.2 percent at the end of 2013, through a voluntary bid acquisition.

We continued to place the highest importance on sound corporate governance and risk management in 2014. UGB intends to be fully compliant with the new regulatory requirements from the Central Bank of Bahrain, including Basel III, FATCA and Sound Remuneration; while a new enterprise risk management system entered the initial stages of development. The Bank also continued to implement its corporate social responsibility programme, providing support for the local community and contributing to the development of the regional banking sector.

With deep regret, I report the sad demise of Mr. Faick Al-Saleh in May 2014. A successful businessman, Mr. Al-Saleh joined the Board as an independent director in 2012. His wise counsel and commercial acumen will be sorely missed. May God rest his soul in peace.

Looking ahead, we have a cautiously optimistic outlook for UGB in 2015. The Bank is well equipped to face what will undoubtedly be another challenging year for the regional banking industry, especially in view of volatile oil prices and continued geo-political tensions. The Board has full confidence in the ability of the management team to implement the Bank's strategic and business objectives in a consistent, prudent, and cost-conscious manner.

Supported by our unique heritage and tradition of financial strength, good governance, prudent management and depth of expertise, we will continue to leverage our long experience and deep market knowledge to ensure the Bank's continued growth and development. Our focus will continue to be on improving profitability and enhancing returns for our shareholders.

On behalf of the Board of Directors, I would like to acknowledge the longstanding support and encouragement that we receive from the Government of the Kingdom of Bahrain; the Central Bank of Bahrain and the Bahrain Bourse; and the regulatory and supervisory authorities in the various jurisdictions where UGB operates. I express my sincere thanks for the financial support and confidence of our shareholders; the trust and loyalty of our clients; and the positive collaboration of our business partners. Finally, I would like to pay tribute to the professionalism and dedication of the Bank's management and staff, and their positive contribution to such a successful year for UGB.

Masaud M J Hayat
Chairman of the Board
of Directors

Board of Directors

Masaud M. J. Hayat

Chairman

Chairman of the Executive Committee

Chief Executive Officer, Banking Sector, Kuwait Projects Company (Holding) - Kuwait
Chairman, Syria Gulf Bank - Syria
Chairman and Chairman of the Executive Committee, Tunis International Bank - Tunisia
Vice Chairman and Chairman of the Executive Committee, Gulf Bank Algeria - Algeria
Vice Chairman, Bank of Bagdad - Iraq
Vice Chairman, FIMBank p.l.c. - Malta
Vice Chairman, Royal Capital PJSC - UAE
Board Member, Burgan Bank - Kuwait
Board Member, Jordan Kuwait Bank - Jordan
Board Member, KAMCO Investment Company K.S.C. (Public) - Kuwait
Board Member, North Africa Holding Company - Kuwait
Board Member, Mashare'a Al Khair Est. - Kuwait
Degree with major in Economics, Kuwait University; Diploma in Banking Studies, Institute of Banking Studies, Kuwait.

Faisal Hamad M. Al Ayyar

Vice Chairman

Member of the Executive Committee and Member of the Board Audit Committee

Vice Chairman, Kuwait Projects Company (Holding) - Kuwait
Chairman, Panther Media Group - Dubai, UAE
Vice Chairman, Gulf Insurance Group - Kuwait
Vice Chairman, Jordan Kuwait Bank - Jordan
Vice Chairman, Mashare'a Al-Khair Est. - Kuwait
Board Member, Saudia Dairy & Foodstuff Co. - Saudi Arabia
Board Member, Gulf Egypt for Hotels & Tourism Co - Egypt
Trustee, American University of Kuwait - Kuwait
Honorary Chairman, Kuwait Association for Learning Differences - Kuwait
Award Winner, Kuwait Financial Forum 2009, for contributions to the Kuwait investment sector and success in global financial markets
Award Winner, Tunis Arab Economic Forum 2007
Recipient of Lifetime Achievement Award, Beirut Arab Economic Forum 2007
Recipient of the Arab Bankers Association of North America (ABANA) Achievement Award in 2005
Graduated as a fighter pilot with the Kuwait Air Force in the USA.

Samer Khanachet

Executive Director

Member of the Executive Committee

Group Chief Operating Officer, Kuwait Projects Company (Holding) - Kuwait
Chairman, Takaud Savings & Pensions Company - Bahrain
Chairman, United Gulf Management, Inc. - USA
Board Member, Burgan Bank - Kuwait
Board Member, United Real Estate Company - Kuwait
Board Member, United Gulf Investments Ltd. - Cayman Islands
Trustee, American University of Kuwait - Kuwait
Member, the Corporation Development Committee and the Educational Council of the Massachusetts Institute of Technology - USA
Past President of the Arab Bankers Association of North America - New York, NY, USA
MBA, Harvard Business School, Boston, MA, USA
BSc, Chemical Engineering and BSc, Management Science, Massachusetts Institute of Technology, USA.

Sheikh Abdullah Nasser Sabah Al Ahmad Al Sabah

Executive Director

Board Member, Kuwait Projects Company (Holding) - Kuwait
Chairman, KAMCO Investment Company K.S.C. (Public) - Kuwait
Vice-Chairman, Al Daiya United Real Estate Company - Kuwait
Graduate of the Royal Military Academy, Sandhurst, UK
BSc, Business Administration, New York Institute of Technology, USA.

Mubarak Mohammed Al-Maskati

Independent Director

Member of the Board Audit Committee and Chairman of the Nominating & Remuneration Committee

Chairman, Royal Aviation Company - Kuwait
Former Board Member, Kuwait Projects Company (Holding), and Kuwait Aviation Services Company - Kuwait
BSc, Political Studies and Economics, University of Pennsylvania, USA.

Bader Al Awadi

Independent Director

Member of the Board Audit Committee and Member of the Nominating & Remuneration Committee

Independent Director and Chairman of the Board Audit Committee of Tunis International Bank, Tunis
Board Director at Manar Interholdings SL - Spain
Founder and Board Member of Mada Alsharqia Real Estate Development Company - Saudi Arabia
BSc, Industrial Engineering, University of Miami, USA
Completed the General Manager Program of the Harvard Business School, Boston, USA
Completed the Program for Management Development at Harvard Business School, Boston, USA.

Mohammed Haroon

Independent Director

Chairman of the Board Audit Committee and Member of the Executive Committee

Former Advisor to the Board of Directors, United Gulf Bank
Former Acting Chief Executive and Deputy Chief Executive Officer, United Gulf Bank
BSc (Hons), Peshawar University, Pakistan
Diploma in Banking.

Chief Executive's Report

We will continue to implement our clearly-defined strategy during 2015, with a firm focus on further strengthening the balance sheet and optimising capital. In this respect, we have identified a number of potential exits and new investment opportunities.

I am pleased to report that 2014 proved to be a very positive year for UGB. We continued to focus on our core strengths and capabilities; and implement our strategy to create a regional platform of long-term growth for our shareholders and investors.

The Bank's strong financial performance – with profits increasing seven-fold to US$ 18.8 million – illustrates our success in enhancing the debt maturity and leverage ratios; together with increasing the share of recurring income as a percentage of overall revenues, while stabilising expenses. It also demonstrates the strength and quality of our underlying assets.

The share of results from subsidiaries and associates increased in 2014, with KAMCO, Burgan Bank and United Real Estate Company being the key contributors. KAMCO changed its name from KIPCO Asset Management Company to KAMCO Investment Company K.S.C., in line with its efforts to clearly identify the brand as a leading asset management and investment banking player in local and regional markets.

The company, which has one of the largest AUMs in the region, was named 'Kuwait Asset Manager of the Year' in the MENA FM 2014 Awards. Burgan Bank, the second-largest conventional commercial bank in Kuwait by assets and profits, successfully completed its rights issue in 2014, which increased its issued and paid-up capital and share premium by 39 percent to KWD 405 million. The capital increase will be used to fund the Bank's regional expansion plans and manage Basel III requirements.

United Real Estate Company, which is the leading real estate development company in the MENA region, enhanced its project portfolio during the year, and was named 'Best Retail Developer - Middle East' in the World Finance Real Estate Awards. The Bank's subsidiary, Takaud Savings & Pensions B.S.C (c), successfully commercialised a number of products for individual and institutional clients; and also implemented plans to expand its regional presence to Jordan and Kuwait. The Company also continued its educational programme to raise market awareness of the benefits of long-term financial planning. In another key business development, UGB consolidated FIMBank, in which the Group's total equity ownership was increased to 61.2 percent through a voluntary bid acquisition.

We continued to strengthen UGB's institutional capability in 2014, with a number of new initiatives in the areas of corporate governance, risk management, human resources and information technology. These include compliance with new regulations for Basel III and the Foreign Account Tax Compliance Act (FATCA); and development of a new customised enterprise risk management system that will automate and enhance internal and external risk reporting. In addition, we introduced a new remunerations policy, and successfully tested the Bank's business continuity planning procedures.

Looking ahead, we are conscious that the volatility in oil prices – which declined sharply in the fourth quarter of 2014 and affected those countries in which we operate – will continue during 2015, together with a continuation of geo-political events in some parts of the MENA region. In response, we will continue to implement our clearly-defined strategy during 2015, with a firm focus on further strengthening the balance sheet and optimising capital. In this respect, we have identified a number of potential exits and new investment opportunities. At the same time, we will seek to manage any potential downside. This entails a clear understanding of the underlying risks in any investment; and the ability to respond quickly in the case of any unforeseen negative events.

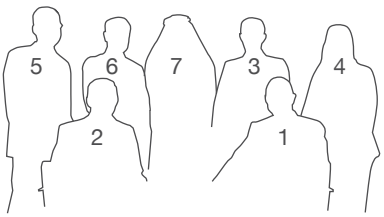
The Bank is financially sound, with a healthy and diversified portfolio of investments; and benefits from a stable management team and robust support infrastructure. We therefore remain cautiously optimistic for UGB's future prospects, although we realise that 2015 will be another challenging, volatile and uncertain year.

In conclusion, I would like to express my appreciation to the Board of Directors for their trust and confidence; and look forward to their continued support and guidance. I also thank the Bank's management and staff for their positive attitude, hard work and commitment during the year.

Rabih Soukarieh
Chief Executive Officer

Executive Management

1. Rabih Soukarieh
2. Hussain A. Lalani
3. Mohammed Alqumaish
4. Deepa Chandrasekhar
5. Syed Rehan Ashraf
6. Yasser Al Saad
7. Adel Al Arab



1. Rabih Soukarieh CFA

Chief Executive Officer

Mr. Soukarieh's career extends over 25 years and spans multiple industries. He has held a number of executive positions within the Bank and its subsidiaries intermittently over the past 13 years. Between 2004 and 2007, he served as the Group Chief Financial Officer of Wataniya Telecom. He is currently a Director of Tunis International Bank, Tunisia; Gulf Bank Algeria, Algeria; FIMBank p.l.c., Malta; and Virgin Mobile Middle East Company, among others. Mr. Soukarieh's past board tenures include: Wataniya Telecom Algeria (2007-2011), where he also served as Chairman of the Board Audit Committee and Member of the Board Executive Committee; Asia Cell Telecommunications Company (2003-2007), where he served on the Board Executive Committee; and Kuwait Energy Company (2010-2011). Mr. Soukarieh is a Chartered Financial Analyst. He holds an MBA from Northeastern University, Boston, USA; and a BSc in Finance from Indiana University, Bloomington, USA.

2. Hussain A. Lalani FCA CISA

Assistant General Manager, Chief Financial Officer

Mr. Lalani has more than 18 years of experience in public accounting and financial control. As a strategically-minded CFO, he provides financial and commercial support to the Board of Directors and CEO, including transactions advisory and partnering with business divisions to support growth and business plans. Mr. Lalani was previously employed by Ernst & Young (Bahrain) and PriceWaterhouse Coopers (Pakistan). He is a Board Member of Takaud Savings & Pensions B.S.C (c), Bahrain and Global Banking Corporation, Bahrain. A Chartered Accountant and a Certified Information Systems Auditor, Mr. Lalani holds a Bachelor of Commerce degree from the University of Karachi, Pakistan.

3. Mohammed Alqumaish CIA CISA

Senior Vice President, Corporate Secretary and Head of Internal Audit & Quality Assurance

Mr. Alqumaish joined UGB in September 2001. He has more than 18 years of commercial and investment banking experience in internal auditing, risk assessment, compliance, corporate governance and quality assurance services. He previously worked with Ahli United Bank and Shamil Bank in Bahrain. Mr. Alqumaish is a Board member of Tunis International Bank, Tunisia. He is a member of the Board Audit Committees of KAMCO Investment Company (KAMCO), Kuwait; Tunis International Bank, Tunisia; Gulf Bank Algeria, Algeria; and Syria Gulf Bank, Syria. A Certified Internal Auditor (CIA) and Certified Information Systems Auditor (CISA), Mr. Alqumaish holds an MBA from the University of Strathclyde Business School, UK.

4. Deepa Chandrasekhar CAMS FICA CFE, Chartered MCSI

Senior Vice President, Chief Compliance Officer & MLRO

Mrs. Chandrasekhar joined UGB in 2008. She has over 26 years' experience in the areas of risk management, treasury, operations, internal audit and compliance. She started her career with Citibank as a foreign exchange dealer, and since then has worked extensively in the Middle East – in Bahrain, Lebanon and the UAE. She was previously Head of Risk at RAKBANK, UAE. Mrs. Chandrasekhar holds an MBA degree from the University of Alberta, Canada; as well as the professional certifications of CAMS, CFE, FICA and Chartered MCSI. She is a member of the Steering Committee of the Professional Risk Managers International Association (PRMIA), Bahrain Chapter; and the Advisory Council of the Chartered Institute of Securities and Investment (CISI), Bahrain Chapter. She also serves as an international moderator in the field of compliance, for the Finance Accreditation Agency, Malaysia. Mrs. Chandrasekhar is a frequent speaker at professional forums and has published several financial articles.

5. Syed Rehan Ashraf ACA

Senior Vice President, Head of Credit & Risk Management

Mr. Ashraf joined UGB in 2005. He has more than 19 years of experience in the areas of credit, risk management, advisory, compliance and assurance services – with Islamic and conventional banks, and the big four audit firms. He previously worked with Shamil Bank, Bahrain; Deloitte & Touche, Pakistan; Faysal Bank, Pakistan; and PriceWaterhouse Coopers, Pakistan. A Chartered Accountant (ACA) from the Institute of Chartered Accountants of Pakistan, Mr. Ashraf also holds an MBA from DePaul University of Chicago, USA.

6. Yasser Al Saad

Vice President, Head of Treasury

Mr. Al Saad re-joined UGB in July 2013. He has 11 years of experience in Treasury and was previously Head of Money Market with BBK - Kuwait. Prior to joining BBK, he worked in UGB's Treasury and Operations Departments from 2004 to 2011. Mr. Al Saad holds a MBA degree from New York Institute of Technology and was awarded the ACI Dealing certificate in 2013.

7. Adel Al-Arab

Vice President, Head of Operations

Mr. Al-Arab joined UGB in 1994. He has over 20 years of experience in the field of operations, credit and risk management. Mr. Al-Arab holds a Bachelor of Science (BSc) degree in Business Administration from the University of Bahrain; a Chartered Risk Analyst (CRA) from the Global Academy of Finance and Management, USA; and was awarded the Certificate of ISMA Foundation Program from the International Securities Market Association, Zurich. Mr. Al-Arab has attended several professional courses in banking, finance, and risk management.

Review of Operations

Strategy and Business Overview

UGB's strategic objective is to create the MENA region's premier asset management, merchant banking and investment bank. The Bank seeks to be the preferred gateway to the region for its clients and global partners through the delivery of both conventional and Islamic services, backed by world-class standards of support, infrastructure and processes. UGB works with strategic partners to create opportunities that position the Bank as a leading financial institution for the region.

Either directly or through its subsidiaries and associate companies, UGB engages primarily in asset and fund management, investment banking, private equity and corporate banking. Other business activities include commercial banking, proprietary investments, savings and pensions, brokerage and treasury.

Asset Management and Investment Banking

Asset Management

Asset and fund management activities – covering local, regional and international markets – comprise discretionary and non-discretionary portfolio management; securities trading; portfolio structuring and asset allocation advice; mutual funds; investments and structuring; and alternative / structured investments.

Investment Banking

Conventional and Islamic investment banking activities cover equity and debt underwriting, private placements, capital restructuring, and merger and acquisitions.

Private Equity

Private equity activity focuses on key growth or demand sectors such as telecoms, media, technology, and energy.

Corporate Banking

Corporate banking advisory services include IPO and private placement advisory and execution; business valuation and financial feasibility studies; project finance; and due diligence.

Other Business Activities

Commercial Banking

UGB works closely with its associate, Burgan Bank, to manage commercial banking assets in various countries.

Savings and Pensions

UGB is the first financial institution in the MENA region to provide a range of personal savings and pensions products through Takaud Savings and Pensions B.S.C (c), a subsidiary of UGB.

Either directly or through its subsidiaries and associate companies, UGB engages primarily in asset and fund management, investment banking, private equity and corporate banking. Other business activities include commercial banking, proprietary investments, savings and pensions, brokerage and treasury.

Brokerage

UGB provides financial brokerage services for overseas clients who wish to trade on shares listed on the Bahrain Bourse. The Bank also provides clients with access to the Kuwait Stock Exchange through its associate, Al Sharq Financial Brokerage Company.

Key Business Developments in 2014

Financial Highlights

- UGB's total assets under management stood at US$ 11.6 billion at the end of 2014 compared with US$ 9.7 billion at the end of 2013.
- Contributions from associated companies in 2014 were US$ 37.3 million compared with US$ 19.4 million in 2013.
- Key contributors were Burgan Bank with US$ 49.9 million and United Real Estate Company with US$ 5 million.
- FIMBank p.l.c recorded a net loss of US$ 46 million due to provisions against impairments on its portfolio totaling US$ 41.8 million due to geo-political events in Eastern Europe. There was also a loss at India Factoring of US$ 17.1 million.
- KAMCO recorded a net profit of US$ 6.7 million in 2014 compared with a net profit of US$ 11.0 million in 2013.

Business Initiatives

- UGB increased its stake in FIMBank – a Malta-based international trade finance specialist to 61.2%, thereby making it a Group subsidiary.

UGB Subsidiaries and Associates

Commercial Banking

17%
Burgan Bank S.A.K. Kuwait
Commercial Bank
Kuwait

61%
FIMBank p.l.c. Malta
Commercial Bank
Malta

31%
Syria Gulf Bank S.A. Syria
Commercial Bank
Syria

Savings & Pensions

50%
Takaud Savings and Pensions B.S.C. (c)
Pensions Company
Bahrain

Brokerage

19%
Al Sharq Brokerage Company K.S.C. (c)
Brokerage House
Kuwait

Asset Management & Investment Banking

86%
KAMCO Investment Company K.S.C. (public)
Asset Management
Kuwait

85%
United Gulf Financial Services - North Africa
Asset Management
Tunisia

42%
North Africa Holding Company K.S.C. (c)
Investment Company
Kuwait

33%
Manafae Investment Company K.S.C. (c)
Investment Company
Kuwait

Non Financial Operating Companies

21%
United Real Estate Company S.A.K.
Real Estate
Kuwait

40%
United Capital Transport Company
Transport Company
Kuwait

ASSET MANAGEMENT & INVESTMENT BANKING

KAMCO Investment Company K.S.C. (Public) (KAMCO)

UGB Consolidated Subsidiary based in Kuwait

Established in 1998, KAMCO is a leading asset management and financial institution in Kuwait. Its three principal business lines are asset management, financial services, and investment advisory research services, which are offered to a diverse local, regional and international client base. With its complete focus on the core AMIB domain, KAMCO continued to develop its core operational business and grew its AUM to over US$ 11.6 billion in 2014, an increase of 19% over 2013. KAMCO launched the GCC Opportunity Fund in 2013 and the Real Estate Yield Fund in 2014, and is on the verge of launching more managed funds. UGB owns 86% of KAMCO, which is listed on the Kuwait Stock Exchange.

United Gulf Financial Services Company North Africa (UGFS-NA)

UGB Consolidated Subsidiary based in Tunisia

UGFS-NA was established in November 2008 as an asset management entity, and commenced operations officially in 2009. The Company is regulated by the Conseil du Marché Financier (CMF). UGFS-NA is primarily involved in three main activities: Portfolio Management Services (PMS), Fund Services, and Corporate Finance Services. The Company was active in all three areas of operations during the year. In terms of Fund services, UGFS-NA has launched 11 funds to date, with total AUM of US$ 33.3 million (TND 62 million as total commitments). Under its Portfolio Management and Corporate Finance services, UGFS-NA managed total AUM of US$ 5.43 million (TND 10.1 million) at the end of 2014, with a client base of 31 institutions and individuals in portfolio management services. For its Corporate Finance services, UGFS-NA successfully completed a number of equity / debt mandates, and has built a healthy pipeline of financial advisory transactions for companies operating in pharmaceutical and agribusiness industries. As at 31 December 2014, UGB's consolidated shareholding in UGFS-NA stood at 85%. Its shares are not listed.

North Africa Holding Company (NorAH)

UGB Associate Company based in Kuwait

Established in 2006, NorAH focuses on acquiring significant stakes in companies based in Morocco, Algeria, Tunisia, Libya and Egypt, which have demonstrated the potential to deliver real value. The Company is regulated by the Ministry of Commerce and Industry, Kuwait. In 2014, NorAH reported a net loss of US$ 8.6 million compared with a net profit of US$ 2.0 million in 2013. At the end of the year, total assets stood at US$ 262.8 million (2013: US$ 302.7 million). UGB has a total consolidated interest of 42% in NorAH, whose shares are not listed.

Manafae Investment Company (Manafae)

UGB Associate Company based in Kuwait

An Islamic investment company established in 2005, Manafae offers a wide range of Sharia-compliant products and services including asset management, investment services, extension of financing and credit, and advisory services. The Firm was one of the first to launch an Islamic mutual fund in 2007. The Manafae First Fund invests in listed and private companies, incorporated primarily in Kuwait and the GCC. As at 31 December 2014, UGB's consolidated shareholding in Manafae stood at 33%. Manafae is listed on the Kuwait Stock Exchange.

COMMERCIAL BANKING

Burgan Bank (BB)

UGB Associate Company based in Kuwait

Established in 1975, Burgan Bank is a subsidiary of KIPCO and operates in seven countries through 233 branches across Kuwait, Turkey, Jordan, Algeria, Tunisia, Iraq and Lebanon. Burgan Bank is Kuwait's second-largest lender in terms of assets, and has acquired over the years, a leading role in the commercial banking sector in the MENA region. Its achievements in product innovation, information technology, efficiency, quality and corporate governance have been recognised by numerous awards, with several of them being either first or unique in the region. Burgan Bank reported a 119% increase in net profit to US$ 248.7 million in 2014. UGB has an equity stake of 17% in Burgan Bank, which provides it with a stable and recurring revenue stream, and the opportunity to access Burgan Bank's regional client base. Burgan Bank is listed on the Kuwait Stock Exchange.

FIMBank p.l.c. (FIMBank)

UGB Consolidated Subsidiary based in Malta

In 2014, UGB increased its direct stake in FIMBank to 61.2% while Burgan Bank continues to hold a 20% stake. A Malta-based trade finance specialist institution, FIMBank has in recent years increased its international footprint by actively pursuing a strategy of establishing factoring joint ventures with prominent institutions in selected emerging markets. FIMBank owns the UK-registered London Forfaiting Company together with factoring joint-ventures in Brazil, India, UAE and Egypt. The year 2014 was a difficult period for FIMBank, with losses arising from impairments in its banking, forfaiting and factoring activities. During the year, the Board of FIMBank resolved to withdraw its involvement in its joint ventures in Russia and Lebanon. The investment in FIMBank should serve to widen the scope of UGB's banking activities, and provide the Group with a stepping stone into Europe. FIMBank is listed on the Maltese Stock Exchange.

SAVINGS AND PENSIONS

Takaud Savings & Pensions B.S.C (c) (Takaud)

UGB Consolidated Subsidiary based in Bahrain

Takaud Savings & Pensions is a Bahrain based 50:50 joint venture between the KIPCO Group and UGB. The mission of this new business – the first of its kind in the region – is to provide savings, investment and private pension solutions to both individual as well as corporate customers across the MENA region. The regional expansion scheme for TAKAUD follows a pragmatic, capital-light policy of entering into distribution agreements with sister or like-minded businesses, with a localised entity established only when it is a legal imperative. The Bahrain based head office is responsible for marketing, proposition design, distribution management and business operations, as well as fund operations and governance.

In 2014, Takaud soft-launched its Direct-to-Consumer (D2C) online savings platform for the growing do-it-yourself segment, which is showing promising potential. The eSaver solution empowers individuals, both ordinary and financially-savvy, to take control of their finances and set up their own savings and investment plan online. The Company also continued rolling out its retail and corporate business in the Bahrain market.

Takaud bolstered its management team which in turn developed a new and ambitious business strategy. This strategy aims to expand the Company's business via new proprietary and non-proprietary distribution channels, with tailored offerings and propositions that appeal to new wider segments of the retail and corporate markets. The strategy also features the launch of wealth management for the upper-mass segment, investment management solutions for insurance life insurers, wealth management solutions for retail banks, and onsite savings marketing among other initiatives. Regionally, Takaud is exerting efforts to extend its market presence and customer base. In this context, major progress was made towards finalising distribution partnerships in Kuwait that are imminent for 2015. Promising progress is also being made in terms of market entry for the Jordanian and Egyptian markets. Overall, the Company is well-positioned for a real take-off and for achieving significant business growth in 2015 and beyond. Its shares are not listed.

BROKERAGE

Al Sharq Financial Brokerage Company (Al Sharq)

UGB Associate Company based in Kuwait

Established in 1985, Al Sharq has grown to become one of the largest brokerage firms in Kuwait, as measured by the number of transactions conducted on the Kuwait Stock Exchange (KSE). Al Sharq's market share is approximately 20%. UGB owns 19% of the firm through its subsidiary KAMCO on a consolidated basis. Its shares are not listed.

NON-FINANCIAL ASSOCIATES

United Real Estate Company (URC)

UGB Associate Company based in Kuwait

Established in 1973, URC is a leading real estate development company in the MENA region, publicly traded on the Kuwait Stock Exchange since 1984. The Company's real estate portfolio includes commercial, retail, hospitality, residential, as well as mixed-use developments in the MENA region. These include KIPCO Tower, Marina Mall, and Marina Hotel in Kuwait; Abdali Mall in Jordan; and Salalah Gardens Mall and Residences in Oman. Furthermore, URC is developing; Aswar Villas in Egypt; Junoot hotel and chalets in Oman; and Raouche View apartments in Lebanon. URC's key subsidiaries are also engaged in contracting business with private and public organisations in Kuwait; third party property management in Kuwait, Egypt, Lebanon and Jordan; and facility management business in different locations in the MENA region. UGB owns a 21% stake in URC.

United Capital Transport Company (UNICAP)

UGB Associate based in Kuwait

UNICAP was established in 2011 as a joint venture between UGB's subsidiary KAMCO and ANHAM, a leading contracting firm active throughout the MENA region, Central Asia and Europe. The Company is a leasing solutions provider to governments, international oil companies, and businesses involved in various construction, mining and industrial services. UNICAP offers timely, efficient and customer-focused equipment and logistical support services to a variety of clients and markets. Customised leasing, transportation and financing solutions are provided to vendors and customers to meet their specific needs within geographically diverse and strategically challenging markets. UGB owns 40% of UNICAP on a consolidated basis. The Company's shares are not listed.

SHARED SERVICES

Treasury

Treasury manages UGB's liquidity and funding requirements; and also implements the Bank's hedging strategies in terms of foreign exchange and interest rate exposures. In another challenging year, UGB maintained its existing long-term counterparty relationships and added a number of new counterparties, with a resulting increase in deposits; while continuing to benefit from the support it receives from the KIPCO Group. The Bank retained a strong balance sheet with a consolidated capital adequacy ratio of 15.4%, within the requirements of the Central Bank of Bahrain. UGB continued its policy of deleveraging the balance sheet through liquidating non-accretive assets, and using the proceeds to repay borrowings.

Operations

During the year, UGB continued to enhance and streamline its critical back office operating processes and procedures in order to improve efficiency and productivity. This includes automation of the platform through which the Bank acts as an agent for commodity trading on behalf of certain Islamic financial institutions. Operations worked closely with Compliance in 2014, to facilitate implementation of the Foreign Account Tax Compliance Act (FATCA) framework. This included designing a self-assessment certification questionnaire for clients; and communicating with them to produce the required information.

Information Technology

In 2014, UGB conducted comprehensive testing of its business continuity planning process in line with regulatory requirements, with an exercise involving staff and IT systems. The relocated disaster recovery site became fully operational, and the data centre was further upgraded; while external penetration testing of information security systems was carried out with results being satisfactory. In addition, the Bank commenced implementation of a new custom-designed enterprise risk management system, which is planned to go live in the third quarter of 2015.

Human Resources

A major HR activity in 2014 entailed working with Compliance and external consultants to develop UGB's new remunerations policy in adherence with the Sound Remuneration Policy requirements issued by the Central Bank of Bahrain. The strength of the Bank's succession planning process was validated during the year, with a new Head of Operations being recruited internally. UGB maintained its investment in training and development with a focus on anti-money laundering, compliance and operational risk management. The merit-based Mashare'a Al Khair Scholarship Programme continued to assist dependents of Bank staff to obtain degrees from accredited colleges, universities or other academic institutions.

The Notes to the Consolidated Financial Statements provide additional relevant details, with some of these notes being cross-referenced here. Figures contained in the Financial Performance Summary are subject to rounding adjustments and, in certain instances, the sum of the numbers in a column or row may not conform exactly to the total figure given for that column or row.

UGB consolidated FIMBank during 2014. Hence, the summary provided below provides a comparison of the Bank's financial performance that includes and excludes FIMBank.

Revenues

UGB's total revenues increased to US$ 169.1 million in 2014 from US$ 64.3 million in 2013 as indicated below:

Total Revenues US$ million	2014	2014 Excluding FIMBank	2013
Financial Services	30.0	50.3	9.0
Real Estate	5.1	5.1	8.3
Other Associates	2.1	2.1	2.1
Management fees from fiduciary activities	15.5	15.5	12.5
Credit related fees and commission	19.9	(0.9)	(0.6)
Advisory fees	2.8	2.8	5.1
Interest Income	56.5	6.0	6.8
Realised gain on non - trading investments	4.7	4.7	6.2
Trading gain / (loss)	2.7	2.6	7.2
Dividend	4.2	2.7	2.6
Gain on bargain purchase of an associate	-	-	3.4
Gain on step-acquisition of an associate	3.2	3.2	-
Foreign currency translation (losses) / gains - net	(7.1)	(8.7)	1.0
Other income	29.4	32.7	0.6
Total	169.1	118.1	64.3

The increase in total revenues is attributed to the consolidation of FIMBank, and an increase in contributions from financial services-related revenues from associates. Specific sectoral revenue is discussed in detail below.

This review provides a detailed description of UGB's financial performance for the year ended 31 December 2014.

Financial Services

UGB's financial services-related revenues are derived from its investment in associates involved in asset management and investment banking, commercial banking, and brokerage. Details of these entities are included in the Review of Operations section in this annual report.

Excluding FIMBank, results from financial associates increased to US$ 50 million compared with US$ 9 million in 2013. The increase is mainly attributed to the strong performance of UGB's commercial banking associate Burgan Bank - Kuwait, which recorded an increase in net profit of 119% to US$ 249 million

The table below indicates the performance of UGB's financial associates:

Revenue - Financial Associates US$ million	2014	2014 Excluding FIM Bank	2013
Burgan Bank	49.9	49.9	12.3
Manafae Investment Company	0.7	0.7	(1.1)
Al Sharq Financial Brokerage Co.	0.3	0.3	0.4
FIMBank Group	-	-	1.0
Syria Gulf Bank	-	-	(1.4)
Takaud Savings and Pensions B.S.C. (c)	-	-	(2.4)
Royal Capital Company P.S.C.	(0.0)	(0.0)	(0.1)
CIS Factors Holding B.V.	(0.2)	-	-
Brasilfactors	(0.3)	-	-
North Africa Holding Company	(0.5)	(0.5)	0.4
The Egyptian Company for Factoring S.A.E.	(2.6)	-	-
India Factoring and Finance Solutions Pvt. Ltd.	(17.1)	-	-
Total	30.0	50.3	9.0

India Factoring losses were recorded at FIMBank, and resulted mainly from impairment provisions for the loan portfolio.

Real Estate

UGB's real estate revenues were derived from United Real Estate Company (URC), which contributed a net profit of US$ 5.1 million in 2014 compared with US$ 8.3 million in 2013.

Revenue - Real Estate US$ million	2014	2014 Excluding FIMBank	2013
KAMCO Real Estate Yield Fund	0.1	0.1	-
Meena Homes Real Estate Company	0.0	0.0	0.0
United Real Estate Company	5.0	5.0	8.3
Total	5.1	5.1	8.3

Non-Financial Associates

UGB's non-financial associates posted profits in 2014 at a similar level to the previous year of US$ 2.1 million.

Revenues - Non Financial Associates US$ million	2014	2014 Excluding FIMBank	2013
United Capital Transport Company	1.8	1.8	2.1
Kuwait Education Fund	0.3	0.3	-
Total	2.1	2.1	2.1

Management Fees from Fiduciary Activities

Management fees increased moderately to US$ 15.5 million in 2014 compared with US$ 12.5 million in 2013. UGB's assets under management rose to US$ 11.6 billion in 2014 from US$ 9.7 billion in 2013.

Credit Related Fees and Commission Income

Credit-related fees and commission income of US$ 19.9 million was mainly recorded at FIMBank, which has a loan book of US$ 1.0 billion.

Advisory Fees

Advisory fees were reduced to US$ 2.8 million in 2014 compared with US$ 5.1 million in 2013. Advisory fees on bond issuances were the primary contributors during the year.

Interest Income

The main source of interest income for UGB is derived from interbank placements and the loan portfolio of FIMBank. Interest income in 2014 excluding FIMBank moderated to US$ 6.0 million from US$ 6.8 million in 2013.

Realised Gains on Non-trading Investments

Realised gains on non-trading investments decreased to US$ 4.7 million in 2014 compared with US$ 6.2 million in 2013. This mainly resulted from exits of investments in the normal course of business.

Trading Gain / (Loss)

Trading positions in 2014 recorded a gain of US$ 2.6 million compared with a gain of US$ 7.2 million in 2013. The decrease was mainly due to the negative performance of regional stock markets in the fourth quarter of 2014.

Dividend Income

The main contributors of dividend income were from listed and private equity investments. Dividend income excluding FIMBank was US$ 2.7 million in 2014, slightly up on the income of US$ 2.6 million recorded in 2013.

Foreign Currency Translation Losses

Foreign currency translation losses mainly resulted from depreciation of the Kuwaiti Dinar on long-term positions.

Expenses

Interest Expense

Interest expenses excluding FIMBank for 2014 moderated to US$ 29.5 million from US$ 31.2 million in 2013. The decrease is mainly due to the deleveraging of the balance sheet and re-pricing of borrowings at lower rates.

US$ million	2014	2014 Excluding FIMBank	2013
Interest expense	51.6	29.5	31.2

Operating Expenses

Operating expenses excluding FIMBank increased by 19% to US$ 28.4 million in 2014 compared with US$ 23.9 million in 2013. Salaries and benefits increased to US$ 19.4 million (2013: US$ 17.1 million) whereas general and administration expenses increased to US$ 8.6 million (2013: US$ 6.8 million).

US$ million	2014	2014 Excluding FIMBank	2013
Salaries and benefits	42.6	19.4	17.1
General and administrative expenses	26.2	8.6	6.8
Total	68.8	28.4	23.9

Expenses excluding FIMBank mainly increased due to the consolidation of Takaud Savings and Pensions B.S.C (c), which recorded expenses of US$ 6 million for 2014.

Taxation

UGB recorded deferred tax income of US$ 14.5 million from losses at FIMBank.

Provisions

UGB made total provisions of US$ 55 million in 2014 compared with US$ 5 million in 2013. Provisions mainly resulted at FIMBank due to impairment provisions, and goodwill impairment by India Factoring Company.

US$ million	2014	2014 Excluding FIMBank	2013
Impairment loss on investments	3.1	3.1	6.9
(Provision) write-back for doubtful loans and other assets - net	20.5	5.3	(1.9)
Impairment of goodwill	31.4	4.8	-
Total	55.1	13.3	5.0

Net Income attributable to parent

Net income attributable to parent increased to US$ 18.8 million compared with US$ 2.6 million in 2013. Earnings per share similarly increased to 2.78 US cents from 0.32 US cents in 2013.

Consolidated Balance Sheet

Consolidated Assets

UGB's consolidated assets stood at US$ 2.78 billion at the end of 2014 compared with US$ 1.26 billion at the end of 2013. A comparison of the two years is provided below.

Assets US$ million	2014	2014 Excluding FIMBank	2013
Demand and call deposits with banks	284.0	53.1	17.7
Placements with banks	142.5	111.2	113.1
Investments carried at fair value through statement of income	57.1	39.1	46.6
Non-trading investments	218.4	188.3	166.3
Loans and receivables	990.2	1.7	4.0
Other assets	113.6	66.2	29.6
Investments in associates and joint ventures	865.0	862.2	824.6
Investment properties	4.8	4.8	0.0
Property and equipment	39.9	1.5	0.7
Goodwill	54.5	54.1	56.0
Assets of disposal group classified as held for sale	7.9	-	-
Total	2,777.8	1,382.1	1,258.6

Demand, Call and Placements with Banks

Demand, call and placements with banks excluding FIMBank were US$ 164.3 million in 2014 compared with US$ 130.8 million in 2013. Total liquid assets – comprising cash, deposits, liquid securities and other assets – represented 18% of the balance sheet as at year-end 2014 (2013: 14%).

Trading Investments (investments carried at fair value through the statement of income)

Investments carried at fair value through the statement of income excluding FIMBank were US$ 39.1 million in 2014 compared with US$ 46.6 million in 2013. This portfolio comprises securities held for trading, and managed funds designated as held for trading. The securities held for trading portfolio consists mainly of equities listed on the Kuwait Stock Exchange.

Non-Trading Investments

Non-trading investments excluding FIMBank increased to US$ 188.3 million in 2014 compared with US$ 166.3 million in 2013. The total portfolio mainly comprises listed equities of US$ 5.7 million (2013: US$ 7.8 million), unlisted equities of US$ 66.8 million (2013: US$ 53.1 million), real estate managed funds of US$ 65 million (2013: US$ 17.8 million), other managed funds of US$ 79.5 million (2013: US$ 89.3 million), and debt securities of US$ 1.4 million (2013: US$ 1.9 million).

Major investments under the non-trading investments portfolio as at 31 December 2014 were:

Dar Saada is a real estate development company specialising in the social and intermediary housing segments, and is currently active in major cities of Morocco, namely Marrakech, Agadir, Fez, Tangier, Berrechid, Oujda, Skhirat and Martil. UGB invested in Dar Saada in 2014, and the year-end value of this investment was US$ 47.6 million, which represents an equity stake of 8.3%.

Burgan Equity Fund is an open-ended fund managed by Burgan Bank, and focused mainly on investing in shares of Kuwaiti companies listed on the KSE. The fund adopts a balanced investment policy. Its objective is to earn long-term capital gains with minimum possible risk. The year-end value of this investment was US$ 25.4 million (2013: US$ 47.3 million) and represents an equity stake of 9.7% (2013:16.2%).

Emerging Market Trade Finance Fund is a sub-fund of a local unlisted collective investment scheme, which is independently run by an investment manager licensed and regulated by the Financial Conduct Authority in London. FIMBank is a seed investor in the fund and owns all seed shares currently in issue (or 97% of total shares, as an additional 3% of the units consist of Founders' Shares). The year-end value of this investment was US$ 24.1 million (2013: US$24.3 million).

United Tower Holding Company is a real estate development company that concentrates on real estate investment, development and management activities in Kuwait. The year-end value of this investment was US$ 16.0 million and represents an equity stake of 5.8%.

Global Banking Corporation (GBCORP) is an Islamic investment bank incorporated in Bahrain, with an issued and paid-up capital of US$ 250 million. GBCORP's business lines include private equity and venture capital, real estate and infrastructure development, asset management, advisory services in corporate finance and capital markets, and portfolio management services. The year-end value of this investment was US$ 15.4 million (2013: US$ 16.1 million) and represents an equity stake of 12.5% (2013: 12.5%).

KAMCO Investment Fund is an open-ended fund managed by KAMCO. The fund invests in securities of companies listed on the Kuwait Stock Exchange in primary issues, government bonds, and public issues that are expected to be listed; including securities of companies listed on the exchanges in the MENA region. The year-end value of this investment was US$ 15.1 million (2013: US$ 7.7 million) and represents an equity stake of 16.9% (2012: 7.7%).

Loans and Advances

Loans and advances in 2014 of US$ 990 million (2013: US$ 4.0 million) consisted mainly of facilities extended by FIMBank.

Details on the loan book are as follows:

Loans and Advances US$ million	2014	2013
Loans to banks	140.7	-
Loans to customers	215.6	3.1
Factoring assets	302.2	-
Forfaiting assets	260.4	-
Syndication loans	146.6	-
Staff loans	3.2	1.8
	1,069	4.9
Less: Provision for impairment	(78.7)	(1)
Total	990	3.9

Past due and impaired loans amounted to US$ 96.6 million against which provisions of US$ 78.7 million were recorded. The non-performing loan ratio stood at 9% with a coverage ratio of 81%.

Investments in Associated Companies and Joint Venture

Investments in the Bank's associated companies and joint venture accounted for under the equity method, increased to US$ 865 million in 2014 compared with US$ 824.6 million in 2013. The Bank's associated companies contributed a total profit of US$ 37.3 million in 2014, with key contributors being Burgan Bank (US$ 49.9 million) and United Real Estate Company (US$ 5.0 million), and a loss at India Factoring Company (US$ 17.1 million). UGB also participated in the US$ 60 million rights issue of Burgan Bank. The FIMBank investment of US$ 45 million was reclassified from an associate to a subsidiary.

Consolidated Liabilities

UGB's consolidated liabilities excluding FIMBank increased to US$ 971.8 million in 2014 compared with US$ 799.0 million in 2013, with the increase attributed to a rise in medium- and short-term borrowings.

Loans and Advances US$ million	2014	2014 Excluding FIMBank	2013
Due to banks and other financial institutions	712.6	317.5	258.5
Deposits from customers	548.4	24.6	23.8
Loans payable	781.3	495.0	386.3
Subordinated debt	93.3	93.3	100.0
Other liabilities	61.5	41.3	30.3
Liabilities of disposal group classified as held for sale	0.2	0.0	-
Total	2,197.4	971.8	799.0

During the year UGB repaid loans of US$ 230 million and raised new medium-term borrowings of US$ 285 million.

Total Equity

As at year end 2014, UGB's equity stood at US$ 580.4 million (2013: US$ 459.6 million). The foreign currency translation reserve decreased to negative US$ 10.4 million in 2014 from US$ 6.7 million in 2013 due to the depreciation of the Kuwaiti Dinar. Minority interests increased to US$ 117.5 million (2013: US$ 23.3 million) due to the consolidation of FIMBank.

The following table reflects the composition of shareholders' equity and minority interests at year-end 2014 compared with year-end 2013:

EQUITY US$ million	2014	2013
Share capital	208.7	208.7
Treasury shares	(18.1)	(18.1)
Share premium	11.5	11.5
Statutory reserve	98.8	96.9
General reserve	79.3	77.4
Treasury share reserve	14.2	14.2
Fair value reserve	7.5	(17.3)
Foreign currency translation reserve	(10.4)	6.7
Retained earnings	71.5	56.5
Capital and reserves attributable to the shareholders of the parent	462.9	436.3
Non-controlling interests in equity	117.5	23.3
Total equity	580.4	459.6
Total liabilities and equity	2,777.8	1,258.6

Off-balance Sheet Commitments

UGB's off-balance sheet commitments comprise guarantees, letters of credit, credit commitments, undrawn investment commitments, and bankers' acceptances; financial instruments to cover foreign exchange risks; forward purchase and sales contracts; and interest rate and currency swaps. The Bank's investments and credit-related commitments aggregated to US$ 224.6 million as at year-end 2014 (2013: US$ 33 million). This increase is largely due to the consolidation of FIMBank. UGB does not trade derivatives, nor engages in proprietary foreign exchange trading. Further details regarding off-balance sheet commitments are provided in Note 29 to the Consolidated Financial Statements.

Capital Adequacy

UGB's consolidated capital adequacy ratio of 15.4% at the end of 2014 (2013: 17.5%) under the Basel II regulations as mandated by the Central Bank of Bahrain, is above the minimum requirement of 12% with a buffer of an additional 0.5%.

US$ million	2014	2013
Capital base:		
Tier 1 capital	418.31	264.92
Total capital base (a)	418.31	264.92
Credit risk weighted exposure	2,445.07	1,376.94
Market risk weighted exposure	193	76.35
Operational risk weighted exposure	85.76	62.16
Total risk weighted exposure (b)	2,723.83	1,515.46
Capital adequacy (a/b * 100)	15.4%	17.5%
Minimum requirement	12.5%	12.5%

Risk Management Review

Key Developments in 2014

- Maintained the focus on operational consolidation and strengthening liquidity in order to achieve financial efficiency across bank-wide operations.
- Commenced implementation of a new custom-designed Enterprise Risk Management system, which is planned to go live in the third quarter of 2015.
- Further strengthened the operational risk framework, which is supported by a fully-automated system enabling the Bank to monitor, mitigate and report its operational risk exposures in a structured and robust manner.
- Held meetings with the Central Bank of Bahrain regarding UGB's capital optimisation strategy with introduction of Basel III guidelines on 1 January 2015.
- Further enhanced the scope of quarterly reporting to the Board, its Committees, and Management on liquidity, operational risk and investment reviews.

Risk Philosophy

The Bank's risk philosophy is based on the following five principles:

1. Sound knowledge base, experience and judgement of Senior Management and Risk Management staff, are the cornerstone of successful risk mitigation.
2. Vigilance, discipline and attention to detail are mandatory.
3. Complete segregation of duties and reporting authorities must exist between business lines and support functions.
4. Policies and procedures must be clear, properly documented, well-communicated, understood, and implemented in both letter and spirit.
5. Well-established processes and systems provide the backbone of risk management practices at the Bank.

Responsibilities

The Board of Directors of UGB has the ultimate authority for setting the overall risk appetite, risk tolerance, parameters and limits, within which the Bank operates. The Board approves the Bank's overall risk profile and significant risk exposures, as well as the policies, procedures and controls that have been extensively documented.

The Board has delegated day-to-day decision making to the Executive Committee (EC) that comprises four Directors. The EC meets between Board meetings to approve all proposals that exceed the threshold of the Investment Committee.

UGB's robust risk management framework provides comprehensive controls and ongoing management of major risks inherent in the Bank's business model and operational activities.

The Investment Committee is responsible for approving or recommending approvals to the Executive Committee; limits for individual exposures; investments; and concentrations towards banks, countries, industries, risk-rating classes or other special risk asset categories. Further information on the constitution and responsibilities of these committees is disclosed in the Corporate Governance Report available on the Bank's website www.ugbbah.com.

UGB's ability to properly identify, assess, manage, measure, monitor and report risk is critical to its financial strength and profitability. A comprehensive set of risk management policies, processes and limits, are in place to provide guidelines and parameters. These are continuously updated with the objective of incorporating best practice, changes in market factors, and changes in the regulatory environment in various jurisdictions where the Bank operates.

Risk Management Philosophy

The overall risk management strategy of UGB focuses on optimising the risk-return profile of the Bank's exposures (a portfolio approach) as well as avoiding losses. The management philosophy of the Bank for managing the main types of risk is summarised below:

Risk Type	Risk Management Philosophy
Credit risk	To discipline its lending activities and ensure that credit facilities are granted on a sound basis; and that the Bank's funds are invested in a profitable manner.
Market risk	To minimise the loss of the value of financial instruments, or a portfolio of financial instruments, due to an adverse change in market prices or rates.

Risk Type	Risk Management Philosophy
Interest Rate risk	To capture all material sources of interest rate risk, and assess the effect of interest rate changes on the income stream and equity of the Bank.
Liquidity risk	To identify, capture, monitor and manage the various dimensions of liquidity risk with the objective of protecting asset values and income streams, such that the interests of the Bank's shareholders are safeguarded, while maximising returns to shareholders.
Operational risk	To mitigate or insure the risk of loss arising from a failure in the Bank's internal processes due to inadequate internal controls and procedures, human error, deliberate acts and/or business interruptions caused by technology, systems or external disasters beyond the Bank's control.

Types of Risk

In accordance with the Central Bank of Bahrain's guidelines and the Bank for International Settlements, UGB adopted Basel II standards effective from 1 January 2008. This has been implemented with the view of determining capital adequacy, as well as adopting sound practices for the management of risk. These have been further enhanced during the year following the Central Bank of Bahrain guidelines for the implementation of Basel III.

The major types of risk to which UGB is primarily exposed include credit, market, operational, liquidity and funding, interest rate, concentration, reputational and legal risks. Details on each of these are provided in the Basel II Pillar III Risk Management and Capital Adequacy Disclosures available on the Bank's website at www.ugbbah.com.

The following section provides a brief synopsis of the different types of risk and the processes adopted to identify, assess and monitor them.

Credit Risk

Credit risk arises mainly from the extension of credit facilities in UGB Group's commercial banking, investment banking and trading activities, where there is a possibility that a counterparty may fail to honour its commitments.

The Bank mitigates its credit risk through:

- Establishing an appropriate credit risk environment;
- Operating under a sound credit and investment approval process;
- Ensuring adequate controls over the credit risk management process; and
- Maintaining appropriate credit administration, measurement and monitoring processes.

Well-documented policies and subsequent updates are approved by UGB's Board of Directors. These provide the guidelines for credit risk management. The Bank manages credit risk through its limit structure, which controls the amount of risk that it is willing to accept for individual counterparties, related parties and for geographical and industry concentrations. Exposures with respect to the adherence of these limits are monitored on a regular basis.

There is a two-tier committee structure to approve and review credit and investment risk. The Investment Committee (IC) includes the Chief Executive Officer and the Chief Financial Officer. The Head of Credit and Risk Management is a non-voting member on the Committee and acts as its secretary. Exposures beyond IC-delegated limits are approved by the Board's Executive Committee or the full Board of Directors.

The credit risk inherent in trading activities is also actively managed; and in case of exposures to counterparties, is calculated daily as the sum of mark-to-market values. In certain cases, the Bank has entered into legally-enforceable netting agreements covering its money market and foreign exchange trading activities, whereby only the net amount may be settled at maturity. In areas where the Bank acts as an agent for commodity trading on behalf of certain Islamic financial institutions, the risk is managed through simultaneous spot and forward trading in commodities, through well-established financial and commodity trading institutions that have been subject to a detailed credit review.

Continuous monitoring of the Bank's assets through various reports and reviews is critical to early and timely identification of any impairment. A monthly risk asset review report is produced by the Credit and Risk Management Department, in which all investments are assessed based on rating, industry, and geographic exposure, in addition to a number of other parameters. The purpose of this report is also to ensure compliance with external regulatory requirements and internal risk policy guidelines. Additionally, a semi-annual review of all investments is conducted for monitoring performance and highlighting any recent developments.

A quarterly review of loans is prepared at the solo level for the purpose of identifying impairments and providing an update on the status of each facility. The risk asset review report is reviewed on a monthly basis by Management, and quarterly by the Risk and Compliance Committee of the Bank.

UGB has adopted the Standardized Approach for calculating the charge for credit risk. Non-performing loans for the Group stood at US$ 96.6 million as at 31 December 2014 (2013: nil) against which a provision of US$ 78.7 million exists (2013: US$ 1 million).

The Bank identifies and manages credit risk inherent in all products and activities, and ensures that such risks are assessed in depth and are well understood. These activities are then subject to adequate risk management procedures and controls; and approved by the Board of Directors before being introduced or undertaken. The Bank operates within sound, well-defined credit criteria. These criteria include a clear indication of the Bank's target market and a thorough understanding of the borrower or the counterparty; as well as the purpose and structure of the credit and its source of repayment. The Bank has established overall credit limits at the level of individual borrowers and counterparties – as well as groups of connected or comparable counterparties – which are aggregated in a meaningful manner to indicate different types of exposures, both in the banking and trading book, and on and off the balance sheet. The credit limits recognise and reflect the risks associated with the near-term liquidation of positions in the event of counterparty default. Limits also factor in any unsecured exposure in a liquidation scenario.

All extensions of credit are made on an arm's length basis. Any credit extended to companies and individuals that are outside the approved policy parameters are avoided or are authorised on an exception basis by the appropriate authorities. A detailed review of connected party exposure is conducted on a monthly basis and reported to Central Bank of Bahrain.

Detailed information on the Bank's credit risk exposures, including geographical distribution, industry/sector allocation, details of the collaterals and other credit enhancements, and bifurcation based on internal ratings, is provided in Note 31(b) of the Consolidated Financial Statements.

Market Risk

Market risk is defined as the risk of losses in the value of on or off balance sheet financial instruments caused by a change in market prices or rates (including changes in interest rates and foreign exchange rates). UGB's policy guidelines for market risk have been vetted by the Board of Directors in accordance with the rules and guidelines provided by the Central Bank of Bahrain.

The Bank has adopted the Standardized Approach for the measurement of its market risk. This involves a 'building block' methodology that aggregates charges for interest rate exposure, equities, foreign exchange, commodities and options. The Bank has entered into forward contracts and interest rate swaps for hedging purposes, and does not trade commodities or derivatives. Thus UGB's market risk capital adequacy requirements cover the securities trading book and the foreign exchange book.

The minimum capital charge for interest rate exposure is expressed as the sum of two separately calculated charges: one relating to the specific risk of each position, and the other to the interest rate risk in the portfolio (general market risk). For the general market risk capital charge, the Bank applies the maturity method with its respective rules. Information on the interest rate sensitivity in the Bank's asset and liability structure is detailed in Note 31(c) of the Consolidated Financial Statements.

The capital charge for equities held in the Bank's trading book is also an aggregate of two separate components. One applies to 'specific risk' of holding a long or short position in an individual equity, and the other pertains to 'general market risk' of holding that position in the market as a whole. In case of foreign exchange risk, the open currency position is taken both in the banking and the trading book. The sensitivity towards currency movements on the Bank's equity is detailed in Note 31 (c) of the Consolidated Financial Statements. The capital charge under this approach is the arithmetical sum of the risk measures obtained from the measurement framework.

The Bank seeks to manage the market risks that it faces through diversification of exposures across dissimilar markets, industries and products. In addition to the exercise of business judgement and management experience, UGB utilises limit structures related to positions, portfolios, maturities and maximum allowable losses, to control the extent of such risk.

Operational Risk

The Bank has defined operational risk as the risk of losses arising from a failure in its internal processes due to inadequate internal controls and procedures, human error, deliberate acts and/or business interruptions caused by technology, systems or external disasters beyond the Bank's control.

In accordance with Basel guidelines, UGB has developed a comprehensive operational risk framework, whereby all activities and processes of the Bank are analysed; and residual risks are identified, measured and reported as appropriate.

Internal control systems have been introduced that are based on the tenet of adequate segregation of duties. Exception and excess exposure reporting by the Credit and Risk Management Department, succession planning, business continuity planning, reliable management reporting and supervision of the Internal Audit and Quality Assurance Department and the Board Audit Committee, is also adhered to by the Bank. Anti-money laundering procedures and controls are also in place to mitigate any possible misuse of the Bank's services. These are reviewed by the external auditors on a yearly basis, and their report is then sent to the Central Bank of Bahrain as mandated by local regulations.

The management of operational risk in the Bank is the responsibility of every employee. The operational risk framework is built around a detailed Risk Control Self Assessment (RCSA) that identifies all risks stemming from activities of each department of the Bank. The probability of occurrence and potential severity of the risks are assessed; existing controls against each probable risk event are plotted and reviewed in terms of their effectiveness; residual risks after taking into account the effectiveness of controls are documented; and action plans are developed to reduce or mitigate the residual risks. The results of the RCSA are periodically reviewed by the Risk and Compliance Committee. Heat maps are produced to alert Senior Management to areas that may be subject to an increased level of operational risk.

In line with CBB guidelines, UGB uses the Basic Indicator Approach (BIA) to calculate the capital charge for operational risk. This is prescribed as 15% of the average annual gross income of the current year and the preceding two years. The detailed working for the capital charge on operational risk is provided in the Prudential Disclosures related to Basel II - Pillar III, which are posted on the Bank's website at www.ugbbah.com.

In 2014, UGB further enhanced its Operational Risk framework, supported by a fully-automated Operational Risk System. The system comprises four key modules: loss database, risk and control self assessment, key risk indicators, and exposure monitoring; and enables the Bank to monitor, mitigate and report its operational risk exposures in a structured and robust manner on a real-time basis.

Liquidity Risk and Funding

Liquidity risk stems from the inability to procure sufficient cash flow to meet UGB's financial obligations as and when they fall due. The risk arises due to the timing differences between the maturity profile of the Bank's assets and liabilities.

In order to ensure that the Bank can meet its financial obligations as they fall due, the tenors of UGB's assets and liabilities are closely monitored across different maturity time bands.

The Asset and Liability Committee evaluates the balance sheet from a structural, liquidity and sensitivity point of view. The whole process is aimed at ensuring availability of sufficient liquidity to fund the Bank's ongoing business activities; effectively managing maturity mismatches between assets and liabilities; managing market sensitivities; and ensuring the Bank's ability to fund its obligations as they fall due. Daily and weekly reports are generated, which monitor deposits by counterparties to ensure maintenance of a diversified funding base in terms of individual depositors, their ratings, geographical concentration and maturities.

A diversified funding base has evolved around the deposits raised from the interbank market, Sharia-compliant market deposits received from customers, and medium-term funds raised through syndicated borrowings. Access to available but uncommitted short-term funding from the Bank's established relationships, internationally and across the MENA region, provides additional comfort. As at year-end 2014, UGB's solo liquidity ratio was 39% (2013: 37%).The Bank monitors this on a daily basis to ensure that the regulatory level of 25% is maintained at all times.

Liquidity risk is minimised by actively managing mismatches, and through diversification of assets and liabilities. The Bank uses a combination of limits to ensure that liquidity risk is managed and controlled from the asset and liability perspective:

- Maturity gap limits: assets and liabilities in the Bank's balance sheet are grouped in specific maturity time buckets. The maximum liquidity mismatch between assets and liabilities in each defined time bucket (e.g. one to seven days, eight days to one month, one to three months, three to six months, six to 12 months, one to three years, three to five years, and more than five years), is controlled by gap limits that have been set for each time bucket. The Risk Management team tracks these limits.

- Liquidity ratio limits: the Bank has limits on a set of ratios which it uses proactively for monitoring liquidity risk. These include the current ratio, liquid assets as a percentage of total assets, liquid assets as a percentage of total liabilities, and short-term liabilities as a percentage of total liabilities.

Information on the liquidity risk and maturity profile of UGB's asset and liability structure as at the end of 2014 is detailed in the Note 31(d) of the Consolidated Financial Statements. As of this date, 52% of total assets and 75% of total liabilities were contracted to mature within one year (2013: 17% and 78% respectively). A significant portion of assets with longer-term maturities comprise readily realisable securities or listed assets with active markets.

Interest Rate Risk in the Banking Book

Interest rate risk in the banking book arises as a result of mismatches in the re-pricing or maturity of interest rate sensitive financial assets and liabilities. This is also known as re-pricing risk. Additionally, UGB is exposed to minimal basis risk which results from a change in the relationship between the yields/yield curves of long and short positions with the same maturity in different financial instruments. In effect, this means that the long and short positions no longer fully hedge each other.

The Bank clearly identifies the sources of interest rate risk, and the interest rate risk-sensitive products and activities. It proactively measures and monitors the interest rate risk in the banking book. UGB also periodically carries out stress tests to assess the effect of extreme movements in interest rates that could expose the Bank to high risks. A conscious effort is also made to match the amount of floating rate assets with floating rate liabilities in the banking book. All new products and transactions are evaluated with respect to the interest rate risk introduced by it and the identification of mitigating factors. UGB also enters into certain transactions in order to hedge exposures arising from day-to-day banking and investment activities. These hedge transactions may be instruments such as interest rate swaps (IRS) and floating rate notes (FRN), to convert a floating rate asset/liability into a fixed rate one or vice-versa. The Bank continuously monitors the effectiveness of the hedges.

Concentration Risk

Concentration of exposures in credit portfolios is an important aspect of credit risk that is monitored separately in UGB. This risk can be considered from either a micro (idiosyncratic) perspective or a macro (systemic) perspective. The first type – name concentration, relates to imperfect diversification of risk in the portfolio, either because of its small size or because of large exposures to specific individual obligors/investments. The second type – sector concentration, relates to imperfect diversification across systemic components of risk, namely industry sectoral factors.

Concentration risk is captured in UGB's framework through the use of internal and external regulations that cap the maximum exposure to any single obligor/investment. There are established limits in place that set thresholds for aggregate industry, geography, and counterparty. The actual levels of exposure are monitored against approved limits and regularly reviewed by Senior Management and the Board of Directors.

The Bank pursues a set of internal policies and limits that ascertain to a large extent, that no defined exposure limits referred to in its various policies are exceeded. If any potential exposure is deem to result in breach of regulatory and/or internal limits, the Bank obtains due approvals from the appropriate authority (Central Bank of Bahrain and/or the Bank's relevant approving authority) before executing the respective business transaction.

Legal Risk

Legal risk is defined as the loss that may arise as a result of the inability to enforce contracts and agreements entered into, the failure of these to adequately cover the risks, and liabilities the Bank may face, and their inability to protect the Bank's interests. In order to mitigate Legal risk, UGB uses industry standard master agreements wherever available. Expert legal advice is sought on all legal structures and arrangements to which the Bank is a party. A retainer agreement is maintained with a Bahrain law firm for the review of standard business agreements and, for special assignments documentation, the Bank involves local and international law firms. Proper execution and completion of all legal contracts is ensured prior to committing funds to the transactions. All legal documents are reviewed on a periodic basis to ensure their ongoing enforceability, and are maintained under dual custody.

Basel III

The Basel Committee on Banking Supervision issued its final guidelines on Basel III in December 2010. The document provides a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector, and builds on the International Convergence of Capital Measurement and Capital Standards document (Basel II) issued in 2006.

Accordingly, the Central Bank of Bahrain issued detailed Basel III regulations with respect to capital adequacy calculations which become effective from 1 January 2015. In line with Basel Committee guidelines, CBB allows a transition period of up to 2018 for full implementation. During the last quarter of 2014, several meetings were held with CBB where UGB submitted its study on how best to optimise its capital beginning 1 January 2015 and providing projections till the end of the transition period. UGB on a consolidated basis remains complaint with the CBB Basel III capital adequacy requirements.

Monitoring and Reporting

The monitoring and reporting of risk is conducted on a daily basis for market and liquidity risk, on a monthly basis for credit risk, and on a quarterly basis for operational risk. The regular forums in which risk related issues are highlighted and discussed are Management meetings, Risk and Compliance Committee meetings, and Executive Committee meetings. The Board of Directors is also regularly apprised of pertinent risk issues including the semi-annual investment reviews and the proposed corrective action.

Risk and Compliance Committee

The Risk and Compliance Committee of UGB supervises the adoption of best practices in the areas of risk and compliance. It acts as the steering committee for risk and compliance initiatives, responsible for monitoring the progress and facilitating a smooth transition towards complete compliance with provisions of the New Capital Accord. During 2014, the Committee met three times and resolved important matters.

Internal Capital Adequacy Assessment Process

The Internal Capital Adequacy Assessment Process (ICAAP) is a requirement of Pillar II norms of Basel II, and involves appropriate identification and measurement of risks, and maintenance of an appropriate level of internal capital in alignment with the Bank's overall risk profile and business plan. The objective of the Bank's ICAAP is to ensure that adequate capital is retained at all times to support the risks the Bank undertakes in the course of its business.

The Bank recognises that its earnings are the first line of defence against losses arising from business risks, and that capital is one of the tools to address such risks. Also important, are establishing and implementing documented procedures; defining and monitoring internal limits on the Bank's activities/exposures; strong risk management, compliance and internal control processes; as well as adequate provisions for credit, market and operational losses. However, since capital is vital to ensure continued solvency, the Bank's objective is to maintain sufficient capital such that a buffer above regulatory capital adequacy requirement is available to meet risks arising from fluctuations in asset values, revenue streams, business cycles, and expansion and future requirements. The Bank's ICAAP identifies risks that are material to the Bank's business and the capital that is required to be set aside for such risks.

The Bank seeks to achieve the following goals by implementing an effective capital management framework:

- Meet the regulatory capital adequacy requirement and maintain a prudent buffer;
- Generate sufficient capital to support overall business strategy;
- Integrate capital allocation decisions with the strategic and financial planning process;
- Enhance Board and Senior Management's ability to understand how much capital flexibility exists to support the overall business strategy;
- Improve the Bank's understanding on capital requirements under different economic and stress scenarios; and
- Build and support the link between risks and capital and tie performance to both of them.

Capital Sources

UGB's capital is primarily derived from common shareholders' equity and retained earnings. Other sources of capital include subordinated long-term debt.

Capital Management

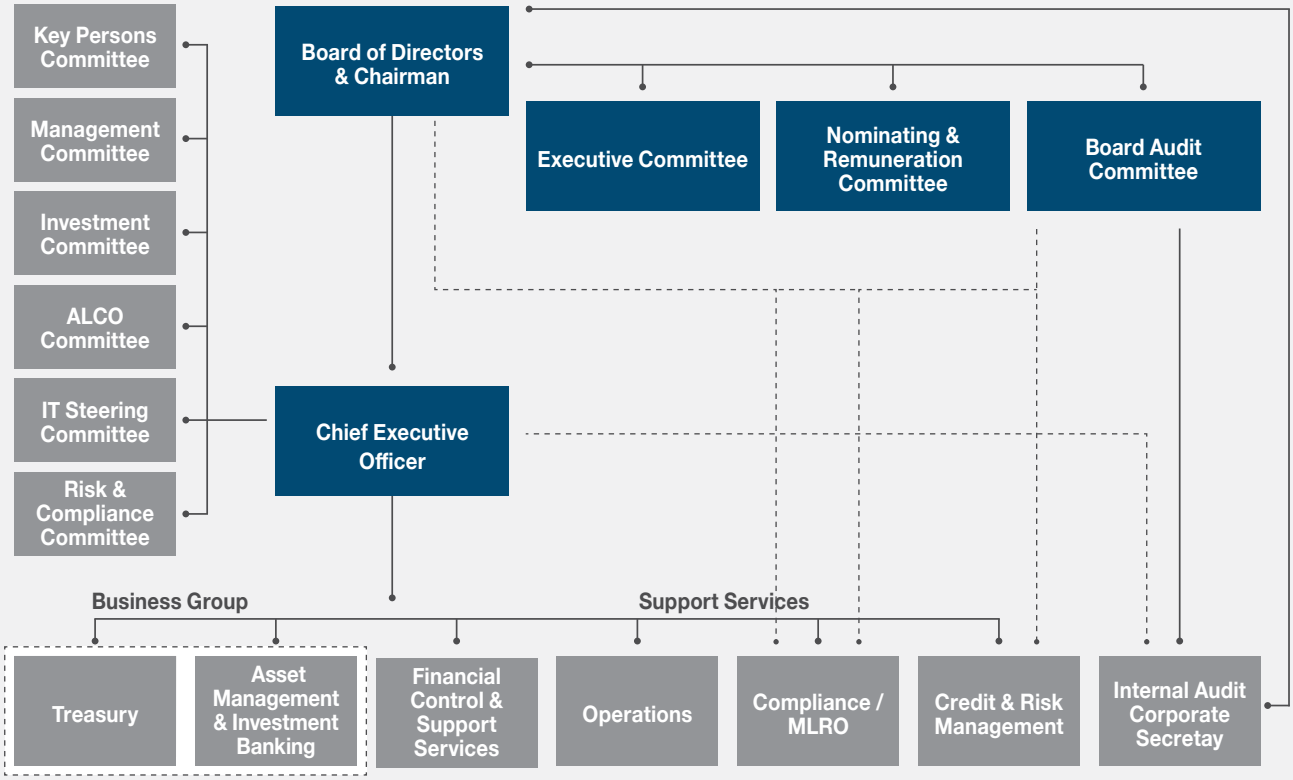
The Board of Directors of the Bank is responsible for ensuring that adequate levels of capital are maintained at all times. The Board also approves and oversees the processes adopted for capital management by the Bank.

Corporate Governance Review

The corporate governance framework of the Bank is a reflection of its culture, policies, stakeholder relationships, and commitment to corporate values. The Board of Directors believes that sound ethical practices, transparency of operations, and timely disclosures are critical factors in enhancing shareholder value and safeguarding the interests of all stakeholders.

UGB is committed to adopting the highest standards of corporate governance in line with global best practice.

Governance and Organisation Structure



Key Developments in 2014

Throughout the year, UGB continued to take steps to ensure compliance with the Higher Level Controls Module of the Rulebook regulations of the Central Bank of Bahrain (CBB) and the principles of the Code of Corporate Governance of the Kingdom of Bahrain (the Code).

- There was a change to the composition of the Board of Directors in 2014, following the demise of Mr. Faick Al Saleh during the year.
- Mr. Ameer Ali Bu Hussayen, Head of Operations & Money Laundering Reporting Officer (MLRO), retired from the Bank during 2014. Following CBB approval, Ms. Deepa Chandrasekhar, Chief Compliance Officer, was appointed MLRO with effect from April 2014.
- UGB's Management-level FATCA Working Group continued its activities towards full implementation of CBB requirements relating to the Foreign Account Tax Compliance Act (FATCA) framework. Full details of compliance-related developments during 2014 are covered under the Compliance section of this Review.
- The Bank appointed external consultants to advise on the impact of the Sound Remuneration Policy requirements issued by the Central Bank of Bahrain and to assist in developing a compliant remunerations policy for submission to the CBB and the Annual General Assembly for their respective approvals. Details of several new requirements on disclosure related to remuneration are included in the Prudential Disclosure Report which is available on the Bank's website at www.ugbbah.com. UGB's compliance with the CBB's corporate governance rules is validated annually by the Bank's independent external auditors to provide assurance to the Wholesale Banking Directorate of the CBB as to the extent of adherence to the rules.

Compliance

In accordance with CBB guidelines, UGB has a designated Chief Compliance Officer (CCO) with a dotted reporting line to the Board Audit Committee. The CCO acts as the central coordinator for all matters relating to CBB regulatory reporting and other requirements. A framework of relevant policies and processes covering the areas of adherence to external regulations, code of conduct and conflicts of interest, are encapsulated in the Bank's Compliance Charter and Code of Conduct. These documents have been approved by the Board of Directors and help define, clarify, assert and enforce the role of governance within UGB.

A Compliance Report is presented every quarter by the CCO to members of the Board Audit Committee, and the Risk and Compliance Committee. Forthcoming deadlines, as well as feedback on ongoing consultations, are highlighted at quarterly Risk and Compliance Committee meetings. The Compliance function is also responsible for ensuring that all ad hoc requests for information from regulatory authorities are responded to immediately, and that corrective action is taken if required.

UGB shares a strong rapport with its local regulators – the Central Bank of Bahrain, the Bahrain Bourse, and the Ministry of Industry & Commerce – and there is proactive dialogue as and when warranted. In addition, the CBB conducts an annual Prudential Meeting with Senior Management of UGB in the presence of a Board Director. This forum involves the regulators receiving an overview of the Bank's performance; business model and strategic plan; market outlook; corporate governance and risk management; and capital adequacy framework.

During the year, UGB responded to a number of Consultation Papers issued by the CBB and the Bahrain Bourse. These included the Gap Analysis on Remuneration Practices, Basel III, Proposed Changes to the Financial Crime and Client Assets Modules, and the Securitisaton Law. UGB is also committed to complying with the Training & Competency requirements of the CBB for all Approved Persons to complete 15 hours of continuous professional development every year.

Foreign Account Tax Compliance Act (FATCA)

UGB's Management-level FATCA Working Group continued its activities during 2014 towards full implementation of CBB requirements relating to the Foreign Account Tax Compliance Act (FATCA) framework. The Group has the full support of the Board, which receives regular updates. The CEO acts as 'Responsible Officer'; while the Chief Compliance Officer and the Head of Credit & Risk Management act as 'Points of Contact'. Key developments include registration with the IRS, and receipt of a global intermediary identification number (GIIN); and conducting the necessary due diligence on clients through a Compliance-Operations joint exercise. This involves all clients signing the relevant tax forms, and completing a self-assessment questionnaire; together with keeping UGB informed of any changes in their circumstances that affect their tax liability within 90 days. UGB is exploring the possibility of developing an in-house management information system to act as a portal for storing and accessing FATCA-related client documentation. Work on this will commence once the reporting requirements are specified by the regulators.

Anti-Money Laundering

UGB has a designated Money Laundering Reporting Officer (MLRO) and a Deputy MLRO (DMLRO). The Bank has implemented an anti-money laundering (AML) and counter terrorism financing (CFT) policy, and annually trains staff to raise awareness of identifying and reporting suspicious transactions. Employees receive an overview of the Bank's AML/CFT policy and procedures and training slides that are also available on the Intranet. UGB follows prudent practices related to Customer Due Diligence and Beneficial Ownership using the Thomson Reuter's screening tool, and Know Your Customer (KYC) principles. In accordance with regulatory requirements, the MLRO reviews the effectiveness of the AML/CFT procedures, systems and controls at least once a year. The Bank's anti-money laundering measures are audited annually by independent external auditors for UGB and its main subsidiaries, to provide a separate assurance to the Compliance Directorate of the CBB.

In 2014, UGB complied with new rules introduced by the CBB to strengthen the Kingdom's AML framework. A circular was issued to all staff informing them to notify Compliance if at all there are inward/outward remittances involving sanctioned countries specified by the Financial Action Task Force (FATF).

Code of Conduct

The Board of Directors has established corporate standards for all Directors and employees. These are emphasised in the Bank's Code of Conduct which reiterates the need to uphold sensitive and confidential information; avoiding and disclosing (wherever applicable) conflicts of interest; personal accountability; honesty; harmonious relationships with clients, subsidiaries, affiliates and regulators; non-solicitation of gifts; transparent and accurate external communications; expected standards of professionalism, fairness, behaviour and language; and accurate accounting, auditing and bookkeeping.

The Board and Senior Management view the Code of Conduct as an integral part of the way they exercise their responsibilities; and the way they conduct themselves with clients, shareholders, staff, and the wider community. Familiarisation sessions on the requirements of the Code of Conduct are conducted on an annual basis by the Chief Compliance Officer. Board members and staff submit a written affirmation that they will abide by the tenets of the Code, and disclose any personal conflicts of interest. Any

incidents of non-compliance with the Code, or lack of affirmation by any member of UGB is escalated to the Board Audit Committee and the Board of Directors. The Code of Conduct is posted on the Bank's website: www.ugbbah.com.

Transparency and Disclosure

UGB is transparent and open with its regulators, shareholders, lenders and other stakeholders. The Board of Directors has approved a Disclosure and Transparency Policy which lays down the set of disclosure standards for the Bank. The objective of this policy is to facilitate understanding and compliance with the disclosure and transparency requirements for all material and non-material information with regard to the affairs of UGB. Adequate consideration is given to regulatory requirements to which the Bank is subject. The policy was also introduced to monitor the transparency adopted, and to enhance the Bank's image through accurate and timely disclosure of information.

As part of its communications strategy, UGB's website (www.ugbbah.com) is the repository of financial information together with financial statements, relevant information on the Group/Bank, key products and services, and press releases that are issued periodically to the media. As mandated by the CBB, the detailed risk management and capital adequacy calculations that relate to Basel II have also been uploaded under 'Investor Relations'. The Bank's Corporate Governance Report as well as incorporation documents are also available on the website

Internal Audit & Quality Assurance

UGB has an independent Internal Audit department reporting directly to the Board Audit Committee, with an administrative reporting line to the Chief Executive Officer. The department is staffed by experienced and qualified professionals, and is governed by a detailed Board-approved Audit Charter. Details of its responsibilities are documented in a Board-approved Policies & Procedures Manual. Internal Audit has a close and direct working relationship with the Bank's Executive Management and Committees, in addition to having unrestricted access to information, records, systems and personnel within the Bank.

The department delivers its services in line with a risk-based three-year strategic audit plan, which is designed to implement a systematic, disciplined audit review approach by utilising the available audit resources in the most efficient and effective manner. It examines the adequacy and effectiveness of processes, systems and procedures within the internal controls framework – comprising Compliance, Risk Management, Financial Control and AML amongst others – and provides recommendations in order to enhance and strengthen their reliability. On a periodic basis, the department performs follow-ups on internal control recommendations and corrective actions that have been raised, and reports their updated status to the Board Audit Committee. In 2014, Internal Audit was closely involved in the implementation of the Foreign Account Tax Compliance Act (FATCA) framework, and conducted audits to ensure that all necessary controls were in place.

The department also oversees the implementation of sound governance and internal control principles and practices at the level of UGB's subsidiaries and associate companies; and provides regular support to their respective Board Audit Committees and Internal Audit functions.

In terms of Quality Assurance, the department works with head office departments, and subsidiaries and associate companies, to facilitate continuous process improvements and review new initiatives. These include regular reviews of updates to the Bank's policies and procedures, organisation chart and job descriptions; and assessing the impact of new regulations. In addition, the department conducts ad hoc special assignments at the request of the Board and Management to ensure continuous improvement.

The Bank has long been active in a wide range of socially-responsible activities including corporate philanthropy, employee involvement, and long-term strategic programmes in education. This is in line with its commitment to contribute to the social well-being and economic prosperity of the Kingdom of Bahrain.

During 2014, UGB continued to implement its corporate social responsibility programme with a special emphasis on charitable activities; education and career development; support for child welfare and orphans; assistance to charities working with the needy and the underprivileged; and development of the regional banking sector.

Education and Career Development for Young Bahrainis

UGB supports the philosophy that education is the best source of empowerment. The Bank's Scholarship Programme assists qualified UGB employees' dependents to study at accredited colleges, universities or other recognised academic institutions. The Bank also extends financial support to its staff to enhance their academic and professional qualifications.

The Bank provides education and career development opportunities for young Bahraini students through the following activities:

- **The Crown Prince's International Scholarship Program (CPISP)**

  UGB has been an annual Silver Sponsor of this major educational initiative since its inception in 2006. The Bank became a Friends Sponsor in 2012; this carries a five-year commitment of US$ 50,000.

- **University of Bahrain / Bahrain Association of Banks Mentoring Programme**

  UGB is a founding member of this programme, which provides selected students with summer work experience and the opportunity of placement.

- **TradeQuest – The Trading Challenge**

  TradeQuest is a business-education partnership that was established 18 years ago. Conducted under the aegis of the Bahrain Bourse, it provides school students with an opportunity to participate in a simulated interschool trading competition by investing in shares listed on the New York Stock Exchange, NASDAQ and the Bahrain Bourse. UGB has supported this competition for the past 13 years by sponsoring one of the schools. UGB staff are actively involved in working with the students, and guiding them through the elements of investing and risk management.

UGB has an enduring responsibility for the communities in which it operates.

Development of the Regional Banking Sector

UGB contributes to the growth and development of the regional banking and financial services sector in a number of different ways:

- Bank support for a wide range of banking-related organisations including the Bahrain Association of Banks, Union of Arab Banks, Bahrain Institute of Banking and Finance, International Institute of Finance, and International Islamic Financial Market of Bahrain.

- UGB staff membership of professional institutions and associations.

- Support for the CFA Society Bahrain in promoting and maintaining the highest standards of professional excellence and integrity in the financial and investment community.

Charitable and Community-based Activities

Over the years, UGB has provided financial assistance for numerous charitable, cultural, social, medical, and educational organisations that work with the underprivileged and needy families. In 2014, contributions were also made to entities that are committed to protecting the heritage and environment of the Kingdom of Bahrain.

Independent Auditors' Report to the Shareholders of United Gulf Bank B.S.C.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of United Gulf Bank B.S.C. [the Bank] and its subsidiaries [together «the Group»] which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statements of income, comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 the Board of Directors, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2014, 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 the Central Bank of Bahrain (CBB) Rule Book (Volume 1), we report that:

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

b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements.

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2014 that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests.

Ernst + Young

Partner's registration no: 115

28 February 2015

Manama, Kingdom of Bahrain

Consolidated Statement of Financial Position

At 31 December 2014

	Note	2014 US$ 000	2013 US$ 000
ASSETS			
Demand and call deposits with banks		284,048	17,747
Placements with banks		142,481	113,063
Investments carried at fair value through statement of income	6	57,063	46,629
Non-trading investments	7	218,407	166,267
Loans and receivables	8	990,164	3,958
Other assets	9	113,574	29,630
Investments in associates and joint ventures	10	864,991	824,557
Investment properties	11	4,774	14
Property and equipment		39,926	690
Goodwill	12	54,509	56,008
Assets of disposal group classified as held for sale	14	7,893	-
TOTAL ASSETS		2,777,830	1,258,563
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions		712,615	258,548
Deposits from customers		548,417	23,802
Loans payable	15	781,347	386,325
Subordinated debt	16	93,270	100,000
Other liabilities	17	61,545	30,326
Liabilities of disposal group classified as held for sale	14	249	-
TOTAL LIABILITIES		2,197,443	799,001
EQUITY			
Share capital	18	208,651	208,651
Treasury shares	18	(18,131)	(18,131)
Share premium	18	11,459	11,459
Statutory reserve	18	98,766	96,882
General reserve	18	79,251	77,367
Treasury shares reserve	18	14,248	14,248
Fair value reserve	19	7,539	(17,313)
Foreign currency translation reserve	18	(10,403)	6,686
Retained earnings		71,522	56,451
CAPITAL AND RESERVES ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		462,902	436,300
Non-controlling interests in equity		117,485	23,262
TOTAL EQUITY		580,387	459,562
TOTAL LIABILITIES AND EQUITY		2,777,830	1,258,563

Masaud Hayat
Chairman

Faisal Al Ayyar
Vice Chairman

Rabih Soukarieh
Chief Executive Officer

The attached explanatory notes 1 to 34 form part of these consolidated financial statements.

Consolidated Statement of Income

For the year ended 31 December 2014

	Note	2014 US$ 000	2013 US$ 000
Continuing operations			
Interest income	21	56,489	6,758
Investment income - net	20	44,210	19,990
		100,699	26,748
Fees and commissions	22	38,234	17,084
Foreign currency translation (losses) gains - net		(7,141)	1,037
Share of results of associates and joint ventures - net	23	37,258	19,385
Total income		169,050	64,254
Interest expense	24	(51,627)	(31,246)
Operating income before expenses and provisions		117,423	33,008
Salaries and benefits		(42,571)	(17,135)
General and administrative expenses		(26,210)	(6,762)
Operating income before provisions and tax		48,642	9,111
Impairment loss on investments	7,10	(3,127)	(6,863)
(Provision) write-back for doubtful loans and other assets - net	8,9	(20,547)	1,906
Impairment of goodwill	12	(31,417)	-
Taxation	13	14,502	-
Net profit for the year from continuing operations		8,053	4,154
Discontinued operations			
Net loss from discontinued operations	14	(6,298)	-
Net (loss) profit for the year		1,755	4,154
Net (loss) profit attributable to non-controlling interests		(17,084)	1,567
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT		18,839	2,587
Net (loss) profit attributable to:			
Non-controlling interests			
- from continuing operations		(14,641)	1,567
- from discontinued operations		(2,443)	-
		(17,084)	1,567
Shareholders of the parent			
- from continuing operations		22,694	2,587
- from discontinued operations		(3,855)	-
		18,839	2,587
Earnings per share			
Basic and diluted earnings per share from continuing operations (US cents)	25	2.78	0.32
Basic and diluted earnings per share from discontinued operations (US cents)	25	(0.47)	-

Masaud Hayat
Chairman

Faisal Al Ayyar
Vice Chairman

Rabih Soukarieh
Chief Executive Officer

The attached explanatory notes 1 to 34 form part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2014

	2014 US$ 000	2013 US$ 000
NET PROFIT FOR THE YEAR	1,755	4,154
Other comprehensive (loss) income to be reclassified to profit or loss in subsequent years:		
Foreign currency translation reserve	(17,940)	(6,023)
Fair value reserve	22,553	3,720
Transfer to consolidated statement of income upon disposal / impairment	1,344	(2,950)
Share of other comprehensive income (loss) of associates and joint ventures - net	421	(14,639)
Cash flow hedges	136	280
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent years	6,514	(19,612)
TOTAL COMPREHENSIVE INCOME (LOSS)	8,269	(15,458)
Total comprehensive income (loss) attributable to:		
- shareholders of the parent	26,602	(17,064)
- non-controlling interests	(18,333)	1,606
	8,269	(15,458)

The attached explanatory notes 1 to 34 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	Note	2014 US$ 000	2013 US$ 000
OPERATING ACTIVITIES			
Net profit for the year		1,755	4,154
Adjustments for non-cash items:			
Depreciation		3,254	357
Share of results of associates and joint ventures - net	23	(37,258)	(19,385)
Loss on sale of an associate	21	8	-
Impairment loss on investments		3,127	6,863
Impairment of goodwill		31,417	-
Provisions (write-back) for doubtful loans and other assets - net		20,547	(1,906)
Interest income		(56,489)	(6,758)
Interest expense		51,627	31,246
Dividend income	21	(4,170)	(2,568)
Other non-cash items		1,499	295
Gain on investments carried at fair value through statement of income	21	(2,745)	(7,177)
Loss on sale of investment properties	21	-	1,274
Operating profit before changes in operating assets and liabilities		12,572	6,395
Changes in operating assets and liabilities:			
Placements with banks with original maturities of more than ninety days		(7,794)	-
Investments carried at fair value through statement of income		(7,689)	13,844
Non-trading investments		18,646	20,087
Loans and receivables		(33,432)	2,234
Other assets		(39,804)	(5,263)
Due to banks and other financial institutions		(105,130)	83,179
Deposits from customers		92,422	(40,718)
Other liabilities		9,014	5,286
Net assets of disposal group classified as held for sale		(7,644)	-
Interest received		54,896	6,852
Interest paid		(47,544)	(30,923)
Dividends received	21	4,170	2,568
Donations		(200)	(200)
Directors' remuneration		(200)	(200)
Net cash (used in) from operating activities		(57,717)	63,141
INVESTING ACTIVITIES			
Investment in subsidiaries - net of cash acquired	4 (e)	83,484	-
Investments in associates and joint ventures - net		21,476	(22,268)
Investment properties - net		(4,760)	12,732
Property and equipment - net		(3,472)	(420)
Net cash from (used in) investing activities		96,728	(9,956)
FINANCING ACTIVITIES			
Proceeds from loans		220,556	3,936
Subordinated debt		(6,730)	-
Purchase of treasury shares		-	(2,905)
Proceeds from sale of treasury shares		-	54
Proceeds from issue of shares		-	7
Net cash from financing activities		213,826	1,092
Foreign currency translation adjustments		(17,089)	(5,900)
Movement in non-controlling interests		52,177	(279)
NET CHANGE IN CASH AND CASH EQUIVALENTS		287,925	48,098
Cash and cash equivalents at 1 January		130,491	82,393
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	26	418,416	130,491

The attached explanatory notes 1 to 34 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

	Attributable to shareholders of the parent											
	Share capital US$ 000	Treasury shares US$ 000	Share premium US$ 000	Statutory reserve US$ 000	General reserve US$ 000	Treasury share reserve US$ 000	Fair value reserve US$ 000	Foreign currency translation reserve US$ 000	Retained earnings US$ 000	Total before non-controlling interests US$ 000	Non-controlling interests US$ 000	Total equity US$ 000
Balance at 1 January 2014	208,651	(18,131)	11,459	96,882	77,367	14,248	(17,313)	6,686	56,451	436,300	23,262	459,562
Profit (loss) for the year	-	-	-	-	-	-	-	-	18,839	18,839	(17,084)	1,755
Other comprehensive income (loss)	-	-	-	-	-	-	24,852	(17,089)	-	7,763	(1,249)	6,514
Total comprehensive income (loss) for the year	-	-	-	-	-	-	24,852	(17,089)	18,839	26,602	(18,333)	8,269
Transfers during the year	-	-	-	1,884	1,884	-	-	-	(3,768)	-	-	-
Other movements in non-controlling interests	-	-	-	-	-	-	-	-	-	-	112,556	112,556
Balance at 31 December 2014	208,651	(18,131)	11,459	98,766	79,251	14,248	7,539	(10,403)	71,522	462,902	117,485	580,387
Balance at 1 January 2013	208,644	(15,340)	11,459	96,623	77,108	14,308	(3,562)	12,586	54,382	456,208	21,974	478,182
Profit for the year	-	-	-	-	-	-	-	-	2,587	2,587	1,567	4,154
Other comprehensive (loss) income	-	-	-	-	-	-	(13,751)	(5,900)	-	(19,651)	39	(19,612)
Total comprehensive (loss) income for the year	-	-	-	-	-	-	(13,751)	(5,900)	2,587	(17,064)	1,606	(15,458)
Shares issued	7	-	-	-	-	-	-	-	-	7	-	7
Purchase of treasury shares	-	(2,905)	-	-	-	-	-	-	-	(2,905)	-	(2,905)
Sale of treasury shares	-	114	-	-	-	(60)	-	-	-	54	-	54
Transfers during the year	-	-	-	259	259	-	-	-	(518)	-	-	-
Other movements in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(318)	(318)
Balance at 31 December 2013	208,651	(18,131)	11,459	96,882	77,367	14,248	(17,313)	6,686	56,451	436,300	23,262	459,562

The attached explanatory notes 1 to 34 form part of these consolidated financial statements.

1 INCORPORATION AND PRINCIPAL ACTIVITIES

Incorporation

United Gulf Bank B.S.C. [the Bank] is a joint stock company incorporated in the Kingdom of Bahrain in 1980, under Commercial Registration number 10550 and listed on the Bahrain Bourse. The address of the Bank's registered office is UGB Tower, Diplomatic Area, P.O. Box 5964, Manama, Kingdom of Bahrain.

The Bank operates in the Kingdom of Bahrain under a Wholesale Banking License issued by the Central Bank of Bahrain [the CBB].

Activities

The principal activities of the Bank and its subsidiaries [the Group] comprise asset management, investment banking and commercial banking. Investment banking includes asset portfolio management, corporate finance, advisory, investment in quoted and private equity funds, real estate, capital markets, international banking and treasury functions. Commercial banking includes extending loans and other credit facilities, accepting deposits and current accounts from corporate and institutional customers.

The Bank's parent and ultimate holding company is Kuwait Projects Company (Holding) K.S.C. (closed) [KIPCO], a company incorporated in the State of Kuwait and listed on the Kuwait Stock Exchange. As at 31 December 2014 KIPCO owned 97.41% of the Bank's outstanding shares (2013: 96.83%).

These consolidated financial statements were authorised for issue by the Board of Directors on 28 February 2015.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the relevant provisions of the Central Bank of Bahrain and Financial Institutions Law and the Bahrain Commercial Companies Law, and the CBB Rulebook (Volume 1 and applicable provisions of Volume 6), relevant CBB directives and regulations and associated resolutions, rules and procedures of the Bahrain Bourse.

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention as modified by the remeasurement at fair value of investments carried at fair value through statement of income, non-trading investments, investment properties and derivative financial instruments.

Presentation and functional currency

The consolidated financial statements have been presented in US Dollars (US$) being the functional currency of the Group and are rounded to the nearest US$ thousands except when otherwise indicated.

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRSs effective as of 1 January 2014:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact to the Group, since none of the entities of the Group qualifies to be an investment entity under IFRS 10.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments have no impact on the Group.

Improvements to IFRSs (2010-2012 Cycle)

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Group.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

Improvements to IFRSs (2011-2013 Cycle)

In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Group, since the Group is an existing IFRS preparer.

Other amendments resulting from Improvements to IFRSs did not have any impact on the accounting policies, financial position or performance of the Bank.

Significant accounting policies are set out below:

Principles of consolidation

The consolidated financial statements include the financial statements of the Bank and its subsidiaries [the Group]. Subsidiaries are those entities controlled by the Bank, other than in a fiduciary capacity. The reporting dates of the subsidiaries and the Bank are identical and the subsidiaries' accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Specifically, the Group controls an investee if and only if the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

a) Derecognises the assets (including goodwill) and liabilities of the subsidiary;
b) Derecognises the carrying amount of any non-controlling interest;
c) Derecognises the cumulative transaction differences, recorded in equity;
d) Recognises the fair value of consideration received;
e) Recognises the fair value of any investment retained;
f) Recognises any surplus or deficit in the consolidated statement of income; and
g) Reclassifies the parent's share of a component previously recognised in OCI to consolidated statement of income or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Principles of consolidation (continued)

The principal subsidiaries of the Bank are as follows:

Name of the subsidiary	Country of incorporation	Effective ownership at 31 December 2014	Effective ownership at 31 December 2013	Year of incorporation
Held directly				
FIMBank Group [FIMBank]	Malta	61%	-	1994
KAMCO Investment Company K.S.C.P. [KAMCO]	Kuwait	86%	86%	1998
Hatoon Real Estate Company	Kuwait	98%	98%	2008
Syria Gulf Investment Company	Syria	99%	99%	2007
Takaud Saving & Pensions Company	Bahrain	50%	-	2011
United Gulf Financial Services Company-North Africa	Tunisia	85%	85%	2008
Held through KAMCO				
Al Dhiyafa United Real Estate Company W.L.L.	Kuwait	100%	100%	2007
Al Janah Holding Company K.S.C. (Closed)	Kuwait	99%	60%	2005
Al Rawabi International Real Estate Co. W.L.L.	Kuwait	96%	96%	2009
Al Raya Real Estate Projects Company W.L.L.	Kuwait	100%	100%	2007
Al Zad Real Estate W.L.L.	Kuwait	100%	100%	2007
Kamco GCC Opportunistic Fund	Kuwait	100%	-	2013
KAMCO Real Estate Company S.P.C.	Bahrain	100%	100%	2005
Kuwait Private Equity Opportunity Fund	Kuwait	71%	66%	2004
North Africa Real Estate Co.	Kuwait	100%	-	2014
Orange Real Estate Co. W.L.L.	Kuwait	100%	100%	2005
Held through FIMBank				
India Factoring and Finance Solutions Private Limited	India	79%	-	2010
CIS Factors Holdings B.V.	Russia	80%	-	2009
FIM Holdings (Chile) S.p.a.	Chile	100%	-	2014
First Factors S.A.	Chile	51%	-	2014
London Forfaiting Company Limited	United Kingdom	100%	-	2009
London Forfaiting International Limited	United Kingdom	100%	-	2009
London Forfaiting Americas Inc.	United States of America	100%	-	2009
London Forfaiting do Brasil Ltd.	Brazil	100%	-	2009
FIM Factors B.V.	Netherlands	100%	-	2009
Menafactors Limited	United Arab Emirates	100%	-	2009
FIM Business Solutions Limited	Malta	100%	-	2009
FIM Property Investment Limited	Malta	100%	-	2010

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated statement of income. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in the consolidated statement of income or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associates and joint ventures are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of income reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's consolidated OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The financial statements of associates and joint ventures are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investments in its associates and joint ventures. At each reporting date, the Group determines whether there is objective evidence that an investment in an associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as 'Share of results of associates and joint ventures' in the consolidated statement of income.

Upon loss of significant influence over an associate or joint control over a joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of income.

Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's share of the fair value of the net identifiable assets of the acquired subsidiary, associate or joint venture at the date of the acquisition. Goodwill arising on the acquisition of an associate or a joint venture is included in the carrying amount of the respective associate or joint venture and, therefore, is not separately tested for impairment. Goodwill arising on the acquisition of a subsidiary is recognised as a separate asset in the consolidated statement of financial position.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the consolidated statement of income.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill of subsidiaries is allocated to cash-generating units and is tested annually for impairment. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. The recoverable amount of a cash-generating unit is the higher of the cash-generating unit's fair value less costs to sell, and its value in use. Any impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a part of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Fair value measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

The Group measures financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 32.

For financial instruments traded in an active market, fair value is determined by reference to quoted market bid prices for assets and quoted market offer prices for liabilities, without deduction for transaction costs. The fair value of investments in managed funds or similar investment vehicles, where available, are based on last published bid price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

For financial instruments where there is no active market, fair value is determined using appropriate valuation techniques. Such techniques may include the following:

- brokers' quotes
- recent arm's length market transactions
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics
- option pricing models
- other valuation methods (Note 32)

Financial instruments with no active market and where fair value can not be reliably determined are stated at cost less provision for any impairment.

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount payable on demand.

The fair value of forward foreign exchange contracts is determined using forward exchange rates at the statement of financial position date with the resulting value discounted back to present value.

The fair value of interest rate swaps is determined by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Investments carried at fair value through statement of income

Investments classified as carried at fair value through the statement of income comprise of two categories 'investments held for trading' and 'investments designated at fair value through statement of income'.

An investment is classified as 'held for trading' if it is acquired or incurred principally for the purpose of selling in the near term or if on initial recognition is part of a portfolio of identifiable financial investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivatives which are not used as hedge are also categorised as held for trading.

Investments designated at fair value through statement of income are investments that are not classified as held for trading but are managed, and their performance is evaluated on a fair value basis in accordance with the Group's investment strategy.

These investments are initially recognised at fair value. Transaction costs are immediately expensed in the consolidated statement of income. Subsequent to initial recognition, investments designated at fair value through statement of income are remeasured at fair value and gains and losses arising from such remeasurement are included in the consolidated statement of income.

Non-trading investments

These are classified as follows:

- Held to maturity
- Available-for-sale

Held to maturity

Investments with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold these investments to maturity. These investments are initially recognised at fair value, including directly attributable transaction costs.

After initial recognition investments held to maturity are carried at amortised cost using the effective interest rate method. Any gain or loss on such investments is recognised in the consolidated statement of income when the investment is derecognised or impaired. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'interest income' in the consolidated statement of income. The losses, if any, arising from impairment of such investments are recognised in the consolidated statement of income.

Investments available-for-sale

Investments available-for-sale are those non-derivative financial assets that are designated as available-for-sale or are not classified as investment at fair value through statement of income, investments held to maturity or loans and receivables.

These investments are initially recognised at fair value, including directly attributable transaction costs.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-trading investments (continued)

Investments available-for-sale (continued)

After initial recognition, available-for-sale investments are measured at fair value with gains and losses being recognised in the consolidated statement of comprehensive income until the investment is derecognised or determined to be impaired at which time the cumulative gains or losses previously reported in the consolidated statement of comprehensive income are recognised in the consolidated statement of income. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

Dividends are included in 'dividend income'. Interest income on available-for-sale investments is recorded in 'interest income' in the consolidated statement of income, using the effective interest yield method.

Loans and receivables

Loans and receivables are non-derivative financial assets originated or acquired by the Group with fixed or determinable payments.

Loans and receivables are recognised when cash is advanced to borrowers. They are derecognised when either borrower repays their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred.

Loans and receivables are initially measured at cost, being the fair value of the consideration given.

Following initial recognition, loans and receivables are stated at cost less any amount written off and specific and collective provisions for impairment.

Derivatives and hedge accounting

The Group makes use of derivative instruments to manage exposure to foreign currency risk and interest rate risk. In order to manage a particular risk, the Group applies hedge accounting to transactions which meet the specified criteria. The Group enters into derivative instruments, mainly forward foreign exchange contracts, interest rate and forward currency swaps in the foreign exchange markets.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss.

Derivatives are initially recognised and subsequently measured at fair value with transaction costs taken directly to the consolidated statement of income. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative. Derivatives with positive fair values (unrealised gains) are included in other assets and derivatives with negative fair values (unrealised losses) are included in other liabilities in the consolidated statement of financial position.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the consolidated statement of income, except for the effective portion of cash flow hedges, which is recognised in OCI and later reclassified to the consolidated statement of income when the hedge item affects the consolidated statement of income.

At the inception of the hedging relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, objectives and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also, at the inception of the hedging relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed at the end of each quarter. A hedge is regarded as highly effective if the changes in the fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%.

For the purpose of hedge accounting, hedges are classified into three categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; (b) cash flow hedges which hedge exposure to variability in cash flows of a recognised asset or liability or a forecasted transaction; and (c) hedge of net investment in a foreign operation.

Fair value hedges

In relation to fair value hedges, that qualify for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value, as well as related changes in fair value of the item being hedged, are recognised immediately in the consolidated statement of income. At 31 December 2014 or 31 December 2013, there were no hedges classified as fair value hedges.

Cash flow hedges

In relation to cash flow hedges the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised directly in the fair value reserve in the consolidated statement of comprehensive income. The gain or loss relating to the ineffective portion is recognised in the consolidated statement of income.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivatives and hedge accounting (continued)

Cash flow hedges (continued)

When the hedged cash flow affects the consolidated statement of income, the gain or loss on the hedging instrument is recycled in the corresponding income or expense line of the consolidated statement of income. When the hedging instrument expires or is sold, terminated or exercised or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at the time remains in equity and is recognised when the hedged forecast transaction is ultimately recognised in the consolidated statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statement of income.

Hedge of net investments in foreign operations

Hedges of a net investment in a foreign operation are accounted for in a way similar to cash flow hedges. On the disposal of the foreign operation, the cumulative value of any such gains or losses recognised in equity through other comprehensive income is transferred to the consolidated statement of income.

For hedges which do not qualify for hedge accounting and held for trading derivatives, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the consolidated statement of income for the year.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. For discontinued fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For discontinued cash flow hedges or hedges of net investments in foreign operations, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the consolidated statement of income.

Investment properties

All properties held for rental or for capital appreciation purposes, or both, are classified as investment properties. Where a property is partially occupied by the Group and the portions could be sold separately, the Group accounts for the portions separately either as an investment property or property and equipment, as appropriate. If the portions cannot be sold separately, the property is classified as an investment property only if an insignificant portion is held for own use.

The Group applies the fair value model of accounting for investment properties. All investment properties are initially recorded at cost, including acquisition expenses associated with the property.

Subsequent to initial recognition, all investment properties are remeasured at fair value and changes in fair value are recognised in the consolidated statement of income. The Group engages independent valuation specialists to determine the fair value of investment properties.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the statement of financial position and any gain or loss resulting from disposal is included in the consolidated statement of income.

Lease assets

Leases in terms of which the Group does not assume substantially all the risks and rewards of ownership are classified as operating leases.

Leased assets held under operating lease are not recognised in the Group's statement of financial position.

Financial liabilities

Financial liabilities comprise of due to banks and other financial institutions, deposits from customers, loans, bonds and subordinated debt and other liabilities. These are stated at amortised cost. Transaction costs are amortised over the period of the debt using the effective yield method. Deposits from customers include deposits from both external customers and other group companies.

Treasury shares and treasury share reserve

Treasury shares are own equity instruments of the Bank which are reacquired by the Bank or any of its subsidiaries. These are stated at cost and deducted from equity. Any gain or loss arising on reissuance of treasury shares is taken directly to treasury share reserve in the consolidated statement of changes in equity.

Cash and cash equivalents

Cash and cash equivalents include cash, demand and call deposits, highly liquid investments that are readily convertible into cash and placements (excluding escrow balances) with original maturities up to ninety days from the date of acquisition.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary assets

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

Dividends on ordinary shares

The Bank recognises a liability to make cash or non-cash distributions to its equity holders when the distribution is authorised and the distribution is no longer at the discretion of the Bank. A distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognised directly in equity.

Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the consolidated statement of income.

Dividends for the year that are approved after the statement of financial position date are disclosed as an event after the statement of financial position date.

Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

Taxes

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

Derecognition

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

(a) the right to receive cash flows from the asset have expired;

(b) the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or

(c) the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Offsetting

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

Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date the asset is delivered to the counterparty.

Employees benefits

The Group provides for end of service benefits to all its employees. Entitlement to these benefits is usually based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. National employees of the Bank are also covered by the Social Insurance Organisation scheme and the Bank's obligations are limited to the amount contributed to the scheme.

The Group operates an equity-settled, share-based Employee Stock Option Plan (ESOP or the plan). Under the terms of the plan, share options are granted to permanent employees, which are exercisable in a future period. The fair value of the options is recognised as an expense over the vesting period with a corresponding credit to equity. The fair value of the options is determined using the Black-Scholes option pricing model.

The proceeds received are credited to share capital (nominal value) and share premium when the options are exercised.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

Impairment of financial assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, an impairment loss, is recognised in the consolidated statement of income.

Financial assets carried at amortised cost

A financial asset is considered impaired when there is an objective evidence of credit-related impairment as a result of one or more loss event(s) that occurred after the initial recognition of the asset and those loss events have an impact on the estimated future cash flows of the financial asset or group of financial assets and can be reliably estimated.

A specific provision for credit losses, due to impairment of a loan or any other financial asset held at amortised cost, is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective yield basis.

In addition to a specific provision for credit losses, a provision for collective impairment is made on a portfolio basis for credit losses where there is an objective evidence that unidentified losses exist at the reporting date. These are based on any deterioration in the risk rating (i.e. downward migration of risk ratings) of the financial asset since it was originally granted. This provision is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Group has had in dealing with a borrower or group of borrowers and available historical default information.

The carrying amount of the asset is adjusted through the use of a provision for impairment account and the amount of the adjustment is included in the consolidated statement of income.

Investments available-for-sale

For available-for-sale financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of income – is removed from other comprehensive income and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the consolidated statement of income for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less costs to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffer impairment are reviewed for possible reversal of the impairment at each reporting date.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

The consolidated financial statements have been presented in US Dollars being the functional and presentational currency of the Bank. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

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

Translation of foreign currency transactions and balances

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Exchange differences arising on the retranslation of monetary items, are included in consolidated statement of income for the year. Non-monetary items measured at fair value in a foreign currency are retranslated using the exchange rates at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary investments carried at fair value through the statement of income are included in the consolidated statement of income for the year. Exchange differences arising on the retranslation of available for sale equity investments, other than those which are carried at cost, are recognised directly in a fair value reserve in the consolidated statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Translation of financial statements of foreign operations

Assets (including goodwill) and liabilities of foreign operations are translated at the exchange rates prevailing at the statement of financial position date. Income and expense items are translated at average exchange rates for the relevant period. All resulting exchange differences are taken directly to a foreign currency translation reserve in equity through other comprehensive income.

On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of income.

Recognition of income and expenses

Interest income and related fees are recognised using the effective yield method, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Recognition of interest income is suspended when the related financial asset becomes impaired. Notional interest is recognised on impaired financial assets based on the rate used to discount future cash flows to their net present value.

Commission income and other fees are recognised when earned.

Rental income on investment properties is recognised on a straight line basis.

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

Contingent liabilities and contingent assets

Contingent liabilities are not recognised in the financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the financial statements, but are disclosed when an inflow of economic benefits is probable.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Chief Executive Officer of the Bank as its chief operating decision-maker.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Segment information (continued)

All transactions between business segments are conducted on an arm´s length basis, with intra-segment revenue and expenses being eliminated at Group level. Income and expenses directly associated with each segment are included in determining business segment performance.

Significant assumptions, accounting judgements and estimates

In the process of applying the Group's accounting policies, management has made the following assumptions, judgements and estimates in determining the amounts recognised in the consolidated financial statements:

Going concern

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

Classification of investments

Management decides on acquisition of an investment whether it should be classified as carried at fair value through statement of income, held to maturity or available-for-sale.

The Group classifies investments as held for trading if they are acquired primarily for the purpose of making short term profit. Classification of investments designated as fair value through statement of income depends on how management monitors the performance of these investments.

For those deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and in particular the Group has the intention and ability to hold these to maturity.

All other investments are classified as available-for-sale.

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

Impairment of investments

The Group treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires considerable judgment.

Impairment of goodwill

The Group determines whether goodwill is impaired at each reporting date. This requires an estimation of the value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment losses on loans and receivables

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

Collective impairment provisions on loans and receivables

In addition to specific provisions against individually significant loans and receivables, the Group also makes a collective impairment provision against loans and receivables, which although not specifically identified against a loan, have a greater risk of default than when originally granted. This collective provision is based on any deterioration in the internal grade of the loan since it was granted. The amount of the provision is based on the historical loss pattern for loans within each grade and is adjusted to reflect current economic changes.

These internal gradings take into consideration factors such as any deterioration in country risk, industry, technological obsolescence as well as identified structural weaknesses or deterioration in cash flows.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

3 PROSPECTIVE CHANGES IN ACCOUNTING POLICIES

New standards and interpretations issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing is of relevant standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards (where applicable) when they become effective:

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

- IFRS 2 Share-based Payment
- IFRS 3 Business Combinations
- IFRS 8 Operating Segments
- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
- IAS 24 Related Party Disclosures

Annual improvements 2011-2013 Cycle

"These improvements are effective from 1 July 2014 and are not expected to have a material impact on the

Group. They include:"

- IFRS 3 Business Combinations
- IFRS 13 Fair Value Measurement
- IAS 40 Investment Property

IFRS 9 Financial Instruments

In July 2014, the IASB published the final version of IFRS 9 Financial Instruments which combines classification and measurement, the expected credit loss impairment model and hedge accounting. This new standard will eventually replace IAS 39 and all previous versions of IFRS 9. Application is required for annual periods beginning on or after 1 January 2018, but early adoption is permitted.

The adoption of IFRS 9 will have an effect on the classification and measurement of financial assets. Financial assets are measured at amortised cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial asset's contractual cash-flow characteristics. Apart from the 'own credit risk' requirements, classification and measurement of financial liabilities is unchanged from existing requirements. The impairment requirements in the new standard are based on an expected credit loss model and replace the IAS 39 incurred loss model. The new hedge accounting model significantly differs from IAS 39 hedge accounting model in a number of aspects including eligibility of hedging instrument and hedged item, accounting for the time value component of options and forward contracts, qualifying criteria for applying hedge accounting, modification and disconnection of hedging relationships etc.

The Group is currently evaluating the impact of the Standard.

IFRS 15 Revenue from Contracts with Customers

"IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date."

Management is considering the implications of these standards and amendments, their impact on the Group's financial position and results and the timing of their adoption by the Group.

4 BUSINESS COMBINATIONS

a) Acquisition of FIMBank p.l.c.

In January 2014, the Bank purchased 54,411,528 shares of FIMBank p.l.c., incorporated in Malta ("FIMBank"), an associate of the Group as of 31 December 2013, carried at US$ 45,215 thousand as of the acquisition date, for a cash consideration of US$ 51,691 thousand by way of a voluntary bid for shares of FIMBank.

As a result of the acquisition, the Group's gain on fair valuing its existing equity stake in FIMBank was immaterial, hence not recorded by the Group. The Group's interest in FIMBank has increased from 30% to 61%, following which FIMBank has become a subsidiary of the Group. Accordingly, FIMBank has been consolidated in these consolidated financial statements. The acquisition has been accounted for using the acquisition method.

The fair values of the identifiable assets and liabilities of FIMBank as at the date of acquisition were:

	Fair value recognised on acquisition US$ 000
Assets	
Bank demand, call and time deposits	212,652
Trading and non-trading investments	50,565
Investment in associated companies	22,919
Loans and advances	880,211
Property and equipment	38,917
Other assets	28,948
	1,234,212
Liabilities	
Due to banks and other financial institutions	460,104
Deposits from customers	432,193
Loans payable	174,466
Other liabilities	16,294
	1,083,057
Total identifiable net assets at fair value	151,155
Non-controlling interests	(59,117)
Goodwill arising on acquisition	4,868
Purchase consideration transferred	96,906
Net cash acquired with the subsidiary	204,789
Consideration transferred	(96,906)
Net cash inflow	107,883

The Group had recorded a provisional goodwill of US$ 4,868 thousand on acquisition of FIMBank. Following completion of the purchase price allocation during the year, the goodwill was tested for impairment and was found to be impaired. Accordingly, the Group has written off the entire goodwill on acquisition of FIMBank (Note 12).

FIMBank is being consolidated with effect from 1 January 2014. Therefore, all of FIMBank's revenue and profit contributed to the Group during the year ended 31 December 2014 has been from the beginning of 2014. Also refer to Note 34.

b) Acquisition of India Factoring and Finance Solutions Private Limited ("India Factoring")

On 31 March 2014, the Group, through its subsidiary FIMBank, purchased 30% shares in India Factoring (a company incorporated in India), an associate of FIMBank as of 31 December 2013 and carried at US$ 17,126 thousand from Punjab National Bank, India for a cash consideration of US$ 18,029 thousand. As a result of the acquisition, the Group recorded a gain of US$ 3,607 thousand on fair valuing its existing equity stake in India Factoring. FIMBank's interest in India Factoring has increased from 49% to 79%, following which India Factoring has become a subsidiary of the Group. Accordingly, India Factoring has been consolidated in these consolidated financial statements. The acquisition has been accounted for using the acquisition method. As a result of the acquisition of India Factoring, the net cash outflow amounted to US$ 18,029 thousand.

4 BUSINESS COMBINATIONS (continued)

b) Acquisition of India Factoring and Finance Solutions Private Limited ("India Factoring") (continued)

The fair values of the identifiable assets and liabilities of India Factoring as at the date of acquisition were:

	Fair value recognised on acquisition US$ 000
Assets	
Loans and receivables	117,498
Other assets	8,107
Property and equipment	101
Goodwill	61
	125,767
Liabilities	
Due to banks and other financial institutions	99,093
Other liabilities	2,228
	101,321
Total identifiable net assets at fair value	24,446
Non-controlling interests	(7,329)
Fair value of existing interest in India Factoring	(24,811)
(Goodwill arising on acquisition (on a provisional basis	25,723
Purchase consideration transferred	18,029
Net cash acquired with the subsidiary	-
Consideration transferred	(18,029)
Net cash outflow	(18,029)

From the date of acquisition, India Factoring contributed US$ 2,667 thousand of revenue and a loss of US$ 27,267 thousand to the Group. If the acquisition had taken place at the beginning of 2014, the Group's revenue would have been higher by US$ 4,675 thousand and the profit would have been lower by US$ 120 thousand.

The Group had recorded a provisional goodwill of US$ 25,723 thousand on acquisition of India Factoring, all of which was determined to be impaired as of 31 December 2014 (Note 12).

c) Acquisition of CIS Factors Holdings B.V. ("CIS")

On 18 February 2014, the Group, through its subsidiary FIMBank, purchased 40% shares in CIS (a company incorporated in Russia), an associate of FIMBank as of 31 December 2013, from Joint Stock Bank "Transcapitalbank" for an amount of US$ 578 thousand. As a result, the FIMBank's interest in CIS has increased from 40% to 80%, following which CIS has become a subsidiary of FIMBank. Accordingly, CIS has been consolidated in these consolidated financial statements. The acquisition has been accounted for using the acquisition method.

The Group had recorded a provisional goodwill of US$ 2,600 thousand on acquisition of CIS, all of which was determined to be impaired as of 31 December 2014.

During the year, the Board of Directors of FIMBank resolved to wind-up their operations in Russia and hence classified CIS as asset held for sale (disposal group) in accordance with IFRS 5 (Note 14).

d) Acquisition of First Factors S.A. ("First Factors")

"On 1 October 2014, the Group, through its wholly owned subsidiary FIM Holdings (Chile) S.p.a ("FIM Holdings"), acquired 51% of the shares and voting interests in First Factors for a total cash consideration of US$ 5,792 thousand. First Factors is a factoring company incorporated and operating in Chile with its functional and reporting currency being the Chilean Peso (CLP). The financial year-end of First Factors is 31 December.

This acquisition forms part of the Group's strategy to develop further its international network of ventures and diversifying the geographical and product offering.

4 BUSINESS COMBINATIONS (continued)

d) Acquisition of First Factors S.A. ("First Factors") (continued)

Since acquisition up to 31 December 2014, First Factors contributed a loss of US$ 0.2 million to the Group's results. If the acquisition had occurred on 1 January 2014, the Group's profit would have been lower by US$ 500 thousand. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2014.

The acquisition has been accounted for using the acquisition method. The Group has recorded a provisional goodwill of US$ 402 thousand on the acquisition of First Factors, considering that the purchase price allocation exercise is in progress as of the reporting date and would be completed within 12 months from the date of acquisition as allowed by IFRS 3.

e) Investment in subsidiaries - net of cash acquired

	31 December 2014 US$ 000
- FIMBank p.l.c. (Note 4a)	107,883
- India Factoring and Finance Solutions Private Limited (Note 4b)	(18,029)
- CIS Factors Holdings B.V. (Note 4c)	(578)
- First Factors S.A. (Note 4d)	(5,792)
	83,484

5 FINANCIAL ASSETS AND LIABILITIES

The table below summarises the accounting classification of the Group's financial assets and financial liabilities:

31 December 2014	Held for trading US$ 000	Designated at fair value through statement of income US$ 000	Available-for-sale US$ 000	Amortised cost / Loans and receivables US$ 000	Total US$ 000
Demand and call deposits with banks	-	-	-	284,048	284,048
Placements with banks	-	-	-	142,481	142,481
Investments carried at fair value through statement of income	44,786	12,277	-	-	57,063
Non-trading investments	-	-	218,407	-	218,407
Loans and receivables	-	-	-	990,164	990,164
Other assets	303	3,381	-	105,105	108,789
Assets of disposal group classified as held for sale	-	-	-	7,893	7,893
Total financial assets	45,089	15,658	218,407	1,529,691	1,808,845
Due to banks and other financial institutions	-	-	-	712,615	712,615
Deposits from customers	-	-	-	548,417	548,417
Loans payable	-	-	-	781,347	781,347
Subordinated debt	-	-	-	93,270	93,270
Other liabilities	-	-	-	61,545	61,545
Assets of disposal group classified as held for sale	-	-	-	249	249
Total financial liabilities	-	-	-	2,197,443	2,197,443

5 FINANCIAL ASSETS AND LIABILITIES (continued)

31 December 2013	Held for trading US$ 000	Designated at fair value through statement of income US$ 000	Available-for-sale US$ 000	Amortised cost / Loans and receivables US$ 000	Total US$ 000
Demand and call deposits with banks	-	-	-	17,747	17,747
Placements with banks	-	-	-	113,063	113,063
Investments carried at fair value through statement of income	34,016	12,613	-	-	46,629
Non-trading investments	-	-	166,267	-	166,267
Loans and receivables	-	-	-	3,958	3,958
Other assets	-	2,085	-	25,760	27,845
Total financial assets	34,016	14,698	166,267	160,528	375,509
Due to banks and other financial institutions	-	-	-	258,548	258,548
Deposits from customers	-	-	-	23,802	23,802
Loans payable	-	-	-	386,325	386,325
Subordinated debt	-	-	-	100,000	100,000
Other liabilities	579	-	-	29,747	30,326
Total financial liabilities	579	-	-	798,422	799,001

6 INVESTMENTS CARRIED AT FAIR VALUE THROUGH STATEMENT OF INCOME

	2014 US$ 000	2013 US$ 000
Investments held for trading		
Quoted equities	26,786	34,016
Credit linked notes	18,000	-
Investments designated at fair value through statement of income		
Managed funds	12,277	12,613
	57,063	46,629

Managed funds primarily represent funds invested through unlisted companies and limited partnership interests. The fund managers have created these legal structures for tax efficiency and to meet other investors' requirements. The underlying investments in these funds are primarily in quoted debt and equity instruments in Kuwait and other international markets.

7 NON-TRADING INVESTMENTS

Non-trading investments comprise available-for-sale investments as follows:

	2014 US$ 000	2013 US$ 000
Quoted		
Equities	5,752	11,458
Unquoted		
Equities	66,808	53,972
Real estate managed funds	64,984	13,337
Other managed funds	79,495	85,588
Debt securities	1,368	1,912
Total unquoted	212,655	154,809
Total non-trading investments	218,407	166,267

Included under non-trading investments are unquoted available-for-sale investments, primarily representing nominal equity stakes up to 13% (2013:13%) in various geographically and sectorally dispersed companies, amounting to US$ 27,017 thousand (2013: US$ 30,026 thousand) for which fair value cannot be determined with sufficient accuracy, as future cash flows are not determinable. Accordingly, these investments are carried at cost less provisions for impairment.

7 NON-TRADING INVESTMENTS (continued)

The movement in provision for non-trading investments was as follows:

	2014 US$ 000	2013 US$ 000
At 1 January	39,112	37,822
Charge for the year (note 19)	2,272	5,003
Written off	(13,826)	(3,203)
Reversed upon disposal	-	(510)
Net movement during the year	(11,554)	1,290
At 31 December	27,558	39,112
Gross amount of individually impaired investments	67,350	125,648

8 LOANS AND RECEIVABLES

	2014 US$ 000	2013 US$ 000
Loans to banks	140,743	-
Loans to customers	215,642	3,082
Factoring assets	302,242	-
Forfaiting assets	260,395	-
Syndication loans	146,628	-
Staff loans	3,186	1,882
	1,068,836	4,964
Less: Provision for impairment	(78,672)	(1,006)
	990,164	3,958

The movement in the provision for impairment is as follows:

	2014		
	Specific US$ 000	Collective US$ 000	Total US$ 000
At 1 January	-	1,006	1,006
Acquisition of a subsidiary	50,171	6,283	56,454
Provided during the year	18,747	2,465	21,212
Balance at 31 December	68,918	9,754	78,672

	2013		
	Specific US$ 000	Collective US$ 000	Total US$ 000
At 1 January	-	1,008	1,008
Other adjustments	-	(2)	(2)
Balance at 31 December	-	1,006	1,006

	2014 US$ 000	2013 US$ 000
Gross amount of loans, individually determined to be impaired	96,637	-

8 LOANS AND RECEIVABLES (continued)

The table below shows the credit quality of loans and receivables:

31 December 2014	Neither past due nor impaired US$ 000	Past due and impaired US$ 000	Total US$ 000
Loans to banks	127,604	13,139	140,743
Loans to customers	181,526	34,116	215,642
Factoring assets	252,860	49,382	302,242
Forfaiting assets	260,395	-	260,395
Syndication loans	146,628	-	146,628
Staff loans	3,186	-	3,186
Total	972,199	96,637	1,068,836
31 December 2013			
Loans to banks	-	-	-
Loans to customers	3,082	-	3,082
Factoring assets	-	-	-
Forfaiting assets	-	-	-
Syndication loans	-	-	-
Staff loans	1,882	-	1,882
Total	4,964	-	4,964

The Group had no loans and receivables which were past due but not impaired as of 31 December 2014 or 31 December 2013.

9 OTHER ASSETS

	2014 US$ 000	2013 US$ 000
Due from customers	19,934	9,366
Deferred tax asset (Note 13)	33,912	-
Accounts receivable	49,549	16,850
Prepayments	4,785	1,785
Derivative assets	3,684	1,506
Interest receivable	1,710	123
	113,574	29,630

Due from customers and accounts receivable are stated net of provision of US$ 111 thousand (2013: US$ 776 thousand). Provisions of US$ 665 thousand were written back during the year ended 31 December 2014 (2013: net provision of US$ 1,817 thousand).

10 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

		Activity	Carrying value 2014 US$ 000	Ownership 2014 %	Carrying value 2013 US$ 000	Ownership 2013 %
a)	Burgan Bank S.A.K.	Commercial banking	558,454	17	477,153	18
b)	United Real Estate Company	Real estate	155,082	21	158,751	22
c)	North Africa Holding Company	Investments	64,969	42	68,876	42
d)	FIMBank Group	Commercial banking	-	-	45,215	30
e)	Manafae Investment Company	Islamic investment	19,981	31	19,891	33
f)	United Capital Transport Co K.S.C.C.	Transport	14,989	40	15,509	40
g)	Al Sharq Financial Brokerage Co.	Brokerage and investment business	11,809	19	13,325	19
h)	Kuwait Education Fund	Fund	12,830	22	12,080	21
i)	Syria Gulf Bank	Commercial banking	4,925	31	6,282	31
j)	Takaud Savings and Pensions B.S.C. (c)	Offering of personal pension and saving products	-	-	3,782	50
k)	Royal Capital Company P.S.C.	Asset management and financial services	2,716	26	2,861	26
l)	Meena Homes Real Estate Company	Real estate	796	20	800	20
m)	United Real Estate Company - Syria	Real estate	26	20	32	20
n)	Millennium Private Equity Limited	Asset management	-	50	-	50
o)	Arab Leadership Academy	Training institute	428	15	-	-
p)	The Egyptian Company for Factoring S.A.E.	Factoring and Forfaiting	583	40	-	-
q)	Brasilfactors	Factoring and Forfaiting	2,238	40	-	-
r)	Savanah SPV	Real estate	6,203	20	-	-
s)	KAMCO Real Estate Yield Fund	Real estate	8,962	33	-	-
			864,991		824,557	

The Group has no share of any contingent liabilities or capital commitments, as at 31 December 2014 and 31 December 2013 on behalf of its joint ventures and associates.

a) Burgan Bank S.A.K. is a listed commercial bank incorporated in the State of Kuwait. The Bank directly owns an 17% (2013: 18%) equity interest in Burgan Bank. The Group has the ability to exercise significant influence on Burgan Bank through representation on the board of directors of Burgan Bank. During the year, Burgan Bank sold 77,343,810 of its own shares (treasury shares) which resulted in the decrease in the Group's ownership from 18% to 17%. Also refer Note 23.

b) United Real Estate Company (URC), is a company listed on the Kuwait Stock Exchange. At 31 December 2014, the Bank directly owns 21% (2013: 22%) of URC.

c) The Bank directly owns 31% (2013: 31%) of North Africa Holding Company (NAHC), a closed company incorporated in the State of Kuwait in 2006, and indirectly owns an additional 11% (2013: 11%) through its subsidiary KAMCO.

d) During the year, the Group acquired an additional 30% equity interest in FIMBank p.l.c. (FIMBank), following which FIMBank became a subsidiary of the Group (Note 4).

e) The Bank indirectly owns 31% (2013: 33%) of Manafae Investment Company through its subsidiary KAMCO.

f) United Capital Transport Company K.S.C.C. (UniCap) was incorporated in State of Kuwait in 2011. The Bank owns a 40% (2013: 40%) equity stake through its subsidiary KAMCO. UniCap is a dedicated leasing solutions provider to governments, international oil companies and varied construction, mining and industrial services businesses.

10 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

g) Al Sharq Financial Brokerage Company (Al Sharq) is a closed company incorporated in the State of Kuwait during 2005. At 31 December 2014, the Bank indirectly owns a 19% interest in the associate through its subsidiary KAMCO (2013: 19%). The Group has the ability to exercise significant influence on Al Sharq through representation on the board of directors of Al Sharq.

h) Kuwait Education Fund is fund incorporated in the State of Kuwait in 2007. As of 31 December 2014, the Bank owns 22% through its subsidiary KAMCO (2013: 22%).

i) Syria Gulf Bank (SGB) is a commercial bank incorporated in the Syrian Arab Republic. SGB commenced commercial operations in 2007. The Bank directly owns a 31% (2013: 31%) equity stake of SGB.

j) Takaud Savings and Pensions B.S.C. (c) (Takaud) was a joint venture between the Bank and KIPCO (Parent) established in Bahrain in 2011 (with an equal 50% equity interest). During the year, the Bank appointed two of the three executive directors on Takaud's Board of Directors, thus obtaining control. Accordingly, Takaud has become a subsidiary and been consolidated in these consolidated financial statements (Note 2).

k) Royal Capital is a closed company incorporated in the United Arab Emirates in 2007. As of 31 December 2014, the Bank owns 26 % in Royal Capital through its subsidiary KAMCO (2013: 26%).

l) The Bank indirectly owns 20% (2013: 20%) of Meena Homes Real Estate Company through its subsidiary KAMCO.

m) United Real Estate Company - Syria is a closed company incorporated in the Syrian Arab Republic. At 31 December 2014, the Bank directly owns 20% (2013: 20%) of its equity stake.

n) The Bank directly owns a 50% stake in Millennium Private Equity Limited (MPE). MPE is engaged in managing private equity funds. In 2010, the investment in MPE was fully impaired.

o) Arab Leadership Academy is training institute incorporated in the State of Kuwait in 2007. As of 31 December 2014, the Bank owns 15 % through its subsidiary KAMCO. During the year, the Bank obtained significant influence by appointment of directors on the Board of Directors of Arab Leadership Academy.

p) The Bank indirectly owns 40% (2013: nil) of The Egyptian Company for Factoring S.A.E. through its subsidiary FIMBank.

q) The Bank indirectly owns 40% (2013: nil) of Brasilfactors through its subsidiary FIMBank.

r) The Bank indirectly owns 20% (2013: nil) of Savanah SPV through its subsidiary KAMCO.

s) The Bank indirectly owns 33% (2013: nil) of KAMCO Real Estate Yield Fund through its subsidiary KAMCO.

Investments in associates include quoted associates with a carrying value of US$ 738,421 thousand (2013: US$ 707,292 thousand) with a total quoted market price of US$ 643,343 thousand at 31 December 2014 (2013: US$ 709,829 thousand). In accordance with IAS 36, 'Impairment of Assets', the group's recoverable amount of these associates (higher of fair value less costs to sell, and value in use) was in excess of their carrying values and accordingly no impairment was recognised against these investments during the year ended 31 December 2014 (2013: same). The Group also assessed the recoverable amount of its unquoted investment in associates and determined that investment in Al Sharq was impaired by US$ 855 thousand (2013: US$ 1,771 thousand).

Investments in material associates

The tables below illustrate the Group's investment in associates that are considered as individually material:

	Burgan Bank US$ 000	United Real Estate Company US$ 000
Summarised statement of financial position as of 31 December 2014:		
Current assets	16,068,216	154,513
Non-current assets	10,448,697	1,627,876
Current liabilities	(21,576,037)	(399,369)
Non-current liabilities	(1,670,874)	(576,955)
Equity	3,270,002	806,065
Proportion of the Group's ownership	17%	21%
Group's ownership in equity	555,900	169,274
Non-controlling interests and other adjustments	2,554	(14,192)
Carrying amount of investments	558,454	155,082
Fair value of investment in associate based on quoted market price	544,918	78,862

10 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

Investments in material associates (continued)

	Burgan Bank US$ 000	United Real Estate Company US$ 000
Summarised statement of financial position as of 31 December 2013:		
Current assets	16,632,652	116,888
Non-current assets	10,815,733	1,567,557
Current liabilities	(22,333,948)	(353,711)
Non-current liabilities	(1,729,568)	(552,148)
Equity	3,384,869	778,586
Proportion of the Group's ownership	18%	22%
Group's ownership in equity	394,508	167,863
Non-controlling interests and other adjustments	82,645	(9,112)
Carrying amount of investments	477,153	158,751
Fair value of investment in associate based on quoted market price	537,188	96,326

	Burgan Bank US$ 000	United Real Estate Company US$ 000
Summarised statement of income for the year ended 31 December 2014:		
Operating income	308,474	59,019
Interest income	1,043,569	2,283
Interest expense	(408,860)	(33,822)
Administrative expenses	(694,466)	(1,053)
Profit for the year	248,717	26,427
Other comprehensive (loss) income for the year	(4,102)	9,752
Total comprehensive income for the year	244,615	36,179
Group's share of profit for the year (Also refer Note 23)	49,872	5,039
Cash dividend received from the associate during the year	6,859	6,583

Summarised statement of income for the year ended 31 December 2013:		
Operating (loss) income	(73,096)	97,129
Interest income	962,463	1,094
Interest expense	(373,558)	(32,566)
Administrative expenses	(401,666)	(26,338)
Profit for the year	114,143	39,319
Other comprehensive loss for the year	(65,755)	(2,060)
Total comprehensive income for the year	48,388	37,259
Group's share of profit for the year	12,259	8,300
Cash dividend received from the associate during the year	9,214	12,078

10 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

The aggregate summarised financial information of the Group's associates and joint ventures that are not individually significant are provided below:

	2014 US$000	2013 US$ 000
Summarised statement of financial position as of 31 December:		
Total assets	591,793	1,989,402
Total liabilities	(252,037)	(1,481,283)
Equity	339,756	508,119
Carrying amount of investments	151,455	188,653
Summarised statement of income for the year ended 31 December:		
Revenue	42,218	96,081
Loss for the year	(11,118)	(11,961)
Other comprehensive income (loss) for the year	7,802	(9,850)
Total comprehensive loss for the year	(3,316)	(21,811)
Group's share of loss for the year	(17,653)	(1,174)

11 INVESTMENT PROPERTIES

	2014 US$ 000	2013 US$ 000
At 1 January	14	14,020
Acquisition	4,760	-
Disposals	-	(14,006)
At 31 December	4,774	14

Investment properties comprise of buildings owned by the Group. These are stated at fair values, determined based on independent valuations performed by external professional valuers at the year end.

12 GOODWILL

	2014 US$ 000	2013 US$ 000
At 1 January	56,008	56,303
Recognised on acquisition of subsidiaries during the year	33,599	-
Impairment recognised during the year (Note 4)	(31,417)	-
Foreign currency translation adjustments	(3,681)	(295)
At 31 December	54,509	56,008

The goodwill remaining as of 31 December mainly relates to KAMCO (a subsidiary) and is allocated to the asset management and investment banking operating segment, a cash generating unit (a CGU). The recoverable amount of the CGU is determined based on a value in use calculation using cash flow projections from financial budgets approved by the Group's senior management covering a five year period. The key assumptions used in the value in use calculation include a perpetuity growth rate of 3% (2013: 3%) and discount factor of 10% (2013: 11%). There was no impairment identified in 2014 or 2013 as the recoverable amount of the CGU was higher than its net book value.

The calculation of value in use for the CGU is sensitive primarily to market risk premium, growth risk rate, risk free rate and country risk premium.

The sensitivity of the goodwill to changes in key assumptions used in the impairment assessment is disclosed below:

	Impact of change	
	+10%	-10%
Key assumptions	US$ 000	US$ 000
Growth rate	6,410	(5,884)
Discount factor	(16,757)	22,343

These changes do not result in impairment of good will.

13 TAXATION

The Group's subsidiaries acquired during the year in Malta, the United Kingdom and India are subject to income tax.

a) Deferred taxation

Deferred tax relates to the following:

	2014 US$ 000
Excess of capital allowances over depreciation	(472)
Allowances for uncollectibility	29,822
Changes in fair value of financial instruments through statement of income	(443)
Changes in fair value of financial instruments through equity	468
Investment tax credits	328
Unabsorbed tax losses	4,209
	33,912

Reconciliation of deferred tax assets is as follows:

2014	Arising on acquisition	Recognised in other comprehen--sive income	Recognised in statement of income	Closing balance
Excess of capital allowances over depreciation	(519)	-	47	(472)
Allowances for uncollectibility	9,927	-	20,366	29,822
Changes in fair value of financial instruments	(164)	511	(322)	25
Investment tax credits	328	-	-	328
Unabsorbed capital allowances	183	-	(183)	-
Unabsorbed tax losses	7,502	-	(3,275)	4,209
	17,257	511	16,633	33,912

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

The major components of income tax credit for the year ended 31 December 2014 are as follows:

	2014 US$ 000
Consolidated statement of income	
Current income tax charge	(2,131)
Deferred tax on origination and reversal of temporary differences	16,633
Income tax credit reported in the statement of income - net	14,502

As at 31 December 2014, the Group has tax losses arising out of subsidiaries in Malta, the United Kingdom and India of US$ 100,590 thousand that are available for offsetting against future taxable profits.

14 ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

During the year, the Board of Directors of FIMBank, a subsidiary of the Group, resolved to wind down its activities related to CIS Factors Holdings B.V. ("CIS") after taking into consideration both entity-specific as well as economic and market conditions in Russia. Accordingly, as at 31 December 2014, the assets, liabilities and results of the entity are being presented in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations".

Impairment losses of US$ 5,292 thousand, representing write-downs of the carrying amount (at cost) of the investment to its estimated recoverable amount of nil are being recognised in "Net loss from discontinued operations" in the consolidated statement of income. In addition, goodwill originally recognised on acquisition of CIS was fully impaired during the year.

The major classes of assets and liabilities of the disposal group as at year end are as follows:

	2014 US$ 000
ASSETS	
Loans and advances to banks	5,074
Loans and advances to customers	804
Deferred tax asset	1,685
Other assets	330
Total assets of disposal group classified as held for sale	7,893
LIABILITIES	
Other liabilities	249
Total liabilities of disposal group classified as held for sale	249
The results of disposal group are as follows:	
Interest income - net	1,767
Fees and commissions income - net	243
Trading income - net	(1,369)
Total income	641
General and administrative expenses	(2,485)
Operating loss before expenses and provisions	(1,844)
Impairment loss on financial assets	(5,292)
Taxation	838
Net loss from discontinued operations	(6,298)

Earnings per share on discontinued operations are being disclosed in Note 25.

15 LOANS PAYABLE

31 December 2014	Currency*	Parent US$ 000	Subsidiaries US$ 000	Total US$ 000
Maturing within one year				
1 month or less	INR	-	1,667	1,667
	CLP	-	823	823
	KWD	-	10,263	10,263
	US$	-	40,000	40,000
3 months or less but over 1 month	CLP	-	1,135	1,135
	INR	-	66,475	66,475
	KWD	-	6,842	6,842
	US$	-	22,518	22,518
1 year or less but over 3 months	EUR	-	26,364	26,364
	INR	-	11,582	11,582
	KWD	-	21,381	21,381
	US$	127,355	119,000	246,355
		127,355	328,050	455,405
Maturing after one year				
More than 1 year & less than 2 years	KWD	-	17,105	17,105
	US$	70,000	-	70,000
More than 2 years	CLP	-	127	127
	KWD	-	17,105	17,105
	US$	215,000	6,605	221,605
		285,000	40,942	325,942
		412,355	368,992	781,347
31 December 2013				
Maturing within one year				
1 month or less	KWD	-	33,640	33,640
3 months or less but over 1 month	KWD	-	3,541	3,541
1 year or less but over 3 months	US$	240,000	-	240,000
	KWD	-	38,952	38,952
		240,000	76,133	316,133
Maturing after one year				
More than 2 years	KWD	-	7,082	7,082
More than 2 years	US$	43,145	19,965	63,110
		43,145	27,047	70,192
		283,145	103,180	386,325

* KWD represents Kuwaiti Dinar.

* INR represents Indian Rupee.

* CLP represents Chilean Peso.

16 SUBORDINATED DEBT

On 13 October 2006, the Bank issued floating rate notes amounting to US$ 100 million for a term of 10 years maturing on 12 October 2016. For the first five years the notes carried interest at the rate of 1.8% per annum above LIBOR for 3 month US dollar deposits and after its 5th anniversary on 13 October 2011 the notes now carry interest at the rate of 2.7% per annum above 3 month US dollar LIBOR.

17 OTHER LIABILITIES

	2014 US$ 000	2013 US$ 000
Staff related payables	14,654	15,082
Due to customers and other payables	31,511	6,392
Accrued expenses	5,779	4,039
Interest payable	7,109	2,743
Dividends payable	2,492	2,070
	61,545	30,326

18 EQUITY

Share capital

The Bank's authorised share capital as of 31 December 2014 comprised 1 billion shares of US$ 0.25 each (2013: 1 billion shares of US$ 0.25 each).

The issued and fully paid up share capital as of 31 December 2014 comprised 834,602,295 shares of US$ 0.25 each (2013: 834,602,295 shares of US$ 0.25 each).

Treasury shares and treasury shares reserve

At 31 December 2014, the Bank held 19,348,035 treasury shares (2013: 19,348,035 shares). These treasury shares do not carry any voting rights and are not entitled to dividends. The net gain or loss on reissuance of treasury shares is taken to treasury share reserve in the consolidated statement of changes in equity and is not available for distribution. The value of treasury shares based on the last bid price as of 31 December 2014 was US$ 20,125 thousand (2013: US$ 12,830 thousand).

Share premium

Share premium represents a non-distributable reserve arising from the exercise of the Bank's Employee Share Option Plan. The reserve is credited with the difference between the proceeds from the exercise of share options and the par value of the shares issued under the plan.

Statutory reserve

In accordance with the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the profit for the year is transferred to a statutory reserve until such time as the reserve reaches 50% of the Bank's paid-up share capital. The reserve is not available for distribution, except in circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

General reserve

The Directors have approved a transfer of 10% (2013: 10%) of the profit of the Group for the year to general reserve in accordance with the Bank's Articles of Association. The transfer is subject to shareholders' approval at the forthcoming Annual General Meeting. The general reserve is distributable subject to the approval of the Central Bank of Bahrain.

Dividend paid

No dividend was announced or paid during the years ended 31 December 2014 or 31 December 2013.

Foreign currency translation reserve

The foreign currency translation reserve represents the net foreign exchange gain or loss arising from translating the financial statements of the Bank's foreign subsidiaries and associated companies from their functional currencies into United States Dollars.

19 FAIR VALUE RESERVE

	2014 US$ 000	2013 US$ 000
Non-trading investments		
Balance at 1 January	(17,088)	(3,057)
Transferred to consolidated statement of income upon:		
- sale of non-trading investments (Note 21)	4,718	(6,241)
- impairment (Note 7)	2,272	5,003
Net movement in unrealised fair value during the year	17,726	(12,793)
Balance at 31 December	7,628	(17,088)
Cash flow hedges		
Balance at 1 January	(225)	(505)
Net movement in the fair values during the year	136	280
Balance at 31 December	(89)	(225)
	7,539	(17,313)

20 INTEREST INCOME

	2014 US$ 000	2013 US$ 000
Loans and receivables	55,891	6,247
Placements with banks	465	335
Non-trading investments	15	31
Demand and call deposits with banks	118	145
	56,489	6,758

21 INVESTMENT INCOME - NET

	2014 US$ 000	2013 US$ 000
Gain on sale of available-for-sale investments	4,718	6,241
Loss on sale of investment properties	-	(1,274)
Dividend income	4,170	2,568
Rental income from investment properties	154	369
Loss on sale of an associate	(8)	-
Profit on investments carried at fair value through statement of income	2,745	7,177
Gain on bargain purchase of an associate	-	3,399
Gain on step-acquisition of an associate	3,197	-
Other	29,234	1,510
	44,210	19,990

22 FEES AND COMMISSIONS

	2014 US$ 000	2013 US$ 000
Management fees from fiduciary activities	15,519	12,523
Advisory fees	2,842	5,129
Credit related fees, commissions and other income - net	19,873	(568)
	38,234	17,084

23 SHARE OF RESULTS OF ASSOCIATES AND JOINT VENTURES - NET

	2014 US$ 000	2013 US$ 000
Burgan Bank *	49,872	12,259
United Real Estate Company	5,039	8,300
United Capital Transport Company	1,791	2,071
Manafae Investment Company	709	(1,085)
Kuwait Education Fund	305	-
Al Sharq Financial Brokerage Co.	271	365
KAMCO Real Estate Yield Fund	76	-
Meena Homes Real Estate Company	23	24
FIMBank Group	-	964
Syria Gulf Bank	-	(1,416)
Takaud Savings and Pensions B.S.C. (c)	-	(2,363)
Royal Capital Company P.S.C.	(39)	(91)
CIS Factors Holding B.V.	(219)	-
Brasilfactors	(273)	-
North Africa Holding Company	(541)	357
The Egyptian Company for Factoring S.A.E.	(2,648)	-
India Factoring and Finance Solutions Private Limited	(17,108)	-
	37,258	19,385

* This includes US$ 12,386 thousand (2013: nil) relating to gain on deemed disposal of Burgan Bank upon purchase of treasury shares by Burgan (Note 10).

24 INTEREST EXPENSE

	2014 US$ 000	2013 US$ 000
Loans payable	32,443	22,407
Due to banks and other financial institutions	9,060	3,188
Subordinated debt	2,950	2,994
Deposits from customers	7,174	2,657
	51,627	31,246

25 EARNINGS PER SHARE

Basic and diluted

Basic and diluted earnings per share is calculated by dividing the profit attributable to the equity shareholders of the Bank by the weighted average number of shares outstanding during the year as follows:

	2014 US$ 000	2013 US$ 000
Profit (loss) attributable to equity shareholders of the Bank from		
- continuing operations	22,694	2,587
- discontinued operations	(3,855)	-
	18,839	2,587
Weighted average number of shares outstanding during the year (in thousands)	815,254	815,254
Basic and diluted earnings per share from continuing operations (US cents)	2.78	0.32
Basic and diluted earnings per share from discontinued operations (US cents)	(0.47)	-

26 CASH AND CASH EQUIVALENTS

	2014 US$ 000	2013 US$ 000
Demand and call deposits with banks	284,048	17,747
Placements with original maturities of ninety days or less	134,368	112,744
	418,416	130,491

27 SEGMENTAL INFORMATION

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Chief Executive Officer, who is responsible for allocating resources to the reportable segments and assessing their performance. All operating segments reported by the Group meet the definition of a reportable segment under IFRS 8.

For management purposes, the Group is organised into business units based on the nature of their operations and services. The Group has two reportable operating segments being 'asset management and investment banking' and 'commercial banking'.

Asset management and investment banking	Undertaking asset portfolio management, corporate finance, advisory, investments in quoted and private equity/funds, real estate, capital markets, international banking and treasury activities.
Commercial banking	Loans and other credit facilities, deposit and current accounts from corporate and institutional customers.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Transactions between segments are generally recorded at estimated market rates.

Segmental information relating to the Group's operations for the year ended 31 December 2014 was as follows:

Statement of income	Asset management and investment banking US$ 000	Commercial banking US$ 000	Total US$ 000
Income from external customers	60,121	71,671	131,792
Share of results of associates and joint ventures	7,634	29,624	37,258
Total income	67,755	101,295	169,050
Operating income before provisions and tax	33,309	15,333	48,642
Impairment loss on investments	(3,127)	-	(3,127)
Provisions for doubtful loans and other assets - net	(5,327)	(15,220)	(20,547)
Impairment of goodwill	(4,868)	(26,549)	(31,417)
Taxation	-	14,502	14,502
Profit (loss) for the year from continuing operations	19,987	(11,934)	8,053
Discontinued operations			
Net loss from discontinued operations	-	(6,298)	(6,298)
NET PROFIT (LOSS) FOR THE YEAR	19,987	(18,232)	1,755
Profit attributable to equity shareholders of the parent			18,839
Loss attributable to non-controlling interests			(17,084)
			1,755
Statement of financial position			
Investments in associates and joint ventures	298,790	566,201	864,991
Segment assets	900,502	1,877,328	2,777,830
Segment liabilities	977,792	1,219,651	2,197,443

27 SEGMENTAL INFORMATION (continued)

Segmental information for the year ended 31 December 2013 was as follows:

Statement of income	Asset management and investment banking US$ 000	Commercial banking US$ 000	Total US$ 000
Income from external customers	44,869	-	44,869
Share of results of associates and joint ventures	7,578	11,807	19,385
Total income	52,447	11,807	64,254
Operating income before provisions	9,111	-	9,111
Impairment loss on investments	(6,863)	-	(6,863)
Write-back of provision for doubtful loans and other assets - net	1,906	-	1,906
Profit for the year	4,154	-	4,154
Profit attributable to equity shareholders of the parent			2,587
Profit attributable to non-controlling interests			1,567
			4,154
Statement of financial position			
Investments in associates and joint ventures	295,907	528,650	824,557
Segment assets	729,913	528,650	1,258,563
Segment liabilities	799,001	-	799,001

Geographical segments

The Group operates in four geographic markets: Domestic region (G.C.C.*), Middle East and North Africa (MENA) (excluding G.C.C.), Europe, North America and others. The following table shows the distribution of the Group's total income and non-current assets by geographical segment, allocated based on the location of the customers and assets for the years ended 31 December 2014 and 2013:

	G.C.C. US$ 000	MENA US$ 000	Europe US$ 000	North America US$ 000	Others US$ 000	Total US$ 000
31 December 2014						
Total income	117,523	4,800	37,477	1,808	7,442	169,050
Non-current assets	1,207,502	59,843	46,713	7,770	-	1,321,828
31 December 2013						
Total income	52,743	115	9,544	1,852	-	64,254
Non-current assets	985,958	6,936	45,275	4,626	-	1,042,795

* The Gulf Co-operation Council (G.C.C.) countries are Kingdom of Bahrain, State of Kuwait, Kingdom of Saudi Arabia, State of Qatar, the United Arab Emirates and the Sultanate of Oman.

28 RELATED PARTY TRANSACTIONS

Related parties represent the parent, associates and joint ventures, directors and key management personnel and entities which are controlled, jointly controlled or significantly influenced by any of the above mentioned parties.

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

	2014			
	Parent US$ 000	Associates and joint ventures US$ 000	Other related parties US$ 000	Total US$ 000
Gain on investments carried at fair value through statement of income, net	-	1	-	1
Loss on sale of non-trading investments	-	(332)	(16)	(348)
Fees and commissions - net	840	(1)	5,020	5,859
Dividend income	6	6	310	322
Interest income	-	1,050	317	1,367
Interest expense	(771)	(14,003)	(3,868)	(18,642)
Others	6	34,614	(789)	33,831
Impairment loss on investments	-	(1,117)	(191)	(1,308)
Purchase transactions				
Non-trading investments	-	31,490	-	31,490
Investment properties	-	4,760	-	4,760

	2013			
	Parent US$ 000	Associates and joint ventures US$ 000	Other related parties US$ 000	Total US$ 000
Gain on investments carried at fair value through statement of income, net	-	95	521	616
Gain on sale of non-trading investments	-	263	1,147	1,410
Fees and commissions	2,896	1,751	5,941	10,588
Dividend income	6	31	72	109
Interest income	-	53	664	717
Loss on sale of investment properties	-	(1,274)	-	(1,274)
Interest expense	(2,870)	(10,119)	(2,168)	(15,157)
Others	6	106	(913)	(801)
Sales transactions				
Investments carried at fair value through statement of income	-	8,194	-	8,194
Non-trading investments	-	18,743	-	18,743
Investment in properties	-	12,732	-	12,732
Purchase transactions				
Non-trading investments	-	-	5,392	5,392

All related party transactions are on terms that are mutually agreed between the counterparties.

28 RELATED PARTY TRANSACTIONS (continued)

The year-end balances in respect of related parties included in the consolidated financial statements are as follows:

	2014			
	Parent US$ 000	Associates and joint ventures US$ 000	Other related parties US$ 000	Total US$ 000
Demand and call deposits with banks	-	421	589	1,010
Placements with banks	-	30,000	15,505	45,505
Investments, carried at fair value through statement of income	425	1,317	942	2,684
Investments, carried at fair value through statement of income in funds managed by related party	-	-	9,962	9,962
Non-trading investments	173	-	19,510	19,683
Loans and receivables	-	62,885	2,228	65,113
Other assets	794	43,959	5,710	50,463
Due to banks and other financial institutions	-	(183)	(202,451)	(202,634)
Deposits from customers	(86)	(321)	(13,729)	(14,136)
Loans payable	-	(453,754)	-	(453,754)
Other liabilities	(24)	(1,368)	(2,602)	(3,994)
Off statement of financial position items:				
Letters of guarantee	-	27,367	-	27,367
Funds managed or advised by the Group	-	-	37,278	37,278

	2013			
	Parent US$ 000	Associates and joint ventures US$ 000	Other related parties US$ 000	Total US$ 000
Demand and call deposits with banks	-	3,670	284	3,954
Placements with banks	-	50,000	15,420	65,420
Investments, carried at fair value through statement of income	-	321	1,273	1,594
Investments, carried at fair value through statement of income in funds managed by related party	-	-	9,962	9,962
Non-trading investments	-	-	17,897	17,897
Loans and receivables	-	2,703	1,661	4,364
Other assets	302	8,023	4,165	12,490
Due to banks and other financial institutions	-	(68,642)	(115,109)	(183,751)
Deposits from customers	(197)	(3,072)	(15,931)	(19,200)
Loans payable	-	(267,061)	-	(267,061)
Other liabilities	(10)	(560)	(3,059)	(3,629)
Off statement of financial position items:				
Letters of guarantee	-	29,037	-	29,037
Funds managed or advised by the Group	-	-	54,954	54,954

All related party exposures are performing and are free of any provision for possible credit losses.

Compensation of key management personnel was as follows:

	2014 US$ 000	2013 US$ 000
Short term employee benefits	22,613	4,553

29 COMMITMENTS AND CONTINGENCIES

Credit-related commitments

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

Letters of credit, guarantees (including standby letters of credit) and acceptances commit the Group to make payments on behalf of customers if certain conditions are met under the terms of the contract.

The Group has the following credit and investment related commitments:

	2014 US$ 000	2013 US$ 000
Credit related		
Letters of credit	**65,834**	-
Letters of guarantee	**49,524**	29,037
	115,358	29,037
Investment related *	**109,260**	4,038
	224,618	33,075

* Investment related commitments represent commitments for capital calls of fund structures. These commitments can be called during the investment period of the fund which is normally 1 to 5 years.

30 DERIVATIVES

In the ordinary course of business the Group enters into various types of transactions that involve derivative financial instruments.

			Notional amounts by term to maturity			
31 December 2014	Positive fair value US$ 000	Negative fair value US$ 000	Notional amount Total US$ 000	Within 3 months US$ 000	3 - 12 months US$ 000	1 - 5 years US$ 000
Derivatives held for trading *						
Forward foreign exchange contracts	308	(5)	404,064	369,670	25,163	9,231
Derivatives used as hedge of net investments in foreign operations						
Forward foreign exchange contracts	1,265	(127)	1,526,194	1,526,194	-	-
Cross currency swaps	2,243	-	139,040	139,040	-	-
Derivatives used as cash flow hedges						
Interest rate swap	-	(89)	100,000	-	50,000	50,000
31 December 2013						
Derivatives held for trading *						
Forward foreign exchange contracts	1	(580)	454,462	454,462	-	-
Derivatives used as hedge of net investments in foreign operations						
Forward foreign exchange contracts	50	(527)	551,215	551,215	-	-
Cross currency swaps	2,562	-	746,489	-	605,046	141,443
Derivatives used as cash flow hedges						
Interest rate swap	-	(225)	175,000	-	75,000	100,000

* The Group uses foreign currency denominated borrowings and forward currency contracts to manage some of its transaction exposures. These currency forward contracts are not designated as cash flow, fair value or net investment in foreign operations hedges and are entered into for periods consistent with currency transaction exposures.

Forward foreign exchange contracts are contractual agreements to either buy or sell a specified currency, at a specific price and date in the future, and are customised contracts transacted in the over-the-counter market.

30 DERIVATIVES (continued)

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

Hedge of net investments in foreign operations

The Bank has designated certain forward foreign exchange contracts and cross currency swaps to hedge against changes in the value of investments in associated companies for an amount of US$ 762 million (KWD 223 million) [2012: US$ 649 million (KWD 183 million)]. Gains or losses on the retranslation of these forward foreign exchange contracts are transferred to equity through other comprehensive income to offset any gains or losses on the translation of the net investments in associates.

Cash flow hedges

The Group is exposed to variability in interest cash flows on liabilities which bear interest at a variable rate. The Group uses interest rate swaps as cash flow hedges of these interest rate risks. A schedule indicating as at 31 December, the periods when the net cash flows are expected to occur and when they are expected to affect the consolidated statement of income is as follows:

	2014		2013	
	Within 1 year	1-5 years	Within 1 year	1-5 years
	US$ 000	US$ 000	US$ 000	US$ 000
Net cash outflows (liabilities)	92	405	101	871
Statement of income	(80)	(9)	(97)	(128)

31 RISK MANAGEMENT

a) Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is considered critical to the Group's continuing profitability.

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

The major risks to which the Group is exposed while conducting its business and operations, and the means and organisational structure it employs to manage them strategically for building shareholder value, are outlined below.

Risk management structure

Each subsidiary within the Group is responsible for managing its own risks and has its own Board Committees, including Audit and Executive Committees in addition to other management committees such as Credit/ Investment Committee and (in the case of major subsidiaries) Asset and Liability Committees (ALCO), or equivalent, with responsibilities generally the same as the Bank's committees.

The Board's role is to approve investment strategies of the Bank. However, it has delegated authority for the day-to-day decision making to the Executive Committee so that risk can be effectively managed within the Bank.

The Board of Directors has delegated the Executive Management of the Bank to the Chief Executive Officer (who is not a Director) and has appointed several Board Committees to work with him and to form and define policies and approve procedures for all of the Bank's activities.

The Executive Management of the Bank is headed by the Chief Executive Officer who is broadly responsible for the day to day conduct of the Bank's business in line with the Board's approved policies and procedures and complements and facilitates the Board in meeting its responsibility towards all stakeholders. He is assisted by the six members of the Bank's management team, each of whom is responsible for his or her respective department. Several management committees have been formed which are chaired by the Chief Executive Officer.

Executive Committee

The Executive Committee comprises of four directors including the Chairman, Vice Chairman and two other directors. Board meetings are held through circulation to approve all proposals not within the Investment Committee's risk authority, as well as to act on all matters within the Board's remit.

31 RISK MANAGEMENT (continued)

a) Introduction (continued)

Risk management structure (continued)

Investment Committee

"The Investment Committee is mainly responsible for approving or recommending approval to the Executive Committee limits for individual exposures, investments and concentrations towards banks, countries, industries, risk rating classes, or other special risk asset categories. In addition, the Committee also monitors the overall risk profile of the Bank and recommends provision levels to the Executive Committee. The Investment Committee is constituted by a majority motion passed in the Executive Committee. Currently the Committee consists of four members.

Audit Committee

The Audit Committee is appointed by the Board and consists of four members who are Directors, including three independent Directors. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing (a) the quality and integrity of financial reporting, (b) the audit thereof, (c) the soundness of the internal controls of the Bank, (d) the risk assessment of the Bank's activities, and (e) the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

Risk and Compliance Committee

The Risk and Compliance Committee is responsible for the monitoring and assessment of risks facing the Bank, the review of compliance with internal and external guidelines, the review and recommendation of provisioning requirements, the assessment of the impact on the Bank from new regulatory requirements, and review of Investment Committee decisions. The Committee comprises of six senior executives of the Bank including the Chief Executive Officer. Additionally, the Head of Internal Audit and Quality Assurance participates in the Committee meetings in the capacity of an observer.

Asset and Liability Committee

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

Management Committee

The Management Committee acts as the steering committee of the Bank as well as a management forum to discuss any relevant issues. It meets on a weekly basis and consists of the Chief Executive Officer and all Department Heads as well as Internal Audit and Quality Assurance. It also serves to follow up on a weekly basis on the daily conduct of the Bank's business activities. The Committee is headed by the Chief Executive Officer.

Key Persons Committee

The Key Persons Committee comprises three members of senior management. The Committee is mainly responsible for the supervision of adequacy of compliance with the Central Bank of Bahrain and Bahrain Bourse guidelines on key persons trading (insider trading).

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

Nominating and Remunerations Committee

The Nominating and Remuneration Committee (NRC) assists the Board in assessing the skills set of Board members and is responsible to oversee the preparation of appropriate nomination documents and notifications proposing candidates for directorships. It reviews the independence of directors on an annual basis, supervises the preparation of induction materials and orientation sessions, makes recommendations to the Board regarding the management structure and ensures that there is a succession plan in place. The NRC comprises of three members, all of whom are independent.

The NRC also recommends/ reviews the remuneration policies for the Board of directors and senior management and submits recommendations for shareholders' approval.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currency transactions.

31 RISK MANAGEMENT (continued)

a) Introduction (continued)

Risk mitigation (continued)

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Group.

Where warranted, the Group enters into legally enforceable netting arrangements covering its money market and foreign exchange trading activities whereby the only net amounts may be settled at maturity. With regard to the credit risk in the off statement of financial statement exposures, third party guarantees are obtained wherever possible as a risk mitigation measure.

Concentration risk

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

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on country and counterparty limits and maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Robust limit structures put in place by the Board ensures effective monitoring and control of concentration risk and any limit breaches are immediately rectified and reported to the Board.

b) Credit risk

Credit risk arises from the extension of credit facilities in the Group's banking and trading activities as well as in investment activities where there is a possibility that a counterparty may fail to honour its commitment whenever an investment may fail.

Credit risk is mitigated through:

(i) Establishing an appropriate credit risk environment;

(ii) Operating under a sound credit and investment approval process;

(iii) Maintaining appropriate credit administration, measurement and monitoring processes; and

(iv) Ensuring adequate controls over the credit risk management process.

The Group has well defined policies approved at the individual board level. These provide carefully documented guidelines for credit risk management. There is a two tier committee structure to approve and review credit and investment risk. The Investment Committee (IC) comprises of the Chief Executive Officer, Head of Treasury and the Chief Financial Officer. The Head of Credit and Risk Management acts as a non-voting member to the Committee. Exposures beyond IC limits are approved by the Board's Executive Committee or by the full Board.

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

The table below shows the Group's maximum exposure to credit risk for the components of on and off statement of financial position exposure. The maximum exposure shown is gross before the effect of mitigation through the use of master netting and collateral arrangements, but after any provision for impairment.

	2014 US$ 000	2013 US$ 000
Demand and call deposits with banks	284,048	17,747
Placements with banks	142,481	113,063
Non-trading investments	1,368	1,912
Loans and receivables	990,164	3,958
Other assets	108,789	26,339
Letters of credit	65,834	-
Letters of guarantee	49,524	29,037
Derivative financial assets	3,684	1,506
	1,645,892	193,562

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any single client or counterparty as of 31 December 2014 was US$ 49 million (2013: US$ 47 million) before taking account of collateral or other credit enhancements.

31 RISK MANAGEMENT (continued)

b) Credit risk (continued)

An analysis of the Group's financial assets by geographical region, before taking into account collateral held or other credit enhancements, is as follows:

	G.C.C. US$ 000	Middle East and North Africa US$ 000	Europe US$ 000	America US$ 000	Asia US$ 000	Others* US$ 000	Total US$ 000
Demand and call deposits with banks	53,984	5,864	187,205	35,031	1,702	262	284,048
Placements with banks	119,951	15,505	7,025	-	-	-	142,481
Non-trading investments	1,368	-	-	-	-	-	1,368
Loans and receivables	121,414	23,751	321,140	135,041	120,441	268,377	990,164
Other assets	52,946	2,219	18,397	1,892	22,730	10,605	108,789
Letters of credit	4,202	921	8,418	1,293	12,627	38,373	65,834
Letters of guarantee	28,112	5,210	9,652	1,324	-	5,226	49,524
Derivative financial assets	3,684	-	-	-	-	-	3,684
31 December 2014	385,661	53,470	551,837	174,581	157,500	322,843	
Demand and call deposits with banks	15,146	149	443	1,965	-	44	17,747
Placements with banks	97,643	15,420	-	-	-	-	113,063
Non-trading investments	1,912	-	-	-	-	-	1,912
Loans and receivables	1,256	2,702	-	-	-	-	3,958
Other assets	22,574	3,752	-	13	-	-	26,339
Letters of guarantee	29,037	-	-	-	-	-	29,037
Derivative financial assets	580	-	926	-	-	-	1,506
31 December 2013	168,148	22,023	1,369	1,978	-	44	193,562

* Others mainly comprise US$ 231,108 thousand (2013: nil) of exposures in Africa (excluding North Africa).

31 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Risk concentrations of the maximum exposure to credit risk (continued)

An industry sector analysis of the Group's financial assets, before taking into account collateral held or other credit enhancements, is as follows:

	Trading & Manufacturing US$ 000	Banks and other financial institutions US$ 000	Construction and real estate US$ 000	Individuals US$ 000	Government and public sector US$ 000	Others US$ 000	Total US$ 000
At 31 December 2014							
Demand and call deposits with banks	-	284,048	-	-	-	-	284,048
Placements with banks	-	142,481	-	-	-	-	142,481
Non-trading investments	-	1,368	-	-	-	-	1,368
Loans and receivables	401,130	415,048	50,001	2,501	33,112	88,372	990,164
Other assets	130	40,828	4,622	16	167	63,026	108,789
Letters of credit	5,017	60,330	-	-	-	487	65,834
Letters of guarantee	3,578	36,110	8,504	307	-	1,025	49,524
Derivative financial assets	-	3,684	-	-	-	-	3,684
	409,855	983,897	63,127	2,824	33,279	152,910	1,645,892
At 31 December 2013							
Demand and call deposits with banks	-	17,747	-	-	-	-	17,747
Placements with banks	-	113,063	-	-	-	-	113,063
Non-trading investments		1,416	496	-	-	-	1,912
Loans and receivables	-	-	1,703	2,255	-	-	3,958
Other assets	-	2,208	4,145	2	-	19,984	26,339
Letters of guarantee	-	29,037	-	-	-	-	29,037
Derivative financial assets	-	1,506	-	-	-	-	1,506
	-	164,977	6,344	2,257	-	19,984	193,562

Collateral and other credit enhancements

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

The main types of collateral obtained for commercial lending include charges over real estate properties, inventory, trade receivables, trading securities and bank guarantees.

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

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

31 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Collateral and other credit enhancements (continued)

An industry sector analysis of the Group's gross loans and advances, before and after taking into account collateral held or other credit enhancements, is as follows:

	Gross maximum exposure 2014 US$ 000	Net maximum exposure 2014 US$ 000	Gross maximum exposure 2013 US$ 000	Net maximum exposure 2013 US$ 000
Loans to banks	140,743	58,855	-	-
Loans to customers	215,642	155,385	3,082	3,082
Factoring assets	302,242	258,859	-	-
Forfaiting assets	260,395	260,395	-	-
Syndication loans	146,628	132,628	-	-
Staff loans	3,186	-	1,882	-
	1,068,836	866,122	4,964	3,082

Credit risk exposure for each credit rating

	Investment grade US$ 000	Non-investment grade US$ 000	Unrated US$ 000	Total US$ 000
At 31 December 2014				
Demand and call deposits with banks	253,626	8,445	21,977	284,048
Placements with banks	95,653	-	46,828	142,481
Non-trading investments	-	-	1,368	1,368
Loans and receivables	68,398	146,476	775,290	990,164
Other assets	36,577	462	71,750	108,789
Letters of credit		-	65,834	65,834
Letters of guarantee	684	-	48,840	49,524
Derivative financial assets	3,684	-	-	3,684
	458,622	155,383	1,031,887	1,645,892
At 31 December 2013				
Demand and call deposits with banks	17,380	318	49	17,747
Placements with banks	97,643	-	15,420	113,063
Non-trading investments	-	-	1,912	1,912
Loans and receivables	-	-	3,958	3,958
Other assets	131	-	26,208	26,339
Letters of guarantee	708	-	28,329	29,037
Derivative financial assets	1,506	-	-	1,506
	117,368	318	75,876	193,562

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risk and the comparison of credit exposures across all business lines, geographic regions and products. All externally rated credit risk exposures are rated by the relevant External Credit Assessment Institutions ("ECAIs").

Additionally, the internal risk ratings of the Group's externally unrated credit risk exposures which are largely subjective, are tailored to the various categories and are derived in accordance with the internal rating policy and practices. The attributable internal risk ratings are assessed and updated on a regular basis.

31 RISK MANAGEMENT (continued)

b) Credit risk (continued)

The table above reflects the risk ratings of the credit risk exposures rated by the relevant ECAIs. All of the externally unrated credit risk exposures have been classified under "Unrated" category.

Restructured loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. The Group had US$ 53,637 thousand of restructured loans as of 31 December 2014 (2013: nil).

Offsetting financial assets and financial liabilities

The disclosures set out in the table below include financial assets and financial liabilities that are offset in the Group's statement of financial position:

31 December 2014	Loans and receivables US$ 000	Customer deposits US$ 000
Gross amounts of recognised financial asset (liability)	170,000	(170,024)
Gross amounts offset in the consolidated statement of financial position	(170,000)	170,000
Net amount of financial liability presented in the consolidated statement of financial position	-	(24)
31 December 2013		
Gross amounts of recognised financial asset (liability)	70,000	(70,177)
Gross amounts offset in the consolidated statement of financial position	(70,000)	70,000
Net amount of financial liability presented in the consolidated statement of financial position	-	(177)

c) Market risk

Market risk is defined as the risk of losses in the value of on-or-off statement of financial position financial instruments caused by a change in market prices or rates, (including changes in interest rates and foreign exchange rates). The Group's policy guidelines for market risk have been vetted by the Board of Directors in compliance with the rules and guidelines provided by the Central Bank of Bahrain. The Central Bank of Bahrain guidelines introduced a risk measurement framework whereby all locally incorporated banks in Bahrain are required to measure and apply capital charges in respect of their market risk in addition to capital requirements for credit risk and operational risk.

The market risk subject to capital charge normally arises from changes in value due to market forces in the following exposures:

- Interest rate instruments and securities in the trading book; and
- Foreign exchange throughout the banking book.

The Group has entered into interest rate swaps and forward foreign exchange contracts for hedging purposes and does not actively trade in derivatives.

31 RISK MANAGEMENT (continued)

c) Market risk (continued)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's consolidated statement of income based on the consolidated statement of financial position as of 31 December:

Currency	Increase in basis points 2014	Sensitivity of net interest income 2014 US$ 000	Increase in basis points 2013	Sensitivity of net interest income 2013 US$ 000
Kuwaiti Dinar	+ 25	(287)	+ 25	(335)
United States Dollar	+ 25	(1,375)	+ 25	(756)
Euro	+ 25	6	+ 25	(24)
Pound Sterling	+ 25	2	+ 25	-
Others	+ 25	(204)	+ 25	(29)

The decrease in the basis points will have an opposite impact on the net interest income.

The sensitivity of the consolidated statement of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2014, including the effect of hedging instruments.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group considers the United States Dollar as its functional currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

The table below indicates the effect on profit before tax for the positions as at statement of financial position date as a result of change in the currency rate with all other variables held constant.

Currency	Change in currency rate in % 2014	Effect on profit before tax 2014 US$ 000	Effect on equity 2014 US$ 000	Change in currency rate in % 2013	Effect on profit before tax 2013 US$ 000	Effect on equity 2013 US$ 000
Kuwaiti Dinar	+2	(18,319)	1,672	+2	(14,418)	1,971
	-2	18,319	(1,672)	-2	14,418	(1,971)
Euro	+2	(107)	-	+2	(195)	-
	-2	107	-	-2	195	-

31 RISK MANAGEMENT (continued)

c) Market risk (continued)

Equity price risk

Equity price risk arises from the change in fair values of equity investments. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

The geographical distribution of the Group's equity investments is as follows:

Geographical distribution

At 31 December 2014	Middle East/ North Africa US$ 000	Europe US$ 000	North America US$ 000	Others US$ 000	Total US$ 000
Investments carried at fair value through statement of income					
Quoted equities	18,862	781	5,743	1,400	26,786
Managed funds	11,585	625	67	-	12,277
	30,447	1,406	5,810	1,400	39,063
Non-trading investments					
Quoted equities	5,752	-	-	-	5,752
Unquoted equities	43,724	16,595	6,489	-	66,808
Managed funds	114,448	30,118	1,281	-	145,847
	163,924	46,713	7,770	-	218,407
Total	194,371	48,119	13,580	1,400	257,470

At 31 December 2013	Middle East/ Europe US$ 000	North America US$ 000	Others US$ 000	Total US$ 000
Investments carried at fair value through statement of income				
Quoted equities	27,396	-	6,620	34,016
Managed funds	11,755	791	67	12,613
	39,151	791	6,687	46,629
Non-trading investments				
Quoted equities	11,458	-	-	11,458
Unquoted equities	50,130	1	3,841	53,972
Managed funds	99,994	58	785	100,837
	161,582	59	4,626	166,267
Total	200,733	850	11,313	212,896

At the reporting date, the exposure to listed equity securities at fair value was US$ 32,538 thousand (2013: US$ 45,474 thousand). A decrease of 10% on the market indices of MENA stock exchanges could have an impact of approximately US$ 3,254 thousand on the income or equity attributable to the Group, depending on whether the decline is significant or prolonged. The majority of the equities in the MENA region are quoted on the Kuwait Stock Exchange.

For unquoted investments carried at cost the impact of the changes in the equity prices will only be reflected in the consolidated statement of income when the investment is sold or deemed to be impaired.

31 RISK MANAGEMENT (continued)

d) Liquidity risk

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2014 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

At 31 December 2014	On demand US$ 000	1 - 6 months US$ 000	6 - 12 months US$ 000	1 - 5 years US$ 000	Total US$ 000
Financial liabilities					
Due to banks and other financial institutions	346,979	243,649	124,427	1,955	717,010
Deposits from customers	422,050	43,881	36,282	58,784	560,997
Loans payable	52,812	98,781	311,158	356,495	819,246
Subordinated debt	-	-	-	105,232	105,232
Other liabilities	43,963	-	16,925	408	61,296
Total non-derivative undiscounted financial liabilities	865,804	386,311	488,792	522,874	2,263,781

	1 - 6 months US$ 000	6 - 12 months US$ 000	1 - 5 years US$ 000	Total US$ 000
Derivatives				
Net cash outflows on interest rate swaps	-	80	9	89
Gross settled foreign currency derivatives	2,034,904	25,163	9,231	2,069,298
Off-statement of financial position items				
Letters of credit	47,313	558	17,963	65,834
Letters of guarantee	-	49,524	-	49,524
Investment related commitments	-	-	109,260	109,260

The Group expects that not all of contingent items or commitments will be drawn before expiry of the commitments.

31 RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

At 31 December 2013	On demand US$ 000	1 - 6 months US$ 000	6 - 12 months US$ 000	1 - 5 years US$ 000	Total US$ 000
Financial liabilities					
Due to banks and other financial institutions	145,603	13,056	103,300	-	261,959
Deposits from customers	17,882	4,257	1,698	-	23,837
Loans payable	33,750	251,383	34,177	74,506	393,816
Subordinated debt	-	-	-	108,200	108,200
Other liabilities	21,862	-	-	8,464	30,326
Total non-derivative undiscounted financial liabilities	219,097	268,696	139,175	191,170	818,138

	1 - 6 months US$ 000	6 - 12 months US$ 000	1 - 5 years US$ 000	Total US$ 000
Derivatives				
Net cash outflows on interest rate swaps	-	97	128	225
Gross settled foreign currency derivatives	1,005,677	605,046	141,443	1,752,166
Off statement of financial position items				
Letters of credit	-	-	-	-
Letters of guarantee	-	29,037	-	29,037

The Group expects that not all of contingent items or commitments will be drawn before expiry of the commitments.

31 RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

In order to ensure that the Group can meet its financial obligations as they fall due, there is a close monitoring of its assets / liabilities position. Besides other functions, the Asset-Liability Committee evaluates the statement of financial position both from a liquidity and an interest rate sensitivity point of view. The whole process is aimed at ensuring sufficient liquidity to fund its ongoing business activities and to meet its obligations as they fall due. A diversified funding base has evolved in deposits raised from the interbank market, deposits received from customers and medium term funds raised through syndicated and commodity based murabaha transactions. These, together with the strength of its equity and the asset quality, ensure that funds are made available on competitive rates.

The maturity analysis of assets and liabilities analysed according to when they are expected to be recovered or settled are as follows:

At 31 December 2014	Less than 12 months US$ 000	Over 12 months US$ 000	Total US$ 000
Demand and call deposits with banks	283,730	318	284,048
Placements with banks	142,481	-	142,481
Investments carried at fair value through statement of income	57,063	-	57,063
Non-trading investments	5,752	212,655	218,407
Loans and receivables	845,509	144,655	990,164
Other assets	113,574	-	113,574
Investments in associates and joint ventures	-	864,991	864,991
Investment properties	-	4,774	4,774
Property and equipment	-	39,926	39,926
Goodwill	-	54,509	54,509
Assets of disposal group classified as held for sale	7,893	-	7,893
Total assets	1,456,002	1,321,828	2,777,830
Due to banks and other financial institutions	703,553	9,062	712,615
Deposits from customers	493,597	54,820	548,417
Loans payable	455,405	325,942	781,347
Subordinated debt	-	93,270	93,270
Other liabilities	-	61,545	61,545
Liabilities of disposal group classified as held for sale	249	-	249
Total liabilities	1,652,804	544,639	2,197,443
Net	(196,802)	777,189	580,387

31 RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

At 31 December 2013	Less than 12 months US$ 000	Over 12 months US$ 000	Total US$ 000
Demand and call deposits with banks	17,747	-	17,747
Placements with banks	112,744	319	113,063
Investments carried at fair value through statement of income	46,629	-	46,629
Non-trading investments	7,781	158,486	166,267
Loans and receivables	1,237	2,721	3,958
Other assets	29,630	-	29,630
Investments in associates and joint venture	-	824,557	824,557
Investment properties	-	14	14
Property and equipment	-	690	690
Goodwill	-	56,008	56,008
Total assets	215,768	1,042,795	1,258,563
Due to banks and other financial institutions	258,548	-	258,548
Deposits from customers	23,802	-	23,802
Loans payable	316,133	70,192	386,325
Subordinated debt	-	100,000	100,000
Other liabilities	21,533	8,793	30,326
Total liabilities	620,016	178,985	799,001
Net	(404,248)	863,810	459,562

e) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. When controls fail to perform operational risk can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group has established a board approved framework for operational risk management which comprehensively outlines operational risk appetite for the Bank and provides operational risk management procedures. The Framework is supported by a dedicated operational risk system covering Loss Data Collection, Risk and Control Self Assessment and Key Indicator modules which have been rolled out in the Bank. While, the Group cannot expect to eliminate all operational risks, but through dedicated operational risk framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

32 FAIR VALUE MEASUREMENT

The Group uses the hierarchy for determining and disclosing the fair value of financial instruments as disclosed in Note 2.

Management has assessed that financial assets comprising of demand and call deposits with banks, placements with banks, and loans and receivables maturing within one year, and financial liabilities comprising of on-demand customer deposits, amounts due to banks and loans payable falling due within one year approximate their carrying values largely due to the short term maturities of these instruments. Non-trading investments carried at cost are disclosed in Note 7.

32 FAIR VALUE MEASUREMENT (continued)

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.

Quantitative disclosures fair value measurement hierarchy for assets as at 31 December 2014:

	Fair value measurement using			
	Level 1 US$ 000	Level 2 US$ 000	Level 3 US$ 000	Total US$ 000
Assets measured at fair value				
Investments carried at fair value through statement of income				
Quoted equities	26,786	-	-	26,786
Credit linked notes	18,000	-	-	18,000
Managed funds	9,962	2,315	-	12,277
Non-trading investments				
Equities - quoted	5,590	-	-	5,590
Equities - unquoted	84	41,620	531	42,235
Real estate managed funds - unquoted	-	64,070	-	64,070
Other managed funds	-	64,821	14,674	79,495
Debt securities - unquoted	-	-	1,368	1,368
Derivatives				
Held for trading	-	404,064	-	404,064
Used as hedge of net investments in foreign operations	-	1,526,194	-	1,526,194
Used as cash flow hedges	-	139,040	-	139,040
	60,422	2,242,124	16,573	2,319,119
Assets for which fair values are disclosed				
Placements with banks	-	318	-	318
Loans and receivables	-	144,655	-	144,655
	-	144,973	-	144,973
Liabilities for which fair values are disclosed				
Loans payable	-	325,942	-	325,942
Subordinated debt	80,458	-	-	80,458
	80,458	325,942	-	406,400

32 FAIR VALUE MEASUREMENT (continued)

Quantitative disclosures fair value measurement hierarchy for assets as at 31 December 2013:

	Fair value measurement using			
	Level 1 US$ 000	Level 2 US$ 000	Level 3 US$ 000	Total US$ 000
Assets measured at fair value				
Investments carried at fair value through statement of income				
Quoted equities	34,016	-	-	34,016
Managed funds	9,961	2,652	-	12,613
Non-trading investments				
Equities - quoted	11,458	-	-	11,458
Equities - unquoted	-	25,700	520	26,220
Real estate managed funds - unquoted	-	13,337	-	13,337
Other managed funds	47,302	26,324	11,600	85,226
Debt securities - unquoted	-	-	1,912	1,912
Derivatives				
Held for trading	-	454,462	-	454,462
Used as hedge of net investments in foreign operations	-	551,215	-	551,215
Used as cash flow hedges	-	746,489	-	746,489
	102,737	1,820,179	14,032	1,936,948
Assets for which fair values are disclosed				
Placements with banks	-	319	-	319
Loans and receivables	-	2,721	-	2,721
	-	3,040	-	3,040
Liabilities for which fair values are disclosed				
Loans payable	-	70,192	-	70,192
Subordinated debt	88,000	-	-	88,000
	88,000	70,192	-	158,192

Transfers between Level 1, Level 2 and Level 3

During the year ended 31 December 2014 there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into or out of Level 3 fair value measurement.

32 FAIR VALUE MEASUREMENT (continued)

Reconciliation of fair value measurement of non-trading investments in level 3 of the fair value hierarchy:

	Equities	Other managed funds	Debt securities	Total
	US$ 000	US$ 000	US$ 000	US$ 000
As at 1 January 2013	-	18,748	1,111	19,859
Recognised in statement of income	(6)	1,447	2	1,443
Net purchases, sales and transfers and settlements	478	(13,541)	799	(12,264)
Remeasurement recognised in OCI	48	4,946	-	4,994
As at 1 January 2014	520	11,600	1,912	14,032
Recognised in statement of income	-	(1,236)	-	(1,236)
Net purchases, sales and transfers and settlements	41	5,456	-	5,497
Remeasurement recognised in OCI	(30)	(1,146)	(544)	(1,720)
As at 31 December 2014	531	14,674	1,368	16,573

33 CAPITAL ADEQUACY

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") as adopted by the Central Bank of Bahrain.

Capital management

The primary objectives of the Group's capital management are to ensure that the Group complies with capital requirements of the Central Bank of Bahrain and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, or issue equity securities. No changes were made in the capital management objectives, policies and processes from previous years.

The risk asset ratio calculated in accordance with the capital adequacy guidelines issued by the Central Bank of Bahrain, for the Group is as follows:

	2014 US$ 000	2013 US$ 000
Capital base:		
Tier 1 capital	418,305	264,916
Tier 2 capital	-	-
Total capital base (a)	418,305	264,916
Credit risk weighted exposure	2,445,069	1,376,941
Market risk weighted exposure	94,758	76,353
Operational risk weighted exposure	217,050	62,164
Total risk weighted exposure (b)	2,756,877	1,515,458
Capital adequacy (a/b * 100)	15.17%	17.48%
Minimum requirement	12.0%	12.0%

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, statutory reserve, general reserve, treasury share reserve, foreign currency reserve, retained earnings and non-controlling interests less goodwill. The other component of regulatory capital is Tier 2 capital, which includes subordinated long term debt and fair value reserves.

34 MATERIAL PARTLY OWNED SUBSIDIARIES

KAMCO Investment Company K.S.C.P. [KAMCO] and FIMBank p.l.c. [FIMBank] are the subsidiaries that the Group has material non-controlling interests in, and are listed on the Kuwait Stock Exchange and Malta Stock Exchange respectively. Presented below are the aggregated financial information of these subsidiaries as disclosure of the financial information for each subsidiary is not allowed by the stock exchange by-laws until the respective financial results of these subsidiaries are published.

	2014 US$ 000	2013 US$ 000
Accumulated balances of material non-controlling interest	107,068	24,317
(Loss) profit allocated to material non-controlling interest	(22,119)	1,586

The summarised financial information of these subsidiaries is provided below. This information is based on amounts before inter-company eliminations.

	2014 US$ 000	2013 US$ 000
Summarised statement of income for the year ended 31 December:		
Total income	95,654	35,827
Total expenses	(81,800)	(21,644)
Taxation	14,502	-
Losses on impairment - net	(67,767)	(3,157)
(Loss) profit for the year	(39,411)	11,026
Total comprehensive income for the year	9,470	11,964
Attributable to non-controlling interests	(344)	(347)
Summarised statement of financial position as of 31 December:		
Total assets	1,634,542	251,750
Total liabilities	(1,321,297)	(118,298)
Total equity	313,245	133,452
Attributable to equity holders of the parent	283,826	126,892
Non-controlling interest	29,419	6,560
Summarised cash flow information for the year ended 31 December:		
Operating activities	(86,171)	25,400
Investing activities	46,920	20,918
Financing activities	(3,344)	(44,217)
Foreign currency translation adjustments	6,077	(23)
Net (decrease) increase in cash and cash equivalents	(36,518)	2,078

UGB is the merchant banking subsidiary of the KIPCO Group. Its proprietary investments include assets in commercial banking, real estate, private equity, and quoted securities. As of 31 December 2014, Assets Under Management totalled US$11.6 billion (31 December 2013: US$ 9.7 billion).

UGB's core subsidiaries, associates and joint venture include: Burgan Bank, FIMBank, KIPCO Investment Company (KAMCO), North Africa Holding Company, United Gulf Financial Services - North Africa, Takaud Savings & Pensions Company, United Capital Transport Company and United Real Estate Company.

UGB and its subsidiary KAMCO have a proven track record of successfully completing more than 60 investment banking transactions for its clients since 2001 with an aggregate value of over US$ 8.1 billion including corporate finance, advisory, new issue placement and underwriting, corporate restructuring, bond issuance and merger and acquisition.

United Gulf Bank B.S.C

P O Box 5964, Diplomatic Area
UGB Tower, Manama,
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Tel: +973 17 533233
Fax: +973 17 533137
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Website: www.ugbbah.com

Parent Company

Kuwait Projects Company (Holding)

P.O. Box 23982, Safat 13100, Kuwait
Tel: +965 1805 885
Fax: +965 2294 3479
Email: kipco@kipco.com
Website: www.kipco.com

Asset Management & Investment Banking

KAMCO Investment Company (KAMCO)
P O Box 28873, Safat 13149, Kuwait
Tel: +965 1852626
Fax: +965 2244 5918
Email: info@kamconline.com
Website: www.kamconline.com

Manafae Investment Company

P O Box 3132, Safat 13032, Kuwait
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Website: www.manafae.com

North Africa Holding Company

P O Box 1246, Dasman 15463, Kuwait
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Email: info@northafricaholding.com
Website: www.northafricaholding.com

United Gulf Financial Services - North Africa

Rue du Lac Biwa ImmFraj 2 ème Etage, 1053 Les Berges du Lac, Tunis, Tunisia
Tel: + 216 71 167 500
Fax: +216 71 965 181
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Website: www.ugfsnorthafrica.com.tn

Savings & Pensions

TAKAUD Savings & Pensions B.S.C.(c)

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Brokerage

Al Sharq Financial Brokerage Company

P O Box 18, Kuwait Souk Al Dakhelely 15252, Kuwait
Tel: +965 2224 8444
Fax: +965 2240 5000
Email: webmaster@sharqetrade.com
Website: www.sharqetrade.com

Commercial Banking

FIMBank p.l.c

Mercury Tower, The Exchange
Financial & Business Centre
EliaZammit Street, St. Julian's STJ 3155, Malta
Tel: +356 21322100
Fax: +356 21322122
Email: info@fimbank.com
Website: www.fimbank.com

Burgan Bank

P O Box 5389, Safat 12170, Kuwait
Tel: +965 2298 8000
Fax: +965 2298 8419
Email: info@burgan.com
Website: www.burgan.com

Syria Gulf Bank

P O Box 373, 29 Ayyar Street,
Damascus, Syria
Tel: +963 (11) 232 6111
Fax: +963 (11) 232 6112
Email: info@sgbsy.com
Website: www.sgbsy.com

Major Non-Financial Operating Companies

United Real Estate Company

P O Box 2232, Safat 13023, Kuwait
Tel: +965 1805 225
Fax: +965 2244 1003
Email: info@urc.com.kw
Website: www.urc.com.kw

Major Subsidiaries and Affiliates

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Licensed as a conventional wholesale bank by the Central Bank of Bahrain