“Improved efficiency stems from continuous investment in developing employees’ personal skills and abilities, enabling them to create fulfilling lifelong careers with our Bank.”

Development matters

Financial review

Disciplined management of costs and prudent risk management have resulted in BBK achieving solid and consistent results attributable to the loyalty of our customers, our well-diversified range of activities and the quality of implementation of our corporate strategy.

Overview

Faced with rapidly evolving regulatory requirements and a challenging economic environment, BBK managed to achieve significant progress and registered record profitability for the year, remaining true to its core business model.

Steady and consistent performance, proactive risk management, and prudent diversified growth in line with the Bank's corporate strategy has resulted in the delivery of another record performance of BD 50.1 million for the year ended 31 December 2014.

This section provides a review of our enterprise financial performance for 2014 that focuses on the consolidated operating results and the consolidated statement of financial position of BBK including its overseas branches, its principal subsidiaries, joint ventures, associated companies and the indirect investment in associates through subsidiaries.

The consolidated financial statements have been prepared and are presented in accordance with International Financial Reporting Standards, Bahrain Commercial Companies Law, Central Bank of Bahrain (CBB), and Financial Institutions law.

Disciplined management of costs and prudent risk management have resulted in BBK achieving solid and consistent results attributable to the loyalty of our customers, our well-diversified range of activities and the quality of implementation of our corporate strategy.

Operating results

The year 2014 was the second of BBK's three-year business cycle in which the Bank made notable progress in many areas and was able to achieve remarkable results. Among these significant accomplishments was our involvement in intensifying our expansion and diversification activities, which included the opening of our fourth branch in India New Delhi, which is a crucial factor to sustain continuous future growth. Continuous investment and improvement of our technological platforms resulted in the Bank winning the prestigious award of 'Best Customer Experience Overall Website', in line with the Bank's customer-led strategy. Improving operational efficiency, through investments in human resources and capital structure, is one of our key priorities and therefore the Bank re-launched its Management Trainee Development program to contribute to the economy and prosperity of the Kingdom of Bahrain.

Our foundations are solid, our financial position remains healthy, and we have a sound level of liquidity along with a comfortable level of capitalisation.

BBK achieved a net profit, attributable to the owners of the Bank, of BD 50.1 million for the year ended 31 December 2014, being 11.2 percent higher than last year. The net result for the year was largely impacted by the boost in the Bank's core business activities, primarily driven by the growth in net interest income and commercial services fees and commission income.

In continuation of BBK's prudent approach to risk management and provisioning, the Bank has conservatively provided for adequate provisioning levels in 2014 to cater for unexpected losses caused by market turbulence, including the changes in the fair market value for investments as a way of protecting the Bank's overall asset exposure.

Operating income

Total operating income for the year registered a growth of BD 5.2 million or 4.6 percent and stood at BD 117.5 million reflecting solid and diversified income streams. Net interest income at BD 72.3 million reflects a steady growth of 5.0 percent over 2013 as a reflection of robust growth in the Bank's core business activities. Total other income stood at BD 40.9 million, increasing by BD 3.2 million or 8.6 percent from BD 37.7 million recorded in the previous year.

Summary statement of profit or loss

BD millions	2014	2013	Variance BD millions	Change percent
Net interest income	**72.3**	68.9	3.4	4.98%
Other income	**45.2**	43.5	1.7	3.97%
Total income	**117.5**	112.4	5.1	4.59%
Operating expenses	**46.2**	54.4	(8.2)	-15.03%
Provisions	**20.8**	12.1	8.7	71.28%
Profit before taxation	**50.5**	45.9	4.6	10.23%
Taxation/non-controlling interest	**(0.4)**	(0.8)	0.4	-44.87%
Net profit	**50.1**	45.1	5.0	11.20%

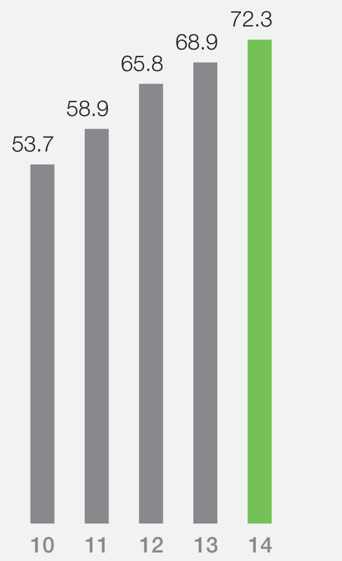
Net interest income

Though the year marked tight and stressed margins due to global market's low interest rates, net interest income for the year reported a boost of 5.0 percent and stood at BD 72.3 million at year-end. The growth was mainly attributable to an increase in the loans and advances portfolio by BD 228 million or 14.1 percent from BD 1,619 million in 2013. The increase of 14.8 percent in interest on the non-trading investment securities (available for sale) from BD 22.7 million reported in 2013 also contributed largely to the overall growth in the net interest income. Growth in the earning assets supported by a significant increase in customer deposits was prudently utilised and invested largely on treasury bills which positively contributed to an increase of 14.8 percent in the net interest income.

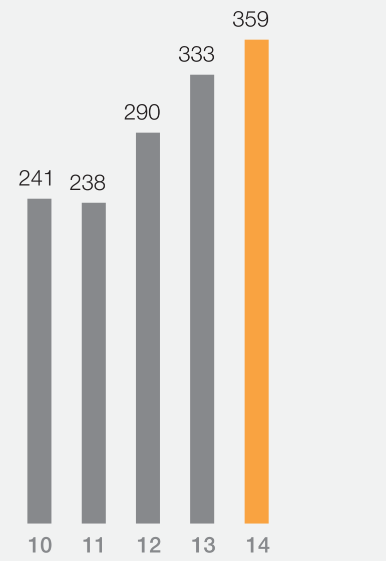
Interest expense for the year includes amortisation of the previously realised non-recurring income of BD 9.2 million that arose from exchanging subordinated debt notes into senior debt notes, which has suppressed the net interest income for the year by around BD 1.4 million. While asset margins have continued to see some pressure, net interest income has benefited from strong financial position momentum and wider liability margins.

As a reflection of lower interest rates and depressed margins, the net interest yield ratio for 2014 showed a modest decrease to 2.32 percent compared to 2.39 percent reported last year.

Asset and liability management (ALM) was up year on year. The build-up of lower-yielding higher quality assets to support more stringent regulatory requirements was well offset by the growth in money market income on the back of improved spreads and a broadening of the depositor base driven by an enhanced product offering.



Net interest income
BD millions



Total equity
BD millions

Other income

Other operating income consists of non-interest income, which is earned from business activities such as dealing in foreign currencies, investment in funds, other than fixed-income funds, the sale of corporate banking and retail banking services, investment trading and share of profit/loss in associated companies and joint ventures.

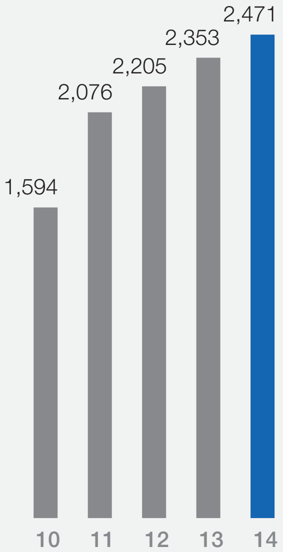
Total other income generated during the year reached BD 40.9 million; an increase of 8.6 percent over last year's reported figure. This was mainly a reflection of net fees and commission for the year which recorded a significant growth of 9.1 percent compared to BD 24.2 million reported in 2013 on account of higher commission income on loans and advances due to high business volumes. Other income includes foreign exchange and investment income of BD 16.3 million which represents a decline of 6.3 percent over last year (2013: BD 17.4 million), on account of the decline in associates' income and net foreign exchange income.

Operating expenses

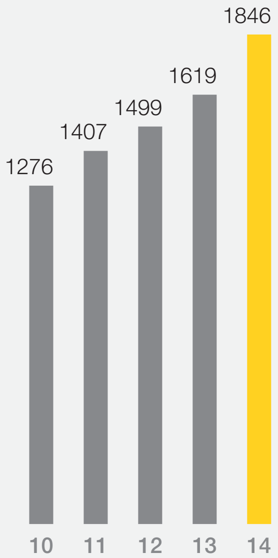
The bank's 2012-13 cost optimisation initiative is now bearing fruit as operating costs remarkably decreased by 15.0 percent to reach BD 46.2 million as at December 2014 when compared to BD 54.4 million reported in the corresponding period of last year. Staff expenses reduced from BD 35.7 million in 2013 to BD 30.3 million in 2014 due to more efficient utilisation of existing human resources. BBK's cost to income ratio has improved substantially from 48.4 percent as of December 2013 to 39.3 percent as of December 2014.

Net provisions

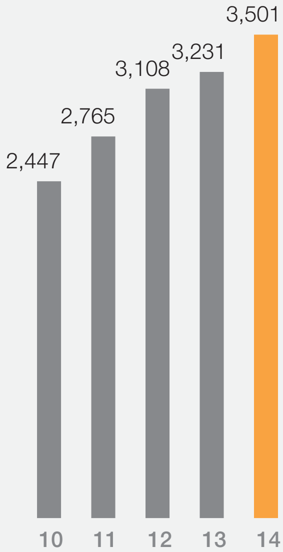
The Bank follows the International Accounting Standard (IAS 39) with regard to accounting for impairment of financial assets. The provisions for impairment of the Bank's loans and advances and assets carried at cost or amortised cost are arrived at after calculating the net present value of the anticipated future cash flows from these financial assets, discounted at original effective interest rates.



Customer deposits
BD millions



Loans and advances
BD millions



Total assets
BD millions

For assets carried at fair value, impairment is the difference between the carrying cost and the fair value. This approach of provisioning for impairment of the Bank's financial assets is aimed at providing more realistic estimates of the impairment in the values of the assets.

In continuation of the Bank's efforts to strengthen its prudent risk management practices, the Bank has amended its general loss reserves criteria to include total risk weighted exposure which shall encompass all potential future eventualities of its gross exposure. Hence, the Bank increased its provisions reserve during 2014, to reach BD 20.8 million (December 2013: BD 12.1 million), and will continue to build up that caution to be able to face any unexpected turbulence in the markets smoothly.

On the other hand, the bank had intensified its remedial and collection efforts during the year, which resulted in significantly reducing the level of non-performing loans from BD 105 million in 2013 to BD 90 million in 2014. The non-trading investment portfolio has performed well this year as evidenced from the portfolio's positive fair market valuation. This has resulted in realising a net provision write-back of BD 0.8 million compared to BD 0.3 million last year.

Comprehensive income

Comprehensive income stood at BD 39.9 million as of end December 2014, compared to BD 52.0 million reported in the corresponding period of 2013. This was driven partially by the volatility in the market prices of bond and equity investments, and also partially due to realisation of some of the gain on investments sold during the year.

Financial position

The Group delivered a resilient performance and our financial position continues to remain strong and healthy, highly liquid, and conservatively funded. Financial position footings grew by BD 270.3 million or 8.4 percent and reached BD 3,501 million at the end of 2014. The growth was primarily driven by an increase in customer lending and the non-trading investment portfolio which was supported by a significant increase in customer deposits. The surplus liquidity was prudently utilised and invested in highly-liquid assets, including but not limited to, treasury bills and placements with the Central Bank of Bahrain.

Growth across both the retail and corporate segments has been robust with the Bank achieving a good balance between both advances and deposits. We remain a strong net lender in the inter-bank market, particularly in the GCC and MENA region. As at 31 December 2014, our net loans and advances-to-deposits ratio stands at 74.7 percent (2013: 68.8 percent). This is a strong indicator of the confidence customers have in us as a financial institution in the Kingdom of Bahrain, while growing and optimising the use of surplus liquidity in the market. The profile of our financial position remains stable as the majority of our financial assets are loans and advances that are held on an amortised cost basis, which reduces the risk of short-term distress shocks.

The Group is strongly capitalised, and generated good levels of organic equity during the year, with Core Tier 1 ratio slightly increased to 12.6 percent from 12.5 percent in 2013, and primarily impacted by the increase in the risk-weighted exposure stemming from the growth in the loan and advance portfolio.

Assets

Total assets showed a sustainable growth of 8.4 percent and stood at BD 3,500.9 million as at 31 December 2014 compared to BD 3,230.7 million in 2013. This was primarily a reflection of strong growth in net loans and advances by 14.1 percent to reach BD 1,846.5 million as part of the Bank's strategy of broadening business relationships and focusing attention on active sectors in the local and MENA region.

The investment portfolio of the Bank is classified into the following three categories: "Financial assets at fair value through profit or loss" (FVTPL), "Available-for-sale", and "Investments stated at amortised costs". The FVTPL category consists of investments held for trading and structured notes having embedded derivatives. The other two categories consist of quoted bonds and equities and unquoted securities that are mainly acquired with the intention of being retained for the long term. At the end of 2014, the quoted bonds and equities constitute 81 percent of the gross investments (2013: 71.4 percent). Fixed income portfolio is substantially hedged against exposure to interest rate risk or highly dominated by regional governments' bonds and sukuk.

Consolidated statement of financial position

BD millions	2014	2013	Variance BD millions	Change percent
Assets				
Cash and balances with central banks	**278.2**	224.4	53.8	24.00%
Treasury bills	**292.7**	315.1	(22.4)	-7.12%
Deposits and amounts due from banks and other financial institutions	**175.9**	202.4	(26.5)	-13.09%
Loans and advances to customers	**1,846.4**	1,618.6	227.8	14.08%
Non-trading investment securities	**787.2**	744.0	43.2	5.80%
Investment in associated companies and joint ventures	**36.5**	57.9	(21.4)	-36.86%
Interest receivable and other assets	**59.0**	42.2	16.8	39.53%
Premises and equipment	**25.0**	26.1	(1.1)	-4.29%
Total assets	**3,500.9**	3,230.7	270.2	8.37%
Liabilities and equity				
Liabilities				
Deposits and amounts due to banks and other financial institutions	**181.5**	255.1	(73.6)	-28.83%
Borrowings under repurchase agreement	**56.3**	47.9	8.4	17.52%
Term borrowings	**239.5**	238.1	1.4	0.60%
Clients' current, savings and other deposits	**2,352.9**	2,204.8	148.1	6.72%
Interest payable and other liabilities	**67.6**	72.0	(4.5)	-6.32%
Total liabilities	**2,897.8**	2,817.9	79.9	2.83%
Equity attributable to owners of the Bank	**332.2**	289.2	43.0	14.89%
Non-controlling interest	**0.7**	0.5	0.2	43.03%
Total equity	**332.9**	289.7	43.2	14.93%
Total liabilities and equity	**3,230.7**	3,107.6	123.1	3.96%

The Bank's total non-trading investment securities grew by BD 43.2 million or 5.8 percent and reached BD 787.2 million at the end of 2014 mainly due to increased investment activities in the regional and selective international markets.

Investment in associated companies and joint venture represents the Bank's interest in a number of associates and joint ventures as outlined in later sections of this report. The carrying value of these investments represents the Bank's share of the net assets of these companies.

BBK managed to keep its liquidity and funding positions at very comfortable levels with liquid assets, consisting of cash and balances with central banks, treasury bills, and placements with banks and other financial institutions, to total assets standing at 21.3 percent (December 2013: 23.0 percent), and loan to total deposit ratio at 66.3 percent (December 2013: 63.9 percent).

Liabilities

Current, savings, and other deposits include the balances of interest-bearing and non-interest-bearing accounts due to customers on demand, and term deposits taken with different maturity dates, in various currencies and at varying rates of interest. Customer deposits continued with its upward positive trend and grew by 5.0 percent to reach BD 2,471.1 million at year end. The continuous growth is a reflection of the Bank's success in portraying itself as a dependable and solid financial institution and leveraging its presence as a dominant player in the domestic market.

Deposits and amounts due to banks and other financial institutions showed an increase of BD 131.5 million or 72.4 percent over 2013 and stood at BD 313.0 million at end of 2014. However, borrowings under repurchase agreements declined by BD 18.6 million and stood at BD 37.7 million as at year end.

Interest payable and other liabilities consist of accrued interest payable on interest-bearing deposits, accrued expenses, and provisions.

Capital adequacy

The Bank has implemented the Basel II framework for the calculation of capital adequacy since January 2008, in accordance with Central Bank of Bahrain guidelines.

Equity before appropriations stood at BD 359.4 million at the end of 2014 (2013: BD 332.9 million). While there was a growth in risk-weighted assets, the Bank continued to maintain a comfortable capital adequacy ratio of 15.63 percent (2013: 15.33 percent), well above the CBB's minimum regulatory requirement of 12 percent.

To further strengthen the Bank's capital base, the Board of Directors approved the appropriation of BD 4.7 million (2013: BD 3.1 million) from the current year's profit to the general reserve. This would make the general reserve reach BD 51.5 million (to be reflected in 2015 financial results); representing an increase of 7.2 percent increase over the previous general reserve balance and 50 percent of the share capital of the bank.

The Bank has also conducted an impact assessment of Basel III requirements in line with the guidelines provided by the Central Bank of Bahrain where the outcome showed that the Bank has sufficient capital to accommodate the requirements of Basel III Accord, and is comfortably ready for its implementation effective January 2015 as mandated by the CBB.

The future is very bright for BBK and to face any potential challenges from domestic or global markets, we will continue to build strong relationships with our clients and customers, maintain our capital and liquidity strength, and invest strategically to meet targeted opportunities for growth and expansion.