

**Al Salam Bank-Bahrain B.S.C.**

**INTERIM CONDENSED  
CONSOLIDATED FINANCIAL STATEMENTS**

**30 SEPTEMBER 2014**



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## **REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE BOARD OF DIRECTORS OF AL SALAM BANK-BAHRAIN B.S.C.**

### **Introduction**

We have reviewed the accompanying interim condensed consolidated financial statements of Al Salam Bank-Bahrain B.S.C. ("the Bank") and its subsidiaries (together "the Group") as at 30 September 2014, comprising of the interim consolidated statement of financial position as at 30 September 2014 and the related interim consolidated statements of income, cash flows and changes in owners' equity for the nine month period then ended and explanatory notes. The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the accounting policies disclosed in note 2. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### **Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements 2410, "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material aspects, in accordance with the accounting policies disclosed in note 2.

5 November 2014  
Manama, Kingdom of Bahrain

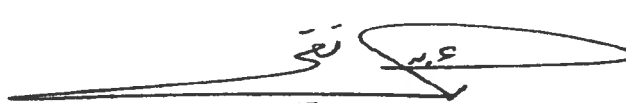
## INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 September 2014 (reviewed)

|  |   | (Reviewed)<br>30 September<br>2014<br>BD '000 | (Audited)<br>31 December<br>2013<br>BD '000 |
|--|---|---|---|
| <b>ASSETS</b>  |   |   |   |
| Cash and balances with banks and Central Bank of Bahrain                             | 4 | 244,398                                       | 86,097                                      |
| Central Bank of Bahrain Sukuk  |   | 113,733                                       | 102,937                                     |
| Murabaha and Wakala receivables from banks   |   | 218,148                                       | 118,227                                     |
| Corporate Sukuk  |   | 117,032                                       | 91,106                                      |
| Murabaha financing   |   | 231,498                                       | 156,142                                     |
| Mudaraba financing   |   | 141,294                                       | 114,084                                     |
| Ijarah Muntahia Bittamleek   |   | 116,793                                       | 110,631                                     |
| Musharaka  |   | 10,904  | 19,145                                      |
| Assets under conversion  | 4 | 422,532                                       | -   |
| Non-trading investments  | 5 | 155,906                                       | 125,923                                     |
| Investment properties  |   | 69,479  | 69,210                                      |
| Development properties   |   | 56,141  | 63,399                                      |
| Investment in associates   |   | 10,755  | 8,537                                       |
| Other assets   | 6 | 29,394  | 22,814                                      |
| Goodwill   | 3 | 12,773  | -   |
| <b>TOTAL ASSETS</b>  |   | <b>1,950,780</b>                              | <b>1,088,252</b>                            |
| <b>LIABILITIES, EQUITY OF INVESTMENT<br/>ACCOUNTHOLDERS AND OWNERS' EQUITY</b>       |   |   |   |
| <b>LIABILITIES</b>   |   |   |   |
| Murabaha and Wakala due to banks   |   | 128,108                                       | 106,796                                     |
| Wakala due to non-banks  |   | 979,807                                       | 584,365                                     |
| Customers' current accounts  |   | 187,732                                       | 70,532                                      |
| Term financing   |   | 22,431  | 23,637                                      |
| Liabilities under conversion   | 4 | 233,029                                       | -   |
| Other liabilities  |   | 42,228  | 30,979                                      |
| <b>TOTAL LIABILITIES</b>   |   | <b>1,593,335</b>                              | <b>816,309</b>                              |
| <b>EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>   |   | <b>32,848</b>                                 | <b>25,846</b>                               |
| <b>OWNERS' EQUITY</b>  |   |   |   |
| Share capital  | 7 | 214,093                                       | 149,706                                     |
| Treasury stock   |   | -   | (492)                                       |
| Reserves and retained earnings   |   | 101,556                                       | 78,580                                      |
| Proposed appropriations  |   | -   | 7,485                                       |
| Total equity attributable to shareholders of the Bank                                |   | 315,649                                       | 235,279                                     |
| Non-controlling interest   |   | 8,948   | 10,818                                      |
| <b>TOTAL OWNERS' EQUITY</b>  |   | <b>324,597</b>                                | <b>246,097</b>                              |
| <b>TOTAL LIABILITIES, EQUITY OF INVESTMENT<br/>ACCOUNTHOLDERS AND OWNERS' EQUITY</b> |   | <b>1,950,780</b>                              | <b>1,088,252</b>                            |



Sh. Hessa Bint Khalifa Al Khalifa  
Chairperson of the Board



Yousif A. Taqi  
Director and Chief Executive Officer

The attached notes 1 to 14 form part of these interim condensed consolidated financial statements.

Al Salam Bank-Bahrain B.S.C.

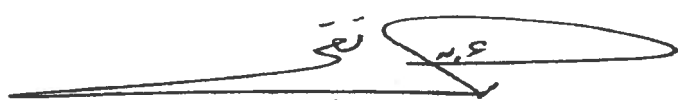
INTERIM CONSOLIDATED INCOME STATEMENT

For the period ended 30 September 2014 (reviewed)

|  |             | <i>Three<br/>months<br/>ended<br/>30 September<br/>2014</i> | <i>Three<br/>months<br/>ended<br/>30 September<br/>2013</i> | <i>Nine<br/>months<br/>ended<br/>30 September<br/>2014</i> | <i>Nine<br/>months<br/>ended<br/>30 September<br/>2013</i> |
|--|-------------|---|---|--|--|
|  | <i>Note</i> | <i>BD '000</i>  | <i>BD '000</i>  | <i>BD '000</i>   | <i>BD '000</i>   |
| <b>OPERATING INCOME</b>                                |             |   |   |  |  |
| Income from financing contracts and sukuk              |             | 17,509  | 9,125   | 41,736   | 24,751   |
| Gains on sale of investments and sukuk                 | 8           | 3,428   | 197   | 5,827  | 2,169  |
| Income from investments                                | 9           | 760   | 879   | 1,769  | 2,324  |
| Fair value changes on FVTPL investments                |             | (1,775)   | (314)   | 330  | (68)   |
| Dividend income  |             | 177   | 155   | 501  | 560  |
| Foreign exchange gains                                 |             | 253   | 279   | 939  | 665  |
| Fees, commission and other income                      |             | 2,424   | 308   | 5,823  | 1,393  |
|  |             | <b>22,776</b>   | <b>10,629</b>   | <b>56,925</b>  | <b>31,794</b>  |
| Profit on Murabaha and Wakala due to banks             |             | (322)   | (135)   | (801)  | (484)  |
| Profit on Wakala due to non-banks                      |             | (7,886)   | (4,353)   | (19,899)   | (12,929)   |
| Profit on Term financing                               |             | (246)   | -   | (743)  | -  |
| Profit relating to equity of investment accountholders |             | (54)  | (40)  | (144)  | (107)  |
| Total operating income                                 |             | <b>14,268</b>   | <b>6,101</b>  | <b>35,338</b>  | <b>18,274</b>  |
| <b>OPERATING EXPENSES</b>                              |             |   |   |  |  |
| Staff costs  |             | 3,862   | 1,443   | 9,529  | 4,219  |
| Premises and equipment cost                            |             | 755   | 266   | 1,732  | 868  |
| Depreciation   |             | 893   | 72  | 1,842  | 211  |
| Other operating expenses                               |             | 2,454   | 859   | 6,426  | 2,578  |
| Total operating expenses                               |             | <b>7,964</b>  | <b>2,640</b>  | <b>19,529</b>  | <b>7,876</b>   |
| <b>PROFIT BEFORE PROVISIONS AND RESULTS</b>            |             |   |   |  |  |
| <b>OF ASSOCIATES AND JOINT VENTURES</b>                |             | <b>6,304</b>  | <b>3,461</b>  | <b>15,809</b>  | <b>10,398</b>  |
| Share of profit from associates and joint ventures     |             | 99  | -   | 242  | -  |
| Provisions for impairment-net                          |             | (2,365)   | (354)   | (3,694)  | (1,269)  |
| <b>NET PROFIT FOR THE PERIOD</b>                       |             | <b>4,038</b>  | <b>3,107</b>  | <b>12,357</b>  | <b>9,129</b>   |
| <i>Attributable to:</i>                                |             |   |   |  |  |
| - Shareholders of the Bank                             |             | 4,116   | 3,107   | 12,283   | 9,129  |
| - Non-controlling interest                             |             | (78)  | -   | 74   | -  |
|  |             | <b>4,038</b>  | <b>3,107</b>  | <b>12,357</b>  | <b>9,129</b>   |
| <b>WEIGHTED AVERAGE NUMBER OF SHARES (in '000)</b>     |             | <b>2,140,931</b>  | <b>1,491,372</b>  | <b>1,929,161</b>   | <b>1,491,372</b>   |
| <b>BASIC AND DILUTED EARNINGS PER SHARE (FILS)</b>     |             | <b>1.9</b>  | <b>2.1</b>  | <b>6.4</b>   | <b>6.1</b>   |



Sh. Hessa Bint Khalifa Al Khalifa  
Chairperson of the Board



Yousif A. Taqi  
Director and Chief Executive Officer

The attached notes 1 to 14 form part of these interim condensed consolidated financial statements.

## INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the period ended 30 September 2014 (reviewed)

|  | <i>Note</i> | <i>Nine months<br/>ended<br/>30 September<br/>2014<br/>BD '000</i> | <i>Nine months<br/>ended<br/>30 September<br/>2013<br/>BD '000</i> |
|--|-------------|--|--|
| <b>OPERATING ACTIVITIES</b>  |             |  |  |
| Net profit for the period  |             | 12,357   | 9,129  |
| Adjustments:   |             |  |  |
| Depreciation   |             | 1,842  | 211  |
| Fair value changes on FVTPL investments  |             | (330)  | 68   |
| Provisions for impairment-net  |             | 3,694  | 1,269  |
| Share of profit from associates and joint ventures                                       |             | (242)  | -  |
| Gain on sale of held-for-sale assets   |             | (321)  | -  |
| Operating income before changes in operating assets and liabilities                      |             | <u>17,000</u>  | <u>10,677</u>  |
| <b>Changes in operating assets and liabilities:</b>                                      |             |  |  |
| Mandatory reserve with Central Bank of Bahrain   |             | (3,705)  | (830)  |
| Central Bank of Bahrain Sukuk  |             | 11,379   | 14,675   |
| Murabaha and Wakala receivables from banks with original maturities of 90 days or more   |             | 4,603  | (4,480)  |
| Corporate Sukuk  |             | (17,838)   | (13,851)   |
| Murabaha financing   |             | (27,866)   | (25,591)   |
| Mudaraba financing   |             | (12,027)   | (3,724)  |
| Ijarah Muntahia Bittamleek   |             | (1,959)  | (16,008)   |
| Musharaka financing  |             | 8,241  | (2,835)  |
| Assets under conversion  |             | 72,204   | -  |
| Non-trading investments -net   |             | (26,687)   | (5,290)  |
| Development properties   |             | 7,258  | -  |
| Other assets   |             | (1,190)  | 13,709   |
| Wakala due to banks  |             | (32,032)   | 1,824  |
| Wakala due to non-banks  |             | 140,649  | 86,551   |
| Customers' current accounts  |             | 66,522   | (1,130)  |
| Liabilities under conversion   |             | (79,384)   | -  |
| Other liabilities  |             | 135  | 1,660  |
| Net cash from operating activities   |             | <u>125,303</u>   | <u>55,357</u>  |
| <b>INVESTING ACTIVITIES</b>  |             |  |  |
| Cash flow arising on acquisition of a subsidiary   | 3           | 127,670  | -  |
| Sale of treasury stock   |             | 1,754  | -  |
| Purchase of premises and equipment   |             | (794)  | (72)   |
| Purchase of investment properties  |             | (269)  | (20,511)   |
| Proceeds from sale of held-for-sale assets   |             | 11,953   | -  |
| Net cash from / (used in) investing activities   |             | <u>140,314</u>   | <u>(20,583)</u>  |
| <b>FINANCING ACTIVITIES</b>  |             |  |  |
| Term financing   |             | (1,206)  | -  |
| Equity of investment account holders   |             | 4,604  | 13,589   |
| Share issue expenses   |             | (125)  | -  |
| Dividend paid to shareholders  |             | (7,446)  | (7,446)  |
| Settlement of non-controlling interest   |             | (2,091)  | -  |
| Dividend paid to non-controlling interest  |             | (233)  | -  |
| Net cash (used in) / from financing activities   |             | <u>(6,497)</u>   | <u>6,143</u>   |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>   |             | <u>259,120</u>   | <u>40,917</u>  |
| Cash and cash equivalents at 1 January   |             | <u>171,040</u>   | <u>149,013</u>   |
| <b>CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER</b>   |             | <u><u>430,160</u></u>  | <u><u>189,930</u></u>  |
| <b>Cash and cash equivalents comprise of:</b>  |             |  |  |
| Cash and other balances with Central Bank of Bahrain                                     |             | 182,687  | 51,927   |
| Balances with other banks  |             | 38,056   | 23,120   |
| Murabaha and Wakala receivables from banks with original maturities of less than 90 days |             | <u>209,417</u>   | <u>114,883</u>   |
|  |             | <u><u>430,160</u></u>  | <u><u>189,930</u></u>  |

The attached notes 1 to 14 form part of these interim condensed consolidated financial statements.

Al Salam Bank-Bahrain B.S.C.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the period ended 30 September 2014 (reviewed)

Amounts in BD '000s

Attributable to shareholders of the Bank

|   | Share capital  | Treasury stock | Statutory reserve | Retained earnings | Changes in fair value | Property fair value reserve | Foreign exchange translation reserve | Share premium reserve | Total reserves | Proposed appropriations | Total          | Non-controlling interest | Total owners' equity |
|---|----------------|----------------|-------------------|-------------------|-----------------------|-----------------------------|--------------------------------------|-----------------------|----------------|-------------------------|----------------|--------------------------|----------------------|
| <b>Balance as of 1 January 2014</b>       | 149,706        | (492)          | 10,926            | 43,272            | 651                   | 21,659                      | (501)                                | 2,573                 | 78,580         | 7,485                   | 235,279        | 10,818                   | 246,097              |
| Net profit for the period                 | -              | -              | -                 | 12,283            | -                     | -                           | -                                    | -                     | 12,283         | -                       | 12,283         | 74                       | 12,357               |
| Net change in fair value                  | -              | -              | -                 | -                 | 1,688                 | -                           | -                                    | -                     | 1,688          | -                       | 1,688          | -                        | 1,688                |
| Changes on investment in associates       | -              | -              | -                 | -                 | -                     | -                           | (512)                                | -                     | (512)          | -                       | (512)          | -                        | (512)                |
| Dividend paid                             | -              | -              | -                 | -                 | -                     | -                           | -                                    | -                     | -              | (7,446)                 | (7,446)        | -                        | (7,446)              |
| Dividend relating to subsidiaries         | -              | -              | -                 | -                 | -                     | -                           | -                                    | -                     | -              | -                       | -              | (233)                    | (233)                |
| Shares issued on acquisition              | 64,387         | -              | -                 | -                 | -                     | -                           | -                                    | 8,499                 | 8,499          | -                       | 72,886         | -                        | 72,886               |
| Share issue expenses                      | -              | -              | -                 | -                 | -                     | -                           | -                                    | (125)                 | (125)          | -                       | (125)          | -                        | (125)                |
| Net movements in non-controlling interest | -              | -              | -                 | (158)             | -                     | -                           | -                                    | -                     | (158)          | -                       | (158)          | (1,711)                  | (1,869)              |
| Sale of treasury stock                    | -              | 492            | -                 | -                 | -                     | -                           | -                                    | 1,262                 | 1,262          | -                       | 1,754          | -                        | 1,754                |
| Transfer                                  | -              | -              | -                 | 39                | -                     | -                           | -                                    | -                     | 39             | (39)                    | -              | -                        | -                    |
| <b>Balance at 30 September 2014</b>       | <b>214,093</b> | <b>-</b>       | <b>10,926</b>     | <b>55,436</b>     | <b>2,339</b>          | <b>21,659</b>               | <b>(1,013)</b>                       | <b>12,209</b>         | <b>101,556</b> | <b>-</b>                | <b>315,649</b> | <b>8,948</b>             | <b>324,597</b>       |
| <b>Balance as of 1 January 2013</b>       | 149,706        | (492)          | 9,689             | 39,583            | 92                    | -                           | (571)                                | 2,573                 | 51,366         | 7,485                   | 208,065        | -                        | 208,065              |
| Net profit for the period                 | -              | -              | -                 | 9,129             | -                     | -                           | -                                    | -                     | 9,129          | -                       | 9,129          | -                        | 9,129                |
| Net change in fair value                  | -              | -              | -                 | -                 | (353)                 | -                           | -                                    | -                     | (353)          | -                       | (353)          | -                        | (353)                |
| Changes on investment in associates       | -              | -              | -                 | -                 | -                     | -                           | (238)                                | -                     | (238)          | -                       | (238)          | -                        | (238)                |
| Dividend paid                             | -              | -              | -                 | -                 | -                     | -                           | -                                    | -                     | -              | (7,446)                 | (7,446)        | -                        | (7,446)              |
| Transfer                                  | -              | -              | -                 | 39                | -                     | -                           | -                                    | -                     | 39             | (39)                    | -              | -                        | -                    |
| <b>Balance at 30 September 2013</b>       | <b>149,706</b> | <b>(492)</b>   | <b>9,689</b>      | <b>48,751</b>     | <b>(261)</b>          | <b>-</b>                    | <b>(809)</b>                         | <b>2,573</b>          | <b>59,943</b>  | <b>-</b>                | <b>209,157</b> | <b>-</b>                 | <b>209,157</b>       |

The attached notes 1 to 14 form part of these interim condensed consolidated financial statements.

## 1 INCORPORATION AND PRINCIPAL ACTIVITIES

Al Salam Bank-Bahrain B.S.C. ("the Bank") was incorporated in the Kingdom of Bahrain under the Bahrain Commercial Companies Law no. 21/2001 and was registered with Ministry of Industry and Commerce under Commercial Registration no. 59308 on 19 January 2006. The Bank is regulated and supervised by the Central Bank of Bahrain ("the CBB") and has an Islamic retail banking license and is operating under Islamic principles, and in accordance with all the relevant regulatory guidelines for Islamic banks issued by the CBB. The Bank's registered office is P.O. Box 18282, building 22, avenue 58, block 436, Al Seef District, Kingdom of Bahrain.

During the period, the Bank acquired 100% stake in BMI Bank B.S.C. (c) ("BMI"), a closed shareholding company in the Kingdom of Bahrain, through exchange of shares as explained in more detail in note 3. BMI operates under a retail conventional banking license issued by the CBB. All the legal formalities in relation to the share issuance have been completed and the process of converting BMI into fully compliant Islamic operations is in progress.

The Bank and its subsidiary BMI operate through sixteen retail branches in the Kingdom of Bahrain. The Bank offers a full range of Shari'a-compliant banking services and products. The activities of the Bank include managing profit sharing investment accounts, offering Islamic financing contracts, dealing in Shari'a-compliant financial instruments as principal/agent, managing Shari'a-compliant financial instruments and other activities permitted for under the CBB's Regulated Banking Services as defined in the licensing framework. The Bank's ordinary shares are listed in the Bahrain Bourse and Dubai Financial Market.

Other than the subsidiary mentioned above, the Bank has control over the following entities:

| <i>Name of entity</i>                         | <i>% Holding</i> | <i>Nature of entity</i> |
|---|------------------|-------------------------|
| Al Salam Leasing Two Ltd ("ASL II")           | 76%              | Aircraft under lease    |
| Auslog Holding Trust                          | 90%              | Investment properties   |
| Kenaz Al Hamala Real Estate Investment W.L.L. | 100%             | Development properties  |
| Al Salam Asia REIT Fund                       | 48%              | Open-ended mutual fund  |

The Bank together with its subsidiaries is referred to as "the Group".

These interim condensed consolidated financial statements have been authorised for issue in accordance with a resolution of the Board of Directors dated 5 November 2014.

## 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

These interim condensed consolidated financial statements have been prepared in accordance with the guidance given by International Accounting Standard 34 - "Interim Financial Reporting". These interim condensed consolidated financial statements incorporate all assets, liabilities and off-balance sheet financial instruments held by the Group. With the exception of the accounting policies for business combination and treasury stock, the accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2013, which were prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and in conformity with the Bahrain Commercial Companies Law and the CBB and Financial Institutions Law. In accordance with AAOIFI, for matters for which no AAOIFI standards exist, including "Interim Financial Reporting", the Group uses the relevant International Financial Reporting Standard.

The interim condensed consolidated financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with AAOIFI. In addition, results for the nine months ended 30 September 2014 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2014.

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**Business combinations and goodwill**

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 interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets.

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.

In a business combination in which the Bank and the acquiree exchange only equity interests, the acquisition-date fair value of the acquiree's equity interests is used to determine the amount of goodwill.

Investments acquired but do not meet the definition of business combination are recorded as financing assets or investment in properties as appropriate. When such investments are acquired, the Group allocates the cost of acquisition between the individual identifiable assets and liabilities based on their relative fair values at the date of acquisition. Cost of such assets is the sum of all consideration given and any non-controlling interest recognised. If the non-controlling interest has a present ownership interest and is entitled to a proportionate share of net assets upon liquidation, the Group recognises the non-controlling interest at its proportionate share of net assets.

Goodwill 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 net identifiable assets acquired and liabilities assumed. 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 interim consolidated income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

**Treasury Stock**

Own equity instruments that are reacquired, are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium.



# Al Salam Bank-Bahrain B.S.C.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2014 (reviewed)

### 3 BUSINESS COMBINATION

On 8 October 2013, the shareholders of the Bank resolved to acquire 100% of paid up capital of BMI by issuing 11 shares of the Bank for each share of BMI. On 30 March 2014, the Bank completed the acquisition by issuing 643,866,927 fully paid ordinary shares of the Bank to the previous shareholders of BMI. As the acquisition is completed through a share exchange, the fair value of BMI's equity interest acquired is considered as fair value of consideration transferred.

The provisional fair values of the identifiable assets and liabilities of BMI as of 30 March 2014 and the resulting impact due to the acquisition are as follows:

|  | <i>Fair<br/>value<br/>BD '000</i> | <i>Carrying<br/>value<br/>BD '000</i> |
|--|-----------------------------------|---------------------------------------|
| <b>ASSETS ACQUIRED</b>   |                                   |                                       |
| Cash and balances with the Central Bank of Bahrain                   | 100,176                           | 100,176                               |
| Treasury bills   | 3,531                             | 3,531                                 |
| Due from banks and financial institutions                            | 131,659                           | 131,707                               |
| Loans and advances   | 302,753                           | 306,727                               |
| Islamic financing assets   | 68,235                            | 74,640                                |
| Non-trading investments  | 124,038                           | 125,358                               |
| Investment in an associate & joint ventures                          | 3,216                             | 3,216                                 |
| Assets held-for-sale   | 40,354                            | 40,897                                |
| Other assets   | 5,885                             | 5,885                                 |
| Premises and equipment   | 4,218                             | 12,548                                |
|  | <u>784,065</u>                    | <u>804,685</u>                        |
| <b>LESS: LIABILITIES ASSUMED</b>                                     |                                   |                                       |
| Due to banks and financial institutions & wholesale Islamic deposits | (98,133)                          | (98,133)                              |
| Customers' deposits  | (580,280)                         | (580,280)                             |
| Other liabilities  | (19,251)                          | (19,251)                              |
| Liabilities relating to assets held-for-sale                         | (26,066)                          | (26,066)                              |
|  | <u>(723,730)</u>                  | <u>(723,730)</u>                      |
| <b>NET ASSETS</b>  | <u>60,335</u>                     | <u>80,955</u>                         |
| <b>GOODWILL ARISING ON ACQUISITION</b>                               |                                   |                                       |
| Fair value of identifiable net assets acquired                       | 60,335                            |                                       |
| Non-controlling interest measured at fair value                      | 222                               |                                       |
| Fair value of the consideration given (note 7)                       | 72,886                            |                                       |
| <b>GOODWILL</b>  | <u>12,773</u>                     |                                       |
| <b>NET CASH FLOW ARISING ON ACQUISITION</b>                          | <u>127,670</u>                    |                                       |

The acquisition transaction was closed on 30 March 2014 with the Bank issuing the agreed upon shares to the shareholders of BMI. Thus, for the period ended 31 March 2014, the contribution of BMI to the net profit of the Group is insignificant. From the date of acquisition, BMI has contributed BD 2,768 thousands to the net profit of the Group.

The costs of BD 125 thousands relating to issuance of shares were charged directly as a reduction in share premium.

30 September 2014 (reviewed)

**4 ASSETS AND LIABILITIES UNDER CONVERSION**

These represent interest bearing non-Shari'a compliant assets and liabilities of BMI. These assets and liabilities have been reported as separate line items on the face of the interim consolidated statement of financial position. The details of the assets and liabilities under conversion are as follows:

|   | <i>30 September<br/>2014<br/>BD '000</i> |
|---|--|
| <b>Assets</b>                             |  |
| Due from banks and financial institutions | 56,767                                   |
| Loans and advances                        | 265,514                                  |
| Non-trading investments                   | 95,073                                   |
| Investment in joint ventures              | 704                                      |
| Other assets                              | 4,474                                    |
|   | <u>422,532</u>                           |
| <b>Liabilities</b>                        |  |
| Due to banks and financial institutions   | 3,770                                    |
| Customers' deposits                       | 219,917                                  |
| Other liabilities                         | 9,342                                    |
|   | <u>233,029</u>                           |

**Note:** In addition to the above, "Cash and balances with banks and Central bank of Bahrain" include an amount of BD 65,000 thousand of conventional interbank balances. This represents short term placements with Central bank of Bahrain which carries a nominal profit.

The above non-trading investments include available-for-sale investments which qualify under level 1 and level 2 of the fair value hierarchy amounting to BD 75,711 thousands and BD 19,362 thousands respectively.

**5 NON-TRADING INVESTMENTS**

Fair value of investments is derived from quoted market prices in active markets, if available.

Fair value of unquoted investments is estimated using appropriate valuation techniques.

**Fair value hierarchy**

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

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

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

The following table shows an analysis of the financial instruments carried at fair value in the interim consolidated statement of financial position:

| <i>30 September 2014</i>                              | <i>Level 1<br/>BD '000</i> | <i>Level 2<br/>BD '000</i> | <i>Level 3<br/>BD '000</i> | <i>Total<br/>BD '000</i> |
|---|----------------------------|----------------------------|----------------------------|--------------------------|
| Financial assets at fair value through profit or loss | 20,042                     | -                          | 115,971                    | 136,013                  |
| Available-for-sale financial assets                   | 6,665                      | -                          | 13,228                     | 19,893                   |
|   | <u>26,707</u>              | <u>-</u>                   | <u>129,199</u>             | <u>155,906</u>           |

# Al Salam Bank-Bahrain B.S.C.

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2014 (reviewed)

### 5 NON-TRADING INVESTMENTS (continued)

During the reporting periods ended 30 September 2014 and 31 December 2013, there were no transfers between Level 1, Level 2 and Level 3 fair value measurements.

| 31 December 2013                                      | Level 1       | Level 2  | Level 3        | Total          |
|---|---------------|----------|----------------|----------------|
|   | BD '000       | BD '000  | BD '000        | BD '000        |
| Financial assets at fair value through profit or loss | 9,058         | -        | 103,147        | 112,205        |
| Available-for-sale financial assets                   | 6,455         | -        | 7,263          | 13,718         |
|   | <u>15,513</u> | <u>-</u> | <u>110,410</u> | <u>125,923</u> |

### 6 OTHER ASSETS

|  | 30 September<br>2014<br>BD '000 | 31 December<br>2013<br>BD '000 |
|--|---------------------------------|--------------------------------|
| <b>Assets under conversion *</b>                       |                                 |                                |
| Non-trading investments - Debt                         | 3,842                           | 3,835                          |
| Non-trading investments - Available for sale - equity  | 2,590                           | 2,656                          |
| Loans and advances to customers                        | -                               | 1,520                          |
|  | <u>6,432</u>                    | <u>8,011</u>                   |
| Repossessed assets                                     | 2,747                           | 3,445                          |
| Profit receivable on Murabaha, Mudaraba and Musharaka  | 4,420                           | 3,687                          |
| Profit receivable on Sukuk                             | 3,454                           | 2,101                          |
| Premises and equipment                                 | 3,738                           | 568                            |
| Prepayments  | 1,430                           | 471                            |
| Rental receivable on Ijarah Muntahia Bittamleek assets | 585                             | 418                            |
| Other receivables                                      | 6,588                           | 4,113                          |
|  | <u>29,394</u>                   | <u>22,814</u>                  |

\* These represent non-Shari'a compliant assets resulted from the acquisition of Bahraini Saudi Bank B.S.C.

The above available-for-sale equity investments are classified as Level 3 in the fair value hierarchy (note 5).

### 7 OWNERS' EQUITY

|  | 30 September<br>2014<br>BD '000 | 31 December<br>2013<br>BD '000 |
|--|---------------------------------|--------------------------------|
| <b>Share capital:</b>  |                                 |                                |
| Authorised:  |                                 |                                |
| 2,500,000,000 (2013: 2,500,000,000) ordinary shares of BD 0.100 each         | <u>250,000</u>                  | <u>250,000</u>                 |
| Issued and fully paid:   |                                 |                                |
| Balance at the beginning of the year - 1,497,063,825 shares of BD 0.100 each | 149,706                         | 149,706                        |
| Issued during the period - 643,866,927 shares of BD 0.100 each (note 3)      | 64,387                          | -                              |
|  | <u>214,093</u>                  | <u>149,706</u>                 |

Pursuant to a shareholders' resolution, in 2013, the Bank raised its authorised capital from BD 200 million to BD 250 million. During the period, the Bank issued 643,866,927 ordinary shares, as part of an acquisition transaction, to the shareholders of BMI and gained 100% stake (note 3). This resulted in proceeds of BD 72,886 thousands from the new issue, including a share premium of BD 8,499 thousands.

30 September 2014 (reviewed)

**8 GAINS ON SALE OF INVESTMENTS AND SUKUK**

|                                  | <i>Three<br/>months<br/>ended<br/>30 September<br/>2014<br/>BD '000</i> | <i>Three<br/>months<br/>ended<br/>30 September<br/>2013<br/>BD '000</i> | <i>Nine<br/>months<br/>ended<br/>30 September<br/>2014<br/>BD '000</i> | <i>Nine<br/>months<br/>ended<br/>30 September<br/>2013<br/>BD '000</i> |
|----------------------------------|---|---|--|--|
| <b>Gain / (loss) on sale of:</b> |   |   |  |  |
| Development properties           | 322   | -   | 1,919  | -  |
| Sukuk                            | -   | -   | 756  | 17   |
| FVTPL investments                | 2,785   | 197   | 2,831  | 468  |
| Held-for-sale assets             | 321   | -   | 321  | -  |
| Available-for-sale investments   | -   | -   | -  | 1,684  |
|                                  | <u>3,428</u>  | <u>197</u>  | <u>5,827</u>   | <u>2,169</u>   |

**9 INCOME FROM INVESTMENTS**

|  | <i>Three<br/>months<br/>ended<br/>30 September<br/>2014<br/>BD '000</i> | <i>Three<br/>months<br/>ended<br/>30 September<br/>2013<br/>BD '000</i> | <i>Nine<br/>months<br/>ended<br/>30 September<br/>2014<br/>BD '000</i> | <i>Nine<br/>months<br/>ended<br/>30 September<br/>2013<br/>BD '000</i> |
|--|---|---|--|--|
| Income from FVTPL investments            | 362   | 879   | 510  | 2,324  |
| Rental income from investment properties | 398   | -   | 1,259  | -  |
|  | <u>760</u>  | <u>879</u>  | <u>1,769</u>   | <u>2,324</u>   |

**10 TOTAL COMPREHENSIVE INCOME**

|  | <i>Three<br/>months<br/>ended<br/>30 September<br/>2014<br/>BD '000</i> | <i>Three<br/>months<br/>ended<br/>30 September<br/>2013<br/>BD '000</i> | <i>Nine<br/>months<br/>ended<br/>30 September<br/>2014<br/>BD '000</i> | <i>Nine<br/>months<br/>ended<br/>30 September<br/>2013<br/>BD '000</i> |
|--|---|---|--|--|
| <b>Net profit for the period</b>                                     | <u>4,038</u>  | <u>3,107</u>  | <u>12,357</u>  | <u>9,129</u>   |
| <b>Other comprehensive income / (loss):</b>                          |   |   |  |  |
| Items to be reclassified to profit or loss<br>in subsequent periods: |   |   |  |  |
| Net changes in fair value  | 531   | 321   | 1,688  | (353)  |
| Exchange differences on investment in associates                     | (395)   | (157)   | (512)  | (238)  |
| <b>Other comprehensive income / (loss) for the period</b>            | <u>136</u>  | <u>164</u>  | <u>1,176</u>   | <u>(591)</u>   |
| <b>Total comprehensive income for the period</b>                     | <u>4,174</u>  | <u>3,271</u>  | <u>13,533</u>  | <u>8,538</u>   |
| <i>Attributable to:</i>  |   |   |  |  |
| Equity holders of the Bank   | 4,252   | 3,271   | 13,459   | 8,538  |
| Non-controlling interest   | (78)  | -   | 74   | -  |
|  | <u>4,174</u>  | <u>3,271</u>  | <u>13,533</u>  | <u>8,538</u>   |

30 September 2014 (reviewed)

**11 RELATED PARTY TRANSACTIONS**

Related parties comprise major shareholders, directors of the Bank, close members of their families, entities owned or controlled by them and companies affiliated by virtue of common ownership or directors with that of the Bank. The transactions with these parties were made on commercial terms.

The significant balances with related parties at 30 September 2014 were as follows:

|   | <i>30 September 2014</i>   |   |  |                          |
|---|--|---|--|--------------------------|
|   | <i>Associates,<br/>joint ventures<br/>and major<br/>shareholders<br/>BD '000</i> | <i>Directors<br/>and related<br/>entities<br/>BD '000</i> | <i>Senior<br/>management<br/>BD '000</i> | <i>Total<br/>BD '000</i> |
| <b>Assets:</b>  |  |   |  |                          |
| Cash and balances with banks and                            |  |   |  |                          |
| Central Bank of Bahrain                                     | 118  | -   | -  | 118                      |
| Murabaha and Wakala receivables from banks                  | 3,770  | -   | -  | 3,770                    |
| Murabaha financing  | 30,160   | 12  | 54                                       | 30,226                   |
| Mudaraba financing  | 14,310   | 60  | -  | 14,370                   |
| Ijarah Muntahia Bittamleek                                  | -  | 2,699   | 212                                      | 2,911                    |
| Musharaka financing   | 1,124  | 68  | -  | 1,192                    |
| Assets under conversion                                     | 322  | -   | 144                                      | 466                      |
| Other assets  | 1,747  | 19  | 6  | 1,772                    |
| <b>Liabilities and equity of investment accountholders:</b> |  |   |  |                          |
| Murabaha and Wakala due to banks                            | 3,770  | 1,748   | -  | 5,518                    |
| Wakala due to non-banks                                     | 103,956  | 2,800   | 887                                      | 107,643                  |
| Customers' current accounts                                 | 6,117  | 804   | 80                                       | 7,001                    |
| Equity of investment accountholders                         | -  | 452   | 110                                      | 562                      |
| Other liabilities   | 107  | 6   | 4  | 117                      |
| Contingent liabilities and commitments                      | 1,146  | -   | -  | 1,146                    |

The income and expenses in respect of related parties included in the interim condensed consolidated financial statements are as follows:

|  | <i>Nine months period ended 30 September 2014</i>                                |   |  |                          |
|--|--|---|--|--------------------------|
|  | <i>Associates,<br/>joint ventures<br/>and major<br/>shareholders<br/>BD '000</i> | <i>Directors<br/>and related<br/>entities<br/>BD '000</i> | <i>Senior<br/>management<br/>BD '000</i> | <i>Total<br/>BD '000</i> |
| <b>Income:</b>   |  |   |  |                          |
| Income from Islamic financing contracts                    | 304  | 214   | 4  | 522                      |
| Other income   | 146  | -   | 3  | 149                      |
| <b>Expenses:</b>   |  |   |  |                          |
| Profit on Wakala due to non-banks                          | 1,694  | 73  | 24                                       | 1,791                    |
| Share of profits on equity of<br>investment accountholders | -  | 3   | -  | 3                        |
| Other operating expenses                                   | -  | 567   | -  | 567                      |

30 September 2014 (reviewed)

**11 RELATED PARTY TRANSACTIONS (continued)**

The significant balances with related parties at 31 December 2013 were as follows:

|   | <i>31 December 2013</i>                                  |   |  |                          |
|---|--|---|--|--------------------------|
|   | <i>Associates<br/>and joint<br/>ventures<br/>BD '000</i> | <i>Directors<br/>and related<br/>entities<br/>BD '000</i> | <i>Senior<br/>management<br/>BD '000</i> | <i>Total<br/>BD '000</i> |
| <b>Assets:</b>  |  |   |  |                          |
| Murabaha financing  | 30,190   | 27  | 38                                       | 30,255                   |
| Mudaraba financing  | 14,310   | 80  | -  | 14,390                   |
| Ijarah Muntahia Bittamleek                                  | -  | 1,983   | 227                                      | 2,210                    |
| Musharaka financing   | 1,405  | -   | -  | 1,405                    |
| Other assets  | 1,346  | 27  | 7  | 1,380                    |
| <b>Liabilities and equity of investment accountholders:</b> |  |   |  |                          |
| Wakala due to non-banks                                     | 2,222  | 1,564   | 547                                      | 4,333                    |
| Customers' current accounts                                 | 2,202  | 1,075   | 25                                       | 3,302                    |
| Equity of investment accountholders                         | -  | 716   | 106                                      | 822                      |
| Other liabilities   | 322  | 443   | 2  | 767                      |
| Contingent liabilities and commitments                      | 1,647  | -   | -  | 1,647                    |

The income and expenses in respect of related parties included in the interim condensed consolidated financial statements were as follows:

|   | <i>Nine months period ended 30 September 2013</i>        |   |  |                          |
|---|--|---|--|--------------------------|
|   | <i>Associates<br/>and joint<br/>ventures<br/>BD '000</i> | <i>Directors<br/>and related<br/>entities<br/>BD '000</i> | <i>Senior<br/>management<br/>BD '000</i> | <i>Total<br/>BD '000</i> |
| <b>Income:</b>                          |  |   |  |                          |
| Income from Islamic financing contracts | 2,709  | 267   | 2  | 2,978                    |
| <b>Expenses:</b>                        |  |   |  |                          |
| Profit on Wakala due to non-banks       | 47   | 32  | 11                                       | 90                       |

30 September 2014 (reviewed)

**12 CONTINGENT LIABILITIES AND COMMITMENTS**

The Group has the following commitments:

|  | <i>30 September</i><br><i>2014</i><br><i>BD '000</i> | <i>31 December</i><br><i>2013</i><br><i>BD '000</i> |
|--|--|---|
| <b>Contingent liabilities on behalf of customers</b>   |  |   |
| Guarantees   | 38,001   | 6,881   |
| Letters of credit  | 13,546   | 70  |
| Acceptances  | 6,849  | 260   |
|  | <u>58,396</u>  | <u>7,211</u>  |
| <b>Irrevocable unutilised commitments</b>  |  |   |
| Unutilised financing commitments   | 104,005  | 4,703   |
| Unutilised non-funded commitments  | 55,936   | 6,463   |
| Commitments towards development cost   | 8,044  | 2,799   |
|  | <u>167,985</u>                                       | <u>13,965</u>                                       |
| <b>Capital expenditure commitments</b>   |  |   |
| Estimated capital expenditure contracted for at the interim consolidated statement of financial position date but not provided for | 33   | -   |
| <b>Forward foreign exchange contracts</b>  | 7,889  | -   |
|  | <u>234,303</u>                                       | <u>21,176</u>                                       |

Letters of credit, guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers contingent upon their failure to perform under the terms of the contract.

Commitments generally have fixed expiration dates, or other termination clauses. Since commitment may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

**Operating lease commitment - Group as lessee**

The Group has entered into various operating lease agreements for its premises. Future minimal rentals payable under the non-cancellable leases are as follows:

|   | <i>30 September</i><br><i>2014</i><br><i>BD '000</i> | <i>31 December</i><br><i>2013</i><br><i>BD '000</i> |
|---|--|---|
| Within 1 year                               | 1,789  | 659   |
| After one year but not more than five years | 3,499  | 472   |
|   | <u>5,288</u>   | <u>1,131</u>  |

**13 SEGMENT INFORMATION**

**Primary segment information**

For management purposes, the Group is organised into four major business segments:

- Banking** - principally managing Shari'a compliant profit sharing investment accounts, and offering Shari'a compliant financing contracts and other Shari'a-compliant products. This segment comprises corporate banking, retail banking, and private banking & wealth management.
- Treasury** - principally handling Shari'a compliant money market, trading and treasury services including short-term commodity Murabaha.
- Investments** - principally the Group's proprietary portfolio and serving clients with a range of investment products, funds and alternative investments.
- Capital** - manages the undeployed capital of the Group by investing it in high quality financial instruments, incurs all expenses in managing such investments and accounts for the capital governance related expenses.

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at estimated market rates on an arm's length basis. Transfer charges are based on a pool rate which approximates the cost of funds.

Segment information for the period ended 30 September 2014 was as follows:

|                                | <i>30 September 2014</i> |                 |                    |                |                |
|--------------------------------|--------------------------|-----------------|--------------------|----------------|----------------|
|                                | <i>Banking</i>           | <i>Treasury</i> | <i>Investments</i> | <i>Capital</i> | <i>Total</i>   |
|                                | <i>BD '000</i>           | <i>BD '000</i>  | <i>BD '000</i>     | <i>BD '000</i> | <i>BD '000</i> |
| Operating income               | 20,258                   | 3,861           | 9,895              | 1,324          | 35,338         |
| Segment result                 | 553                      | 3,017           | 8,087              | 700            | 12,357         |
| <b>Other information</b>       |                          |                 |                    |                |                |
| Segment assets                 | 745,213                  | 600,923         | 391,848            | 212,796        | 1,950,780      |
| Segment liabilities and equity | 1,414,155                | 149,902         | 49,340             | 337,383        | 1,950,780      |

Segment information for the period ended 30 September 2013 was as follows:

|                  | <i>Banking</i> | <i>Treasury</i> | <i>Investments</i> | <i>Capital</i> | <i>Total</i>   |
|------------------|----------------|-----------------|--------------------|----------------|----------------|
|                  | <i>BD '000</i> | <i>BD '000</i>  | <i>BD '000</i>     | <i>BD '000</i> | <i>BD '000</i> |
| Operating income | 9,126          | 4,939           | 2,131              | 2,078          | 18,274         |
| Segment result   | 5,215          | 4,385           | 1,158              | (1,629)        | 9,129          |

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

|                                | <i>Banking</i> | <i>Treasury</i> | <i>Investments</i> | <i>Capital</i> | <i>Total</i>   |
|--------------------------------|----------------|-----------------|--------------------|----------------|----------------|
|                                | <i>BD '000</i> | <i>BD '000</i>  | <i>BD '000</i>     | <i>BD '000</i> | <i>BD '000</i> |
| <b>Other information</b>       |                |                 |                    |                |                |
| Segment assets                 | 381,307        | 397,309         | 208,039            | 101,597        | 1,088,252      |
| Segment liabilities and equity | 688,122        | 107,237         | 48,872             | 244,021        | 1,088,252      |

**Secondary segment information**

The Group primarily operates in the GCC and derives substantially all its operating income and incurs all operating expenses in the GCC.



**14 COMPARATIVE FIGURES**

Certain of the prior period figures have been reclassified to conform to the current period presentation. Such reclassifications did not affect previously reported net profit, total assets, total liabilities and total equity of the Group.