DELIVERING INNOVATION ON A SOLID FOUNDATION

2014 Annual Report

ARAB FINANCIAL SERVICES COMPANY B.S.C. (c)

SHAREHOLDERS LIST

	Shareholders Name	Effective % Net Of Treasury Shares Holding
1	ARAB BANKING CORPORATION, BAHRAIN	54.56%
2	NATIONAL COMMERCIAL BANK, SAUDI ARABIA	13.19%
3	ARAB BANK FOR INVESTMENT & FOREIGN TRADE, ABU DHABI, UAE	3.26%
4	LIBYAN FOREIGN INVESTMENT CO., LIBYA	3.16%
5	NATIONAL BANK OF EGYPT, EGYPT	3.16%
6	ARAB INTERNATIONAL BANK, EGYPT	2.41%
7	NATIONAL BANK OF BAHRAIN, BAHRAIN	2.37%
8	ALRAJHI COMMERCIAL FOREIGN EXCHANGE, SAUDI ARABIA	2.17%
9	BANQUE DU CAIRE, EGYPT	1.76%
10	BANQUE BIA, FRANCE	1.63%
11	ARAB TURKISH BANK, TURKEY	1.32%
12	AL MUZAINI EXCHANGE CO., KUWAIT	1.20%
13	MASHREQ BANK P.S.C., DUBAI, UAE	1.20%
14	KUWAIT INVESTMENT AUTHORITY, KUWAIT	1.12%
15	BANQUE CENTRALE POPULAIRE, MOROCCO	0.82%
16	JAWAD & HAIDER YACOUB ABULHASSAN CO, KUWAIT	0.60%
17	BANQUE INTERNATIONALE ARABE DE TUNISIE, TUNISIA	0.49%
18	BANQUE NASR LIBANO-AFRICAINE SAL, LEBANON	0.44%
19	CREDIT LIBANAIS SAL, LEBANON	0.40%
20	EL NILEIN INDUSTRIAL DEVELOPMENT BANK, SUDAN	0.36%
21	FIRST GULF BANK, ABU DHABI, UAE	0.35%
22	CHINGUITTY BANQUE , MAURITANIA	0.35%
23	ARAB AFRICAN INTERNATIONAL BANK, EGYPT	0.33%
24	COMMERCIAL & SAVINGS BANK OF SOMALIA, SOMALIA	0.33%
25	QATAR NATIONAL BANK, QATAR	0.33%
26	BANK OF BEIRUT SAL, BEIRUT, LEBANON	0.26%
27	AHMED AL AMERY EXCHANGE COMPANY, ABU DHABI, UAE	0.24%
28	BANQUE LIBANAISE POUR LE COMMERCE, LEBANON	0.23%
29	RAFIDAIN BANK, IRAQ	0.18%
30	BANQUE DE L`INDUSTRIE ET DU TRAVAIL, LEBANON	0.18%
31	JORDAN KUWAIT BANK, JORDAN	0.18%
32	HSBC BANK OMAN SAOG, OMAN	0.18%
33	NATIONAL BANK OF YEMEN, YEMEN	0.18%
34	FARMER'S COMMERCIAL BANK, SUDAN	0.18%
35	SUDANESE INVESTMENT & PROJECTS CO. LTD, SUDAN	0.18%
36	NORTH AFRICA COMMERCIAL BANK SAL , LEBANON	0.18%
37	YEMEN BANK FOR RECONSTRUCTION & DEVELOPMENT, YEMEN	0.18%
38	BANQUE DU SUD, TUNISIA	0.17%
39	CENTRAL BANK OF SOMALIA, SOMALIA	0.11%
40	BANK OF SUDAN, SUDAN	0.11%

CONTENTS

FINANCIAL STATEMENTS

PROVIDING INVALUABLE PARTNERSHIP

AFS is one of the leading companies in MENA for payment processing and related services. Established in 1984, AFS pioneered the concept of outsourcing card processing in the region and was the first company to set-up an end-to end state-of-the-art card outsourcing environment in Bahrain. AFS is the largest payment card processor in the region and is a principal member of Visa and MasterCard.

The technology used by AFS and the range of services we offer are unmatched by any other processor in the region. Combined with our dedicated and passionate people, we are delivering solutions of outstanding performance that make a real difference.

The dynamic combination of people and technology has helped us build on our crucial resources and strengths. We provide invaluable partnership to our customers and shareholders, and maintain our strong commitment to delivering well into the future

Vision, Mission, Objectives

Our Vision

To become the region's most trusted and respected provider of electronic payments and consumer-finance outsourcing services.

Our Mission

- Win, retain and maximize relationships with profitable customer groups at minimum risk.
- Deliver innovative and integrated outsourcing solutions that help our clients succeed and grow their business in a cost efficient manner.
- Maximize shareholder value by delivering solid, sustainable and profitable growth.
- Attract and develop highly committed and accountable teams of professional individuals with a clear purpose, common approach, performance goals and complementary skills. So we can consistently provide the best services that meet and exceed our clients' expectations.

Our Strategic Objectives

- Build on the AFS brand, making it instantly recognizable and closely associated with state-of-the-art technology, innovation and quality service.
- Develop alliances that enhance the credibility of the AFS brand and improve our value proposition.
- Improve the business model and the underlying economics of the business.
- Build economies of scale by rapidly growing our client base.
- Expand the value chain within our core business and add value for our customers.

OUR TEAM IS ONE OF

OUR GREATEST STRENGTHS

Dear Shareholders,

Arab Financial Services (AFS) continued its profitable growth in 2014. AFS achieved a net profit of US$ 4.95 million as compared to US$ 4.09 million in 2013 reflecting 21% growth. Total revenues grew by 10% to US$ 26.85 million in 2014 from US$ 24.42 million in 2013. Revenues from core business grew by 15% to US$ 24.34 million from US$ 21.2 million in 2013.

AFS signed several new customers in 2014 and successfully delivered various value added services and products to its existing customers. The services suite was expanded with the introduction of a new debit switch and acquiring platform, state-of-the-art loyalty solution and mobile based easy instalment initiatives.

Continuing the commitment to quality, security and data integrity, AFS successfully renewed all its certifications including Visa, MasterCard, ISO 9001 and ISO 22301. AFS also became the first payment processor in the region to be certified for the prestigious PCI DSS version 3.0.

On the matters of governance, the Board composition changed in April 2014. AFS welcomed the new members on the Board – Mr. Zahid Hummusani, Mr. Maher Kaddoura and Mrs. Simona Bishouty. On behalf of the Board, I would like to thank the previous Chairman, Dr. Khaled Kawan, for his leadership; Mr. Saleh Hussain and Mr. Adnan Hashim for their contribution to AFS during their tenure as Board members.

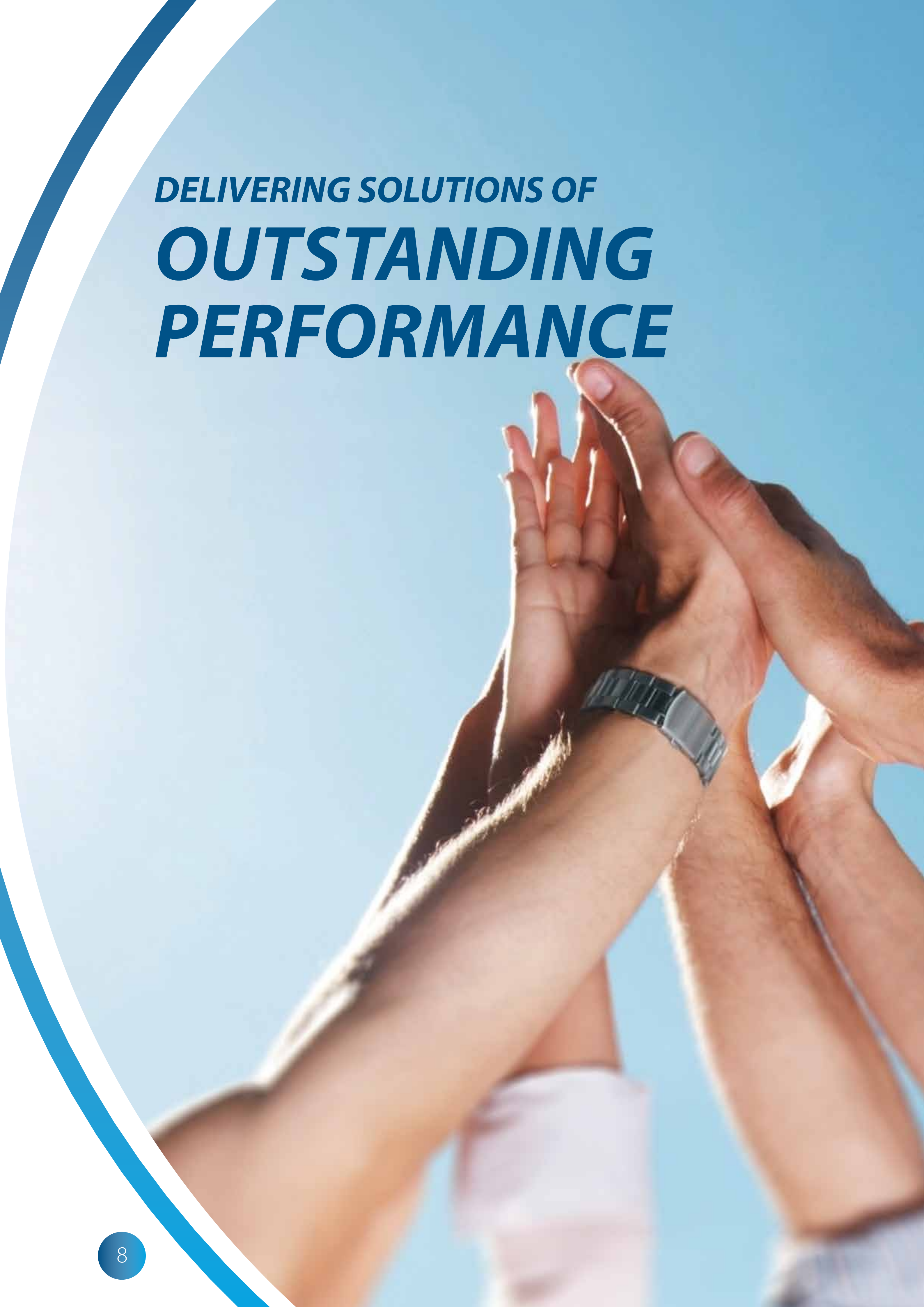
AFS has entered 2015 on solid foundations and aims to build on the success of past years. We aspire to expand our geographic reach by opening offices in UAE and Oman, adding new innovative value added products to our portfolio, signing new clients, remaining customer focused and continuing to raise the operational excellence benchmark in 2015.

I would like to convey my sincere appreciation and thanks to our valued shareholders, customers and my fellow Board members. I would also like to thank the Central Bank of Bahrain for their continued support. I would like to take this opportunity to thank AFS management team and staff for their continued hard work and professionalism throughout 2014.

Yours Sincerely,

Sael Al Waary
Chairman of the Board of Directors

DELIVERING SOLUTIONS OF
OUTSTANDING PERFORMANCE



					US$ '000
	2014	2013	2012	2011	2010
Earnings					
Total Gross Revenue	26,851	24,419	22,010	22,791	19,287
Card Centre Revenue	24,335	21,206	18,790	16,201	15,612
Net Profit for the year	4,952	4,093	3,256	4,668	4,407
Financial Position					
Total Assets	64,126	65,996	61,351	75,546	72,363
Cash and Cash Equivalents	15,148	5,529	11,117	16,464	35,498
Shareholders Funds	54,131	52,192	50,693	63,375	61,006
Investment Securities (including trading)	9,912	15,162	9,361	13,027	14,890
Capital					
Proposed Dividend	1,800	1,800	1,800	2,250	2,700
Weighted average Number of Shares	5,690	5,690	5,690	5,690	5,690
Number of Staff (No.)	113	132	125	116	112
Ratios (%)					
Profitability					
Return on average shareholder's funds	9.3%	8.0%	5.7%	7.5%	7.3%
Total cost / Gross Revenue	81.6%	83.2%	85.2%	79.5%	77.2%
Book Value Per Share (Expressed in USD)	9.51	9.17	8.91	11.14	10.72
Earnings Per Share (Expressed in USD)	0.87	0.72	0.57	0.82	0.77
Dividend Per Share (Expressed in USD)	0.32	0.32	0.32	0.40	0.47
Capital					
Average Shareholder's funds as % of average total assets	81.71%	80.79%	83.32%	84.09%	82.97%
Liquidity					
Current Ratio	4.50	3.03	4.22	4.52	4.43
Liquid Assets Ratio	1.52	0.40	1.04	1.35	3.13
Efficiency					
Net Profit Per Staff (US$ '000)	44	31	26	40	39

Mr. Sael Al Waary
Chairman, ED, NRC

B.Sc. (Hons) degree in Computer Sciences, University of Reading, United Kingdom.

Mr. Al Waary is currently Executive Vice President and Group Chief Operating Officer of the ABC Group, which he joined in 1981. He brings with him more than 33 years of banking, leadership and management experience garnered from the many senior positions he has held in both London and Bahrain. Mr. Al Waary is also Deputy Chairman of Arab Banking Corporation Jordan and the Chairman of Arab Financial Services Company B.S.C.(c) and has previously served on the Boards of Banco ABC Brasil and Arab Banking Corporation Egypt S.A.E.

Mr. Zahid H. Hummusani
Deputy Chairman, NRC, ED

Mr. Hummusani is the Head of Retail Risk and Collections at The National Commercial Bank, Saudi Arabia. Mr. Hummusani holds a Bachelors in Computer Science from St. Thomas College, USA and an MBA from Webster University, USA.

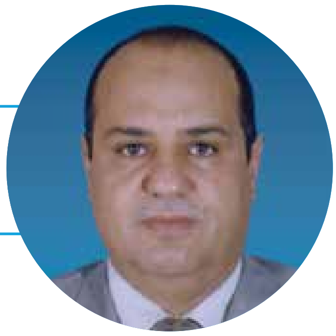
Mr. Hummusani has over 29 years of banking experience. Prior to National Commercial Bank, Mr. Hummusani worked with Riyadh Bank and Al Rajhi Bank. His association with National Commercial Bank began in 1998 and has subsequently held a number of prominent leadership positions including Head of Alternative Distribution Channels, Head of Personal Finance, Head of Branch Network Finance and Head of Consumer Finance Sector.

Mr. Maher Kaddoura
Director, AC, SC, NED, ID

Mr. Kaddoura is a management consultant, a serial entrepreneur, angel investor and a visionary social entrepreneur. He graduated from Nottingham University England in 1981 and provided value added consulting to various organizations for more than 25 years. Upon his retirement, as the Managing Partner of Accenture in the Middle East, he established a portfolio of professional services firms focusing on strategy consulting, system integration and training. Later on established "Qnnekt Capitals", a private fund investing in both startups as well as SME's with a growth potential.

Mr. Kaddoura is also a social entrepreneur with programs established in Jordan such as Hikmat Road Safety, "Mal3eb" built 1200 football playground in public schools etc. Mr. Kaddoura serves on a number of advisory boards of universities, research centers, think tanks, NGOs and private sector companies

Mr. Abdulnaser Khalifa Gnidi
Director, AC, NED



Director of Accounting, Central Bank of Libya, Tripoli, Libya and also Chairman of the Board of North Africa Bank, Libya.

Mr. Abdulnaser Gnidi was born in Janzoor, in Tripoli, Libya and graduated in Accounting from School of Economics Garyounis University in the year 1984. Mr. Gnidi started his career with Central Bank of Libya, where he initially joined as Assistant Manager – Finance Department & Investments and later moved on to the position of Deputy Director of Finance, before becoming the Director of Accounting.

Mr. Gnidi has over 30 years of experience in the field of banking, and is on the Executive Board of the following;

• Chairman of the Board - Bank of North Africa
• Board Member - Arab Financial Services B.S.C. (c)
• Ex-Board Member - Jumhouria Bank
• Ex-Board Member - Al Ommah Bank
• Ex-Board Member - The National Oil Establishment

Ms. Simona Sabella Bishouty

Director, AC, SC, ED

Professional Experience

In 2014, selected as one of Forbes Middle East "200 Most Powerful Arab Woman" ranking 18th on the list of women in Executive Management.

In 2013 selected as one of Forbes Middle East 100 Most Powerful Arab Women in Public Shareholding Companies, Simona Sabella Bishouty is the Managing Director/CEO of Arab Banking Corporation (ABC) – Jordan, and the Chairman of the Board of Arab Co-operation for Financial Investments Company in Jordan.

Simona Sabella Bishouty is an accomplished banker with over thirty years of experience in different areas of banking, including operations, (Corporate and Retail), Credit, Risk Management and Compliance. Simona has been the Managing Director/ CEO of ABC-Jordan since 2008. Prior to that, she was Deputy General Manager for Banking Services at Cairo Amman Bank, where she started as an Assistant General Manager - Consumer Banking and Retail Credit - in 1995, and subsequently assumed several functions, including Head of Risk Management and Compliance.

Simona, who has a BA in English Language from University of Jordan has also worked with Bank of Jordan, and Chase Manhattan Bank N.A, - Jordan and the United Kingdom. Throughout her career, she has had international exposure through attending educational institutions and training programs in credit, risk management, compliance, business, and management globally.

Simona has been involved in voluntary work with the Jordanian Equestrian Endurance Society, the European Arab Horse Show Commission (ECAHO), and the Financial Services Volunteer Corp (FSVC).

Board Memberships & Associations

- Board Member, of Arab Banking Corporation - Jordan (till Dec. 2014)
- Board Chairman, Arab Co-Operation for Financial Investments Company- Jordan.
- Board Member, Arab Financial Services B.S.C. (AFS).
- Board Member, of the International Women's Forum – Jordan (till 2013)
- Member of the General Assembly of the Jordan Equestrian Federation.
- Board Member, Visa Jordan Cards Services Company (till 2010)

AC: Audit Committee
NRC: Nominations & Remunerations Committee
ID: Independent Director
NED: Non Executive Director
ED: Executive Director
SC : Strategy Committee

B. Chandrasekhar
Chief Executive Officer

Neil Pavis
Deputy Chief Executive Officer

Chandrasekhar has over 26 years of retail banking experience across multiple geographies and roles. He has worked for over 23 years with Standard Chartered Bank across India, Bahrain, Lebanon and UAE. He joined Arab Banking Corporation in August 2010 as Group Head of Products and Marketing and he is the CEO of AFS since March 2011.

During his work experience with Standard Chartered Bank, he held the positions of Regional Head of Credit Cards and Personal Loans for Middle East, South Asia and Africa from 2003 to 2008 and was the Regional Head of Consumer Banking for Northern Gulf, Lebanon and Jordan from 2008-2010. Chandrasekhar was also a Board Director on the BENEFIT company in Bahrain from 2008-2010.

Chandrasekhar holds an MBA from the Indian Institute of Management Calcutta and a Bachelor of Engineering Degree from Delhi College of Engineering.

Neil has more than 31 years of experience in the ICT services sector with the last 19 years spent in the specialist area of unsecured lending. Prior to joining AFS, he spent 7 years with First Data Asia Pacific in senior management roles with his last position as Vice President, Systems Delivery for Australia & New Zealand.

Throughout his career Neil has consulted to many of the top major financial services clients such as GE Money, Experian, Westpac Banking Group and Capgemini across Europe, Africa and Asia Pacific. In addition Neil has global experience in payment transaction processing/switching, unsecured lending, debit and pre-paid products.

Neil holds a Master's Degree in Business Management from Macquarie Graduate School of Management (MGSM), is a fellow of the Financial Services Institute of Australasia and an Associate Fellow of the Australian Institute of Management.

Ebrahim Jassim
Head of Finance & Administration

Adil Al Hoori
Head of Human Resources

Ebrahim has more than 17 years of experience in payments industry and joined AFS in 1996.

Ebrahim has a wealth of knowledge in Accounting, Investment and Cash Management. He served in American Express Middle East and was a key player in the team managing the project to automate the Customer Receipt Collection system in EMEA offices.

Ebrahim holds a diploma in IFRS study and is pursuing his CMA professional certification program.

Adil Al Hoori is the Head of Human Resources. Prior to joining AFS Adil worked for 15 years at American Express in various roles. He has an MBA degree from University College of Bahrain.

Before joining AFS, Adil was heading the Training and Development of one of the premier Construction Groups in Bahrain.

Adil has a wide range of experience in HR related areas and this includes identification, training and development of Bahraini nationals and increasing employee morale through dedicated staff programs and events.

Partha Saha
Head of Business Development

Partha has over 16 years of experience in the Payment Card business in various capacities in the Middle East and India. He has worked closely with card associations, card issuers, banks, regulators, retailers and petroleum companies and has been actively engaged in development of new solutions and services for them. Partha has successfully led multi-cultural sales and operations teams. Prior to joining AFS in 2008, Partha was General Manager-Sales & Marketing with Venture Infotek Global, a leading payment transaction processing company in India, where he played pivotal role in the strategic business development of the company.

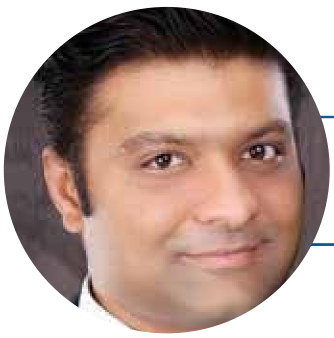
Partha is a Computer Science Graduate from National Institute of Technology, Calicut, India.

Kunal Taneja
Head of Operational Risk and Information Security

Kunal has over 12 years of experience in Operational Risk & Information Security field. Prior to joining AFS, he worked for various top notch consulting firms such as Accenture, E4E, MIEL eSecurities where he led multiple client engagements across financial and telecom industries for regulatory compliance towards PCI DSS, ISO 27001/BS7799, BASEL II, SOX standards.

He joined AFS in February 2008 to head the PCI DSS project and is now Head of Operational Risk and Information Security division where he engages in development and implementation of Basel II compliant operational risk framework and collaborates with business units to implement the key risk indicator (KRI) program, operational loss data collection process and risk & control self - assessment (RCSA) process.

Kunal holds a Master's degree in Computer Science, specialized in Information Security from Symbiosis International University Pune and a Bachelor's degree in Information Technology from Manipal Academy of Higher Education. Holds professional certifications: PCI ISA, CISM, ISO 27001 Lead Implementer, CCSA (Checkpoint), CSSA (Sonicwall), CCNA (CISCO).



Shiraz Ali
Head of Internal Audit

Shiraz has over 13 years of experience in internal audit, information systems audit, risk management, compliance and corporate governance across Pakistan and Middle East. Prior to joining AFS in July 2008, Shiraz was associated with Al-Rajhi Islamic Bank (KSA) at a senior position in audit function. He has also worked in State Bank of Pakistan (Central Bank) where he helped the bank in transforming a traditional internal audit function into a robust assurance and consulting service designed for value addition.

Shiraz heads the Internal Audit department at AFS, and reports to the Audit Committee of the Board of Directors.

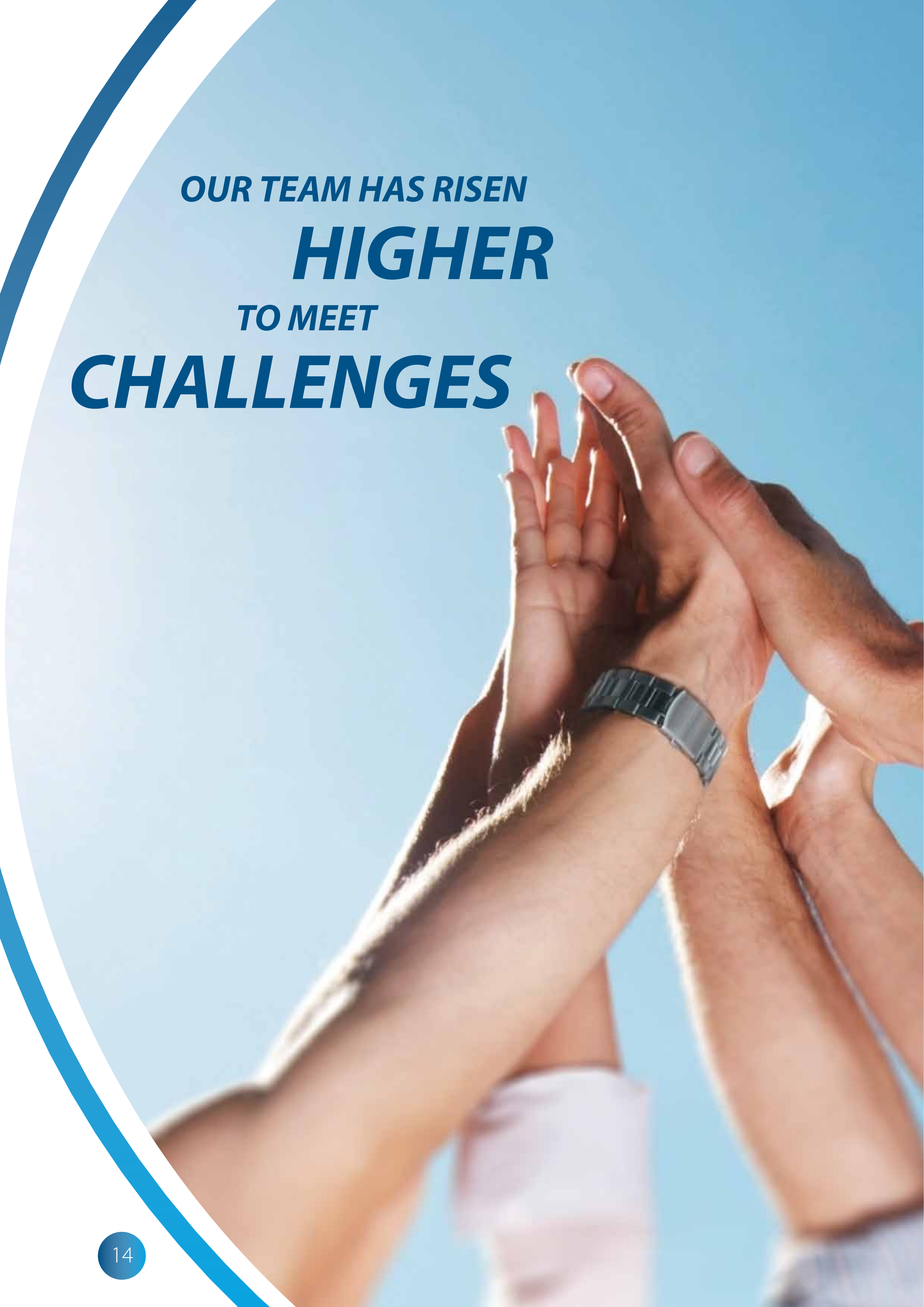
He is a Certified Internal Auditor (CIA), Certified Information Systems Auditor (CISA), Certificated in Risk Management Assurance (CRMA) and BS7799 Information Security Management Systems Lead Auditor. He also holds an MBA from the Institute of Business Administration, Karachi; and a Bachelor of Engineering (Computer Systems) from NED University of Engineering & Technology, Karachi, Pakistan. He is an associate member of Association of Certified Fraud Examiners (ACFE) and the Association of Chartered Certified Accountants (ACCA)

Koushik Iyer
Head of Client Services

Koushik has over 12 years of experience in the Payment Card business in various capacities in the Middle East and North Africa.

Koushik heads up the client services function at AFS. He is currently responsible for AFS' existing client revenue & relationship for AFS in Middle East and North Africa region. Prior to AFS Koushik worked with VPS (Visa Processing Services) at Visa International where he was handling Sales & Relationship for Visa's Central European Middle East and Africa region. Koushik has experience in solution, design and development, of card applications and is familiar with the processing industry, its players and regional nuances.

Koushik is an Engineering Graduate from National Institute of Technology, Trichy , India.



OUR TEAM HAS RISEN

HIGHER

TO MEET

CHALLENGES

Dear Shareholders,

I am pleased to report that 2014 was another profitable year for AFS. We continued our strong growth momentum by signing new clients and investing in new products and services. A number of strategic initiatives enabled us in strengthening our leadership position and enhancing our relationship with our clients.

2014 Financial Performance Highlights

Core Processing Revenues increased by 15% to US$ 24.34 million in 2014 from US$ 21.2 million in 2013. Total Revenues for 2014 increased to US$ 26.85 million representing 10% growth from US$ 24.42 million in 2013. Net Profit for 2014 was US$ 4.95 million compared to US$ 4.09 million in 2013 and this reflected an increase of 21%.

Key Highlights of 2014

New Business: AFS signed several new clients in 2014. AFS also expanded its geographic reach with new customer signings in GCC and Africa.

Customer Relationship Management and Cross-Sell: AFS successfully sold several value added services to existing clients to help them grow their portfolios. Some of these include:

> **Card Analytics:** This is a purpose built shared service platform that enables banks to analyze their card portfolios and devise go-to-market strategies. User friendly dashboards with over 200 key performance indicators are available in the system.
>
> **Online Loyalty:** AFS implemented a state of the art online loyalty redemption ecosystem which allows the cardholders to instantly redeem their card reward points across airlines, hotels, car rentals, online malls, celebrity experiences and many more.
>
> **Instant Issuance:** This capability allows banks to issue cards to their customers instantly at their branches.

Technology and Innovation: AFS maintained its leadership position through continued investments in infrastructure, technology and innovation. Some of the significant achievements of 2014 are:

> **ATM Driving and Debit Processing Platform:** AFS implemented a new ATM Driving and debit processing platform and on-boarded 4 new clients. There are several more clients who have signed up and will go live in 2015.
>
> **Mobile based Easy Payment Plan:** AFS launched a mobile based easy payment plan product whereby the banks can offer their customers an option to convert their retail purchases to instalment plans through their mobiles.

New Offices: We initiated the projects to expand our geographic reach by establishing physical presence in other countries such as UAE and Oman.

Compliance: AFS remains committed to its highest standards of data security and integrity; and became the first processor in MENA to achieve PCI DSS V3.0 certification. Additionally AFS renewed all its certifications including ISO 22301:2012 for Business Continuity Planning, ISO 9001:2008 Quality Management System, Visa, MasterCard and American Express (card personalization) certifications.

People: AFS firmly believes that people are its most valuable assets and we continued with several employee related initiatives like the Star Performance Awards. Several Spot Awards for outstanding performances were also distributed to high performing employees.

In 2015, AFS will continue its growth through geographic expansion and signing new customers while launching new and innovative products and services to our customers.

I would like to thank our customers for their continued business. I would also like to thank the outgoing Chairman, Dr. Khaled Kawan, for his leadership and Mr. Saleh Hussain and Mr. Adnan Hashim for their support and guidance during their tenure as Board Directors. I also thank the Chairman, the Board of Directors and the management team for their support and all our staff for the professionalism and hard work; and the Central Bank of Bahrain for their continued support.

We look forward to yet another successful year in 2015.

B. Chandrasekhar

Chief Executive Officer

Highly efficient
Fully integrated
Financial Solutions

Overview of Services

As the leading provider of electronic payment and consumer-finance outsourcing services, in the MENA region AFS enables banks and financial institutions throughout the region to concentrate on their core competencies, secure in the knowledge that all of their transactions processing requirements are being handled to the highest standards.

The highly reliable, robust and scalable nature of our solutions combined with our deep understanding of the financial sector guarantees that our clients can expect a level of service which truly reflects globally accepted practice.

AFS is committed to providing fully integrated solutions that encompass all aspects of payment and transaction processing services, illustrated by the breadth of services listed on this page.

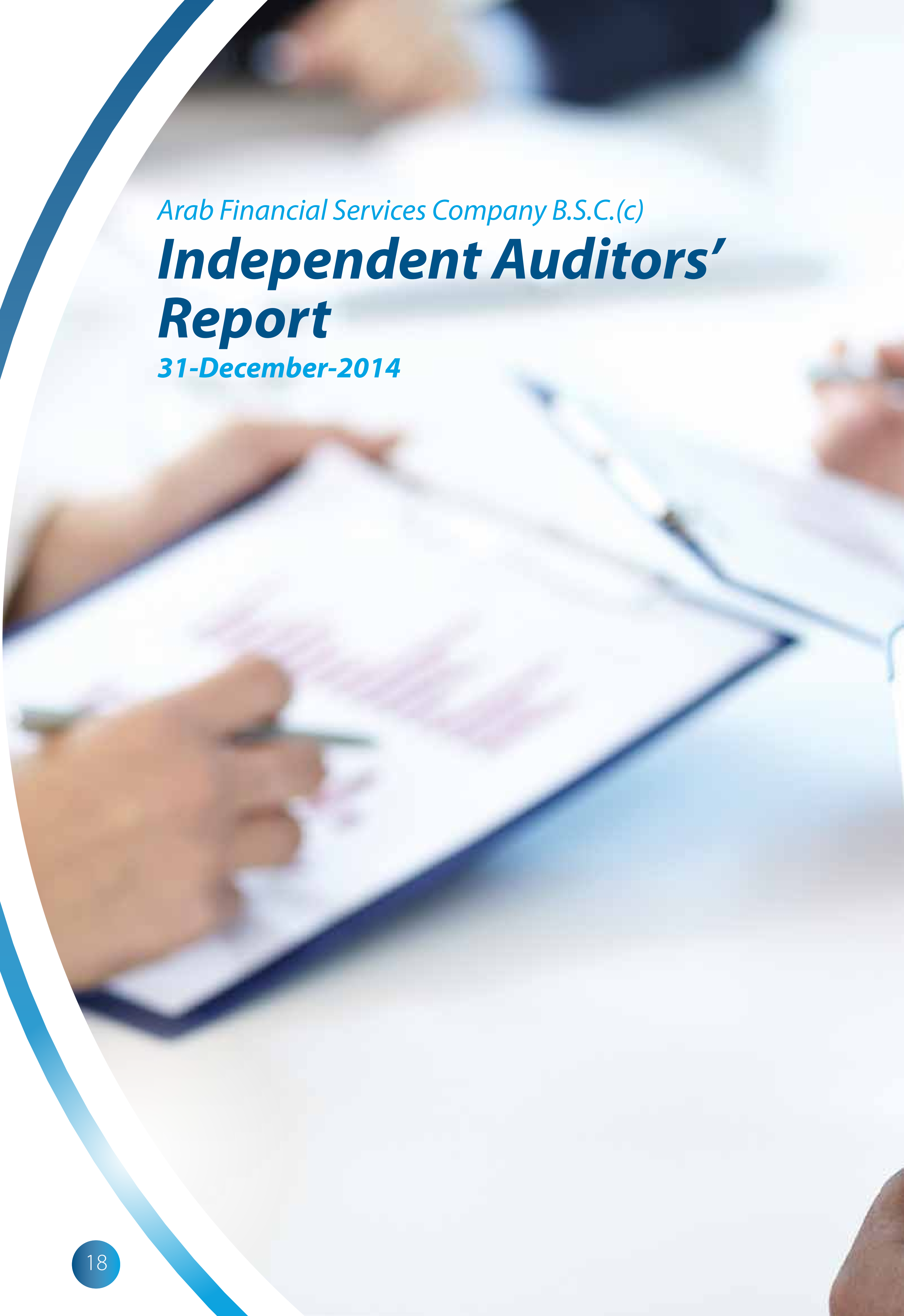
- Card Solutions
- Credit, Debit, Charge, Corporate, Islamic, Prepaid, Payroll and Internet
- Back Office Operations
- Fraud Monitoring
- SMS Services
- Mobile Commerce
- Loyalty Management
- 24x7 Contact Centre
- Data Analytics and Modeling
- Merchant Acquiring & Settlement
- Card Personalization
- Printing and Fulfillment
- Logistics
- Technical Consultancy
- Sponsorship – Visa and MasterCard
- ATM & PoS Services
- Instant Issuance

Financial Statements

Arab Financial Services Company B.S.C.(c)

Independent Auditors' Report

31-December-2014



INDEPENDENT AUDITORS' REPORT

To the shareholders of Arab Financial Services Company B.S.C. (c)

Report on the financial statements

We have audited the accompanying financial statements of Arab Financial Services Company B.S.C. (c) [the Company] which comprise the statement of financial position as at 31 December 2014 and the 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 Director's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company 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 (the CBB) Rule Book (Volume 5) we report that:

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

b) the financial information contained in the directors' report is consistent with the 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 5 and applicable provisions of Volume 6) and CBB directives or the terms of the Company'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 Company 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:145
10 March 2015
Manama, Kingdom of Bahrain

Arab Financial Services Company B.S.C.(c)

Financial Statements

31-December-2014

	Note	2014 US$ 000	2013 US$ 000
ASSETS			
Cash in hand and balances with banks and the Central Bank of Bahrain	6	**11,194**	4,382
Deposits with banks and other financial institutions	7	**25,630**	31,420
Investments	8	**9,912**	15,162
Accounts receivable, prepayments and other assets	9	**8,112**	6,058
Property and equipment	10	**9,278**	8,974
TOTAL ASSETS		**64,126**	65,996
LIABILITIES AND EQUITY			
Liabilities			
Traveller's cheques awaiting redemption	11	**2,902**	2,992
Accounts payable and accruals	12	**6,079**	9,699
Other liabilities and provisions	13	**1,014**	1,113
Total liabilities		**9,995**	13,804
Equity			
Share capital	14	**30,000**	30,000
Treasury shares	14	**(2,438)**	(2,438)
Statutory reserve	15	**11,182**	10,687
Capital reserve	15	**150**	150
General reserve	15	**1,997**	1,997
Retained earnings		**11,230**	8,573
Cumulative changes in fair values		**210**	1,423
Proposed appropriations	16	**1,800**	1,800
Total equity		**54,131**	52,192
TOTAL LIABILITIES AND EQUITY		**64,126**	65,996

Sael Al Waary	Zahid Hummusani	B. Chandrasekhar
Chairman	Deputy Chairman	Chief Executive Officer

The attached notes 1 to 28 form part of these financial statements.

	Note	2014 US$ 000	2013 US$ 000
Card centre revenue	17	**24,335**	21,206
Investment income - net	18	**1,875**	2,142
Traveller's cheques revenue		**152**	197
Other income		**175**	381
Write back of impairment of accounts receivable - net	9	**314**	493
		26,851	24,419
Staff expenses		**9,843**	9,429
Depreciation	10	**1,780**	1,505
Other operating expenses	19	**10,276**	9,280
Impairment loss on available-for-sale investments	8	**-**	112
		21,899	20,326
PROFIT FOR THE YEAR		**4,952**	4,093
Basic and diluted earnings per share (US$)	20	**0.87**	0.72
Dividend per share (US$)	21	**0.32**	0.32

Sael Al Waary	Zahid Hummusani	B. Chandrasekhar
Chairman	Deputy Chairman	Chief Executive Officer

The attached notes 1 to 28 form part of these financial statements.

	2014	2013
	US$ 000	US$ 000
Profit for the year	**4,952**	4,093
Other comprehensive income reclassified to profit or loss in subsequent periods:		
Recycled upon disposal of available-for-sale investments	**(1,394)**	(1,339)
Change in fair values of available-for-sale investments	**181**	545
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**3,739**	3,299

The attached notes 1 to 28 form part of these financial statements.

	Note	2014 US$ 000	2013 US$ 000
OPERATING ACTIVITIES			
Profit for the year		**4,952**	4,093
Adjustments for:			
Depreciation	10	**1,780**	1,505
Write back of impairment of accounts receivable - net	9	**(314)**	(493)
Impairment loss on available-for-sale investments	8	**-**	112
Gain on sale of available-for-sale investments	18	**(1,438)**	(1,677)
Operating profit before changes in operating assets and liabilities		**4,980**	3,540
Changes in operating assets and liabilities:			
Deposits with banks and other financial institutions with an original maturity of more than 90 days or maintained as collateral		**8,597**	(1,605)
Accounts receivable, prepayments and other assets		**(1,740)**	(330)
Traveller's cheques awaiting redemption		**(90)**	(57)
Accounts payable and accruals		**(3,620)**	3,024
Other liabilities and provisions		**(99)**	179
Net cash from operating activities		**8,028**	4,751
INVESTING ACTIVITIES			
Proceeds from sale of investments		**5,981**	3,970
Purchase of investments		**(506)**	(9,000)
Purchase of property and equipment	10	**(2,084)**	(3,509)
Net cash from (used in) investing activities		**3,391**	(8,539)
FINANCING ACTIVITY			
Dividend paid		**(1,800)**	(1,800)
Net cash used in financing activity		**(1,800)**	(1,800)
NET CHANGE IN CASH AND CASH EQUIVALENTS		**9,619**	(5,588)
Cash and cash equivalents at 1 January		**5,529**	11,117
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	22	**15,148**	5,529

The attached notes 1 to 28 form part of these financial statements.

	Note	Share capital US$ 000	Treasury shares US$ 000	Statutory reserve US$ 000	Capital reserve US$ 000	General reserve US$ 000	Retained earnings US$ 000	Cumulative changes in fair values US$ 000	Proposed appropriations US$ 000	Total equity US$ 000
Balance at 1 January 2014		30,000	(2,438)	10,687	150	1,997	8,573	1,423	1,800	52,192
Profit for the year		-	-	-	-	-	4,952	-	-	4,952
Other comprehensive income for the year		-	-	-	-	-	-	(1,213)	-	(1,213)
Total comprehensive income for the year		-	-	-	-	-	4,952	(1,213)	-	3,739
Transfer to statutory reserve	15	-	-	495	-	-	(495)	-	-	-
Dividend paid for 2013		-	-	-	-	-	-	-	(1,800)	(1,800)
Proposed dividend for 2014	16	-	-	-	-	-	(1,800)	-	1,800	-
Balance at 31 December 2014		**30,000**	**(2,438)**	**11,182**	**150**	**1,997**	**11,230**	**210**	**1,800**	**54,131**
Balance at 1 January 2013		30,000	(2,438)	10,278	150	1,997	6,689	2,217	1,800	50,693
Profit for the year		-	-	-	-	-	4,093	-	-	4,093
Other comprehensive income for the year		-	-	-	-	-	-	(794)	-	(794)
Total comprehensive income for the year		-	-	-	-	-	4,093	(794)	-	3,299
Transfer to statutory reserve	15	-	-	409	-	-	(409)	-	-	-
Dividend paid for 2012		-	-	-	-	-	-	-	(1,800)	(1,800)
Proposed dividend for 2013	16	-	-	-	-	-	(1,800)	-	1,800	-
Balance at 31 December 2013		30,000	(2,438)	10,687	150	1,997	8,573	1,423	1,800	52,192

The attached notes 1 to 28 form part of these financial statements.

1. CORPORATE INFORMATION

Incorporation
Arab Financial Services Company B.S.C. (c) [the Company] is a closed joint stock company incorporated on 18 April 1984 in the Kingdom of Bahrain and registered with the Ministry of Industry and Commerce under commercial registration number 14777. The Company is a 54.6% (2013: 54.6%) owned subsidiary of Arab Banking Corporation (B.S.C.) [the Parent]. The postal address of the Company's registered office is P O Box 2152, Manama, Kingdom of Bahrain.

Activities
The Company is engaged in electronic bureau processing and the sponsoring and marketing of personal payment instructions. Effective from 1 March 2011, the Central Bank of Bahrain amended the Company's operating licence from 'wholesale banking' to 'ancillary services'.

The financial statements were authorised for issue by the Board of Directors on 17 February 2015.

2. BASIS OF PREPARATION

Statement of compliance
The financial statements have been prepared in accordance with International Financial Reporting Standards [IFRS] as issued by the International Accounting Standards Board [IASB] and the applicable provisions of the Bahrain Commercial Companies Law and the Central Bank of Bahrain (the CBB) and Financial Institutions Law, the CBB Rule Book (Volume 5 and applicable provisions of Volume 6) and the relevant CBB directives.

Accounting convention
The financial statements have been prepared under the historical cost convention as modified for the measurement at fair value of available-for-sale investments and derivative financial instruments.

Functional and presentation currency
The financial statements have been presented in United States Dollars being the Company's functional currency, rounded to the nearest thousand (US$ 000), except when otherwise indicated.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of the financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2013 except that the Company has adopted the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2014:

Investment Entities (Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements)
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 and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through statement of income. These amendments have no impact on the Company, since the Company does not qualify to be an investment entity under IFRS 10.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 Financial Instruments: Presentation
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 and is applied retrospectively. These amendments have no material impact on the Company.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39 Financial Instruments: Recognition and Measurement
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Company as the Company has not novated its derivatives during the current or prior periods.

IFRIC Interpretation 21 Levies (IFRIC 21)
IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. These amendments have no impact on the Company.

Improvements to IFRSs – 2010 - 2012 Cycle: Amendments to IFRS 13 – Short-term receivables and payables
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 Company.

Improvements to IFRSs – 2011-2013 Cycle: Amendments to IFRS 1 – Meaning of 'effective IFRSs'
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 Company, since the Company is an existing IFRS preparer.

Significant accounting policies are set out below:

Cash and cash equivalents
For the purpose of the statement of cash flows, cash and cash equivalents comprise cash in hand, balances with banks, deposits with banks and other financial institutions and the Central Bank of Bahrain with original maturities of less than ninety days (excluding the statutory and collateral deposits).

Deposits with banks and other financial institutions
Deposits with banks and other financial institutions are initially measured at cost, being the fair value of consideration given.

Following the initial recognition, deposits with banks and other financial institutions are stated at cost less any amount written-off and specific provisions for impairment, if any.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Held-to-maturity
Held-to-maturity investments are non-derivative financial assets which carry fixed or determinable payments and fixed maturities and for which the Company has the positive intention and ability to hold to maturity. These investments are initially recognised at fair value plus directly attributable transaction costs. After initial measurement, held-to-maturity investments are measured at amortised cost less impairment. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount, less allowance for impairment. 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. Gains and losses are recognised in the statement of income when the investments are derecognised or impaired, as well as through the amortisation process.

If the Company were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity, the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Company would be prohibited from classifying any financial asset as held-to-maturity during the following two years. Reclassifications made in during the year ended 31 December 2013 are disclosed in Note 8.

Available-for-sale
Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale. These investments are initially recognised at fair value including directly attributable transaction costs. After initial measurement, available-for-sale investments are measured at fair value with unrealised gains or losses being recognised directly in the other comprehensive income until the investment is derecognised, at which time the cumulative gain or loss recorded in the other comprehensive income is recognised in the statement of income, or determined to be impaired, at which time the cumulative loss recorded in the other comprehensive income is recognised in the statement of income.

Investments at fair value through statement of income
Investments at fair value through statement of income represent investments designated upon initial recognition as fair value through statement of income. These investments are initially recognised at fair value. Transaction costs are expensed in the statement of income. All subsequent gains and losses arising from remeasurement at fair value are recognised in the statement of income.

Accounts receivable
Accounts receivable are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no probability of recovery.

Property and equipment
Property and equipment is stated at cost less accumulated depreciation and any impairment in value. Freehold land is not depreciated as it is deemed to have an indefinite useful life.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognised in the statement of income as the expense is incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

- Building	30 years
- Furniture, equipment and vehicles	3-10 years

Traveller's cheques awaiting redemption
Traveller's cheques awaiting redemption are stated at cost less provision for unclaimed amounts.

Provision for traveller's cheques awaiting redemption, based on the Company's past experience, is made for the estimated net cost to the Company of lost traveller's cheques unpaid as of the date of the statement of financial position. Adjustments to the provisions are reflected in the statement of income as they become necessary.

Accounts payable and accruals
Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Employees' end of service benefits
The Company provides end of service benefits to its employees in accordance with the relevant regulations. The entitlement to these benefits is based upon the employees' final salaries and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment based on the notional amount payable if all employees had left at the statement of financial position date.

With respect to its national employees, the Company makes contributions to the Social Insurance Organisation calculated as a percentage of the employees' salaries in accordance with the relevant regulations. The Company's obligations are limited to these contributions, which are expensed when due.

Treasury shares
Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the statement of income on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

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 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 has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include indications that the debtor or group of debtors 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, any impairment loss is recognised in the statement of income. Impairment is determined as follows:

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

(a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of income;
(b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset; and
(c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Derecognition of financial assets and financial liabilities

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

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

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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 Company's continuing involvement in the asset.

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of income.

Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty. The following specific recognition criteria must also be met for revenue to be recognised:

Card centre revenue

(a) Electronic bureau processing
Income from electronic bureau processing is recognised over the period in which the services are rendered, net of withholding tax.

(b) Sponsored programmes
Annual card fees are billed to cardmembers on a monthly basis and are taken to income net of collection fees and withholding tax. Revenue related to card utilisation and other incidental revenues are recognised when earned.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)
Card centre revenue (continued)

(c) Development and customisation
Revenue from software customisation and development contracts is recognised using the stage of completion method. If a contract is a loss making contract then expected losses are recognised immediately and if the outcome of the contract cannot be measured reliably, then revenue is booked only to the extent cost has been incurred.

Traveller's cheques revenue
Revenue from traveller's cheques represents income earned on the float of traveller's cheques awaiting redemption and is accounted for on an effective yield basis.

Interest income
Revenue is recognised using the effective yield method.

Dividends
Revenue is recognised when the Company's right to receive the payment is established.

Rental income
Rental income arising from operating leases on property is accounted for on a straight line basis over the lease terms.

Foreign currencies
Transactions in foreign currencies are initially recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the date of the statement of financial position. All differences are taken to the statement of income. Non-monetary items that are measured in terms of historical cost in foreign currency are retranslated using the exchange rates as at dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. When a gain or loss on a non-monetary item is recognised in the statement of comprehensive income, any exchange component of that gain or loss is recognised in the statement of comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in the statement of income, any exchange component of that gain or loss is recognised in the statement of income.

Trade and settlement date accounting
Purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Company commits to purchase or sell the asset.

Offsetting
Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right (and necessary regulatory approvals, if required) to set off the recognised amounts and the Company intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Derivative financial instruments
The Company uses interest rate swaps to cover its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the statement of income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair values
The Company measures financial instruments at fair value at each statement of financial position date.

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 Company.

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 best economic interests.

For investments traded in an active market, fair value is determined by reference to quoted market bid prices. The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

For unquoted equity investments, fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions or reference to the current fair value of another instrument that is substantially the same. In cases when the fair value of unquoted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment.

An analysis of fair values of financial instruments and further detail as to how they are measured are provided in Note 27.

Operating leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In the process of applying the Company's accounting policies, management has exercised judgement and estimates in determining the amounts recognised in the financial statements. The most significant uses of judgements and estimates are as follows:

Going concern
The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company 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 Company's ability to continue as a going concern. Therefore, the 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 Company classifies investments as fair value through statement of income 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. Investments are classified as held-to-maturity when the Company has the positive intention and ability to hold it to maturity. All other investments are classified as available-for-sale.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Impairment of available-for-sale financial assets

For available-for-sale financial investments, the Company 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. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Company evaluates, among other factors, historical share price movements and the duration or extent to which the fair value of an investment is less than its cost. In case of debt securities classified as available-for-sale investments, management judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Provision for accounts receivable

The Company makes collective impairment provision against accounts receivable based on a percentage an allowance applied according to the length of time past due. The percentages for allowance are determined by the Board of Directors based on historical recovery rates. The actual impairment loss could differ from estimates due to a number of factors.

5. PROSPECTIVE CHANGES IN ACCOUNTING POLICIES

Standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

- IFRS 9 Financial Instruments: effective for annual periods beginning on or after 1 January 2018.
- IFRS 14 Regulatory Deferral Accounts: effective for annual periods beginning on or after 1 January 2016.
- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions: effective for annual periods beginning on or after 1 July 2014.
- Annual improvements 2010 - 2012 Cycle: these improvements are effective from 1 July 2014. 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. They include:
    - IFRS 3 Business Combinations
    - IFRS 13 Fair Value Measurement
    - IAS 40 Investment Property
- IFRS 15 Revenue from Contracts with Customers: effective for annual periods beginning on or after 1 January 2017.
- Amendments to:
    - IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests: effective for annual periods beginning on or after 1 January 2016.
    - IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation: effective for annual periods beginning on or after 1 January 2016.
    - IAS 16 and IAS 41 Agriculture: Bearer Plants: effective for annual periods beginning on or after 1 January 2016.
    - IAS 27: Equity Method in Separate Financial Statements: effective for annual periods beginning on or after 1 January 2016.

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

6. CASH IN HAND AND BALANCES WITH BANKS AND THE CENTRAL BANK OF BAHRAIN

	2014 US$ 000	2013 US$ 000
Cash in hand and balances with banks	**11,141**	4,329
Statutory deposit with the Central Bank of Bahrain	**53**	53
	11,194	4,382

7. DEPOSITS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2014 US$ 000	2013 US$ 000
Deposits with banks and other financial institutions with original maturity of:		
- Less than 90 days	**4,007**	1,200
- More than 90 days	**10,017**	18,799
	14,024	19,999
Deposits with banks which are maintained as collateral against personal payment instrument activities, with original maturity of:		
- Less than 90 days	**963**	963
- More than 90 days	**10,643**	10,458
	25,630	31,420

8. INVESTMENTS

	2014 US$ 000	2013 US$ 000
Available-for-sale		
Unquoted equity	**-**	1,289
Quoted bonds	**9,710**	13,623
Unquoted debt security - gross	**999**	999
Provision for impairment	**(797)**	(749)
Unquoted debt security - net	**202**	250
	9,912	15,162

During 2013, the Company has reclassified a quoted bond of US$ 4,487 thousand, before its original maturity, from held-to-maturity to available-for-sale. Due to this reclassification, in accordance with IAS 39, the Company can not classify any financial asset as held-to-maturity during the year 2014 and 2015. No financial asset was classified as held-to-maturity during the year ended 31 December 2014.

The movement in the allowance for impairment of available-for-sale investments was as follows:

	2014 US$ 000	2013 US$ 000
At 1 January	**592**	662
Charge for the year	**-**	112
Recycled upon sale of available-for-sale investments	**-**	(182)
At 31 December	**592**	592

9. ACCOUNTS RECEIVABLE, PREPAYMENTS AND OTHER ASSETS

	2014 US$ 000	2013 US$ 000
Due from		
Card programme customers	**5,440**	3,934
Traveller's cheques sales agents and others	**3,358**	3,681
	8,798	7,615
Provision for impairment		
Card programme customers	**(418)**	(432)
Traveller's cheques sales agents and others	**(3,353)**	(3,671)
Net accounts receivable	**5,027**	3,512
Prepaid expenses	**1,646**	1,654
Interest receivable	**193**	254
Other assets	**1,246**	638
	8,112	6,058

The gross value of impaired accounts receivable was as follows:

	2014 US$ 000	2013 US$ 000
Due from card programme customers	**442**	822
Due from traveller's cheques sales agents and others	**3,353**	3,671
	3,795	4,493

Movements in the allowance for impairment of accounts receivable were as follows:

	2014 US$ 000	2013 US$ 000
At 1 January	**4,103**	7,021
Written off during the year	**(18)**	(2,425)
Written back during the year	**(360)**	(519)
Addition during the year	**46**	26
	(314)	(493)
At 31 December	**3,771**	4,103

9. ACCOUNTS RECEIVABLE, PREPAYMENTS AND OTHER ASSETS (continued)

The table below shows the credit quality by accounts receivable, interest receivable and other assets:

At 31 December 2014	Neither past due nor impaired (Current) US$ 000	Past due but not impaired (1 to 90) days US$ 000	Past due and impaired (91 to 120) days US$ 000	Past due and impaired (Over 120) days US$ 000	Total US$ 000
Accounts receivable	**3,939**	**1,019**	**69**	**-**	**5,027**
Interest receivable	**193**	**-**	**-**	**-**	**193**
Other assets	**1,246**	**-**	**-**	**-**	**1,246**
	5,378	**1,019**	**69**	**-**	**6,466**

At 31 December 2013	Neither past due nor impaired (Current) US$ 000	Past due but not impaired (1 to 90) days US$ 000	Past due and impaired (91 to 120) days US$ 000	Past due and impaired (Over 120) days US$ 000	Total US$ 000
Accounts receivable	2,607	810	95	-	3,512
Interest receivable	254	-	-	-	254
Other assets	638	-	-	-	638
	3,499	810	95	-	4,404

10. PROPERTY AND EQUIPMENT

	Freehold land US$ 000	Building US$ 000	Furniture, equipment and vehicles US$ 000	Capital work in progress US$ 000	Total US$ 000
Cost					
At 1 January 2014	1,326	8,333	19,630	668	**29,957**
Additions	-	11	1,664	409	**2,084**
Transfer during the year	-	-	630	(630)	**-**
At 31 December 2014	**1,326**	**8,344**	**21,924**	**447**	**32,041**
Depreciation					
At 1 January 2014	-	5,837	15,146	-	**20,983**
Provided during the year	-	302	1,478	-	**1,780**
At 31 December 2014	**-**	**6,139**	**16,624**	**-**	**22,763**
Net book value					
At 31 December 2014	**1,326**	**2,205**	**5,300**	**447**	**9,278**

10. PROPERTY AND EQUIPMENT (continued)

	Freehold land US$ 000	Building US$ 000	Furniture, equipment and vehicles US$ 000	Capital work in progress US$ 000	Total US$ 000
Cost					
At 1 January 2013	1,326	8,160	16,956	6	26,448
Additions	-	173	2,668	668	3,509
Transfer during the year	-	-	6	(6)	-
At 31 December 2013	1,326	8,333	19,630	668	29,957
Depreciation					
At 1 January 2013	-	5,547	13,931	-	19,478
Provided during the year	-	290	1,215	-	1,505
At 31 December 2013	-	5,837	15,146	-	20,983
Net book value					
At 31 December 2013	1,326	2,496	4,484	668	8,974

11. TRAVELLER'S CHEQUES AWAITING REDEMPTION

The Company has written back traveller's cheques in prior years outstanding for a period of 20 years or more. These write backs were in accordance with the policy of the Company that had been approved by the Central Bank of Bahrain and were made after obtaining the approval of the Board of Directors. As per this policy, the total write back was capped at 75% of the total outstanding balance as at 31 December 2012.

Traveller's cheques outstanding as at 31 December 2014 are net of the cumulative write back of US$ 6,359 thousand (31 December 2013: US$ 6,359 thousand).

12. ACCOUNTS PAYABLE AND ACCRUALS

	2014 US$ 000	2013 US$ 000
Due to customers, suppliers and agents	**3,015**	6,010
Accrued expenses	**1,905**	2,245
Other payables	**1,159**	1,444
	6,079	9,699

13. OTHER LIABILITIES AND PROVISIONS

	2014 US$ 000	2013 US$ 000
Employees' end of service benefits	**723**	835
Provision for Traveller's cheques losses	**291**	278
	1,014	1,113

Movement in the provision for traveller's cheques losses was as follows:

	2014 US$ 000	2013 US$ 000
At 1 January	**278**	265
Provided during the year	**13**	13
At 31 December	**291**	278

14. SHARE CAPITAL

	2014 US$ 000	2013 US$ 000
Authorised		
10,000,000 (2013: 10,000,000) shares of US$ 5 (2013: US$ 5) each	**50,000**	50,000
Issued and fully paid		
6,000,000 (2013: 6,000,000) shares of US$ 5 (2013: US$ 5) each	**30,000**	30,000

Treasury shares
As at 31 December 2014, the Company held 309,750 treasury shares (31 December 2013: 309,750 shares). These shares do not carry any voting rights and are not entitled to dividend.

15. RESERVES

Statutory reserve
As required by the Bahrain Commercial Companies Law and the Company's memorandum and articles of association, 10% of profit for the year has been transferred to a statutory reserve. The Company's shareholders may resolve to discontinue such annual transfers when the reserve equals 50% of the paid up share capital of the Company. The reserve is not distributable but may be used as security for the purpose of a distribution in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

Capital reserve
This reserve represents profits on sale of property and equipment in past years. This reserve can be distributed as dividends after approval of the Annual General Meeting of the shareholders, subject to the provision that this will not affect the Company's ability to restore the assets to their original condition or to acquire new property and equipment.

General reserve
This reserve is only distributable following a resolution of the Annual General Meeting of the shareholders and the approval of the Central Bank of Bahrain.

16. PROPOSED APPROPRIATIONS

The Board of Directors has proposed for the year 2014 a dividend of US$ 0.32 per share (2013: US$ 0.32 per share) amounting to US$ 1,800 thousand (2013: US$ 1,800 thousand), which will be submitted for formal approval at the Annual General Meeting.

During the year a dividend of US$ 0.32 per share aggregating to US$ 1,800 thousand for the year 2013 (2013: US$ 0.32 per share aggregating to US$ 1,800 thousand for the year 2012) was approved at the Annual General Meeting held on 30 April 2014.

17. CARD CENTRE REVENUE

	2014 **US$ 000**	2013 US$ 000
Income from electronic bureau processing	**17,942**	15,261
Income from sponsored card programmes	**3,702**	3,181
Income from development and customisation	**2,691**	2,764
	24,335	21,206

Income from electronic bureau processing is stated net of withholding tax of US$ 547 thousand (2013: US$ 473 thousand).

18. INVESTMENT INCOME - NET

	2014 **US$ 000**	2013 US$ 000
Gain on sale of available-for-sale investments	**1,438**	1,677
Interest income on:		
- Available-for-sale investments	**339**	257
- Fixed deposits	**98**	208
	1,875	2,142

19. OTHER OPERATING EXPENSES

	2014 **US$ 000**	2013 US$ 000
Electronic data processing expenses	**5,049**	4,814
Card related expenses	**2,986**	2,293
Other expenses	**2,241**	2,173
	10,276	9,280

20. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

	2014	2013
Profit for the year (US$ 000)	**4,952**	4,093
Weighted average number of shares outstanding during the year, net of treasury shares (thousands)	**5,690**	5,690
Basic and diluted earnings per share (US$)	**0.87**	0.72

21. DIVIDEND PER SHARE

Dividend per share is calculated by dividing the proposed dividend for the year by the number of shares outstanding, net of treasury shares at the year end as follows:

	2014	2013
Dividend for the year (US$ 000) [note 16]	**1,800**	1,800
Number of shares outstanding at the year end, net of treasury shares (thousands)	**5,690**	5,690
Dividend per share (US$)	**0.32**	0.32

22. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprise the following statement of financial position amounts:

	2014 US$ 000	2013 US$ 000
Cash in hand and balances with banks	**11,141**	4,329
Deposits with banks and other financial institutions with original maturity of less than 90 days	**4,007**	1,200
	15,148	5,529

23. DERIVATIVES

During the year, the Company entered into interest rate swaps.

			Notional amounts by term to maturity			
Interest rate swaps	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
31 December 2014	**14**	**(104)**	**9,500**	**-**	**-**	**9,500**
31 December 2013	97	(85)	9,000	-	-	9,000

The Company uses interest rate swaps to manage some of its interest rate exposures. These interest rate swaps are not designated as cash flow or fair value hedges but are entered into for periods consistent with underlying instrument exposures.

Swaps are contractual agreements between two parties to exchange interest 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.

24. RISK MANAGEMENT

Risk governance

The Company's risk governance is manifested in a set of established policies, procedures and controls which uses the existing organisational structure to meet strategic targets. The Company's philosophy revolves on willing and knowledgeable risk acceptance commensurate with the risk appetite and strategic plan approved by the Board. The Company is exposed to credit, market, legal, operational and liquidity risks.

24. RISK MANAGEMENT (continued)

Risk management structure
A cohesive organisational structure is established within the Company in order to identify, assess, monitor, and control risks.

Board of Directors
The apex of risk governance is the centralised oversight of the Board of Directors providing direction and the necessary approvals of strategies and policies in order to achieve defined corporate goals.

Senior management
Senior management is responsible for the day to day operations towards achieving the strategic goals within the Company's pre-defined risk appetite.

Audit Committee and Internal Audit Department
Risk management processes throughout the Company are audited annually by the Internal Audit Department which examines both the adequacy of the procedures and the Company's compliance with the procedures. The Internal Audit Department discusses the results of all assessments with senior management, and reports its findings and recommendations directly to the Audit Committee.

a) Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the credit worthiness of counterparties.

Concentrations of credit risk 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 of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographic location.

The Company seeks to manage its credit risk exposure through diversification of its activities to avoid undue concentrations of risk with individuals or groups of customers in specific locations or businesses.

24. RISK MANAGEMENT (continued)

a) Credit risk (continued)

a) (i) Maximum exposure to credit risk
The Company's maximum exposure to credit risk before master netting and collateral agreements is as follows:

	2014	2013
	US$ 000	US$ 000
Balances with banks	**11,141**	4,329
Deposits with banks and other financial institutions	**25,630**	31,420
Investments	**9,912**	13,873
Accounts receivable and other assets	**6,466**	4,404
	53,149	54,026

The table below reflects the risk ratings of the credit risk exposures for balances with banks, deposits with banks and other financial institutions, debt investments and trade receivables, to different counterparties rated by the relevant External Credit Assessment Institutions ("ECAIs"). Exposures to counterparties which are not rated by ECAIs have been classified under the "Unrated" category:

	2014	2013
	US$ 000	US$ 000
Grade A to AAA	**37,713**	15,621
Grade BBB- to A-	**5,433**	26,297
Grade BB+ to BB-	**-**	267
Unrated	**10,003**	11,841
	53,149	54,026

The Company receives collateral against third party customer receivables. At 31 December, the Company had the following collateral:

	2014	2013
	US$ 000	US$ 000
Letters of guarantee from banks	**4,600**	5,500
Cash collateral	**1,022**	1,422
	5,622	6,922

24. RISK MANAGEMENT (continued)

a) Credit risk (continued)

a) (ii) The Company's exposure analysed by geographic regions and industry sectors as at 31 December 2014 and 2013 were as follows:

	Assets		Liabilities	
	2014	2013	**2014**	2013
	US$ 000	US$ 000	**US$ 000**	US$ 000
Geographical region				
Middle East	**42,839**	47,533	**6,474**	9,947
Africa	**333**	492	**3,472**	3,808
Europe	**1,297**	1,764	**47**	47
North America	**8,680**	4,237	**-**	-
Other	**-**	-	**2**	2
	53,149	54,026	**9,995**	13,804
Industry sectors				
Banks and other financial institutions	**52,281**	53,775	**46,883**	6,786
Other	**868**	251	**6,267**	7,018
	53,149	54,026	**53,150**	13,804

b) Market risk

Market risk arises from fluctuations in foreign exchange rates, equity prices and interest rates. The level of market risk appropriate for the Company is as approved by the Board of Directors. This is monitored on a monthly basis by the management.

b) (i) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to adverse changes in foreign exchange rates. The Company views itself as a Bahraini entity, with the United States Dollar as its functional currency. The management has set limits on positions by currency which are monitored on a monthly basis to ensure that positions are maintained within established limits.

The table below indicates the currencies to which the Company had significant exposure at 31 December 2014. The analysis shows the impact of a 5% movement in the currency rate against the United States Dollar, with all other variables held constant, on the statement of income.

The Company had the following significant foreign currency exposures at 31 December 2014 and 2013:

	Assets	**Change in exchange rates (+/-)**	**Effect on net income (+/-)**	Assets	Change in exchange rates (+/-)	Effect on net income (+/-)
	2014	**2014**	**2014**	2013	2013	2013
	US$ 000	**%**	**US$ 000**	US$ 000	%	US$ 000
Great Britain Pounds	**567**	**15**	**85**	734	15	110
Euro	**44**	**15**	**7**	57	15	9
	611			791		

b) (ii) Equity price risk

Equity price risk arises from the change in fair values of equity investments. As of 31 December 2014, the Company had no quoted equities (2013: nil). At 31 December 2014, the Company was not exposed to equity price risk.

24. RISK MANAGEMENT (continued)

b) Market risk (continued)

b) (iii) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Company is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or reprice in a given period. The Company manages this risk by matching the repricing of assets and liabilities through risk management strategies.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's statement of income.

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

	Increase in basis points	Sensitivity of statement of income US$ 000	Decrease in basis points	Sensitivity of statement of income US$ 000
USD				
2014	**25**	**85**	**25**	**(85)**
2013	25	110	25	(110)

c) Liquidity risk

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

The table below summarises the maturity profile of the Company's assets and liabilities. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at the year end is based on contractual undiscounted repayment arrangements.

Based on previous experience, the maturity profile of Traveller's cheques awaiting redemption cannot be reliably determined.

24. RISK MANAGEMENT (continued)

c) Liquidity risk (continued)

The maturity profile of assets and liabilities at 31 December 2014 was as follows:

	US$ 000							
	On demand / no fixed maturity	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	Sub total up to 1 year	Over 1 year	Total
Assets								
Cash in hand and balances with banks and Central Bank of Bahrain	53	11,141	-	-	-	11,141	-	11,194
Deposits with banks and other financial institutions	-	2,463	15,650	7,517	-	25,630	-	25,630
Investments	-	-	-	-	-	-	9,912	9,912
Accounts receivable, prepayments and other assets	-	6,056	431	1,059	248	7,794	318	8,112
Property and equipment	9,278	-	-	-	-	-	-	9,278
Total assets	9,331	19,660	16,081	8,576	248	44,565	10,230	64,126
Liabilities								
Traveller's cheques awaiting redemption	2,902	-	-	-	-	-	-	2,902
Accounts payable and accruals	-	6,079	-	-	-	6,079	-	6,079
Other liabilities and provisions	1,014	-	-	-	-	-	-	1,014
Total liabilities	3,916	6,079	-	-	-	6,079	-	9,995

24. RISK MANAGEMENT (continued)

c) Liquidity risk (continued)

The maturity profile of assets and liabilities at 31 December 2013 was as follows:

	US$ 000							
	On demand / no fixed maturity	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	Sub total up to 1 year	Over 1 year	Total
Assets								
Cash in hand and balances with banks and Central Bank of Bahrain	53	4,329	-	-	-	4,329	-	4,382
Deposits with banks and other financial institutions	-	2,163	21,255	8,002	-	31,420	-	31,420
Investments	1,289	-	-	-	-	-	13,873	15,162
Accounts receivable, prepayments and other assets	-	3,971	458	1,053	295	5,777	281	6,058
Property and equipment	8,974	-	-	-	-	-	-	8,974
Total assets	10,316	10,463	21,713	9,055	295	41,526	14,154	65,996
Liabilities								
Traveller's cheques awaiting redemption	2,992	-	-	-	-	-	-	2,992
Accounts payable and accruals	-	9,699	-	-	-	9,699	-	9,699
Other liabilities and provisions	1,113	-	-	-	-	-	-	1,113
Total liabilities	4,105	9,699	-	-	-	9,699	-	13,804

As the Company does not have any interest bearing liabilities, analysis of undiscounted liabilities is not presented separately, the totals in the table match the statement of financial position.

24. RISK MANAGEMENT (continued)

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

As at 31 December 2014, legal suits for claims amounting to US$ 291 thousand (31 December 2013: US$ 278 thousand) were pending against the Company. Based on the opinion of the Company's legal counsel, the total estimated liability arising from these cases is not considered to be material to the Company's overall financial statements.

e) Operational risk
Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Company cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Company 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.

f) Capital management
The primary objectives of the Company's capital management are to maintain healthy capital ratios in order to support its business and to maximise shareholders' value.

The Company manages its capital structure and makes adjustments to it in the light of changes in business conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend payment to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous year.

25. RELATED PARTY TRANSACTIONS

Related parties represent major shareholders, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management.

Balances with related parties included in the statement of financial position are as follows:

	2014			2013		
	Parent US$ 000	**Directors and key management personnel US$ 000**	**Major share-holders US$ 000**	Parent US$ 000	Directors and key management personnel US$ 000	Major share-holders US$ 000
Assets						
Cash in hand and with banks	**349**	**-**	**-**	326	-	-
Money at call	**277**	**-**	**-**	329	-	-
Accounts receivable, prepayments and other assets	**356**	**124**	**1,815**	318	84	859
	982	**124**	**1,815**	973	84	859
Liabilities						
Accounts payable and accruals	**-**	**92**	**397**	2,760	114	354
Off statement of financial position						
Interest rate swaps	**9,500**	**-**	**-**	9,000	-	-

The income and expenses in respect of related parties included in the statement of income are as follows:

	Parent	**Directors and key management personnel**	**Major share-holders**	Parent	Directors and key management personnel	Major share-holders
Net income from electronic bureau processing	**428**	**-**	**11,107**	364	-	10,347
Other operating income	**-**	**-**	**-**	71	-	-
	428	**-**	**11,107**	435	-	10,347

	2014 US$ 000	2013 US$ 000
Compensation of key management personnel of the Company		
Salaries and other benefits	**3,371**	3,182

26. CLASSIFICATION OF FINANCIAL INSTRUMENTS

At 31 December 2014, financial instruments have been classified for the purpose of measurement under IAS 39 'Financial Instruments: Recognition and Measurement' as follows:

	Available- for-sale US$ 000	Financial assets at amortised cost / receivables US$ 000	Total US$ 000
ASSETS			
Cash in hand and balances with banks and the Central Bank of Bahrain	-	11,194	11,194
Deposits with banks and other financial institutions	-	25,630	25,630
Investments	9,912	-	9,912
Accounts receivable and other assets	-	6,466	6,466
	9,912	43,290	53,202

	Financial liabilities at amortised cost US$ 000
LIABILITIES	
Traveller's cheques awaiting redemption	2,902
Accounts payable and accruals	6,079
	8,981

At 31 December 2013, financial instruments have been classified for the purpose of measurement under IAS 39 'Financial Instruments: Recognition and Measurement' as follows:

	Available- for-sale US$ 000	Financial assets at amortised cost / receivables US$ 000	Total US$ 000
ASSETS			
Cash in hand and balances with banks and the Central Bank of Bahrain	-	4,382	4,382
Deposits with banks and other financial institutions	-	31,420	31,420
Investments	15,162	-	15,162
Accounts receivable and other assets	-	4,404	4,404
	15,162	40,206	55,368

	Financial liabilities at amortised cost US$ 000
LIABILITIES	
Traveller's cheques awaiting redemption	2,992
Accounts payable and accruals	9,699
	12,691

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company 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 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.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

At 31 December 2014	**Date of valuation**	**US$ 000**		
		Level 1	**Level 2**	**Total**
Assets measured at fair value				
Available-for-sale quoted bonds	31 December 2014	**9,710**	**202**	**9,912**
Assets for which fair values are disclosed				
Accounts receivable and other assets	31 December 2014	**-**	**318**	**318**
Derivative financial instruments				
Interest rate swaps - Asset	31 December 2014	**-**	**14**	**14**
Interest rate swaps - Liability	31 December 2014	**-**	**104**	**104**

At 31 December 2013	Date of valuation	US$ 000		
		Level 1	Level 2	Total
Assets measured at fair value				
Available-for-sale quoted equities	31 December 2013	13,623	250	13,873
Available-for-sale unquoted equity	31 December 2013	-	1,289	1,289
Assets for which fair values are disclosed				
Accounts receivable and other assets	31 December 2013	-	281	281
Derivative financial instruments				
Interest rate swaps - Asset	31 December 2013	-	97	97
Interest rate swaps - Liability	31 December 2013	-	85	85

Management has assessed that the carrying amounts of cash in hand, balances with banks, deposits, accounts receivable and other assets, accounts payable and other liabilities approximate their fair value largely due to the short-term maturities of these instruments. Included in financial liabilities are Traveller's cheques awaiting redemption which are carried at cost as these are payable on demand.

During the years ended 31 December 2014 and 31 December 2013, there were no transfers between Level 1 and Level 2 fair value measurements.

28. CONTINGENCIES AND COMMITMENTS

At 31 December 2014 the Company had contingent liabilities amounting to US$ 1,000 thousand (31 December 2013: US$ 1,000 thousand) in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise.

Arab Financial Services Company B.S.C. (c) ("AFS") follows internationally-recognised best practice principles and guidelines, having a corporate governance system that provides an effective and transparent control framework, which is fair and accountable.

The Central Bank of Bahrain ("CBB") licenses AFS as an Ancillary Services provider. AFS is a Bahrain Joint Stock Company incorporated in 1984. AFS has an authorised capital of US$50 million and a paid-up capital of US$ 30 million (as at 31 December 2014).

AFS communicates all relevant information to stakeholders punctually and clearly through a variety of channels, including a well-maintained corporate website.

Shareholders

Arab Banking Corporation (B.S.C.) ("ABC") owns a majority of AFS shares with a 54.56% shareholding. The second largest shareholder is National Commercial Bank, Saudi Arabia ("NCB") with a 13.19% shareholding. ABC and NCB are among the founding shareholders of AFS. International and regional investors hold the remaining shares of AFS.

The following table shows the ownership structure of AFS as at 31 December 2014:

Name of Shareholder	Percentage Shareholding	Nationality
ABC	54.56%	Bahrain
NCB	13.19%	Saudi Arabia
Other shareholders with less than 5% holdings	32.25%	Various
Total	**100%**	

The distribution of shareholdings did not change in 2014. The following table shows the distribution of shareholdings as at 31 December 2013 and 31 December 2014.

	2014 / 2013		
Holding	**No. of Shareholders**	**Holding %**	**No. of Shares**
0 to 1%	26	7.49	426,176
1% up to less than 5%	12	24.76	1,409,109
5% up to less than 10%	-	-	-
10% up to less than 20%	1	13.19	750,464
20% up to less than 50%	-	-	-
50% and above	1	54.56	3,104,501
Total	**40**	**100**	**5,690,250**

As at 31 December 2014, AFS Directors and senior managers owned no shares in AFS

Recent Corporate Governance Changes

In 2010, the CBB substantially updated its corporate governance requirements (particularly the CBB Rulebook's High Level Controls module) for financial institutions, which are incorporated in Bahrain (the "CBB Corporate Governance Requirements"). Such regulatory requirements largely correspond with the Corporate Governance Code of Bahrain of 2010 (the "Code"), which the Ministry of Industry and Commerce of Bahrain issued in March 2010. The CBB Corporate Governance Requirements and the Code took full effect at the end of 2011.

AFS's corporate governance charter, and the charters of the committees of the AFS Board, are in-line with the CBB Corporate Governance Requirements. The corporate governance charter and the charters of the various Board committees (collectively, the "AFS Board Mandates") may be referred to on the AFS corporate website.

The three-year appointment of the Directors of the Board expired in 2014. On 30 April 2014, the AFS shareholders newly appointed for a term of three years the following persons as the new Directors of the Board:

- Mr. Sael Al Waary
- Mr. Zahid Hummusani
- Mr. Abdulnaser Khalifa Gnidi
- Mr. Maher Kaddoura
- Ms. Simona Bishouty

The appointments were pre-approved by the Central Bank of Bahrain.

Immediately following its appointment on 30 April 2014, the Board elected Mr. Sael Al Waary to be Board Chairman and Mr. Zahid Hummusani to be Deputy Chairman in accordance with Article 21(2) of the AFS Articles of Association.

Compliance with CBB Corporate Governance Requirements and the Code

Save as may otherwise be disclosed in this report (especially with regard to the roles of AFS's independent directors described in the section below titled "Independence of Directors") as at 31 December 2014 AFS complied with the CBB Corporate Governance Requirements and the Code in all material respects.

AFS is exempted by the CBB from the CBB Corporate Governance Requirement that the Chairman of AFS be a Non-Executive Director.

Board of Directors

Responsibilities of the Board

The Board of Directors is responsible for the overall direction, supervision and control of AFS. In particular, the Board's responsibilities include (but are not limited to):

a) those responsibilities assigned to the Board by the Articles of Association of AFS;
b) establishing AFS's objectives;
c) AFS's overall business performance;
d) monitoring management performance;
e) the adoption and annual review of strategy;
f) monitoring the implementation of strategy by management;
g) causing financial statements to be prepared which accurately disclose AFS's financial position;
h) convening and preparing the agenda for shareholder meetings;
i) monitoring conflicts of interest and preventing abusive related-party transactions;
j) assuring equitable treatment of shareholders, including minority shareholders;
k) the adoption and review of management structure and responsibilities; and
l) the adoption and review of the systems and controls framework.

The Board meets regularly to consider key aspects of AFS's affairs, strategy and operations.

The Board has delegated authority to the AFS Chief Executive Officer to enter into transactions consistent with AFS's strategy subject to certain restrictions. The following transactions require the Chairman/ Board's prior approval:

- any budgeted expenditures (excluding capital expenditure) greater than US$ 100,000;
- any budgeted capital expenditure greater than US$ 150,000;
- any unbudgeted expenditure (excluding capital expenditure) greater than US$ 35,000;
- any unbudgeted capital expenditure greater than US$ 75,000; and
- any sale of land or buildings and disposal of fixed assets resulting in a loss of more than US$ 50,000 to AFS.

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

Appointment of Directors

The shareholders elect the Board for a term of three years. The term of the current Board commenced on 30 April 2014. Article 23 of the Memorandum and Articles of Association provides guidance on termination of Board membership. From 1 January to 30 April 2014, there were six Directors; subsequently, there were five. The Directors have diverse and relevant skills and worked well together as a team. Collectively, they exercised independent and objective judgment in meeting their responsibilities.

In accordance with AFS's Articles of Association, the Directors are elected by the AFS shareholders.

In accordance with the AFS Board Mandates, each proposal for the election or re-election of a Director shall be accompanied by a recommendation of the Board, and a summary of the advice of the Nominations & Remunerations Committee.

When a new Director is inducted, the Chairman, or other individual delegated by the Chairman, reviews the Board's role and duties with that person. In particular, they describe the legal and regulatory requirements of the AFS Board Mandates, the Code and the CBB Corporate Governance Requirements. The Chairman of the Board ensures that each new Director receives a formal and tailored induction to ensure his contribution to the Board from the beginning of his term. This includes meetings with senior management, auditors and legal counsel; visits to AFS facilities; presentations regarding strategic plans, compliance programs, and significant financial, accounting and risk management issues. AFS has written appointment agreements in place with each Director. Each describes the Director's powers, duties, responsibilities and accountabilities, as well as other matters relating to their appointment including their term, the time commitment envisaged, the Board committee assignments (if any), Directors' remuneration and expense reimbursement entitlement, and Directors' access to independent professional advice when needed.

Assessment of the Board

The AFS Board Mandates require that the Board evaluates its own performance each year, as well as the performance of each Board committee and individual Director. This evaluation includes:

a) assessing how the Board operates;
b) evaluating the performance of each Board committee in light of its specific purposes and responsibilities, which shall include review of the self-evaluations undertaken by each Board committee;
c) reviewing each Director's work, his attendance at Board and Board committee meetings, and his constructive involvement in discussions and decision making;
d) reviewing the Board's current composition against its desired composition in order to maintain an appropriate balance of skills and experience, and to ensure planned and progressive refreshing of the Board; and
e) recommendations for new Directors to replace long standing Directors, or those Directors whose contribution to AFS or its Board committees (such as the Audit Committee) is not adequate.

The Board has conducted an evaluation and self-assessment of its performance, and the performance of each Board committee and each individual Director, in relation to the financial year ending on 31 December 2014.

Independence of Directors

The AFS Board Mandates include detailed criteria to determine whether a Director should be classified as independent or not. The AFS independence criteria are at least as restrictive as the formal criteria specified in the CBB Corporate Governance Requirements.

As at 31 December 2014, AFS had:
- one independent, non-executive Director, and
- four non-independent, executive Directors.

As from the end of 2011, the CBB Corporate Governance Requirements required that at least a third of AFS's Board of Directors was independent (a requirement with which AFS was not compliant as at 31 December 2014) and also required that certain Board committees (including the Audit Committee and the Nominations and Remuneration Committee) be comprised of a certain number of Directors, a certain proportion of independent Directors and/or that such committees be chaired by an independent Director. The CBB Corporate Governance Requirements also provided guidance with regard to the roles of the independent Directors (for example, guidance is provided that the Chairman of the Board of Directors should be an Independent Director, whereas the Chairman is, in fact, classified as an executive, non-independent Director). The composition of AFS's Board of Directors and its committees means that AFS was not fully compliant with the CBB Corporate Governance Requirements with regard to the allotted functions of its independent Directors.

As a rule, Directors do not have any direct or indirect material interest in any contract of significance with AFS, or any material conflicts of interest. This remained the case in 2014. The AFS Board Mandates require that any transaction that causes a Director to have a material conflict of interest must be unanimously approved by the Board (other than the relevant Director). Each Director is required to inform the entire Board of any actual, or potential, conflicts of interest in their activities with, or commitments to, other organisations as they arise, and to abstain from voting on these matters. Disclosures shall include all material facts.

Each Director has a legal duty of loyalty to AFS, and can be personally sued by AFS or shareholders for any violation.

Compensation and Interests of Directors

The compensation for members of the Board of Directors consists of the following elements:

a) attendance fees payable to members attending different Board and Board committee meetings;
b) allowance to cover travelling, accommodation and subsistence while attending Board and Board committee meetings; and
c) an annual remuneration which is subject to shareholders' approval at the annual general meeting of shareholders (the "AGM").

The total remuneration of the Board for the year ended 31 December 2014 was US$ 160,000.

Board Committees

The Board and its committees are supplied with full and timely information to enable them to discharge their responsibilities. In this respect, the Board, its committees and all Directors have access to senior management, external consultants and advisors. The Board Secretary is responsible for ensuring that the Board procedures, and applicable rules and regulations, are observed. The Board has delegated specific responsibilities to a number of Board committees. Each such committee has its own formal written charter. The main Board committees are:

- The **Audit Committee**, which is responsible to the Board for the integrity and effectiveness of AFS's system of financial, accounting and risk management controls and practices, and for reviewing compliance with legal requirements. This Committee also recommends the appointment, compensation and oversight of the external auditors, as well as the appointment of AFS Head of Internal Audit.

  The Audit Committee also assists the Board in shaping and monitoring AFS's Corporate Governance policies and practices, reviewing and assessing the adequacy of these policies and practices, and evaluating AFS's compliance with them.

  The Audit Committee meets not less than four times a year.

- The **Nominations & Remunerations Committee**, which is responsible for the formulation of AFS's executive and staff remuneration policy, as well as senior management appointments, ensuring that AFS's remuneration levels remain competitive so it can attract, develop and retain the skilled staff needed to meet its strategic objectives. The Committee also ensures that effective procedures are in place to enable it, and senior management, to monitor and evaluate the performance of staff.

- The **Strategy Committee**, which is mandated by the Board to advise the Board on strategic directions for business. The members of each of the Board committees, as on 31 December 2014, are as set out in the table below:

Board Committees	Member Name	Member Position
Audit Committee	Mr. Maher Kaddoura	Chairman
	Ms. Simona Bishouty	Member
	Mr. Abdulnaser Khalifa Gnidi	Member
Nominations & Remunerations Committee	Mr. Sael Al Waary	Chairman
	Mr. Zahid Hummusani	Member
	Ms. Simona Bishouty	Member
Strategy Committee	Mr. Maher Kaddoura	Chairman
	Mr. Zahid Hummusani	Member
	Ms. Simona Bishouty	Member

Attendance of Directors in Meetings during 2014

The Board of Directors and Audit Committee meet at least four times a year. The details of Directors' 2014 attendance at Board and Board committee meetings are set out in the following table:

Members	Jan 26	Apr 30	Jun 23	Nov 5
Mr. Sael Al Waary	✓	✓	✓	✓
*Mr. Zahid Hummusani	-	✓	✓	✓
*Mr. Maher Kaddoura	-	✓	✓	✓
*Ms. Simona Bishouty	-	✓	✓	✓
Mr. Abdulnaser Khalifa Gnidi	x	✓	✓	✓
**Dr. Khaled Kawan	✓	x	-	-
**Mr. Saleh Hussain	✓	✓	-	-
**Mr. Adnan Habeeb Hashim	✓	✓	-	-

*The term on the Board started on 30 April 2014.
**The term on the Board ended on 30 April 2014.

Audit Committee Meetings in 2014					
Members	Jan 25	Apr 29	Jun 22	Jul 17	Nov 4
*Mr. Maher Kaddoura	-	-	✓	✓	✓
*Ms. Simona Bishouty	-	-	✓	✓	✓
Mr. Abdulnaser Khalifa Gnidi	x	✓	✓	x	✓
**Mr. Saleh Hussain	✓	✓	-	-	-
**Mr. Adnan Habeeb Hashim	✓	✓	-	-	-

*The term on the Committee started on 30 April 2014.

**The term on the Committee ended on 30 April 2014.

Nominations & Remunerations Committee Meetings in 2014		
Members	Jan 25	Dec 24
Mr. Sael Al Waary	-	✓
*Mr. Zahid Hummusani	-	✓
*Ms. Simona Bishouty	-	✓
**Mr. Adnan Habeeb Hashim	✓	-
**Mr. Saleh Hussain	✓	-
**Mr. Adel Saleh Al Howar	✓	-

*The term on the Committee started on 30 April 2014.
**The term on the Committee ended on 30 April 2014.

Strategy Committee Meetings in 2014		
Members	Jun 22	Nov 4
Mr. Maher Kaddoura	✓	✓
Mr. Zahid Hummusani	✓	✓
Ms. Simona Bishouty	✓	✓

✓ Indicates that the Director attended Board or Board committee meeting
x Indicates that the Director could not attend Board or Board committee meeting

Internal Controls

The Board of Directors is responsible for establishing and reviewing AFS's system of internal control. The Board receives minutes and reports from the Audit Committee, identifying any significant issues relating to the adequacy of AFS's risk management policies and procedures, as well as reports and recommendations from the Nominations and Remuneration Committee. The Board then decides what action to take.

Management informs the Board regularly about how AFS is performing versus budget, identifying major business issues and examining the impact of the external business and economic environment.

Day-to-day responsibility for internal control rests with management. The key elements of the process for identifying, evaluating and managing the significant risks faced by AFS can be summarised as:

- A well-defined management structure - with clear authorities and delegation of responsibilities, documented procedures and authority levels - to ensure that all material risks are properly assessed and controlled;
- Internal control policies that require management to identify major risks, and to monitor the effectiveness of internal control procedures in controlling them and reporting on them;
- A robust compliance function including, but not limited to, anti-money laundering policies;
- An internal audit function which reports to the Audit Committee on the effectiveness of key internal controls in relation to the major risks faced by AFS, and conducts reviews of the efficacy of management oversight in regard to delegated responsibilities, as part of its regular audits of AFS departments and business units;

- A comprehensive planning and budgeting process that delivers detailed annual financial forecasts and targets for Board approval; and
- An Operational Risk Management function.

Management Structure

The Chief Executive is responsible for managing the day-to-day operations of AFS. The heads of major divisions and functions of AFS report directly to either the Chief Executive or the Deputy Chief Executive which demonstrates a clear segregation of duties.

Management Compensation

Senior management and staff receive compensation based on a number of fixed elements, covering salary, allowances and benefits, as well as variable, performance-related elements.

The performance-related element of the compensation of senior management and staff is based on a variable compensation scheme. The scheme provides for an employee's (including a member of senior management) annual bonus to be determined in accordance with a formula which takes into account AFS's performance, that employee's grade and his individual performance. On occasion, the Board may deem fit for additional awards to be made and, in such circumstances, explicit Board approval is obtained. Compensation payable is discretionary in nature.

Senior management's 2014 remuneration amounted to US$ 3,371,000.[1]

Compliance

AFS is committed to complying with all applicable rules and regulations. The Compliance Officer formulates AFS's compliance strategy and policy and coordinates the identification and management of AFS's compliance risk.

The compliance function provides independent compliance oversight on behalf of the Board of Directors and senior management. So that the function can carry out its work freely and objectively, AFS Compliance Officer reports directly to senior management and the Audit Committee with access to the Board when needed.

AFS has published written guidelines to staff on policies and procedures for the appropriate implementation of laws, regulations, rules and standards (including in relation to conflicts of interest). This includes the Code of Conduct and Compliance Policy, which are approved by the Board of Directors and updated on a regular basis. AFS's Compliance Policy requires all officers and staff to comply with both the letter and the spirit of all relevant laws, rules, regulations and standards of good market practice. AFS is committed to complying with laws and regulations relating to Anti-Money laundering ("AML"), combating the financing of terrorism ("CFT"), know your customer and international sanctions, as well as other relevant recommendations of the CBB.

Related Party Transactions

Related party transactions are defined as AFS' transactions with its major shareholders, directors, and key management personnel of the Company; and entities controlled, jointly controlled or significantly influenced by such parties, that may have potential conflict with the interests of the Company at large. Significant transactions with shareholders include Electronic Bureau Processing and Sponsored card programs and services; which are approved by senior management. A formal policy on related party transactions has been drafted.
None of the transactions with any of the related parties were in conflict with the interest of the Company.

External Auditors

In 2014, AFS paid its external auditors US$ 45,889 in audit fees for the year-end audit. AFS also paid US$ 9,549 for non-audit services provided by external auditors.

Ernst & Young have expressed their willingness to continue as the auditors of AFS for the year ending 31 December 2015. Based on evaluation of services provided by its external auditors, AFS's management has recommended the appointment of Ernst & Young and a resolution proposing their reappointment will be presented at the annual general meeting to be held in April 2015.

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[1] *Remuneration indicated is for the Chief Executive of AFS, the Deputy Chief Executive of AFS, and the other departmental heads of AFS who reported directly to the Chief Executive/ Deputy Chief Executive of AFS, rather than of the senior management of AFS generally.*