

Bahrain Islamic Bank B.S.C.
UNIFIED SHARI'A SUPERVISORY BOARD REPORT,
REPORT OF THE BOARD OF DIRECTORS, INDEPENDENT
AUDITORS' REPORT TO THE SHAREHOLDERS AND
CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2013

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BAHRAIN ISLAMIC BANK B.S.C.

We have audited the accompanying consolidated statement of financial position of Bahrain Islamic Bank B.S.C. ["the Bank"] and its subsidiaries [collectively referred to as the "Group"] as of 31 December 2013, and the related consolidated statements of income, cash flows, changes in owners' equity, sources and uses of good faith Qard fund and sources and uses of Zakah and charity fund for the year then ended. These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions [AAOIFI]. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2013, the results of its operations, its cash flows, changes in owners' equity, sources and uses of good faith Qard fund and sources and uses of Zakah and charity fund for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI.

Other Matters

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 2), we report that:

- a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; and
- b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements.

Except for the matter referred to in note 16 to these consolidated financial statements, we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6), CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2013 that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests. The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank.



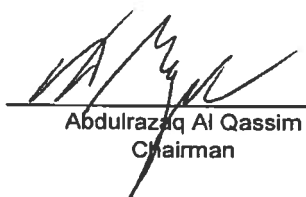
3 February 2014
Manama, Kingdom of Bahrain

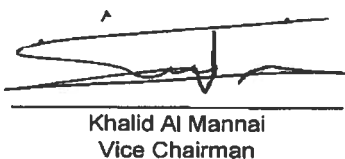
Bahrain Islamic Bank B.S.C.

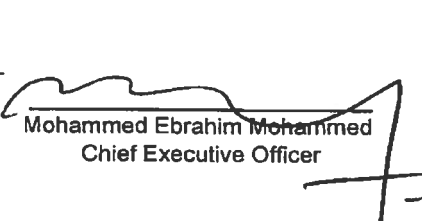
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Note	2013 BD'000	Restated 2012 BD'000
ASSETS			
Cash and balances with banks and Central Bank	3	50,831	43,893
Due from banks and financial institutions	4	184,600	132,424
Murabaha receivables	5	256,038	227,757
Musharaka investments	6	90,767	90,220
Ijarah Muntahia Bittamleek	10	90,356	96,846
Investments	7	107,026	110,371
Investment in associates	8	36,236	35,215
Investment in real estate	11	58,219	64,888
Ijarah rental receivables	10	14,924	13,766
Property and equipment		17,067	15,530
Other assets	12	4,230	1,894
TOTAL ASSETS		910,294	832,804
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
Liabilities			
Customers' current accounts		105,932	87,132
Other liabilities	13	13,608	14,649
Total Liabilities		119,540	101,781
EQUITY OF INVESTMENT ACCOUNTHOLDERS			
Financial institutions' investment accounts	14	95,144	87,690
Customers' investment accounts	14	617,494	573,570
Total Equity of Investment Accountholders		712,638	661,260
Owners' Equity			
Share capital	15	93,967	93,967
Treasury shares	15	(563)	(563)
Reserves		(16,530)	(23,641)
Attributable to equity holders of the parent		76,874	69,763
Non-controlling interest		1,242	-
Total Owners' Equity		78,116	69,763
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		910,294	832,804
COMMITMENTS AND CONTINGENT LIABILITIES	17	15,991	10,285


Abdulrazzaq Al Qassim
Chairman


Khalid Al Mannai
Vice Chairman


Mohammed Ebrahim Mohammed
Chief Executive Officer

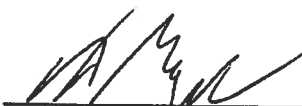
The attached notes 1 to 32 form part of these consolidated financial statements.

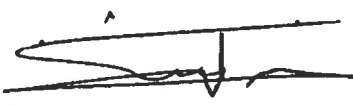
Bahrain Islamic Bank B.S.C.


CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2013

	Note	2013 BD'000	2012 BD'000
INCOME			
Income from Islamic financing	18	32,504	27,378
Income from investment in Sukuk		4,921	3,284
		<u>37,425</u>	<u>30,662</u>
Gross return to equity of investment accountholders		32,849	28,496
Group's share as a Mudarib		(21,725)	(14,503)
Return on equity of investment accountholders		<u>11,124</u>	<u>13,993</u>
Group's share of income from joint financing and investment accounts		26,301	16,669
Net income from investments	19	1,923	2,172
Gain on sale of equity type instruments carried at fair value through equity		995	654
Gain on sale of investment in real estate		514	-
Share of results of associates	8	1,197	200
Fee and commission income		5,307	4,741
Other income		694	39
Total income		<u>36,931</u>	<u>24,475</u>
EXPENSES			
Staff costs		10,013	10,471
Depreciation		1,644	1,640
Other expenses	20	8,080	7,504
Total expenses		<u>19,737</u>	<u>19,615</u>
Net income before fair value adjustment for investment in real estate and net provision for impairment		17,194	4,860
Fair value adjustment for investment in real estate	11	(1,321)	(4,074)
Provision for impairment	21	(15,008)	(41,691)
Written back	21	5,242	4,710
NET INCOME (LOSS) FOR THE YEAR		<u>6,107</u>	<u>(36,195)</u>
ATTRIBUTABLE TO :			
Equity holders of the parent		6,069	(36,195)
Non-controlling interest		38	-
		<u>6,107</u>	<u>(36,195)</u>
BASIC AND DILUTED EARNINGS PER SHARE (fils)	23	<u>6.52</u>	<u>(38.67)</u>


Abdulrazzaq Al Qassim
Chairman


Khalid Al Mannai
Vice Chairman


Mohammed Ebrahim Mohammed
Chief Executive Officer

The attached notes 1 to 32 form part of these consolidated financial statements.

Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Note	2013 BD'000	2012 BD'000
OPERATING ACTIVITIES			
Net profit (loss) for the year		6,107	(36,195)
Adjustments for non-cash items:			
Depreciation		1,644	1,640
Provision for impairment	21	15,008	35,993
Written back	21	(5,242)	(4,710)
Fair value adjustment for investment in real estate	11	1,321	9,772
Gain on sale of equity type instruments carried at fair value through equity		(995)	(654)
Gain on sale of investment in real estate		(514)	-
Share of results of associates	8	(1,197)	(200)
Unrealised loss on equity type instruments carried at fair value through statement of income	19	(55)	(271)
Operating profit before changes in operating assets and liabilities		16,077	5,375
Working capital adjustments:			
Mandatory reserve with Central Bank of Bahrain	4	(4,485)	(2,010)
Due from banks and financial institutions		(32,826)	(26,983)
Murabaha receivables	5	(26,288)	(34,169)
Musharaka investments	6	(1,101)	(4,538)
Other assets	12	1,273	(2,389)
Customers' current accounts		18,800	2,036
Other liabilities	13	(1,031)	2,794
Net cash used in operating activities		(29,581)	(59,884)
INVESTING ACTIVITIES			
Disposal (purchase) of investment in real estate		5,348	(2,350)
Ijarah Muntahia Bittamleek	10	1,393	(7,446)
Purchase of investments	7	(37,084)	(44,256)
Purchase of property and equipment		(3,181)	-
Proceeds from disposal of investments	7	37,254	50,369
Net cash from (used in) investing activities		3,730	(3,683)
FINANCING ACTIVITIES			
Financial institutions' investment accounts	14	7,454	(21,189)
Customers' investment accounts	14	43,924	44,238
Dividends paid	13	(10)	(2,651)
Zakah paid		-	(1)
Net cash from financing activities		51,368	20,397
NET CHANGE IN CASH AND CASH EQUIVALENTS		25,517	(43,170)
Cash and cash equivalents at 1 January		119,893	163,063
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		145,410	119,893
Cash and cash equivalents at year end comprise of:			
Cash on hand	4	7,750	7,157
Balances with CBB, excluding mandatory reserve deposits	4	2,926	3,715
Balances with banks and other financial institutions	4	7,415	4,766
Due from banks and financial institutions with original maturities less than 90 days		127,319	104,255
		145,410	119,893

The attached notes 1 to 32 form part of these consolidated financial statements.

Bahrain Islamic Bank B.S.C.
CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
For the year ended 31 December 2013

	Reserves										
	Share capital BD'000	Treasury shares BD'000	Share premium BD'000	Share Statutory reserve BD'000	General reserve BD'000	Real estate fair value reserve BD'000	Investments fair value reserve BD'000	Accumulated losses BD'000	Total BD'000	Non-controlling interest BD'000	Total owners' equity BD'000
Balance at 1 January 2013	93,967	(563)	-	10,268	1,000	-	1,286	(36,195)	69,763	-	69,763
Changes due to adoption of FAS 26 (note 2d)	-	-	-	-	-	13,259	-	(13,259)	-	-	-
As at 1 January 2013 (restated)	93,967	(563)	-	10,268	1,000	13,259	1,286	(49,454)	69,763	-	69,763
Net income for the year	-	-	-	-	-	-	-	6,107	6,107	-	6,107
Net movement in cumulative changes in fair value of investment in real estate	-	-	-	-	-	(1,958)	-	-	(1,958)	-	(1,958)
Net movement in cumulative changes in fair value of investments	-	-	-	-	-	-	2,962	-	2,962	-	2,962
Transfer of net income to statutory reserve	-	-	-	611	-	-	-	(611)	-	-	-
Non-controlling interest	-	-	-	-	-	-	-	-	1,242	1,242	1,242
Balance at 31 December 2013	93,967	(563)	-	10,879	1,000	11,301	4,248	(43,958)	76,874	1,242	78,116
Balance at 1 January 2012	93,967	(563)	43,936	10,268	1,000	-	(3,343)	(43,936)	101,329	-	101,329
Changes due to adoption of FAS 26 (note 2d)	-	-	-	-	-	9,185	-	(9,185)	-	-	-
As at 1 January 2012 (restated)	93,967	(563)	43,936	10,268	1,000	9,185	(3,343)	(53,121)	101,329	-	101,329
Net loss for the year	-	-	-	-	-	-	-	(36,195)	(36,195)	-	(36,195)
Changes due to adoption of FAS 26 (note 2d)	-	-	-	-	-	4,074	-	(4,074)	-	-	-
Net movement in cumulative changes in fair value of investments	-	-	-	-	-	-	4,629	-	4,629	-	4,629
Transfer of accumulated losses to share premium (note 15)	-	-	(43,936)	-	-	-	-	43,936	-	-	-
Balance at 31 December 2012	93,967	(563)	-	10,268	1,000	13,259	1,286	(49,454)	69,763	-	69,763

The attached notes 1 to 32 form part of these consolidated financial statements.

Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF GOOD FAITH QARD FUND

For the year ended 31 December 2013

	<i>Qard Hasan receivables BD'000</i>	<i>Funds available for Qard Hasan BD'000</i>	<i>Total BD'000</i>
Balance at 1 January 2013	15	113	128
Uses of Qard fund			
Marriage	26	(26)	-
Others (Sunni Waqf)	63	(63)	-
Total uses during the year	89	(89)	-
Repayments	(25)	25	-
Balance at 31 December 2013	79	49	128
Balance at 1 January 2012	2	126	128
Uses of Qard fund			
Marriage	53	(53)	-
Refurbishment	11	(11)	-
Medical treatment	15	(15)	-
Others	6	(6)	-
Total uses during the year	85	(85)	-
Repayments	(72)	72	-
Balance at 31 December 2012	15	113	128
		2013 BD'000	2012 BD'000
Sources of Qard fund			
Contribution by the Bank		125	125
Donation		3	3
		128	128

The attached notes 1 to 32 form part of these consolidated financial statements.

Bahrain Islamic Bank B.S.C.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND

For the year ended 31 December 2013

	2013 BD'000	2012 BD'000
Sources of Zakah and charity funds		
Undistributed Zakah and charity funds at the beginning of the year	58	209
Non-Islamic income / late fee	687	694
Donations	150	-
Total sources of Zakah and charity funds during the year	895	903
Uses of Zakah and charity funds		
Philanthropic societies	300	462
Aid to needy families	370	383
Total uses of funds during the year	670	845
Undistributed Zakah and charity funds at the end of the year	225	58

The attached notes 1 to 32 form part of these consolidated financial statements.

1 INCORPORATION AND ACTIVITIES

Bahrain Islamic Bank B.S.C. ("the Bank") was incorporated in the Kingdom of Bahrain in 1979 by Amiri Decree No.2 of 1979 and registered with the Ministry of Industry and Commerce ("MOIC") under Commercial Registration (CR) number 9900, to carry out banking and other financial trading activities in accordance with the teachings of Islam (Shari'a). The Bank is licensed and regulated by the Central Bank of Bahrain (CBB) and has a retail banking license. The Bank's Shari'a Supervisory Board is entrusted to ensure the Bank's adherence to Shari'a rules and principles in its transactions and activities. The Bank is listed on the Bahrain Bourse.

The Bank's registered office is at Building 722, Road 1708, Block 317, Manama, Kingdom of Bahrain.

The Bank has fifteen branches (2012: thirteen), all operating in the Kingdom of Bahrain.

The Bank holds 100% of the share capital of both Abaad Real Estate Company B.S.C. (c) and BisB MMF Company B.S.C. (c), and 73.16% subscription of BisB Money Market Fund ("Subsidiaries");

Abaad Real Estate Company B.S.C. (c) ("Abaad")

Abaad was incorporated in the Kingdom of Bahrain on 8 April 2003 with an authorised and fully paid-up share capital of BD 25 million. Abaad has started operations during the year 2007. The main activities of Abaad are the management and development of real estate (in accordance with the Islamic Shari'a rules and principles).

BisB MMF Company B.S.C. (c) ("MMF")

MMF was incorporated in the Kingdom of Bahrain as a closed joint stock company and registered with the Ministry of Industry and Commerce under Commercial Registration (CR) number 81322-1. The postal address of the Company is registered at, Building 722, Road 1708, Block 317, Diplomatic Area, Kingdom of Bahrain. The purpose of the MMF is limited to establishing funds (in accordance with the Islamic Shari'a rules and principles).

BisB Money Market Fund ("Fund")

Fund is an open ended investment fund constituted by an instrument dated 12 June 2012 and commenced its activities on 9 July 2012. The fund is a Bahrain domiciled Shari'a compliant retail collective investment scheme established by Bahrain Islamic Bank B.S.C. pursuant to the Central Bank of Bahrain regulations and directives as contained in the rulebook volume 7. The fund has been established by BisB MMF Company B.S.C. (c).

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors issued on 3 February 2014.

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

a. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for "investment in real estate", "equity type instruments carried at fair value through equity" and "equity type instruments carried at fair value through statement of income" that have been measured at fair value.

The consolidated financial statements have been presented in Bahraini Dinars ("BD"), being the functional currency of the Group's operations. All the values are rounded to the nearest BD thousand except when otherwise indicated.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Statement of Compliance

The consolidated financial statements are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ('AAOIFI'), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group, the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law and the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association. In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standard exists, the Group uses the relevant International Financial Reporting Standards ('IFRS') issued by International Accounting Standards Board.

c. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries (together referred to as the "Group") as at 31 December each year. A subsidiary is an entity over which the Bank has power to control, which is other than fiduciary in nature. The financial statements of the subsidiaries is prepared for the same reporting year as the Bank, using consistent accounting policies.

The subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtained control, and continues to be consolidated until the date that such control ceases. Control is achieved where the Group has direct ownership of more than 50% of the voting rights over the subsidiaries. Where the Group has the power, directly or indirectly, to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

Losses within the subsidiaries are attributed to the non-controlling interest even if that results in a deficit balance.

The results of the subsidiaries acquired or disposed off during the year are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

The Bank has three fully owned subsidiaries, Abaad Real Estate Company B.S.C. (c) and BisB MMF Company B.S.C. (c) and the BisB MMF Fund which are consolidated in these financial statements.

d. Adoption of new and amended standards

Financial accounting standard (FAS 26) "Investment in real estate"

The Group has adopted FAS 26 which is effective from 1 January 2013 issued by AAOIFI which covers the recognition, measurement, presentation and disclosure of investment in real estate that is acquired for the purpose of earning periodical income or held for future capital appreciation or both.

The adoption of FAS 26 had an effect on the classification and measurement of the Group's direct investment in real estate rather than investment in shares and other financial instruments providing indirect exposure to investment in real estate. The Group has accounted for such other investments under other standards issued by AAOIFI. As a result of the application of this new standard, the Group revisited the classification of the investment portfolio and changes if any, were made in these classifications in line with FAS 26. Before the adoption of FAS 26, the Bank was following FAS 17 'Investments' and measured its investments in real estate at fair value and this measurement continues to be followed under FAS 26.

For the changes due to the adoption of FAS 26, please refer to note 32.

31 December 2013

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

e. Cash and cash equivalents

For the purpose of the consolidated cash flows statement, "cash and cash equivalents" consist of cash on hand, balances with the Central Bank of Bahrain, balances with banks and other financial institutions, with original maturities of 90 days or less.

f. Due from banks and financial institutions

Due from banks and financial institutions comprise commodity Murabaha receivables and Wakala receivables. Commodity Murabaha receivables are stated net of deferred profits and provision for impairment, if any. Wakala receivables are stated at cost less provision for impairment, if any.

g. Murabaha receivables

Murabaha receivables consist mainly of deferred sales transactions (Murabaha) which are stated net of deferred profits and provisions for impairment, if any.

Murabaha receivables are sales on deferred terms. The Group arranges a Murabaha transaction by buying a commodity (which represents the object of the murabaha) and then resells this commodity to Murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus profit margin) is repaid in instalments by the Murabeh over the agreed period.

h. Musharaka

Musharaka is stated at the fair value of consideration given less impairment, if any.

Musharaka is a form of capital partnership. These are stated at fair value of consideration given less any impairment. Musharaka capital provided by the Group at inception in kind (if other than cash) is measured at the fair value of the assets. If the valuation of the assets results in difference between fair value and book value, such difference is recognised as profit or loss to the Group.

i. Investments

Investments comprise of debt type instruments carried at amortised cost, equity type instruments carried at fair value through equity and equity type instruments carried at fair value through statement of income.

All investments, are initially recognised at cost, being the fair value of the consideration given including acquisition charges associated with the investment, except in the case of investment carried at fair value through statement of income.

Debt type instrument carried at amortised cost

Investments which have fixed or determinable payments and where the Group has both the intent and ability to hold to maturity are classified as debt type instrument carried at amortised cost. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such type instruments recognised in the consolidated statement of income, when the type instruments de-recognised or impaired.

Equity type instrument carried at fair value through equity

Subsequent to acquisition, equity type instruments are remeasured at fair value, with unrealised gains and losses recognised in a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously recorded in equity is recognised in the consolidated statement of income for the year.

Impairment losses on equity type instruments carried at fair value through equity are not reversed through the consolidated statement of income and increases in their fair value after impairment are recognised directly in owners' equity.

Equity type instrument carried at fair value through statement of income

These are subsequently re-measured at fair value. All related realised and unrealised gains or losses are included in the consolidated statement of income.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

j. Determination of fair value

For investments traded in organised financial markets, fair value is determined by reference to quoted market bid prices at the close of business on the consolidated statement of financial position date.

For investment where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument, which is substantially the same or is based on the assessment of future cash flows. The cash equivalent values are determined by the Group at current profit rates for contracts with similar term and risk characteristics.

For Murabaha receivables the fair value is determined at the Bank at the end of the financial period at their cash equivalent value.

k. Investment in associates

The Group's investment in associates are accounted for under the equity method of accounting. Associates are entities over which the Group exercises significant influence but not control and which are neither subsidiaries nor joint ventures. Under the equity method, the investment in associates are carried in the consolidated statement of financial position at cost, plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value. The consolidated statement of income reflects the Group's share of the results of its associates. Where there has been a change recognised directly in the equity of the associates, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in owners' equity. Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate.

The Group determines at each consolidated statement of financial position date whether there is any objective evidence that the investment in associate is impaired. If this is the case the Group calculates the amount of impairment as being the difference between the fair value of the associate and the carrying value and recognises the amount in the consolidated statement of income.

The reporting dates of the associates and the Group are identical and the associates accounting policies conform to those used by the Group for like transaction and events in similar circumstances.

l. Ijarah Muntahia Bittamleek

These are initially recorded at cost. Ijarah assets and Ijarah Muntahia Bittamleek mainly comprise of land and buildings and certain other assets. Ijarah Muntahia Bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijarah (lease term), provided that all Ijarah instalments are settled.

Depreciation is calculated using the straight-line method on all Ijarah Muntahia Bittamleek other than land (which is deemed to have an indefinite life), at rates calculated to write off the cost of each asset over its useful life.

For Ijarah assets, the depreciation is calculated using the straight-line method, at rates calculated to write off the cost of the assets over its estimated useful life. The estimated useful lives of the assets for calculation of depreciation ranges between 10 to 35 years.

m. Investment in real estate

Properties held for rental, or for capital appreciation purposes, or both, are classified as Investment in real estate. Investments in real estate are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, Investments in real estate are re-measured at fair value and changes in fair value (only gains) are recognised as property fair value reserve in the consolidated statement of changes in owners' equity.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Investment in real estate (continued)

Losses arising from changes in the fair values of investment in real estate are firstly adjusted against the property fair value reserve to the extent of the available balance and then the remaining losses are recognised in the consolidated statement of income. In case there are unrealised losses that have been recognised in the consolidated statement of income in the previous financial periods, the current period unrealised gain shall be recognised in the consolidated statement of income to the extent of crediting back such previous losses in the consolidated statement of income. When the property is disposed of, the cumulative gain previously transferred to the property fair value reserve, is transferred to the consolidated statement of income.

n. Equipment

Equipment are initially recognised at cost. The cost of additions and major improvements are capitalised; maintenance and repairs are charged to the consolidated statement of income as incurred. Gains or losses on disposal are reflected in other income. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets.

The calculation of depreciation is on the following basis:

Office furniture and equipment	3 to 5 years
Vehicles	3 years
Others	1 to 3 years

o. Equity of investment accountholders

All equity of investment accountholders are carried at cost plus profit and related reserves less amounts settled.

Equity of investment accountholders share of income is calculated based on the income generated from investment accounts after deducting Mudarib share. Operating expenses are charged to shareholders' funds and not included in the calculation.

The basis applied by the Group in arriving at the equity of investment accountholders' share of income is (total income from jointly financed Islamic finances less shareholders' "Bank" income). Portion of the income generated from equity of investment accountholders will be deducted as Mudarib share and the remaining will be distributed to the equity of investment accountholders.

p. Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of equity of investment accountholders, after allocating the Mudarib share, in order to cater against future losses for equity of investment accountholders.

q. Profit equalisation reserve

The Group appropriates a certain amount in excess of the profit to be distributed to equity of investment accountholders after taking into consideration the Mudarib share of income. This is used to maintain a certain level of return on investment for equity of investment accountholders.

r. Zakah

Zakah is calculated on the Zakah base of the Group in accordance with FAS 9 issued by the AAOIFI using the net invested funds method. Zakah is paid by the Group based on the consolidated figures of statutory reserve, general reserve and retained earning balances at the beginning of the year. The remaining Zakah is payable by individual shareholders. Payment of Zakah on equity of investment accountholders and other accounts is the responsibility of investment accountholders.

s. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and 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 obligation.

t. Dividends

Dividends to shareholders are recognised as liabilities in the year in which they are declared.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

u. Derecognition of financial assets and 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 when:

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

When the Group 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 Group's continuing involvement in the asset.

Financial liabilities

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

v. Treasury shares

These are own equity instruments of the Group which are reacquired through its own broker. Treasury shares are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Group's own equity instruments is recognised directly in equity. No gain or loss is recognised in consolidated statement of income on the purchase, sale, issue or cancellation of own equity instruments.

w. Earnings prohibited by Shari'a

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity fund where the Group uses these funds for social welfare activities.

x. Joint and self financed

Investments, financing and receivables that are jointly funded by the Group and the equity of investment accountsholders are classified under the caption "jointly financed" in the consolidated financial statements. Investments, financing and receivables that are funded solely by the Bank are classified under "self financed".

y. Offsetting

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

z. Revenue recognition

Murabaha receivables

Income is recognised by proportionately allocating the attributable profits over the deferred period whereby each financial period carries its portion of profits irrespective of when cash is received. Income related to accounts that are 90 days overdue is excluded from the consolidated statement of income.

Musharaka investments

Income on Musharaka is recognised when the right to receive payment is established or on distribution. In case of losses in musharaka, the Group's share of losses is recognised to the extent that such losses are being deducted from its share of the Musharaka capital.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

z. Revenue recognition (continued)

Due from banks and financial institutions

Income on amounts due from banks and financial institutions is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding and the profit agreed with clients.

Ijarah Muntahia Bittamleek

Income from Ijarah Muntahia Bittamleek are recognised on a time-apportioned basis over the lease term. The Ijarah Muntahia Bittamleek Income is net of depreciation. Income related to non performing Ijarah Muntahia Bittamleek is excluded from the consolidated statement of income.

Dividends income

Dividends are recognised when the right to receive payment is established.

Income from Ijarah assets

Rental income is accounted for on a straight-line basis over the Ijarah terms.

Fee and commission income

Fee and commission income is recognised when earned.

Group's share as a Mudarib

The Group's share as a Mudarib for managing equity of investment accountholders is accrued based on the terms and conditions of the related mudaraba agreements.

Income allocation

Income is allocated proportionately between equity of investment accountholders and shareholders on the basis of the average balances outstanding during the year.

aa. Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into Bahraini Dinars at the rate of exchange ruling at the consolidated statement of financial position date. All differences are taken to the consolidated statement of income.

Translation gains or losses on non-monetary items carried at fair value are included in owners' equity as part of the fair value adjustment.

bb. Impairment of financial assets

An assessment is made at each consolidated financial position date to determine whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the assessment by the Group of the estimated cash equivalent value, is recognised in the consolidated statement of income. Specific provisions are created to reduce all impaired financial contracts to their realisable cash equivalent value. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated 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 profit rate.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

bb. Impairment of financial assets (continued)

For equity type instruments carried at fair value through equity, impairment losses recognised in the consolidated statement of income for an investment equity instrument shall not be reversed through the consolidated statement of income and should be recorded as increases in cumulative changes in fair value through equity.

cc. Use of estimates and judgements in preparation of the consolidated financial statements

In the process of applying the Group's accounting policies, management has made estimates and judgements in determining the amounts recognised in the consolidated financial statements. The most significant use of judgments and estimates are as follows:

Going concern

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

Impairment

The Group assesses at each consolidated statement of financial position date whether there is objective evidence that a specific asset or a group of assets may be impaired. An asset or a group of assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event(s) have an impact on the estimated future cash flows of the asset or the group of the assets that can be reliably estimated.

Collective impairment provision

Impairment is assessed collectively for losses on Islamic financing facilities that are not individually significant and for individually significant facilities where there is not yet objective evidence of individual impairment. Collective impairment is evaluated on each reporting date with each portfolio receiving a separate review.

Fair valuation of investments

The determination of fair values of unquoted investments requires management to make estimates and assumptions that may affect the reported amount of assets at the date of the consolidated financial statements. The valuation of such investments is based on the fair value criteria explained in note 2.k above.

Nonetheless, the actual amount that is realised in a future transaction may differ from the current estimate of fair value and may still be outside management estimates, given the inherent uncertainty surrounding valuation of unquoted investments.

Classification of investments

Management decides on acquisition of a financial asset whether it should be classified as equity type instrument carried at fair value through equity or through statement of income.

Fair value of investment in real estate

The fair value of investment in real estate is determined by independent real estate valuation experts based on recent real estate transactions with similar characteristics and locations.

ee. Trade date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

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2 SIGNIFICANT ACCOUNTING POLICIES (continued)**ff. Employees' end of service benefits**

Provision is made for amounts payable under the Bahrain Labour law applicable to non-Bahraini employees' accumulated periods of service at the date of the consolidated statement of financial position, subject to completion of a minimum period of employment.

Bahraini employees of the Group are covered by contributions made to the General Organisation of Social Insurance Scheme (GOSI) as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

gg. Shari'a supervisory board

The Group's business activities are subject to the supervision of a Shari'a Supervisory Board consisting of five members appointed by the general assembly.

3 CASH AND BALANCES WITH BANKS AND CENTRAL BANK

	2013	2012
	BD'000	BD'000
Cash on hand	7,750	7,157
Balances with CBB, excluding mandatory reserve deposits	2,926	3,715
Balances with banks and other financial institutions	7,415	4,766
	18,091	15,638
Mandatory reserve with CBB	32,740	28,255
	50,831	43,893

The mandatory reserve with CBB is not available for use in the day-to-day operations.

4 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	<i>Jointly financed</i>	<i>Jointly financed</i>
	2013	2012
	BD'000	BD'000
Commodity Murabaha	121,566	61,589
Deferred profits	(33)	(32)
	121,533	61,557
Wakala receivables	63,067	70,867
	184,600	132,424

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5 MURABAHA RECEIVABLES

	<i>Jointly financed 2013 BD'000</i>	<i>Jointly financed 2012 BD'000</i>
Tasheel	175,016	144,528
Tawarooq	93,835	103,845
Letters of credit refinance	16,713	13,275
Motor vehicles Murabaha	15,978	13,002
Credit cards	9,887	8,588
Others	414	819
	311,843	284,057
Qard fund	79	15
Gross receivables	311,922	284,072
Deferred profits	(36,814)	(35,252)
Net provision for impairment (note 21)*	(19,070)	(21,063)
	256,038	227,757

* This includes collective impairment provision of BD 4,173 thousand (2012: BD 2,688 thousand).

Non-performing Murabaha receivables outstanding as of 31 December 2013 amounted to BD 25,568 thousand (2012: BD 63,306 thousand).

The Group considers the promise made in the Murabaha to the purchase orderer as obligatory.

The composition of the gross Murabaha receivables portfolio before provision for impairment geographically and by sector is as follows:

	2013			2012		
	<i>Europe BD'000</i>	<i>Middle East BD'000</i>	<i>Total BD'000</i>	<i>Europe BD'000</i>	<i>Middle East BD'000</i>	<i>Total BD'000</i>
Commercial	-	81,316	81,316	-	67,703	67,703
Financial institutions	7,270	11,302	18,572	7,061	25,306	32,367
Others including retail	-	175,220	175,220	-	148,750	148,750
	7,270	267,838	275,108	7,061	241,759	248,820

6 MUSHARAKA INVESTMENTS

	<i>Jointly financed 2013 BD'000</i>	<i>Jointly financed 2012 BD'000</i>
Musharaka investment in real estate	98,788	97,687
Net provision for impairment (note 21)	(8,021)	(7,467)
	90,767	90,220

Non-performing Musharaka investments outstanding as of 31 December 2013 amounted to BD 33,369 thousand (2012: BD 33,056 thousand).

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7 INVESTMENTS

	2013			2012		
	Self financed BD'000	Jointly financed BD'000	Total BD'000	Self financed BD'000	Jointly financed BD'000	Total BD'000
i) Debt type instruments carried at amortised cost						
<i>Unquoted investments</i>						
Sukuk						
At 1 January	-	44,406	44,406	-	56,851	56,851
Acquisitions	-	18,947	18,947	-	25,462	25,462
Disposals and redemptions	-	(21,648)	(21,648)	-	(37,907)	(37,907)
At 31 December	-	41,705	41,705	-	44,406	44,406
ii) Equity type instruments carried at fair value through equity						
<i>Quoted investments</i>						
Equity shares						
At 1 January	24,920	-	24,920	18,793	-	18,793
Acquisitions	4,586	-	4,586	10,495	-	10,495
Movement in fair market value	2,186	-	2,186	1,265	-	1,265
Disposals	(5,198)	-	(5,198)	(5,633)	-	(5,633)
At 31 December	26,494	-	26,494	24,920	-	24,920
<i>Unquoted investments</i>						
Equity shares						
At 1 January	34,022	-	34,022	34,022	-	34,022
Acquisitions	920	-	920	-	-	-
Disposals	-	-	-	-	-	-
Write off	(5,693)	-	-	-	-	-
At 31 December	29,249	-	34,942	34,022	-	34,022
<i>Managed funds</i>						
At 1 January	41,970	-	41,970	37,643	-	37,643
Acquisitions	9,384	-	9,384	2,746	-	2,746
Movement in fair market value	-	-	-	1,851	-	1,851
Disposals	(7,546)	-	(7,546)	(270)	-	(270)
At 31 December	43,808	-	43,808	41,970	-	41,970
iii) Equity type instruments carried at fair value through statement of income						
<i>Quoted investments</i>						
Equity shares						
At 1 January	426	-	426	1,163	-	1,163
Acquisitions	3,247	-	3,247	5,553	-	5,553
Movement in fair market value	55	-	55	269	-	269
Disposals	(2,862)	-	(2,862)	(6,559)	-	(6,559)
At 31 December	866	-	866	426	-	426
Total investments before provision for impairment at 31 December	100,417	41,705	147,815	101,338	44,406	145,744
Net provision for impairment on						
Debt type instruments (note 21)	-	(3,340)	(3,340)	-	(3,357)	(3,357)
Equity type instruments (note 21)	(31,756)	-	(31,756)	(32,016)	-	(32,016)
	(31,756)	(3,340)	(35,096)	(32,016)	(3,357)	(35,373)
Total investments at 31 December	68,661	38,365	107,026	69,322	41,049	110,371

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8 INVESTMENT IN ASSOCIATES

Investments in associates comprise the following:

	<i>Ownership %</i>	<i>Country of incorporation</i>	<i>Self financed 2013 BD'000</i>	<i>Share of result 2013 BD'000</i>	<i>Self financed 2012 BD'000</i>	<i>Share of result 2012 BD'000</i>
Quoted						
<i>Insurance</i>						
<i>Takaful International Company B.S.C.*</i>	22.75%	Bahrain	1,680	47	1,650	41
Unquoted						
<i>Financial Institution</i>						
<i>Liquidity Management Centre B.S.C. (c)</i>	25.00%	Bahrain	5,843	306	5,493	159
Unquoted						
<i>Real Estate Company</i>						
<i>Arabian C Real Estate Company</i>	19.00%	Kuwait	11,272	1,197	10,436	-
Unquoted						
<i>Real Estate Company</i>						
<i>Enjaz Property Development Company B.S.C. (c)</i>	32.76%	Bahrain	5,558	(1,412)	6,811	-
Unquoted						
<i>Energy Company</i>						
<i>Al Dur Energy Investment Company</i>	29.41%	Bahrain	11,883	1,058	10,825	-
			36,236	1,197	35,215	200

* Takaful International Company B.S.C. is a listed company on the Bahrain Bourse. The latest available quoted price of BD 0.290 per share was as of 10 January 2010, no further trades have commenced on the company's shares since that date.

The following table summarises the associates' latest financial information :

	2013				
	<i>Total assets BD'000</i>	<i>Total liabilities BD'000</i>	<i>Total contingent liabilities BD'000</i>	<i>Total revenue BD'000</i>	<i>Net profit BD'000</i>
Takaful International Company B.S.C.	36,500	27,684	-	10,360	206
Liquidity Management Centre B.S.C. (c)	76,644	53,270	3,333	3,315	1,225
Arabian C Real Estate Company	102,173	43,421	-	7,569	5,031
Enjaz Property Development Company B.S.C. (c)	37,531	21,457	-	-	(9,929)
Al Dur Energy Investment Company	40,407	1	6,762	4,198	4,191
	293,255	145,833	10,095	25,442	723

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8 INVESTMENT IN ASSOCIATES (continued)

	2012				
	<i>Total assets BD'000</i>	<i>Total liabilities BD'000</i>	<i>contingent liabilities BD'000</i>	<i>Total revenue BD'000</i>	<i>Net profit BD'000</i>
Takaful International Company B.S.C.	34,878	26,184	-	9,299	552
Liquidity Management Centre B.S.C. (c)	62,952	40,981	5,833	3,042	636
Arabian C Real Estate Company	108,929	55,208	-	2,267	(2,398)
Enjaz Property Development Company B.S.C. (c)	37,622	21,457	-	-	(12,447)
Al Dur Energy Investment Company	31,848	1	4,500	-	(79)
	<u>276,229</u>	<u>143,831</u>	<u>10,333</u>	<u>14,608</u>	<u>(13,736)</u>

Takaful International Company B.S.C. was incorporated in 1989, it carries out Takaful and Retakaful activities in accordance with the teachings of Islamic Shari'a. The total revenue represents both the revenue of the General Takaful and Family Takaful for the year ended 31 December 2013 and does not represent the shareholders' revenue only.

Liquidity Management Centre B.S.C. (c) was incorporated in 2002 as a bank, licensed and regulated by the Central Bank of Bahrain to facilitate the creation of an Islamic inter-bank market that will allow Islamic financial services institutions to effectively manage their assets and liabilities.

Arabian C Real Estate Company is a Kuwaiti Shareholding Company incorporated in accordance with the Kuwaiti Commercial Companies law, Decree No.15 of 1960, as amended and regulated by the Ministry of Commerce & Industry of Kuwait. The company's activity focuses on real estate development and the overall management of a variety of strategic investments in the real estate and infrastructure in GCC/MENA region.

Enjaz Property Development Company B.S.C.(c) is a closed joint stock company incorporated in the Kingdom of Bahrain and is registered with the Ministry of Industry and Commerce since 6 February 2008 under commercial registration number 67713-1. The company is engaged in purchase and sale of land and property development.

Al Dur Energy Investment Company is an exempted company with limited liability incorporated in the Cayman Islands on 10 June 2009 and operates under registration number 227032. The company operates in the Kingdom of Bahrain with the sole purpose of holding a 15% indirect interest in a power and water plant project company, Al Dur Power and Water Company B.S.C.(c), in the Kingdom of Bahrain.

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10 IJARAH MUNTAHIA BITTAMLEEK

	2013					2012				
	Jointly financed					Jointly financed				
	Land	Buildings	Aviation related assets	Others	Total	Land	Buildings	Aviation related assets	Others	Total
BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000
Cost:										
At 1 January	38,913	56,772	11,157	7,585	114,427	37,391	47,075	16,102	6,413	106,981
Additions	4,167	10,222	-	1,516	15,905	3,505	14,396	363	1,718	19,982
Disposals	(2,492)	(10,936)	(3,870)	-	(17,298)	(1,983)	(4,699)	(5,308)	(546)	(12,536)
At 31 December	40,588	56,058	7,287	9,101	113,034	38,913	56,772	11,157	7,585	114,427
Depreciation:										
At 1 January	-	10,698	2,145	923	13,766	-	6,080	1,401	392	7,873
Provided during the year	-	3,580	507	350	4,437	-	5,243	744	531	6,518
Relating to disposed assets		(1,872)	(1,407)	-	(3,279)		(625)	-	-	(625)
At 31 December	-	12,406	1,245	1,273	14,924	-	10,698	2,145	923	13,766
Net provision for impairment (note 21)	(6,133)	(1,621)	-	-	(7,754)	(2,501)	(1,314)	-	-	(3,815)
Net book value:										
As at 31 December	34,455	42,031	6,042	7,828	90,356	36,412	44,760	9,012	6,662	96,846

Non-performing Ijarah Muntahia Bittamleek as of 31 December 2013 is BD 32,516 thousand (2012: BD 32,630 thousand).

Ijarah rental receivable comprises of depreciation charge on Ijarah Muntahia Bittamleek assets which is fully receivable from the customers.

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11 INVESTMENT IN REAL ESTATE

	<i>Self financed</i>	
	2013	2012
	BD'000	BD'000
Land	55,031	61,700
Buildings	3,188	3,188
	58,219	64,888
	2013	2012
	BD'000	BD'000
At 1 January	64,888	68,192
Acquisition	-	770
Disposal	(5,348)	-
Net loss from fair value adjustments	(1,321)	(4,074)
	58,219	64,888

Investment in real estate comprises of properties located in the Kingdom of Bahrain and United Arab Emirates.

Investment in real estate is stated at fair value as of the years ended 31 December, which have been determined based on valuations performed by independent surveyors and industry specialists in valuing these types of investment properties.

12 OTHER ASSETS

	2013	2012
	BD'000	BD'000
Receivable under restructuring	1,907	-
Staff advances	1,323	864
Prepaid expenses	608	400
Receivables	167	3,912
Other	225	327
	4,230	5,503
Net provision for impairment (note 21)	-	(3,609)
	4,230	1,894

13 OTHER LIABILITIES

	2013	2012
	BD'000	BD'000
Payable to vendors	3,097	4,566
Managers' cheques	2,924	1,722
Accrued expenses	2,645	2,582
Life insurance fees payable	1,819	1,644
Dividends payable	807	817
Zakah and charity fund	226	58
Other	2,090	3,260
	13,608	14,649

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14 EQUITY OF INVESTMENT ACCOUNTHOLDERS

The Group maintains an investment risk reserve amounting to BD 63 thousand (2012: BD 63 thousand) and maintains a profit equalisation reserve amounting to BD 295 thousand (2012: nil) .

As equity of investment accountholders' funds are commingled with the Group's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits.

The Group's share, as Mudarib, in the profits of equity of investment accountholders is up to a maximum of 65% (2012: 65%).

14.1 Profit Distribution by Type of Account

The following table represents the distribution of profit by type of equity of investment accountholders:

Account Type	2013		2012	
	Percentage of funds invested	Distributed profit rate	Percentage of funds invested	Distributed profit rate
Defined deposits	85%	1.81%	85%	1.91%
Specific investment deposits	85%	2.86%	85%	3.54%
Investment certificates	85%	1.98%	85%	3.93%
Savings accounts	45%	0.25%	45%	0.57%
Iqra	90%	2.72%	90%	2.88%
Tejoori	45%	0.25%	45%	0.56%
Vevo	45%	0.25%	45%	0.57%

14.2 Equity of Investment Accountholders Balances

Type of Equity of Investment Accountholders	2013	2012
	BD'000	BD'000
Financial Institutions investment accounts		
Contractual basis*	95,117	87,669
Others	27	21
	95,144	87,690
Customer investment accounts		
Balances on demand	218,658	192,850
Contractual basis*	395,256	376,643
Others	3,580	4,077
	617,494	573,570
	712,638	661,260

* These can be withdrawn subject to a monetary penalty

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15 OWNERS' EQUITY

	2013 BD'000	2012 BD'000
(i) Share capital		
a) <i>Authorised</i>		
2,000,000,000 shares (2012: 2,000,000,000 shares) of BD 0.100 each	<u>200,000</u>	<u>200,000</u>
b) <i>Issued and fully paid up</i>		
939,673,499 shares (2012: 939,673,499 shares) of BD 0.100 each	<u>93,967</u>	<u>93,967</u>

c) *Shares acquisition*

National Bank of Bahrain ("NBB") and Social Insurance Organisation - Military Pension Fund and Social Insurance Organisation have acquired The Investment Dar Company ("TID"), Kuwait Investment Company ("KIC"), and other board members shares in the Group amounting to 372,632,690 shares, 110,962,471 shares, and 481,250 shares respectively representing ownership of 39.66%, 11.81%, and 0.09% respectively. As of the year ended 31 December 2013, NBB, Social Insurance Organisation - Military Pension Fund and Social Insurance Organisation own 242,038,206, 121,113,559 and 121,147,267 shares respectively, representing 25.76%, 12.89% and 12.89% ownership of the Group respectively.

d) *Share premium*

Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue expenses, are treated as share premium. This amount is not available for distribution, but can be utilised as stipulated by the Bahrain Commercial Companies Law.

During the period ended 31 March 2012 the Bank has proposed netting accumulated losses amounting to BD 43,936 thousand against the share premium. This proposed netting was approved by the shareholders in their annual general meeting held on 21 March 2012.

(ii) Treasury Shares	2013		2012
	Number of Shares	BD'000	BD'000
At 1 January	3,620,609	563	563
Purchase of treasury shares	-	-	-
At 31 December	<u>3,620,609</u>	<u>563</u>	<u>563</u>
			2013 BD'000
Cost of treasury shares			563
Market value of treasury shares			489

The treasury shares as a percentage of total shares in issue is 0.39%.

Owners' equity instruments which are reacquired are deducted from equity. No gain or loss is recognised in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

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15 OWNERS' EQUITY (continued)

(iii) Reserves

Statutory reserve

As required by Bahrain Commercial Companies Law and the Group's articles of association, 10% of the net income for the year should be transferred to the statutory reserve. The Group may resolve to discontinue such annual transfers when the reserve totals 50% of paid up share capital. A transfer has been made of BD 611 thousand (2012: nil) representing 10% of the net income for the year BD 6,107 thousand (2012: net loss of BD 36,915 thousand). The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of CBB.

General reserve

The general reserve is established in accordance with the articles of association of the Group and is distributable following a resolution of shareholders at a general meeting and the approval of CBB. The Group may transfer any amount to the general reserve, as approved by the shareholders at a general meeting, out of the net income for the year after appropriating statutory reserve.

Fair value reserve on investment in real estate

This represents cumulative unrealised revaluation gains on investment in real estate. This reserve is transferred to the retained earnings upon sale of the investment in real estate.

Cumulative changes in fair value of investments

This represents the net unrealised gains or losses on equity investments relating to self financed investments.

(iv) Additional information on shareholding pattern

1) Names and nationalities of the major shareholders and the number of shares in which they have an interest of 5% or more of outstanding shares:

Names	Nationality	2013		2012	
		Number of shares	% holding	Number of shares	% holding
National Bank Of Bahrain	Bahraini	242,038,206	25.76%	-	0.00%
Social Insurance Organisation	Bahraini	121,147,267	12.89%	94,457	0.01%
Social Insurance Organisation			12.89%		
- Military Pension Fund	Bahraini	121,113,559	12.89%	94,457	0.01%
Islamic Development Bank	Saudi	165,956,945	17.66%	110,962,471	11.81%
General Council of Kuwaiti Awaqaf	Kuwaiti	68,013,739	7.24%	67,946,033	7.23%
The Investment Dar	Kuwaiti	-	0.00%	372,632,690	39.66%
Kuwait Investment Company	Kuwaiti	-	0.00%	110,962,471	11.81%

2) The Group has only one class of shares and the holders of these shares have equal voting rights.

3) Distribution schedule of shares, setting out the number and percentage of holders in the following categories:

	2013			2012		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	154,067,274	3,418	16.40%	154,442,981	3,412	16.44%
1% up to less than 5%	67,884,839	3	7.22%	67,884,839	3	7.22%
5% up to less than 10%	67,946,033	1	7.23%	67,946,033	1	7.23%
10% up to less than 50%	649,775,353	3	69.15%	649,399,646	3	69.11%
	939,673,499	3,425	100.00%	939,673,499	3,419	100.00%

31 December 2013

15 OWNERS' EQUITY (continued)

(iv) Additional information on shareholding pattern (continued)

Details of Directors' interests in the Group's shares as at the end of the year were:

Categories:

	2013		2012	
	<i>No. of shares</i>	<i>No. of directors</i>	<i>No. of shares</i>	<i>No. of directors</i>
Less than 1%	200,000	2	4,042,601	9

The following is the number of shares, and percentage of shareholding of Directors, Shari'a supervisory members and senior management (Assistant General Managers and above):

	2013		2012	
	<i>No. of shares</i>	<i>Percentage of Shareholding</i>	<i>No. of shares</i>	<i>Percentage of Shareholding</i>
Directors	200,000	0.02%	4,042,601	0.43%
Shari'a supervisory members	205,725	0.02%	205,725	0.02%
Senior management	22,990	0.00%	100,000	0.01%
	428,715	0.05%	4,348,326	0.46%

In a letter dated 30 January 2014, the Central Bank of Bahrain has advised the Bank to provide an action plan to increase its total owners' equity to BD 100,000 thousand.

16 CAPITAL ADEQUACY

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

The Group's capital structure is primarily made of its paid-up capital, including share premium and reserves. From regulation's perspective, a significant amount of the Group's capital is classified as Tier 1 as defined by the CBB, i.e. most of the capital is of permanent nature.

The Group's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of financing facilities growth expectations for each business group, expected growth in off-balance sheet facilities and future sources and uses of funds.

The classification of the Group's capital in accordance with the regulatory requirements is as follows:

	2013	2012
	BD'000	BD'000
Core capital - Tier 1:		
Issued and fully paid ordinary shares (net of treasury shares)	93,404	93,404
General reserves	1,000	1,000
Legal / statutory reserves	10,879	10,268
Share premium	-	-
Retained earnings / losses (excluding current year net income/loss)	(50,065)	-
Less:		
Net loss for the year	6,107	(36,195)
Unrealised gross losses arising from fair valuing equity securities	(331)	(638)
Tier 1 Capital before deductions	60,994	67,839
Supplementary capital - Tier 2:		
Asset revaluation reserve (45% only)	5,085	-
Unrealised gains arising from fair valuing equities (45% only)	1,407	593
Investment risk reserve	63	2,751
Other reverse	4,173	-
Tier 2 Capital before deductions	10,728	3,344
Total available capital	71,722	71,183
Deductions		
Significant minority interest in banking, securities and financial entities	(5,844)	(5,493)
Excess amount over materiality threshold	-	-
Investment in insurance entity greater than or equal to 20%	(1,680)	(1,650)
Excess amount over maximum permitted large exposure limit	-	-
Total eligible capital	64,198	64,040

To assess its capital adequacy requirements in accordance to the CBB requirements, the Group adopts the Standardised Approach for its Credit Risk, Basic Indicator Approach for its Operational Risk and Standardised Measurement Approach for its Market Risk. The capital requirements for these risks are as follows:

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16 CAPITAL ADEQUACY (continued)

	2013	2012
	BD'000	BD'000
Total Credit Risk Weighted Assets	492,627	459,478
Total Market Risk Weighted Assets	18,416	17,063
Total Operational Risk Weighted Assets	42,133	43,497
Total Regulatory Risk Weighted Assets	553,176	520,038
Capital Adequacy Ratio	11.61%	12.31%
Minimum requirement	12%	12%

The Group as of 31 December 2013 is not in compliance with the regulatory minimum capital adequacy ratio requirement, and its capital adequacy ratio stood at 11.61%.

17 COMMITMENTS AND CONTINGENT LIABILITIES***Credit related commitments***

These include commitments to enter into financing contracts which are designed to meet the requirements of the Group's customers.

Letters of credit and guarantees commit the Group to make payments on behalf of customers.

The Group has the following credit related commitments and contingent liabilities on behalf of customers:

	2013	2012
	BD'000	BD'000
Letters of credit and acceptances	3,910	2,239
Guarantees	11,618	7,522
Operating lease commitments *	463	524
	15,991	10,285

* The Group has entered into commercial leases for certain branches. The remaining average period of these leases ranges between 1 month and 3 years with renewal terms included in the contracts. Renewals are at the option of the Bank. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	2013	2012
	BD'000	BD'000
Within one year	379	219
After one year but not more than five years	84	305
	463	524

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18 INCOME FROM JOINTLY FINANCED ISLAMIC FINANCING

	2013	2012
	BD'000	BD'000
Income from Islamic financing:		
Income from Murabaha receivables	18,987	14,679
Income on amounts due from banks and financial institutions	895	814
Income from Musharaka investments	5,372	5,321
Income from Ijarah Muntahia Bittamleek - net*	7,250	6,564
	32,504	27,378

* The details of Income from Ijarah Muntahia Bittamleek is as follows:

	2013	2012
	BD'000	BD'000
Income from Ijarah Muntahia Bittamleek – gross	11,687	13,082
Depreciation during the year (note 10)	(4,437)	(6,518)
	7,250	6,564

19 NET INCOME FROM INVESTMENTS

	2013	2012
	BD'000	BD'000
Dividend income	1,494	1,487
Unrealised gain on equity type instruments carried at fair value through statement of income	55	271
Income from investment in Ijarah assets	374	414
	1,923	2,172

20 OTHER EXPENSES

	2013	2012
	BD'000	BD'000
Marketing and advertisement expenses	1,692	1,623
Card Centre expenses	1,435	1,074
Premises and equipment expenses	1,053	1,038
Information technology related expenses	1,019	724
Communication expenses	816	867
Professional services	559	1,239
Board Remunerations	300	-
Donations	150	-
Board of directors sitting fees	48	210
Shari'a committee fees & remuneration	11	11
Others	997	718
	8,080	7,504

31 December 2013

21 PROVISION FOR IMPAIRMENT

2013	<i>Ijarah</i>					<i>Total</i>
	<i>Murabaha receivables</i>	<i>Muntahia Bittamleek</i>	<i>Musharaka investments</i>	<i>Investments</i>	<i>Other assets</i>	
	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
Provisions at 1 January	21,063	3,815	7,467	35,378	3,609	71,332
Written off	(2,775)	-	-	(5,693)	(2,689)	(11,157)
Written back	(4,119)	(108)	(70)	(25)	(920)	(5,242)
Provided	4,901	4,047	624	5,436	-	15,008
	<u>782</u>	<u>3,939</u>	<u>554</u>	<u>5,411</u>	<u>(920)</u>	<u>9,766</u>
Net provisions at 31 December	19,070	7,754	8,021	35,096	-	69,941
Non-performing	<u>25,568</u>	<u>33,369</u>	<u>32,519</u>	<u>26,926</u>	<u>-</u>	<u>118,382</u>
Notes						
2012	<i>Ijarah</i>					<i>Total</i>
	<i>Murabaha receivables</i>	<i>Muntahia Bittamleek</i>	<i>Musharaka investments</i>	<i>Investments</i>	<i>Other assets</i>	
	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>	<i>BD'000</i>
Provisions at 1 January	52,418	1,692	296	18,774	3,249	76,429
Written off	(40,446)	-	-	(1,632)	-	(42,078)
Written back	(3,955)	(669)	-	(86)	-	(4,710)
Provided	13,046	2,792	7,171	18,322	360	41,691
	<u>9,091</u>	<u>2,123</u>	<u>7,171</u>	<u>18,236</u>	<u>360</u>	<u>36,981</u>
Net provisions at 31 December	21,063	3,815	7,467	35,378	3,609	71,332
Non-performing	<u>63,306</u>	<u>32,630</u>	<u>33,056</u>	<u>51,331</u>	<u>3,609</u>	<u>183,932</u>
Notes	5	10	6	7	12	

The fair value of collateral that the Group holds relating to non performing facilities at 31 December 2013 amounts to BD 105,892 thousand (31 December 2012: BD 142,617 thousand). The collateral consists of cash, securities and properties. The utilisation of the above collaterals will be on a customer by customer basis and will be limited to the customer's total exposure.

The Group has taken all the provision allocated to the non performing assets to their own capital. Hence the equity of investment accountholders was not charged for any of the provision for impairment.

22 ZAKAH

The total Zakah payable as of 31 December 2013 amounted to BD 207 thousand (2012: BD 1,163 thousand) of which the Bank has no Zakah payable (2012: BD nil) on the statutory reserve, general reserve and retained earning as at 1 January 2013. The Zakah balance amounting to BD 207 thousand or 0.2 fils per share (2012: BD 1,163 thousand or 1.2 fils per share) is due and payable by the shareholders.

23 EARNINGS PER SHARE

Basic and diluted earnings per share is calculated by dividing the net loss for the year by the weighted average number of shares during the year as follows:

	2013	2012
Net income (loss) for the year in BD'000	6,107	(36,195)
Weighted average number of shares	936,053	936,053
Basic and diluted earnings per share (fils)	6.52	(38.67)

31 December 2013

23 EARNINGS PER SHARE (continued)

Basic and diluted earnings per share are the same since the Group has not issued any instruments that would have a dilutive effect.

24 RELATED PARTY TRANSACTIONS

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

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

	2013				Total BD'000
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	
Assets					
Due from banks and financial institutions	-	9,481	-	-	9,481
Murabaha receivables	-	-	1,237	44	1,281
Musharaka investments	-	-	874	-	874
Investment in associates	-	36,236	-	-	36,236
Other assets	-	-	-	244	244
Liabilities and Equity of investment accountholders					
Customers' current accounts	-	714	368	-	1,082
Other liabilities	-	1,819	-	-	1,819
Customers' investment accounts	48,982	859	825	-	50,666

	2013				Total BD'000
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	
Income					
Income from Islamic financing	-	173	124	-	297
Share of results of associates	-	1,197	-	-	1,197
Return on equity of investment accountholders	(281)	(10)	(9)	-	(300)
Expenses					
Other expenses	-	-	(359)	-	(359)

	2012				Total BD'000
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	
Assets					
Due from banks and financial institutions	-	9,592	-	-	9,592
Murabaha receivables*	7,817	-	1,365	51	9,233
Musharaka investments	-	-	293	-	293
Investment in associates	-	35,215	-	-	35,215
Investments**	4,197	-	-	-	4,197
Investment in real estate	14,200	-	-	-	14,200
Other assets***	1,855	-	-	275	2,130
Liabilities and Equity of investment accountholders					
Customers' current accounts	-	581	459	-	1,040
Other liabilities	-	1,644	-	-	1,644
Customers' investment accounts	-	2,373	443	-	2,816

31 December 2013

24 RELATED PARTY TRANSACTIONS (continued)

	2012				Total BD'000
	Shareholders BD'000	Associates and joint ventures BD'000	Directors and related entities BD'000	Senior management BD'000	
Income					
Income from Islamic financing	-	61	116	-	177
Share of results of associates	-	200	-	-	200
Return on equity of investment accountholders	-	(5)	(12)	-	(17)
Expenses					
Other expenses	-	-	(221)	-	(221)

* An amount of BD 7,817 thousand was considered impaired and it was partially provided for.

** An amount of BD 4,197 thousand was considered impaired and it was partially provided for.

***An amount of BD 1,553 thousand is considered as impaired and it was fully provided for.

Compensation of the key management personnel is as follows:

Key management personnel includes the staff in grade of assistant general manager and above.

	2013 BD'000	2012 BD'000
Short term employee benefits	756	921
Other long term benefits	139	149
	895	1,070

25 RISK MANAGEMENT

Introduction

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. These risks and the processes to mitigate these risks have not significantly changed from the previous year.

The Group is exposed mainly to credit, liquidity, market and operational risks.

Risk management objectives

The risk management philosophy of the Group is to identify, monitor and manage the various dimensions of risk with the objective of protecting asset values and income streams such that the interest of the Group's shareholders (and others to whom the Group owes a liability) are safeguarded, while maximising the returns intended to optimise the Group's shareholder return while maintaining its risk exposure within self-imposed parameters.

The Group has defined its risk appetite within the parameters of its risk strategy. The Group reviews and realigns its risk appetite as per the evolving business plan of the Group with changing economic and market scenarios. The Group also assesses its tolerance for specific risk categories and its strategy to manage these risks.

Risk appetite of the Group is articulated in terms of the following dimensions:

1. Adequate capital level;
2. Stable profitability and growth;
3. Sufficient liquidity; and
4. Sound reputation.

Structure and Organization of the Risk Management Function

Risk Management Structure includes all levels of authorities, organizational structure, people and systems required for the effective functioning of risk management processes in the Group. The responsibilities associated with each level of risk management structure and authorities include the following:

The Board retains ultimate responsibility and authority for all risk matters, including:

- a. Establishing overall policies and procedures; and
- b. Delegating authority to Executive Committee, Credit and Investment Committee, Chief Executive Officer and further delegation to the management to approve and review.

Executive Committee (EC) comprises of three designated members of the Board of Directors. The Executive Committee is delegated authorities by the Board to manage the ongoing activities of the Group. Decisions are taken by the Executive Committee either at periodic meetings or if the need arises, by circulation.

Credit and Investment Committee (CIC): As delegated by the Board of Directors and as per approved terms of reference, the Committee has been delegated with the authorities and responsibilities including, approving extension or renewal of credit facilities, granting temporary excesses to customers with credit facilities approved by the Board, approving early repayments of facilities, monitoring the performance and quality of the Group's credit portfolio and overseeing the administration and effectiveness of and compliance with, the Group's credit policies through the review of such processes, reports and other information as it deems appropriate.

Risk Measurement and Reporting Systems

Based on the risk appetite, the Group has put in place various limits. These limits have been approved by the Board. Any limit breach is reported by the Risk Management Department (RMD) to the Credit Committee. The limits are reviewed and revised at least annually (or earlier if required).

31 December 2013

25 RISK MANAGEMENT (continued)**a) Credit Risk**

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss.

Credit Risk Mitigation

Credit risk mitigation refers to the use of a number of techniques, like obtaining collateral and guarantees to mitigate the credit risks that the Group is exposed to. Credit risk mitigants reduce the credit risk by allowing the Group to protect against counterparty non-performance of credit contracts through collaterals, netting agreements and guarantees.

Generally, the Group extends credit facilities only where supported by adequate tangible collateral security and/or audited financial statements. Facilities may be considered without adequate tangible collateral security when audited financial statements reveal satisfactory financial position/repayment ability and the facilities are properly structured and supported by assignments, guarantees, etc. as appropriate.

In general, personal guarantees of the partners/promoters/directors of the borrowing entity are obtained in support of credit facilities. In all cases, a statement of net worth of the guarantor is to be compiled by the Account Officer, so that adequate information is available at a future date in case the guarantees need to be enforced.

Notwithstanding the above, when facilities are extended to family owned limited liability entities, the following is normally obtained;

- a. Collateral security, fully covering the exposure; or
- b. Joint and several guarantees of shareholders directly involved in managing the entity as well as of shareholders owing at least 80% of the shares of the entity.

Third party guarantees in support of credit facilities are accepted only after review and approval of appropriate guarantor lines.

(i) Gross maximum exposure to credit risk

The market value of tangible collateral security is properly evaluated by the Group approved surveyors (for properties) or based on publicly available quotations. Only the amount of such security equivalent to the exposure is taken into account while considering credit facilities.

The CIC periodically reviews and approves the value of securities. It has also approved a list of acceptable securities.

The table below shows the gross maximum exposure to credit risk for the components of the consolidated statement of financial position, including credit related commitments. The figures represent gross exposure, without taking account of any collateral held or other credit enhancements.

	2013	2012
	BD'000	BD'000
Cash and balances with the banks and Central Bank	43,081	36,736
Due from banks and financial institutions	184,600	132,424
Murabaha receivables	256,038	227,757
Musharaka investments	90,767	90,220
Ijarah Muntahia Bittamleek	90,356	96,846
Investments	107,026	110,371
Ijarah rental receivables	14,924	13,766
Other assets	1,323	1,166
	788,115	709,286
Letters of credit, guarantees and acceptances	15,528	9,761

31 December 2013

25 RISK MANAGEMENT (continued)**a) Credit Risk (continued)****(ii) Risk concentrations of the maximum exposure to credit risk**

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 Group's performance to developments affecting a particular industry or geographic location. The Group seeks to manage its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses.

The distribution of the Group's assets, liabilities, equity of investment accountholders, commitments and contingent liabilities by geographic region and industry sector is as follows:

	Assets		Liabilities and equity of investment accountholders		Commitments and contingent liabilities	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012	31 December 2013	31 December 2012
	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000
Geographical region						
Middle East	895,977	811,109	833,131	757,133	15,204	9,960
Rest of Asia	297	1,007	4	4	-	-
North America	1,280	2,289	183	78	-	-
Europe	12,740	18,399	27	5,826	325	325
	910,294	832,804	833,345	763,041	15,529	10,285
Industry sector						
Trading and manufacturing	77,461	40,637	17,045	28,333	7,665	3,437
Aviation	11,696	22,797	54,542	15,590	466	956
Real Estate	211,688	235,979	16,792	31,261	1,888	1,356
Banks and financial institutions	255,103	215,973	122,000	133,151	4,074	2,277
Personal / Consumer	237,957	227,597	477,706	390,405	-	274
Government Organization	47,424	28,342	63,232	84,538	-	-
Others	68,965	61,479	82,029	79,763	1,437	1,985
	910,294	832,804	833,346	763,041	15,530	10,285

(iii) Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of asset, based on the Group's credit rating system. Amounts reported are gross of any provision for impairment.

	31 December 2013				
	Neither past due nor impaired		Past due but not impaired	Individually impaired	Total
	High grade	Standard grade			
	BD'000	BD'000	BD'000	BD'000	BD'000
Murabaha receivables	4,614	209,054	35,871	25,568	275,107
Musharaka investments	1,862	53,862	9,695	33,369	98,788
Ijarah Muntahia Bittamleek	-	53,672	13,076	32,519	99,267
Ijarah rental receivables	-	14,924	-	-	14,924
	6,476	331,512	58,642	91,456	488,086

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25 RISK MANAGEMENT (continued)**a) Credit Risk (continued)****(iii) Credit quality per class of financial assets (continued)**

	31 December 2012				Total BD'000
	Neither past due nor impaired		Past due but not impaired	Individually impaired	
	High grade BD'000	Standard grade BD'000	BD'000	BD'000	
Murabaha receivables	-	163,528	21,986	63,306	248,820
Musharaka investments	2,605	48,564	13,462	33,056	97,687
Ijarah Muntahia Bittamleek	-	58,880	9,151	32,630	100,661
Ijarah rental receivables	-	13,766	-	-	13,766
	2,605	284,738	44,599	128,992	460,934

Restructured facilities during the year amounted to BD 9,571 thousand (2012: BD 35,057 thousand), and they included amounts totalling BD 3,467 thousand (2012: BD 2,341 thousand) which were past due more than 90 days.

(iv) Aging analysis of past due but not impaired Islamic financing facilities per class of financial assets

	Less than 30 days BD'000	31 to 60 days BD'000	61 to 90 days BD'000	Total BD'000
	2013			
Murabaha receivable	35,113	319	439	35,871
Musharaka investments	9,110	248	337	9,695
Ijara Muntahia Bittamleek	11,821	1,217	38	13,076
	56,044	1,784	814	58,642
2012				
Murabaha receivable	21,721	205	60	21,986
Musharaka investments	13,018	438	6	13,462
Ijara Muntahia Bittamleek	9,138	10	3	9,151
	43,877	653	69	44,599

b) Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to cease immediately. To guard against this risk, the Group has a large customer base and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, commodity Murabaha, Wakala receivables, credit lines and quoted investments.

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25 RISK MANAGEMENT (continued)

b) Liquidity Risk (continued)

Maturity profile of Group's assets and liabilities

The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's retention history of its equity of investment accountholders.

The maturity profile of assets, liabilities and equity of investment accountholders at 31 December 2013 was as follows:

	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	Over 3 years	No fixed maturity	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
ASSETS								
Cash and balances with the banks and Central Bank	18,091	-	-	-	-	-	32,740	50,831
Due from banks and financial institutions	157,659	17,996	8,945	-	-	-	-	184,600
Murabaha receivables	13,460	17,947	10,541	28,024	59,403	126,663	-	256,038
Musharaka investments	9,525	2,140	508	3,757	8,401	66,436	-	90,767
Ijarah Muntahia Bittamleek	10,556	-	196	9	10,777	68,818	-	90,356
Investments	6,741	20,861	-	-	10,259	47,035	22,130	107,026
Investment in associates	-	-	-	-	-	-	36,236	36,236
Investment in real estate	-	-	-	-	-	-	58,219	58,219
Ijarah rental receivables	3,955	57	-	329	654	9,929	-	14,924
Property and equipment	-	-	-	-	-	-	17,067	17,067
Other assets	-	1,481	834	-	-	1,915	-	4,230
Total assets	219,987	60,482	21,024	32,119	89,494	320,796	166,392	910,294
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS								
Customers' current accounts	105,932	-	-	-	-	-	-	105,932
Other liabilities	13,608	-	-	-	-	-	-	13,608
Equity of investment accountholders	179,465	113,696	136,758	273,981	5,850	-	2,887	712,637
Total liabilities and equity of investment accountholders	299,005	113,696	136,758	273,981	5,850	-	2,887	832,177
Liquidity gap	(79,018)	(53,214)	(115,734)	(241,862)	83,644	320,796	163,505	78,117
Cumulative liquidity gap	(79,018)	(132,232)	(247,966)	(489,828)	(406,184)	(85,388)	78,117	-

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25 RISK MANAGEMENT (continued)**b) Liquidity risk (continued)**

The maturity profile of assets, liabilities and equity of investment accountholders at 31 December 2012 was as follows:

ASSETS	Up to	1 to 3	3 to 6	6 months	1 to 3	Over	No fixed	Total
	1 month	months	months	to 1 year	years	3 years	maturity	
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Cash and balances with the banks and Central Bank	15,638	-	-	-	-	-	28,255	43,893
Due from banks and financial institutions	119,992	8,863	912	2,657	-	-	-	132,424
Murabaha receivables	2,054	14,892	4,102	13,254	20,394	173,061	-	227,757
Musharaka investments	4,046	2,619	253	768	11,348	71,186	-	90,220
Ijarah Muntahia Bittamleek	-	-	205	1,884	4,351	90,406	-	96,846
Investments	5,356	21,153	-	-	9,061	52,288	22,513	110,371
Investment in associates	-	-	-	-	-	-	35,215	35,215
Investment in real estate	-	-	-	-	-	-	64,888	64,888
Ijarah rental receivables	-	-	13,766	-	-	-	-	13,766
Property and equipment	-	-	-	-	-	-	15,530	15,530
Other assets	209	655	528	-	-	502	-	1,894
Total assets	147,295	48,182	19,766	18,563	45,154	387,443	166,401	832,804
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS								
Customers' current accounts	87,132	-	-	-	-	-	-	87,132
Other liabilities	14,650	-	-	-	-	-	-	14,650
Equity investment accountholders	189,199	114,997	80,367	270,725	3,568	-	2,404	661,260
Total liabilities and equity of investment accountholders	290,981	114,997	80,367	270,725	3,568	-	2,404	763,042
Liquidity gap	(143,686)	(66,815)	(60,601)	(252,162)	41,586	387,443	163,997	69,762
Cumulative liquidity gap	(143,686)	(210,501)	(271,102)	(523,264)	(481,678)	(94,235)	69,762	-

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25 RISK MANAGEMENT (continued)**c) Market Risk**

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as profit rates, equity prices, and foreign exchange rates.

(i) Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Group's management believe that the Group is not exposed to material profit rate risk as a result of mismatches of profit rate repricing of assets, liabilities and equity of investment accountholders as the repricing of assets, liabilities and equity of investment accountholders occur at similar intervals. The profit distribution to equity of investment accountholders is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

However, the profit sharing agreements will result in displaced commercial risk when the Group's results do not allow the Group to distribute profits inline with the market rates.

(ii) Equity price risk

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the investment portfolio. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

In order to measure the risk of equity on its financial positions, the Group adopts a sensitivity analysis on its quoted equity portfolio for 10% increase of the portfolio value with all other variables remain constant. The effect of a similar decrease in equity prices is expected to be equal and opposite to the effect of the increase shown.

Equity price risk variation as of 31 December is as follows;

	<i>Increase in equity price</i>	<i>Sensitivity of profit or loss</i>	<i>Sensitivity of equity</i>
	%	BD'000	BD'000
2013			
Bahrain Bourse	+10	10	806
Saudi Stock Exchange (TADAWUL)	+10	39	425
Oman Stock Exchange	+10	16	-
Kuwait Stock Exchange	+10	-	132
Qatar Stock Exchange	+10	-	320
	<i>Increase in equity price</i>	<i>Sensitivity of profit or loss</i>	<i>Sensitivity of equity</i>
	%	BD'000	BD'000
2012			
Bahrain Bourse	+10	12	588
Saudi Stock Exchange (TADAWUL)	+10	14	610
Oman Stock Exchange	+10	16	394
Kuwait Stock Exchange	+10	-	-
Qatar Stock Exchange	+10	-	407

As at consolidated statement of financial position date, the Group has unquoted (equities and sukuk) of BD 33 million (31 December 2012: BD 50 million). The impact of changes in the value of these unquoted equities and sukuk and the related impact on equity will only be reflected when the financial instrument is sold or deemed to be impaired.

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25 RISK MANAGEMENT (continued)**c) Market Risk (continued)****iii) Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group views the Bahraini Dinar as its functional currency. The Board has set limits on positions by currency. Positions are monitored on a daily basis to ensure they are maintained within established limits.

The Group had the following significant net exposures denominated in foreign currencies as of 31 December:

	<i>Equivalent Long (short)</i>	<i>Equivalent Long (short)</i>
	<u>2013</u>	<u>2012</u>
	<i>BD '000</i>	<i>BD '000</i>
Currency		
Pound Sterling	(4,359)	(1,041)
Euro	(1,166)	(750)
Kuwaiti Dinars	(12,376)	(14,957)

As the Bahraini Dinar is pegged to the US Dollar, positions in US Dollars are not considered to represent significant currency risk.

Moreover, as the Group does not have significant exposure to other currencies, movement of the currency exchange risk against the Bahraini Dinar with other variables held constant will have an immaterial impact on the consolidated statement of income and owners' equity.

d) Operational Risk

Operational risk is the risk of loss arising from system 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 Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

26 DEPOSIT PROTECTION SCHEME

Deposits held with the Bank are covered by the Deposit Protection Scheme (the Scheme) established by the Central Bank of Bahrain. No upfront contribution is currently required under this scheme and no liability is due until one of the member commercial banks of the scheme is unable to meet its deposit obligations.

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27 SEGMENTAL INFORMATION

For management purposes, the Group is organised into three major business segments;

Corporate	Principally handling equity of corporate investment accountholders', corporate current accounts, and providing Islamic financing facilities to corporate customers.
Retail	Principally handling equity of individual retail customers' investment accountholders', retail current accounts, and providing Islamic financing facilities to individual customers.
Investment	Principally handling equity of banks' and financial institutions' investment accountholders, providing money market, trading and treasury services as well as the management of the Group's investment activities. Investment activities involve handling investments in local and international markets and investment in properties.

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

Segment information is disclosed as follows:

	31 December 2013			
	Corporate	Retail	Investment	Total
	BD'000	BD'000	BD'000	BD'000
Total income	11,950	18,440	6,541	36,931
Total expenses	(3,021)	(13,878)	(2,838)	(19,737)
Fair value adjustment for investment in real estate	-	-	(1,321)	(1,321)
Net provision for impairment	(3,619)	(1,656)	(4,491)	(9,766)
Net income (loss) for the year	5,310	2,906	(2,109)	6,107
Other information				
Segment assets	205,594	287,777	416,923	910,294
Segment liabilities, and equity	298,522	433,083	178,689	910,294
	31 December 2012			
	Corporate	Retail	Investment	Total
	BD'000	BD'000	BD'000	BD'000
Total income	6,146	16,176	2,153	24,475
Total expenses	(3,139)	(13,463)	(3,013)	(19,615)
Fair value adjustment for investment in real estate	-	-	(4,074)	(4,074)
Net provision for impairment	(16,331)	(2,054)	(18,596)	(36,981)
Net income (loss) for the year	(13,324)	659	(23,530)	(36,195)
Other information				
Segment assets	213,284	249,645	369,875	832,804
Segment liabilities, and equity	243,967	427,159	161,678	832,804

The Group operates solely in the Kingdom of Bahrain and, as such, no geographical segment information is presented.

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28 FINANCIAL INSTRUMENTS***Fair value hierarchy***

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction.

Fair values of quoted securities/Sukuk are derived from quoted market prices in active markets, if available. For unquoted securities/Sukuk, fair value is estimated using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

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

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

Level 2: other techniques for which all inputs 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 2013:

	<i>Level 1</i> <i>BD'000</i>	<i>Level 2</i> <i>BD'000</i>	<i>Level 3</i> <i>BD'000</i>	<i>Total</i> <i>BD'000</i>
Investments carried at fair value through statement of income				
<i>Quoted securities</i>				
Equities	866	-	-	866
	<u>866</u>	<u>-</u>	<u>-</u>	<u>866</u>
Investments carried at fair value through equity				
<i>Quoted securities</i>				
Equities	19,995	-	-	19,995
<i>Unquoted securities</i>				
Managed funds	-	-	25,670	25,670
Equities	-	-	22,130	22,130
	<u>19,995</u>	<u>-</u>	<u>47,800</u>	<u>67,795</u>
	<u><u>20,861</u></u>	<u><u>-</u></u>	<u><u>47,800</u></u>	<u><u>68,661</u></u>

Transfers between Level 1, Level 2 and Level 3

During the year ended 31 December 2013 there were no transfers between Level 1 and Level 2, and no transfers into or out of Level 3.

The carrying values of financial assets and liabilities are not significantly different from their fair values at 31 December 2013, except for the Group's investments in Sukuk held at amortised cost amounting to BD 38,365 thousand (2012: BD 41,049 thousand) with fair values amounting to BD 40,033 thousand (2012: BD 85,448 thousand).

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29 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a Qard fund account where the Group uses these funds for various social welfare activities. The movements in these funds is shown in statement of sources and uses of good faith Qard fund. The non-Islamic income includes the penalties charged on late repayments for Islamic facilities.

30 SHARI'A SUPERVISORY BOARD

The Group's Shari'a Supervisory Board consists of three Islamic scholars who review the Group's compliance with general Shari'a principles and specific Fatwas, rulings and guidelines issued. Their review includes examination of evidence relating to the documentation and procedures adopted by the Group to ensure that its activities are conducted in accordance with Islamic Shari'a principles.

31 SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through Zakah and charity fund's expenditures and donations to good faith Qard fund for marriage, refurbishment, medical treatments, etc.

32 COMPARATIVE FIGURES

Certain of the prior year's figures have been reclassified to conform to the presentation adopted in the current year. Such reclassification did not affect previously reported net income.

	<i>31 December 2012</i>	
	<i>after</i>	<i>before</i>
	<i>restatement</i>	<i>restatement</i>
	<i>BD'000</i>	<i>BD'000</i>
Consolidated Statement of Financial Position		
Investments	110,371	96,288
Investment in associates	35,215	7,143
Investment in real estate	64,888	106,351
Property and equipment	15,530	-
Other assets	1,894	7,517
Investment in Ijarah assets	-	10,599
Consolidated Statement of Changes in Owners' Equity		
Real estate fair value reserve	13,259	-
Accumulated losses	(49,454)	(36,195)
Consolidated Statement of Income		
Fair value adjustment for investment in real estate	(4,074)	(9,772)
Provision for impairment	(41,691)	(35,993)
Written back	4,710	4,710