ITHMAAR BANK B.S.C.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

Contents

Contents	**Page**
Report of the Sharia Supervisory Board	3 – 4
Directors' Report	5 – 6
Independent auditors' report	7 – 8
Consolidated statement of financial position	9
Consolidated income statement	10
Consolidated statement of changes in owners' equity	11 – 12
Consolidated statement of cash flows	13
Consolidated statement of changes in restricted investment accounts	14 – 15
Notes to the consolidated financial statements	16 – 56

Ithmaar Bank B.S.C.

In the Name of Allah, the Beneficent, the Merciful

Report of the Sharia Supervisory Board on the activities of Ithmaar Bank B.S.C. for the Financial Year from 1 January 2013 until 31 December 2013, corresponding to the Period from 19 Safar 1434 H until 28 Safar 1435 H.

Praise be to Allah, the Lord of the worlds, and peace and blessings be upon our Master, Mohammed, the leader of Prophets and Messengers, and upon his scion and companions, and upon those who follow his guidance until the Day of Judgment.

The Sharia Supervisory Board of Ithmaar Bank B.S.C. performed the following acts during the financial year from 1 January 2013 until 31 December 2013:

1. Issued fatwas and Sharia resolutions related to the Bank's products and activities and followed them up through the Bank's internal Sharia Audit Department while also guiding the management towards Sharia-compliant transactions.

2. Studied different mechanisms of financing and prepare its documents with the concerned departments in order to develop products.

3. Examined the books, records and transactions through the internal Sharia Audit Department and auditing some of their samples as per established auditing standards.

4. Examined the statement of financial position, income statement and the Bank's overall banking activities through it.

We have reviewed the principles and contracts relating to transactions and products launched by the Bank during the period from 1 January 2013 to 31 December 2013. We have also conducted the required inspection to provide our opinion on whether the Bank had complied with the provisions and principles of Islamic Sharia, as well as fatwas, resolutions and specific guidance that was issued by us.

The management is responsible for ensuring that the Bank operates in accordance with the provisions and principles of Islamic Sharia and accounting standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). Our responsibility is to express an independent opinion based on our observation of the Bank's operations, and prepare a report.

<u>In view of the above the Sharia Supervisory Board hereby resolves as follows:</u>

<u>i: With regard to the Bank's business in general:</u>

a The Bank's overall investment activities and banking services were conducted in full compliance with the principles and provisions of Islamic Sharia and in accordance with the Sharia Supervisory Board-approved standard contracts.

b Gains made from sources prohibited by Sharia were evaded and transferred to the Charity Fund.

c All the amounts collected as customers' donations and commitments on late payments were posted to the Charity Fund.

d Shareholders are responsible for payment of Zakat on their shares.

Ithmaar Bank B.S.C.

Report of the Sharia Supervisory Board on the activities of Ithmaar Bank B.S.C. for the Financial Year from 1 January 2013 until 31 December 2013, corresponding to the Period from 19 Safar 1434 H until 28 Safar 1435 H. (continued)

ii: Conventional assets and liabilities:

The Sharia Supervisory Board identified and reviewed the conventional assets and liabilities that existed before Ithmaar Bank converted to an Islamic retail bank in April 2010 and issued a Fatwa that allows the Bank to convert these assets and liabilities into Islamic alternatives, or dispose them, in an agreed time period, provided that the Bank appropriately discloses to its shareholders in its annual report all amounts of income and expenses associated with these conventional assets and liabilities. This Fatwa conforms to the provisions of Sharia Standard – 6 "Conversion of a Conventional Bank to an Islamic Bank" of AAOIFI Sharia Standards. The Sharia Supervisory Board confirms that the Management, with the grace of Allah, has resolved all sharia issues pertaining to 14 assets.

As the grace period permitted by the Sharia Supervisory Board for addressing the remaining 7 non-sharia assets expired by the end of 2013, and noting the seriousness of the efforts put by the Bank to resolve these issues and because there are no material change in the market sentiments to allow the Bank to dispose-off some of these assets, the Sharia Supervisory Board is of the opinion of allowing the Bank an extension of the grace period during which the Bank will attempt to resolve non-sharia issues under the supervision of the Sharia Supervisory Board. To note that the Sharia Supervisory Board continuously and periodically reviews progresses on these assets and guides the Bank on solutions and appropriate action plans.

To ensure compliance with its Fatwa and directions, the Sharia Supervisory Board has reviewed the income statement of the Bank for the year end 31 December 2013 and has satisfied itself that the Bank has appropriately disclosed the income and expense arising from the conventional assets and liabilities. Accordingly, the Sharia Supervisory Board guides the shareholders of the Bank to dispose of impermissible earnings which has been calculated, in the current year's financial statements, at [4.36] fils per share.

We pray to Almighty Allah to grant success to the Bank and its employees and guide them in developing Islamic products and continue to comply with the Sharia principles and to grant them success for everything He pleases. May peace and blessings be upon our Master, Mohammed, and upon his scion and companions.

His Eminence Shaikh
Abdulla Al Manee'a
Chairman

His Eminence Shaikh
Nizam Yacooby
Member

His Eminence Shaikh
Mohsin Al-Asfoor
Member

His Eminence Shaikh
Dr. Osama Bahar
Member

Manama
Kingdom of Bahrain
23 February 2014

Ithmaar Bank B.S.C.
Directors' Report for the year ended 31 December 2013

The Directors submit their report dealing with the activities of Ithmaar Bank B.S.C (the "Bank") for the year ended 31 December 2013, together with the audited consolidated financial statements of the Bank and its subsidiaries ("the Group") for the year then ended.

Principal activities

The Bank holds an Islamic retail banking licence issued by the Central Bank of Bahrain.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are a wide range of financial services, including retail, commercial, asset management, private banking, takaful, equipment leasing and real estate development.

Consolidated financial position and results

The consolidated financial position of the Group as at 31 December 2013, together with the consolidated results for the year then ended is set out in the accompanying consolidated financial statements.

The Group has reported a net loss of BD 30.3 million for 2013 attributable to the equity shareholders of the Bank, as compared to a net loss of BD 11.5 million for 2012. Total assets at 31 December 2013 amounted to BD 2,791 million (31 December 2012: BD 2,724 million).

The Bank's consolidated Capital adequacy ratio under Basel II as at 31 December 2013 was 12.77% (31 December 2012: 12.64%) as compared to a minimum regulatory requirement of 12%. The Bank's risk weighted exposures and eligible capital are set out in note 39 to the accompanying consolidated financial statements.

Directors

The following served as Directors of the Bank during the year ended 31 December 2013:

HRH Prince Amr Mohamed Al Faisal (Chairman)
Mr. Khalid Abdulla-Janahi
Tunku Dato' Ya'acob Bin Tunku Abdullah
Mr. Abdel Hamid Abo Moussa
Sheikha Hissah Bint Saad Al-Sabah
Mr. Sheikh Zamil Abdullah Al-Zamil
Mr. Nabeel Khalid Kanoo
Mr. Mohammed Bucheerei
Mr. Abdulellah Ebrahim Al-Qassimi
Mr. Imtiaz Ahmad Pervez
Mr. Omar Abdi Ali (Appointed with effect from 9 May 2013)
Mr. Graham R. Walker (Appointed with effect from 9 May 2013)

Directors' sitting fees

Directors' sitting fees for 2013 amounted to BD 80,490 (2012: BD 73,138).

Interests of Directors

The interests of the Directors in the shares of the Bank are disclosed below:

	Number of Shares	
Name	**31 December 2013**	**31 December 2012**
HRH Prince Amr Mohamed Al Faisal	106,100	100,000
Mr. Khalid Abdulla-Janahi	20,749,693	20,749,693
Tunku Dato' Ya'acob Bin Tunku Abdullah	106,100	106,100
Mr. Abdel Hamid Abo Moussa	106,100	-
Sheikha Hissah Bint Saad Al-Sabah	106,100	41,800
Mr. Sheikh Zamil Abdullah Al-Zamil	205,000	205,000
Mr. Nabeel Khalid Kanoo	106,100	-
Mr. Mohammed Bucheerei	105,600	105,600
Mr. Abdulellah Ebrahim Al-Qassimi	106,100	-
Mr. Imtiaz Ahmad Pervez	-	-
Mr. Omar Abdi Ali	-	Not applicable
Mr. Graham R. Walker	1,056,000	Not applicable

Dividend

No dividend has been proposed for 2013 (2012: Nil).

Auditors

The auditors, PricewaterhouseCoopers ME Limited, have expressed their willingness to be reappointed as auditors of the Bank for the year ending 31 December 2014.

By order of the Board of Directors

HRH Prince Amr Mohamed Al Faisal
Chairman
2 March 2014

pwc

Independent Auditor's Report to the Shareholders of
Ithmaar Bank B.S.C.

Report on the financial statements

We have audited the accompanying consolidated financial statements of Ithmaar Bank B.S.C. (the "Bank") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2013 and the related consolidated statements of income, changes in owners' equity, cash flows, and changes in restricted investment accounts for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

Directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and to operate in accordance with Islamic Shari'a. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Auditing Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions. 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2013 and the results of its operations, its cash flows, changes in owners' equity and changes in restricted investment accounts for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions.

PricewaterhouseCoopers ME Limited, 13th floor, T.J. Tower, P.O. Box 21144, Seef District, Kingdom of Bahrain
T: +973 17 118800, F: +973 17 540556, www.pwc.com/middle-east, CR no. 47378

Independent Auditor's Report to the Shareholders of
Ithmaar Bank B.S.C. (continued)

Report on regulatory requirements and other matters

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

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

(ii) the financial information contained in the directors' report is consistent with the consolidated financial statements;

(iii) 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) and CBB directives, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association, having occurred during the year that might have had a material adverse effect on the business of the Bank or on its financial position; and

(iv) satisfactory explanations and information have been provided to us by the 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 Group.

PricewaterhouseCoopers

2 March 2014
Manama, Kingdom of Bahrain

Ithmaar Bank B.S.C.

Consolidated statement of financial position

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Notes	At 31 December 2013 (Audited)	At 31 December 2012 (Audited)
ASSETS			
Cash and balances with banks and central banks	3	224,568	204,864
Commodity and other placements with banks, financial and other institutions	4	187,867	169,328
Murabaha and other financings	5	1,188,924	1,184,004
Musharaka financing		23,412	15,765
Investment in mudaraba	6	7,842	8,164
Investment in associates	7	250,730	257,298
Investment securities	8	492,392	397,024
Restricted investment accounts	9	29,390	81,438
Assets acquired for leasing	10	24,236	22,934
Investment in real estate	11	133,197	151,383
Other assets	12	100,731	97,148
Fixed assets	13	43,417	43,947
Intangible assets	14	84,276	90,806
Total assets		**2,790,982**	**2,724,103**
LIABILITIES, EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS, MINORITY INTEREST AND OWNERS' EQUITY			
Customers' current accounts	15	479,002	450,034
Due to banks, financial and other institutions	16	490,674	495,070
Due to investors	17	699,625	718,797
Other liabilities	18	89,094	90,622
Total liabilities		**1,758,395**	**1,754,523**
Equity of unrestricted investment accountholders	19	748,522	660,173
Minority interest	20	83,664	87,311
Total liabilities, equity of unrestricted investment accountholders and minority interest		**2,590,581**	**2,502,007**
Share capital	21	285,649	264,281
Treasury shares	21	(11,366)	(11,366)
Reserves		95,166	105,349
Accumulated losses		(169,048)	(136,168)
Total owners' equity		**200,401**	**222,096**
Total liabilities, equity of unrestricted investment accountholders, minority interest and owners' equity		**2,790,982**	**2,724,103**

These consolidated financial statements were approved by the Board of Directors on 2 March 2014 and signed on their behalf by:

HRH Prince Amr Mohamed Al Faisal
Chairman

Ahmed Abdul Rahim
CEO

The notes 1 to 42 on pages 16 to 56 form an integral part of the consolidated financial statements.

Ithmaar Bank B.S.C.
Consolidated income statement
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Notes	Year ended 31 December 2013 (Audited)	Year ended 31 December 2012 (Audited)
INCOME			
Income from unrestricted investment accounts		38,000	35,139
Less: return to unrestricted investment accounts and impairment provisions	29	(29,079)	(26,686)
Group's share of income from unrestricted investment accounts as a Mudarib		8,921	8,453
Group's share of income from restricted investment accounts as a Mudarib	23	226	305
Income from murabaha and other financings	24	79,669	90,181
Share of profit after tax from associates	7	14,503	20,266
Income from other investments	25	36,692	44,185
Other income	26	15,379	20,012
Total income		**155,390**	**183,402**
Less: profit paid to banks, financial and other institutions – net		(80,028)	(95,893)
Operating income		**75,362**	**87,509**
EXPENSES			
Administrative and general expenses	27	(61,747)	(62,340)
Depreciation and amortization	7,13,14	(11,803)	(12,374)
Total expenses		**(73,550)**	**(74,714)**
Net income before provision for impairment and overseas taxation		**1,812**	**12,795**
Provision for impairment – net	29	(30,989)	(20,401)
Net loss before overseas taxation		**(29,177)**	**(7,606)**
Overseas taxation	30	(729)	(2,508)
NET LOSS FOR THE YEAR		**(29,906)**	**(10,114)**
Attributable to:			
Equity holders of the Bank		(30,300)	(11,491)
Minority interests	20	394	1,377
		(29,906)	**(10,114)**
Basic and diluted earnings per share	22	**Fils (10.41)**	**Fils (4.28)**

These consolidated financial statements were approved by the Board of Directors on 2 March 2014 and signed on their behalf by:

HRH Prince Amr Mohamed Al Faisal
Chairman

Ahmed Abdul Rahim
CEO

The notes 1 to 42 on pages 16 to 56 form an integral part of the consolidated financial statements.

Ithmaar Bank B.S.C.

Consolidated statement of changes in owners' equity for the year ended 31 December 2013

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

			Reserves								
	Share capital	**Treasury shares**	**Share premium**	**Statutory reserve**	**General reserve**	**Investments fair value reserve**	**Investment in real estate fair value reserve**	**Foreign currency translation**	**Total reserves**	**Accumulated losses**	**Total owners' equity**
At 1 January 2013 (Audited)	**264,281**	**(11,366)**	**56,434**	**14,360**	**19,124**	**15,752**	**389**	**(710)**	**105,349**	**(136,168)**	**222,096**
Increase in share capital (note 21)	21,368	-	-	-	-	-	-	-	-	-	21,368
Net loss for the year	-	-	-	-	-	-	-	-	-	(30,300)	(30,300)
Movement in fair value of investment securities	-	-	-	-	-	(2,325)	-	-	**(2,325)**	-	(2,325)
Movement in fair value of associates	-	-	-	-	-	(1,786)	-	-	**(1,786)**	-	(1,786)
Movement in deferred tax relating to investment securities	-	-	-	-	-	(218)	-	-	**(218)**	-	(218)
Transfer to income statement due to impairment of investment securities	-	-	-	-	-	(521)	-	-	**(521)**	-	(521)
Transfer to income statement due to disposal of investment securities	-	-	-	-	-	29	-	-	**29**	-	29
Movement in fair value of investment in real estate	-	-	-	-	-	-	36	-	**36**	-	36
Foreign currency translation adjustments	-	-	-	-	-	12	(9)	(5,401)	**(5,398)**	(2,580)	(7,978)
At 31 December 2013 (Audited)	**285,649**	**(11,366)**	**56,434**	**14,360**	**19,124**	**10,943**	**416**	**(6,111)**	**95,166**	**(169,048)**	**200,401**

The notes 1 to 42 on pages 16 to 56 form an integral part of the consolidated financial statements.

Ithmaar Bank B.S.C.
Consolidated statement of changes in owners' equity for the year ended 31 December 2012
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

			Reserves								
	Share capital	Treasury shares	Share premium	Statutory reserve	General reserve	Investments fair value reserve	Investment in real estate fair value reserve	Foreign currency translation	Total reserves	Accumulated losses	Total owners' equity
At 1 January 2012 (Audited)	**264,281**	**(11,366)**	**56,434**	**14,360**	**19,124**	**(4,226)**	**357**	**3,077**	**89,126**	**(124,577)**	**217,464**
Net loss for the year	-	-	-	-	-	-	-	-	-	(11,491)	(11,491)
Movement in fair value of investment securities	-	-	-	-	-	13,530	-	-	13,530	-	13,530
Movement in fair value of associates	-	-	-	-	-	7,029	-	-	7,029	-	7,029
Movement in deferred tax relating to investment securities	-	-	-	-	-	(647)	(58)	-	(705)	-	(705)
Transfer to income statement due to disposal of investment securities	-	-	-	-	-	8	-	-	8	-	8
Movement in fair value of investment in real estate	-	-	-	-	-	-	94	-	94	-	94
Foreign currency translation adjustments	-	-	-	-	-	58	(4)	(3,787)	(3,733)	(100)	(3,833)
At 31 December 2012 (Audited)	**264,281**	**(11,366)**	**56,434**	**14,360**	**19,124**	**15,752**	**389**	**(710)**	**105,349**	**(136,168)**	**222,096**

The notes 1 to 42 on pages 16 to 56 form an integral part of the consolidated financial statements.

Ithmaar Bank B.S.C.
Consolidated statement of cash flows
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Notes	Year ended 31 December 2013 (Audited)	Year ended 31 December 2012 (Audited)
OPERATING ACTIVITIES			
Net loss before overseas taxation		(29,177)	(7,606)
Adjustments for:			
Depreciation and amortization	7,13,14	11,803	12,374
Share of profit after tax from associates	7	(14,503)	(20,266)
Provision for impairment – net	29	30,989	20,401
Gain on sale of fixed assets	26	(448)	(217)
Operating income/(loss) before changes in operating assets and liabilities		(1,336)	4,686
Balances with banks maturing after ninety days and including with central banks relating to minimum reserve requirement		10,935	(1,617)
(Increase)/decrease in operating assets:			
Murabaha and other financings		(65,973)	(168,515)
Musharaka financing		(7,647)	264
Other assets		(3,145)	8,967
Increase/(decrease) in operating liabilities:			
Customers' current accounts		50,142	65,061
Due to banks, financial and other institutions		11,408	(21,339)
Due to investors		37,384	(8,981)
Other liabilities		12,582	(8,841)
Increase in equity of unrestricted investment accountholders		104,429	100,119
Net cash provided by/(used in) operating activities		**148,779**	**(30,196)**
INVESTING ACTIVITIES			
Net (increase)/decrease:			
Investment in mudaraba		322	693
Investment in restricted investment accounts		7,743	8,000
Assets acquired for leasing		2,953	(532)
Investment securities		(81,735)	51,521
Dividend received from associates	7	2,161	5,543
Purchase of fixed assets		1,118	(5,817)
Investment in real estate		(239)	432
Net cash provided by/(used in) investing activities		**(67,677)**	**59,840**
FINANCING ACTIVITIES			
Taxes paid		(4,723)	(1,989)
Net cash used in financing activities		**(4,723)**	**(1,989)**
Foreign currency translation adjustments		(27,201)	12,062
Net increase in cash and cash equivalents		**49,178**	**39,717**
Cash and cash equivalents at the beginning of the year		**290,802**	**251,085**
Cash and cash equivalents at the end of the year	4	**339,980**	**290,802**

The notes 1 to 42 on pages 16 to 56 form an integral part of the consolidated financial statements.

Consolidated statement of changes in restricted investment accounts for the year ended 31 December 2013

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	At 1 January 2013	Net Deposits / (Withdrawals)	Income / (Expenses)	Mudarib's Fee	Fair value movements	At 31 December 2013
Aldar Private Equity Fund**	77,971	(77,971)	-	-	-	-
Dilmunia Development Fund I L.P.*	64,169	-	700	-	-	64,869
Shamil Bosphorus Modaraba*	38,618	-	-	-	(15,056)	23,562
European Real Estate Portfolio*	7,572	-	-	-	346	7,918
US Development Opportunities Fund*	6,793	(1,910)	-	-	-	4,883
European Real Estate Placements*	38,521	(29,826)	92	(26)	-	8,761
US Real Estate Placements*	32,532	(2,727)	522	(175)	-	30,152
PPSC Placements	17,881	(17,877)	6	(10)	-	-
Trade Finance Placements	5,484	(5,368)	34	(3)	-	147
Listed and non-listed equities	8,727	4,795	255	(12)	-	13,765
Investment in Sukuk	199	(203)	4	-	-	-
TOTAL	298,467	(131,087)	1,613	(226)	(14,710)	154,057
FUNDS MANAGED ON AGENCY BASIS	26,643	-	-	-	-	26,643
	325,110	**(131,087)**	**1,613**	**(226)**	**(14,710)**	**180,700**

* Income/(loss) will be recognised and distributed at the time of disposal of the underlying investments

**Fund distributed its entire shareholding to its unitholders during 2013

The notes 1 to 42 on pages 16 to 56 form an integral part of the consolidated financial statements.

Ithmaar Bank B.S.C.

Consolidated statement of changes in restricted investment accounts for the year ended 31 December 2012

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	At 1 January 2012	Net Deposits / (Withdrawals)	Income/ (Expenses)	Mudarib's Fee	Fair value movements	At 31 December 2012
Aldar Private Equity Fund*	88,764	(16,001)	-	-	5,208	77,971
Dilmunia Development Fund I L.P.*	65,232	-	(1,063)	-	-	64,169
Shamil Bosphorus Modaraba*	38,618	-	-	-	-	38,618
European Real Estate Portfolio*	8,424	(1,006)	3	-	151	7,572
US Development Opportunities Fund*	6,793	-	-	-	-	6,793
European Real Estate Placements*	47,563	(8,987)	38	(93)	-	38,521
US Real Estate Placements*	59,488	(27,458)	590	(88)	-	32,532
PPSC Placements	52,948	(35,109)	133	(91)	-	17,881
Trade Finance Placements	5,298	67	130	(11)	-	5,484
Listed and non-listed equities	12,480	(3,993)	262	(22)	-	8,727
Investment in Sukuk	198	(7)	8	-	-	199
TOTAL	385,806	(92,494)	101	(305)	5,359	298,467
FUNDS MANAGED ON AGENCY BASIS	26,925	(282)	-	-	-	26,643
	412,731	**(92,776)**	**101**	**(305)**	**5,359**	**325,110**

* Income/(loss) will be recognised and distributed at the time of disposal of the underlying investments

The notes 1 to 42 on pages 16 to 56 form an integral part of the consolidated financial statements.

1 INCORPORATION AND ACTIVITIES

Ithmaar Bank B.S.C. (the "Bank") was incorporated in the Kingdom of Bahrain on 13 August 1984 and was licensed as an investment bank regulated by the Central Bank of Bahrain (the "CBB"). On 14 April 2010 the CBB approved the reorganisation of the Bank and its wholly owned subsidiary Shamil Bank of Bahrain B.S.C. (C) (the "Shamil Bank") into one entity under Ithmaar Bank B.S.C. with an Islamic retail banking license. As a result, Shamil Bank has transferred its entire business, assets and liabilities to Ithmaar Bank B.S.C. effective 21 April 2010. On 17 February 2013, the CBB approved the Transfer of Business from First Leasing Bank B.S.C. (c) ("FLB") to the Bank and the related share swap transaction (note 21), and this was completed in March 2013.

Dar Al-Maal Al-Islami Trust ("DMIT"), a Trust incorporated in the commonwealth of Bahamas is the ultimate parent company of the Bank.

The principal activities of the Bank and its subsidiaries (collectively the "Group") are a wide range of financial services, including retail, commercial, investment banking, private banking, takaful, equipment leasing and real estate development.

The Bank's activities are supervised by the CBB and are subject to the supervision of Shari'a Supervisory Board.

The Bank's shares are listed for trading on the Bahrain Bourse and Kuwait Stock Exchange.

The Group's activities also include acting as a Mudarib (manager, on a trustee basis), of funds deposited for investment in accordance with Islamic laws and principles particularly with regard to the prohibition of receiving or paying interest. These funds are included in the consolidated financial statements as equity of unrestricted investment accountholders and restricted investment accounts. In respect of equity of unrestricted investment accountholders, the investment account holder authorises the Group to invest the accountholders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. In respect of restricted investment accounts, the investment accountholders impose certain restrictions as to where, how and for what purpose the funds are to be invested. Further, the Group may be restricted from commingling its own funds with the funds of restricted investment accounts.

The Group carries out its business activities through the Bank's head office, 17 commercial branches in Bahrain and its following principal subsidiary companies:

	% owned			
	Voting	Economic	Country of Incorporation	Principal business activity
Faysal Bank Limited	67	67	Pakistan	Banking
Faisal Private Bureau (Switzerland) S.A.(formerly Faisal Private Bank (Switzerland) S.A.)	100	100	Switzerland	Wealth and asset management
Ithmaar Development Company Limited	100	100	Cayman Islands	Real estate
City View Real Estate Development Co. B.S.C. (C)	51	51	Kingdom of Bahrain	Real estate
Health Island B.S.C. (C)	50	50	Kingdom of Bahrain	Real estate
Sakana Holistic Housing Solutions B.S.C. (C) (Sakana)	63	50	Kingdom of Bahrain	Mortgage finance
Cantara (Switzerland) S.A.	100	100	Switzerland	Investment holding
DMI Administrative Services S.A.	100	100	Switzerland	Management services
Faisal Finance (Luxembourg) S.A.	100	100	Luxembourg	Investment holding
Shamil Finance (Luxembourg) S.A.	100	100	Luxembourg	Investment holding
Faisal Finance (Netherlands Antilles) NV	100	100	Netherlands Antilles	Investment holding

Islamic Investment Company of the Gulf (Bahamas) Limited (IICG), a company incorporated in the Commonwealth of Bahamas and owned 100% by DMIT, is an affiliate of the Bank.

1 INCORPORATION AND ACTIVITIES (continued)

The Bank has voluntarily surrendered Faisal Private Bank (Switzerland) S.A.'s banking license effective 30 June 2013. Effective, 1 July 2013 Faisal Private Bank adopted a new name "Faisal Private Bureau (Switzerland) S.A.". Faisal Private Bureau now provides advice and wealth management services to investors in the existing funds managed by erstwhile Faisal Private Bank. The financial statements of Faisal Private Bureau have been prepared on a going concern basis as at 31 December 2013.

During January 2013, the Bank decided to exit from its 50% investment in Sakana together with the other 50% shareholder. The shareholders approved the company's voluntary liquidation in the EGM held in September 2013. Approval from the CBB was also obtained in this regard. Liquidation committee has been appointed by Sakana to oversee the liquidation.

During March 2013, the Bank exited from its 51% investment in Marina Reef Real Estate Development Co. B.S.C.(C).

2 SIGNIFICANT GROUP ACCOUNTING POLICIES

Effective 30 June 2010, the Bank adopted Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

The Group has certain assets, liabilities and related income and expenses which are not Sharia compliant as these existed before Ithmaar Bank converted to an Islamic retail bank in April 2010. These are currently presented in accordance with AAOIFI standards in the consolidated financial statements for the year ended 31 December 2013 as appropriate.

The Sharia Supervisory Board has approved the Sharia Compliance Plan ("Plan") for assets and liabilities which are not Sharia Compliant. The Sharia Supervisory Board is monitoring the implementation of this Plan. The income and expenses attributable to non-Sharia compliant assets and liabilities is disclosed under note 41.

The consolidated financial statements comprise the financial information of the Group for the year ended 31 December 2013.

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

(i) New accounting standard: Issued and effective

The following standard has been issued and is mandatory for the Group's accounting periods beginning on or after 1 January 2013.

Standard	Content	Applicable for the financial years beginning or after
FAS 26	Investment in real estate	01 January 2013

This standard applies in the recognition, measurement and disclosure of the entity's direct 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 does not have any material impact on the consolidated income statement, consolidated statement of changes in owner's equity or consolidated statement of financial position.

(ii) Basis of preparation

The consolidated financial statements are prepared on a historical cost convention except for investments carried at fair value through income statement and equity and investment in real estate.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iii) Statement of compliance

The consolidated financial statements have been 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 Bank, the Bahrain Commercial Companies Law, the CBB and the Financial Institutional Law. In accordance with the requirement of AAOIFI, for matters where no AAOIFI standards exist, the Group uses the relevant International Financial Reporting Standards (IFRS).

(iv) Summary of significant accounting policies

(a) Basis of consolidation

Subsidiaries

Subsidiaries are companies in which the Group holds 50% or more of equity shares and as such exercises significant control over such companies. Subsidiaries, including Special Purpose entities that are controlled by the Bank, are consolidated from the date on which the Group obtains control and continue to be so consolidated until the date such control ceases.

Associates

Associates are companies in which the Group has significant influence, but not control over the management of affairs, and which are neither subsidiaries nor joint ventures. The Group's investments in associates are accounted for under the equity method of accounting. Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. The consolidated income statement reflects the Group's share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in owners equity.

In case of associates where audited financial statements are not available, the Group's share of profit or loss is arrived at by using the latest available management accounts.

Intra-Group balances and minority interest

The consolidated financial statements include the assets, liabilities and results of operations of the Bank, its subsidiary companies after adjustment for minority interest and equity of unrestricted investment accountholders managed by the Group. All significant intra-group balances and transactions have been eliminated. The financial statements of the subsidiaries are prepared on the same reporting periods as the Bank, using consistent accounting policies.

(b) Foreign currency transactions and balances

Functional and presentation currency

Items included in the consolidated financial statements of the Group's entities are measured using the currency of the primary economic environment in which the entity operates, which is Bahraini Dinars (the functional currency). The Extraordinary General Meeting of the Bank held on 21 October 2012 approved the change of the presentation currency of the Bank from United States Dollars to Bahraini Dinars effective 31 December 2012. Considering that the Bahraini Dinar is pegged to United States Dollars, the changes in presentation currency will have no impact on the consolidated statement of financial position, consolidated income statement, consolidated statement of changes in owners' equity, consolidated statement of cash flow and consolidated statement of changes in restricted investment accounts.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(b) Foreign currency transactions and balances (continued)

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement. Translation differences on non-monetary items carried at their fair value, such as certain investment securities are included in investments fair value reserve.

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

1. Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of statement of financial position;

2. Income and expenses for each income statement are translated at average exchange rates; and

3. All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. Translation losses arising in the case of severe devaluation or depreciation (other than temporary) of the currency of the net investment in a foreign operation when the latter is translated at the spot exchange rate at the date of consolidated statement of financial position, are recognised in the first place as a charge against any credit balance on the separate component of the shareholders equity and any remaining amount is recognised as a loss in the consolidated income statement. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill, and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(c) Accounting estimates and judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

1. Classification of investments

   In the process of applying the Group's accounting policies, management decides upon acquisition of an investment, whether it should be classified as investments carried at fair value through income statement, held at amortised cost or investments carried at fair value through equity. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(c) Accounting estimates and judgements (continued)

2. Special purpose entities

The Group sponsors the formation of special purpose entities (SPEs) primarily for the purpose of allowing clients to hold investments. The Group does not consolidate SPEs that it does not have the power to control. In determining whether the Group has the power to control an SPE, judgements are made about the objectives of the SPEs activities, Group's exposure to the risks and rewards, as well as its ability to make operational decisions of the SPEs.

3. Impairment on financing assets and investments

Each financing and investment exposure is evaluated individually for impairment. Management makes judgements about counterparty's financial situation and the net realisable value of any underlying assets. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable.

4. Liquidity mismatch

The Group constantly monitors the liquidity mismatch arising in the normal course of the business. Periodic stress tests are carried out on liquidity position to assess the ability of the Bank to meet its liquidity mismatch. The stress testing also incorporates judgement based behavioural approach for various sources of funding, estimated inflows from disposal of assets.

(d) Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash on hand, non-restricted balance with central banks and other banks, and short term liquid investments on demand or with an original maturity of three months or less.

(e) Murabaha and other financings

Murabaha financing is stated at cost less allowance for doubtful receivables.

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

Other financings represent conventional loans and advances, which are non-derivative financial assets with fixed or determinable payments. These are initially recorded at fair value and are subsequently carried at amortised cost using the effective yield method.

The Group receives collateral in the form of cash or other securities including bank guarantees, mortgage over property or shares and securities for Murabaha and other financings where deemed necessary. The Group's policy is to obtain collateral where appropriate, with a market value equal to or in excess of the principal amount financed under the respective financing agreement. To ensure that the market value of the underlying collateral remains sufficient, collateral is valued periodically.

Specific provision is made when the management consider that there is impairment in the carrying amount of Murabaha and other financings.

In addition to specific provision, the Group also assess impairment collectively for losses on financing facilities that are not indiviually significant and where there is not yet objective evidence of individual impairment. General provision is evaluated at each reporting date.

(f) Musharaka financing

Musharaka financing is stated at cost less provision for impairment.

Specific provision is made when the management consider that there is impairment in the carrying amount of Musharaka financing.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(g) Investments

1. Investments carried at amortised cost

Debt-type instruments are carried at amortised cost where the investment is managed on a contractual yield basis and their performance evaluated on the basis of contractual cash flows. These investments are measured at initial recognition minus capital/redemption payments and minus any reduction for impairment.

2. Investments carried at fair value through equity

Equity-type instruments are investments that do not exhibit the feature of debt type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities.

Equity-type investments carried at fair value through equity are those equity instruments which are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity; these are designated as such at inception. Regular-way purchases and sales of these investments are recognised on the trade date which is the date on which the Group commits to purchase or sell the asset.

These investments are initially recognised at cost plus transaction costs. These investments are subsequently re-measured at fair value and the resulting unrealised gains or losses are recognised in the consolidated statement of changes in equity or equity of unrestricted investment accountholders under "Investments fair value reserve", until the financial asset is derecognized or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in the consolidated income statement.

The fair value of quoted investments in active market is based on current bid price. If there is no active market for such financial assets, the Group establishes fair values using valuation techniques. These include the use of recent arm's length transactions and other valuation techniques used by other participants. The Group also refers to valuations carried out by investment managers in determining fair value of certain unquoted financial assets.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. In case of equity investments classified as financial assets carried at fair value through equity, a significant or prolonged decline in fair value of the security below the cost is considered in determining whether the assets are impaired. If any evidence exists of significant impairment for the investment carried at fair value through equity, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial asset previously recognised in the consolidated income statement is removed from the equity and recognised in the consolidated income statement. Impairment losses on equity instruments previously recognised in the consolidated income statement are not subsequently reversed through the consolidated income statement.

3. Investments carried at fair value through income statement

An investment is classified as investment carried at fair value through income statement if acquired or originated principally for the purpose of generating a profit from short term fluctuations in price or dealers margin. These investments are recognised on the acquisition date at cost including the direct expenses related to the acquisition. At the end of each reporting period, investments are re-measured at their fair value and the gain/loss is recognised in the consolidated income statement.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(g) Investments (continued)

4. Restricted investment accounts

Investment in restricted investment accounts is initially recorded at cost and subsequently re-measured at fair value. Unrealised losses are recognised in equity to the extent of the available balance, taking into consideration the portion related to owner's equity and equity of unrestricted investment accountholders. In case cumulative losses exceed the available balance under equity, the excess is recognised in the consolidated income statement.

5. Investment in real estate

All properties held for rental income or for capital appreciation purposes or both are classified as investment in real estate. Investment in real estate held for capital appreciation are initially recognised at cost and subsequently re-measured at fair value in accordance with the fair value model with the resulting unrealised gains being recognised in the consolidated statement of changes in owner's equity under investment in real estate fair value reserves. Any unrealised losses resulting from re-measurement at fair value of investment in real estate carried at fair value are adjusted in equity against the investment in real estate fair value reserve, taking into consideration the split between the portion related to owners' equity and equity of investment accountholders, to the extent of the available credit balance of this reserve. In case such losses exceed the available balance, the unrealised losses are recognised in the consolidated income statement. In case there are unrealised losses relating to investment in real estate that have been recognised in the consolidated income statement in a previous financial period, the unrealised gains relating to the current financial period are recognised to the extent of crediting back such previous losses in the consolidated income statement. The realised profits or losses resulting from the sale of any investment in real estate are measured as the difference between the book value (or carrying amount) and the net cash or cash equivalent proceeds from the sale for each investment separately. The resulting profit or loss together with the available balance on the investment in real estate fair value reserve account is recognised in the consolidated income statement for the current financial period.

Investment in real estate held for rental purposes are stated at cost less accumulated depreciation.

6. Investment in mudaraba

Mudaraba investments are recorded at cost. Decline in the value of investment which is not temporary is charged directly to the consolidated income statement.

7. Fair value

For investments traded in organised financial markets, fair value is determined by reference to quoted market bid prices.

For investments where there areno quoted market prices, 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 or at net asset value. The cash equivalent values are determined by the Group at current profit rates for contracts with similar term and risk characteristics.

(h) Assets acquired for leasing (Ijarah)

Assets acquired for leasing are stated at cost and are depreciated according to the Group's depreciation policy for fixed assets or lease term, whichever is lower.

A provision for doubtful receivable is made if, in the opinion of the management, the recovery of outstanding rentals are doubtful.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(i) Fixed assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method to write off the cost of each asset over its estimated useful life as follows:

Buildings	50 years
Leasehold improvements	over the period of the lease
Furniture, equipment and motor vehicles	3-10 years
Aircraft	25 years

Depreciation is calculated separately for each significant part of an asset category. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The asset's residual value and useful life are reviewed, and adjusted if appropriate, at each date of the statement of financial position.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably. All other repairs and renewals are charged to the consolidated income statement during the financial period in which they are incurred.

Gains and losses on disposal of fixed assets are determined by comparing proceeds with carrying amounts.

(j) Intangible assets

1. Goodwill

Goodwill acquired at the time of acquisitions of subsidiaries is reported in the consolidated statement of the financial position as an asset. Goodwill is initially measured at cost being the excess of the cost of acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary undertaking at the date of acquisition. Subsequently, the goodwill is tested for impairment on annual basis. At the end of the financial period, the goodwill is reported in the consolidated statement of financial position at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Negative goodwill resulting from the acquisition of business is reported in the consolidated income statement.

Acquisition of minority interest is accounted using the Economic Entity Method. Under the Economic Entity Method, the purchase of a minority interest is a transaction with a shareholder. As such, any excess consideration over the Group's share of net assets is recorded in owners' equity.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(j) Intangible assets

2. Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (three to five years). Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised using the straight line method over their expected useful lives.

3. Other acquired intangible assets

Other acquired intangible assets determined to have finite lives, such as core deposits and customer relationships, are amortised on a straight line basis over their estimated useful lives of up to twenty years. The original carrying amount of core deposits and customer relationships has been determined by independent appraisers, based on the profit rate differential on the expected deposit duration method.

Other acquired intangible assets are tested annually or more often if indicators exist for impairment and carried at cost less accumulated amortization.

(k) Current taxation

There is no tax on corporate income in the Kingdom of Bahrain. However, the subsidiaries incorporated in tax jurisdictions pay tax as per local regulations.

(l) Deferred taxation

Deferred taxation is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

A deferred tax asset is recognised for all deductible temporary differences and carry forward of unused tax losses and tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and unused tax losses and tax credits can be utilised. Enacted tax rates are used to determine deferred income tax.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(m) Provision for staff benefits

Staff benefits and entitlements to annual leave, holiday air passage and other short-term benefits are recognised when they accrue to employees. The Group's contributions to defined contribution plans are charged to the consolidated income statement in the period to which they relate. In respect of these plans, the Group has a legal and constructive obligation to pay the contributions as they fall due and no obligation exists to pay future benefits.

In respect of end of service benefits, to which certain employees of the Group are eligible, costs are assessed in accordance with the labour law requirements of the applicable jurisdiction or by using the projected unit credit method as appropriate. Costs to be recognised under the projected unit credit method are estimated based on the advice of qualified actuaries. Actuarial gains and losses are spread over the average remaining service lives of the employees until the benefits become vested.

(n) Due to investors

Funds received from depositors who take the corporate risk of the Bank or its subsidiaries are classified as "Due to investors"

(o) Equity of unrestricted investment accountholders

Under the equity of unrestricted investment accountholders (URIA), the investment account holder authorizes the Group to invest the accountholders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

The assets included in the equity of unrestricted investment accountholders are measured on the same basis of various category of the assets as set out above. The amount appropriated to investment risk reserve are out of the total income from URIA assets before charging any expense relating to the management fee, mudarib share of profit, profit equalization reserve and profit to investment accountholders. Profit equalisation reserve is created to maintain a certain level of return on investments for investment accountholders.

(p) Restricted investment accounts

Under the restricted investment accounts (RIA), the investment accountholders impose certain restrictions as to where, how and for that purpose the funds are to be invested. The assets included in the restricted investment accounts are recorded at Net Asset Value (NAV).

(q) Treasury shares

These shares are treated as a deduction from the owners' equity. Gains and losses on sale of own shares are included in owners' equity.

(r) Statutory reserve

In accordance with the Bahrain Commercial Companies Law 10% of the Bank's net income for the year is transferred to a statutory reserve until such time as reserve reaches 50% of the paid up share capital. The reserve is not distributable, but can be utilized as stipulated in the Bahrain Commercial Companies Law and other applicable statutory regulations.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(s) Revenue recognition

1. Profit participation and management fees

   Income from profit participation and management fees charged to funds managed by the Group is recognised on the basis of the Group's entitlement to receive such revenue from restricted and unrestricted investment accounts as defined in the Mudaraba agreement (trust deed), except when the Group temporarily waives its entitlement.

2. Profit on Murabaha and other financings

   Profit on Murabaha transactions is recognised by proportionately allocating the attributable profits over the period of the transaction where each financial period carries its portion of profits irrespective of whether or not cash is received. However, profit accrual is suspended on Murabaha transactions in respect of which repayment instalments are past due for more than ninety days, unless, in the opinion of the management of the Bank, the accrual is justified.

   Income from other financings is accrued based on the effective yield method over the period of the transaction. Where income is not contractually determined or quantifiable, it is recognised when reasonably certain of realisation or when realised.

3. Income from assets acquired for leasing

   Lease rental revenue is recognised on a time-apportioned basis over the lease term.

4. Income from Mudaraba contracts

   Income from Mudaraba contracts are recognised when the Mudarib distributes profits. Any share of losses for the period are recognized to the extent such losses are being deducted from the Mudaraba capital.

5. Profit on Musharaka contracts

   In respect of Musharaka contracts that continue for more than one financial period, the Group's share of profits are recognised when a partial or final settlement takes place and its share of the losses are recognised to the extent that such losses are deducted from the Group's share of Musharaka capital. However, in respect of diminishing Musharaka transactions, profits or losses are recognised after considering the decline in the Group's share of the Musharaka capital and, consequently, its proportionate share of the profits or losses.

6. Dividend income

   Dividend income is recognised when the right to receive payment is established.

7. Fees and commissions

   Fees and commissions (including banking services) are recognised when earned.

   Commissions on letters of credit and letters of guarantee are recognised as income over the period of the transaction.

   Fees for structuring and arrangement of financing transactions for and on behalf of other parties are recognised when the Bank has fulfilled all its obligations in connection with the related transaction.

2 SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(iv) Summary of significant accounting policies (continued)

(t) Profit allocation between group and investment accountholders

The Group maintains separate books for assets financed by owners, unrestricted and restricted investment accounts. All income generated from the assets financed by the investment accounts are allocated to the customers after deducting impairment provisions, profit equalization reserves, mudarib's share of profit and management fees.

Administrative expenses incurred in connection with the management of the funds are borne directly by the Group.

Impairment provision is made when the management considers that there is impairment in the carrying amount of assets financed by the investment account.

(u) Assets transfer between Owner's equity, Unrestricted Investment Accounts and Restricted Investment Accounts

Assets are transferred between Owner's equity, Unrestricted Investment Accounts and Restricted Investment Accounts at fair value.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

3 CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

	31 December 2013			31 December 2012		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Cash reserve with central banks	61,614	-	61,614	54,563	-	54,563
Cash and balances with banks and central banks	162,954	-	162,954	150,301	-	150,301
	224,568	**-**	**224,568**	**204,864**	**-**	**204,864**

4 COMMODITY AND OTHER PLACEMENTS WITH BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2013			31 December 2012		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Commodity placements	180,900	9,427	190,327	161,863	9,925	171,788
Less: Provision	(2,460)	-	(2,460)	(2,460)	-	(2,460)
	178,440	**9,427**	**187,867**	**159,403**	**9,925**	**169,328**

Cash and cash equivalents for the purpose of cash flow statement are as under:

	31 December 2013			31 December 2012		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Cash and balances with banks and central banks	224,568	-	224,568	204,864	-	204,864
Commodity and other placements with banks, financial and other institutions - net	178,440	9,427	187,867	159,403	9,925	169,328
Less: Placement maturing after ninety days	(1,414)	(9,427)	(10,841)	(18,902)	(9,925)	(28,827)
Less: Balances with central bank relating to minimum reserve requirement	(61,614)	-	(61,614)	(54,563)	-	(54,563)
	339,980	**-**	**339,980**	**290,802**	**-**	**290,802**

The movement in provisions is as follows:

	31 December 2013			31 December 2012		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	2,460	-	2,460	2,460	-	2,460
Charge for the year	-	-	-	-	-	-
Utilised during the year	-	-	-	-	-	-
At 31 December	**2,460**	**-**	**2,460**	**2,460**	**-**	**2,460**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

5 MURABAHA AND OTHER FINANCINGS

	31 December 2013			31 December 2012		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Murabaha and other financings	857,681	441,302	1,298,983	886,645	402,950	1,289,595
Less: Provisions	(91,445)	(18,614)	(110,059)	(91,194)	(14,397)	(105,591)
	766,236	**422,688**	**1,188,924**	**795,451**	**388,553**	**1,184,004**

Other financings represents conventional loans and advances totalling BD 644.5 million (31 December 2012: BD 659 million) made by a subsidiary of the Bank.

The movement in provisions is as follows:

	31 December 2013			31 December 2012		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	91,194	14,397	105,591	87,348	11,754	99,102
Reallocation	-	-	-	1,249	-	1,249
Charge for the year	15,677	2,449	18,126	18,634	3,187	21,821
Write back during the year	(6,872)	-	(6,872)	(11,054)	(544)	(11,598)
Utilised during the year	(2,065)	(115)	(2,180)	(605)	-	(605)
Exchange differences and other movements	(6,489)	1,883	(4,606)	(4,378)	-	(4,378)
At 31 December	**91,445**	**18,614**	**110,059**	**91,194**	**14,397**	**105,591**

Total provision of BD 110.1 million (31 December 2012: BD 105.6 million) includes general provision of BD 1.4 million (31 December 2012: BD 1.2 million).

6 INVESTMENT IN MUDARABA

	31 December 2013			31 December 2012		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Mudaraba investments	451	12,966	13,417	451	13,288	13,739
Less : provisions	-	(5,575)	(5,575)	-	(5,575)	(5,575)
	451	**7,391**	**7,842**	**451**	**7,713**	**8,164**

The movement in provisions is as follows:

	31 December 2013			31 December 2012		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	-	5,575	5,575	-	5,575	5,575
Charge for the year	-	-	-	-	-	-
Utilised during the year	-	-	-	-	-	-
At 31 December	**-**	**5,575**	**5,575**	**-**	**5,575**	**5,575**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

7 INVESTMENT IN ASSOCIATES

Investment in associated companies, as adjusted for the Bank's share of their results comprise:

Name of company	2013	2012	% of Shareholding	Country	Activity
Unlisted:					
Solidarity Group Holding B.S.C. (C)	33,454	36,881	34	Bahrain	Takaful
Citic International Assets Management Limited	25,613	25,385	20	Hong Kong	Asset management
Sanpak Engineering	150	114	31	Pakistan	Manufacturing
Islamic Company for Production, Printing and Packing Materials "Icopack"	1,013	1,750	23	Egypt	Trading
Misr Company for Packing Materials "Egywrap"	1,536	1,617	23	Egypt	Trading
Faysal Asset Management Limited	208	269	30	Pakistan	Asset management
Ithraa Capital	1,687	1,421	23	Saudi Arabia	Investment company
Naseej B.S.C. (C)	35,757	34,498	30	Bahrain	Infrastructure
Chase Manara B.S.C. (C)	810	810	40	Bahrain	Real estate
Islamic Trading Company E.C	744	740	24	Bahrain	Trading
First Leasing Bank B.S.C. (C) (FLB)	-	12,313	43	Bahrain	Banking
Listed:					
BBK B.S.C	149,758	141,500	25	Bahrain	Banking
	250,730	**257,298**			

Investment in associates include conventional investments totalling BD 210.4 million (31 December 2012: BD 199.4 million).

The Bank's share of net assets of its associated companies includes the following movements analysed as follows:

	31 December 2013	31 December 2012
At 1 January	257,298	245,109
Share of profit before tax	14,510	20,670
Share of tax	(7)	(404)
Dividends received	(2,161)	(5,543)
Share of fair value reserve	(1,786)	7,029
Additions	-	1,327
Disposals	(12,313)	-
Provisions	-	(7,228)
Amortisation of intangibles	(2,544)	(2,544)
Exchange differences	(2,267)	(1,118)
At 31 December	**250,730**	**257,298**

Investment in associates includes BD 97.6 million (31 December 2012: BD 82 million) pledged as collateral against borrowings (note 16) with the terms and conditions in the ordinary course of business.

Included in investment in associates at 31 December 2013 is BD 29 million (31 December 2012: BD 29 million) of goodwill. The movement is as follows:

	31 December 2013	31 December 2012
At 1 January	29,006	35,663
Provision	-	(6,657)
At 31 December	**29,006**	**29,006**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

7 INVESTMENT IN ASSOCIATES (continued)

Amortisation charge for the intangible assets for the year ended 31 December 2013 amounted to BD 2.6 million (31 December 2012: BD 2.6 million)

Summarised financial position of associates that have been equity accounted:

	31 December 2013	31 December 2012
Total assets	3,681,874	3,598,250
Total liabilities	2,977,091	2,888,979
Total revenues	153,335	142,829
Total net profit	47,759	78,412

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

8 INVESTMENT SECURITIES

	31 December 2013			31 December 2012		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Investment securities at fair value through income statement						
Held for trading						
Debt-type instruments – unlisted	29,481	-	29,481	30,561	-	30,561
Equity-type securities – listed	1,614	-	1,614	2	-	2
	31,095	**-**	**31,095**	**30,563**	**-**	**30,563**
Investment securities at fair value through equity						
Equity-type securities – listed	12,467	-	12,467	20,398	-	20,398
Equity-type securities – unlisted	86,595	33,399	119,994	67,902	25,628	93,530
	99,062	33,399	132,461	88,300	25,628	113,928
Provision for impairment	(41,690)	(2,170)	(43,860)	(41,073)	(2,170)	(43,243)
	57,372	**31,229**	**88,601**	**47,227**	**23,458**	**70,685**
Investment securities carried at amortised cost						
Sukuk – unlisted	66,780	-	66,780	76,241	-	76,241
Other debt-type instruments – listed	2,883	-	2,883	3,605	-	3,605
Other debt-type instruments – unlisted	308,151	-	308,151	218,423	-	218,423
	377,814	-	377,814	298,269	-	298,269
Provision for impairment	(5,118)	-	(5,118)	(2,493)	-	(2,493)
	372,696	**-**	**372,696**	**295,776**	**-**	**295,776**
	461,163	**31,229**	**492,392**	**373,566**	**23,458**	**397,024**

Investment securities include conventional investments totalling BD 412.7 million (31 December 2012: BD 289 million) made by a subsidiary of the Bank.

The fair value of investment securities carried at amortised cost was BD 370.7 million (31 December 2012: BD 275 million)

The movement in provisions relating to investment securities is as follows:

	31 December 2013			31 December 2012		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	43,566	2,170	45,736	40,790	354	41,144
Release / reallocation	-	-	-	(1,249)	-	(1,249)
Charge for the year	10,185	-	10,185	6,505	2,150	8,655
Write back during the year	(1,528)	-	(1,528)	(2,116)	-	(2,116)
Addition due to acquisition of associate (note 21)	1,749	-	1,749	-	-	-
Utilised during the year	(3,798)	-	(3,798)	-	(334)	(334)
Exchange differences	(3,366)	-	(3,366)	(364)	-	(364)
At 31 December	**46,808**	**2,170**	**48,978**	**43,566**	**2,170**	**45,736**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

8 INVESTMENT SECURITIES (continued)

FAS 25 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical investments.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the investments, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – inputs for the investments that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

Investments measured at fair value

	Level 1	Level 2	Level 3	Total
At 31 December 2013				
Investment securities at fair value through income statement				
Debt-type instruments	-	29,481	-	29,481
Equity securities	1,614	-	-	1,614
Investment securities at fair value through equity				
Equity securities	10,673	785	77,143	88,601
	12,287	**30,266**	**77,143**	**119,696**

	Level 1	Level 2	Level 3	Total
At 31 December 2012				
Investment securities at fair value through income statement				
Debt-type instruments	-	30,561	-	30,561
Equity securities	2	-	-	2
Investment securities at fair value through equity				
Equity securities	18,143	1,094	51,448	70,685
	18,145	**31,655**	**51,448**	**101,248**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

8 INVESTMENT SECURITIES (continued)

Reconciliation of Level 3 Items

	Investment securities at fair value through equity	
	2013	**2012**
At 1 January	**51,448**	**65,763**
Total gains/(losses) recognised in		
- Income statement	(6,342)	(5,330)
- Equity	(3,028)	5,475
Purchases	37,994	244
Sales	(2,929)	(14,704)
At 31 December	**77,143**	**51,448**
Total gains/(losses) for the year included in consolidated income statement for 31 December	(580)	1,822

9 RESTRICTED INVESTMENT ACCOUNTS

	31 December 2013			31 December 2012		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	**Relating to owners**	**Relating to unrestricted investment accounts**	**Total**
Investment in restricted investment accounts	34,608	17,523	52,131	60,612	30,349	90,961
Less: provisions	(19,489)	(3,252)	(22,741)	(8,795)	(728)	(9,523)
	15,119	**14,271**	**29,390**	**51,817**	**29,621**	**81,438**

The movement in provisions is as follows:

	31 December 2013			31 December 2012		
	Relating to owners	**Relating to unrestricted investment accounts**	**Total**	**Relating to owners**	**Relating to unrestricted investment accounts**	**Total**
At 1 January	8,795	728	9,523	7,784	-	7,784
Charge for the year	10,660	-	10,660	1,019	728	1,747
Transfer from Profit Equalisation Reserve	-	2,524	2,524	-	-	-
Exchange differences	34		34	(8)	-	(8)
At 31 December	**19,489**	**3,252**	**22,741**	**8,795**	**728**	**9,523**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

10 ASSETS ACQUIRED FOR LEASING

	31 December 2013			31 December 2012		
	Cost	Accumulated depreciation	Net book amount	Cost	Accumulated depreciation	Net book amount
Property & Equipment	73,060	(48,824)	24,236	42,246	(19,312)	22,934

The net book amount of assets acquired for leasing is further analysed as follows:

	31 December 2013	31 December 2012
Relating to owners	13,944	15,403
Relating to unrestricted investment accounts	10,292	7,531
	24,236	22,934

11 INVESTMENT IN REAL ESTATE

	31 December 2013			31 December 2012		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Investment properties	142,876	-	142,876	158,940	-	158,940
Less: provisions	(9,679)	-	(9,679)	(7,557)	-	(7,557)
	133,197	**-**	**133,197**	**151,383**	**-**	**151,383**

Fair value of investment properties at the year end approximates their carrying value.

The movement in provisions for investment in real estate is as follows:

	31 December 2013			31 December 2012		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	7,557	-	7,557	10,763	-	10,763
Release / reallocation	-	-	-	(5,945)	-	(5,945)
Charge for the year			-	2,739	-	2,739
Utilised during the year	(2,056)	-	(2,056)	-	-	-
Addition due to acquisition of associate (note 21)	1,949	-	1,949	-	-	-
Exchange differences	2,229	-	2,229	-	-	-
At 31 December	**9,679**	**-**	**9,679**	**7,557**	**-**	**7,557**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

12 OTHER ASSETS

	31 December 2013			31 December 2012		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Account receivable	65,115	12,565	77,680	54,098	13,015	67,113
Due from related parties	26,883	-	26,883	22,473	-	22,473
Taxes – deferred	14,290	-	14,290	18,650	-	18,650
Taxes – current	11,895	-	11,895	5,647	-	5,647
Assets acquired against claims	7,929	-	7,929	10,133	-	10,133
	126,112	12,565	138,677	111,001	13,015	124,016
Provision for impairment	(27,692)	(10,254)	(37,946)	(16,995)	(9,873)	(26,868)
	98,420	**2,311**	**100,731**	**94,006**	**3,142**	**97,148**

The movement in provisions is as follows:

	31 December 2013			31 December 2012		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	16,995	9,873	26,868	18,312	8,275	26,587
Charge for the year	4,262	-	4,262	3,789	1,598	5,387
Write back during the year	(2,451)	-	(2,451)	-	-	-
Utilised during the year	(634)	-	(634)	(5,012)	-	(5,012)
Addition due to acquisition of associate (note 21)	8,487	-	8,487	-	-	-
Exchange differences	1,033	381	1,414	(94)	-	(94)
At 31 December	**27,692**	**10,254**	**37,946**	**16,995**	**9,873**	**26,868**

13 FIXED ASSETS

	Relating to owners							
	31 December 2013				31 December 2012			
	Cost	Accumulated depreciation	Provision for impairment	Net book amount	Cost	Accumulated depreciation	Provision for impairment	Net book amount
Land and building	41,495	(3,955)	(1,057)	36,483	38,447	(2,970)	-	35,477
Leasehold improvements	9,363	(6,746)	-	2,617	10,022	(6,899)	-	3,123
Furniture and equipment	25,810	(22,068)	-	3,742	26,204	(21,541)	-	4,663
Aircrafts and motor vehicles	1,212	(637)	-	575	4,998	(4,314)	-	684
	77,880	**(33,406)**	**(1,057)**	**43,417**	**79,671**	**(35,724)**	**-**	**43,947**

Depreciation charge for the year ended 31 December 2013 amounted to BD 3.2 million (31 December 2012: BD 3.9 million)

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

14 INTANGIBLE ASSETS

	Relating to owners			31 December 2013
	Cost	Accumulated amortisation	Exchange differences	Net book amount
Goodwill	33,112	-	(3,492)	29,620
Customer relations	42,814	(14,090)	(4,699)	24,025
Core deposits	58,641	(21,625)	(9,135)	27,881
Others	8,405	(5,655)	-	2,750
	142,972	**(41,370)**	**(17,326)**	**84,276**

	Relating to owners			31 December 2012
	Cost	Accumulated amortisation	Exchange differences	Net book amount
Goodwill	33,112	-	(3,098)	30,014
Customer relations	42,814	(11,823)	(3,944)	27,047
Core deposits	58,641	(18,692)	(8,749)	31,200
Others	6,651	(4,106)	-	2,545
	141,218	**(34,621)**	**(15,791)**	**90,806**

Amortisation charge for the year ended 31 December 2013 amounted to BD 6 million (31 December 2012: BD 5.9 million)

The carrying amount of goodwill has been allocated to cash-generating units as follows:

	31 December 2013	31 December 2012
Business units of ex-Shamil Bank of Bahrain B.S.C. (C)	24,908	24,908
Faysal Bank Limited	4,712	5,106
	29,620	**30,014**

The recoverable amount of the cash-generating units were determined based on Value-in-Use (VIU) calculation using cash flow projections from financial budgets approved by the Group's senior management covering a three year period and Fair Value Less Cost to Sell (FVLCTS). The discount rate applied to cash flow projections represent the cost of capital adjusted for an appropriate risk premium for these cash-generating units. The key assumptions used in estimating the recoverable amounts of cash-generating units were assessed to ensure reasonableness of the VIU and FVLCTS and resulting adjustment, if any, is recorded in the consolidated income statement.

15 CUSTOMERS' CURRENT ACCOUNTS

Customers' current accounts include balances relating to a counterparty amounting to BD 93.4 million (31 December 2012: BD 89.5 million) which is subject to freeze and originating from jurisdiction under US and UN sanctions.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

16 DUE TO BANKS, FINANCIAL AND OTHER INSTITUTIONS

	31 December 2013			31 December 2012		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Due to Banks	394,171	-	394,171	403,387	-	403,387
Due to financial and other institutions	96,503	-	96,503	91,683	-	91,683
	490,674	**-**	**490,674**	**495,070**	**-**	**495,070**

Due to banks, financial and other institutions include balances totalling BD 258.5 million (31 December 2012: BD 251.8 million) from two counterparties having contractual maturity ranging from one month to 3 years. Out of these, balances totalling BD 162.1 million (31 December 2012: BD 160.1 million) is from one counterparty which is subject to freeze and originating from jurisdiction under US and UN sanctions.

Due to banks include short and medium term borrowings by the Group under bilateral and multilateral arrangement with maturities ranging from one year to five years.

Due to banks, financial and other institutions include conventional deposits totalling BD 164.3 million (31 December 2012: BD 139.6 million), accepted by a subsidiary of the Bank.

At 31 December 2013, there were collateralized borrowings in aggregate BD 50.6 million (31 December 2012: BD 57 million).

Cash dividends amounting to BD 2.2 million (31 December 2012: BD 5.2 million) on certain shares pledged as collateral was directly received by the lender (as per agreed terms and conditions) during the year and adjusted against the outstanding facility amount as per the agreed terms.

Assets which are pledged as collateral are conducted under terms that are usual and customary to standard lending and securities borrowing and lending activities.

17 DUE TO INVESTORS

	Relating to owners	
	31 December 2013	31 December 2012
Due to corporate institutions	368,284	381,522
Due to individuals	305,916	311,393
Due to financial institutions	25,425	25,882
	699,625	**718,797**

Due to investors represent conventional deposits accepted by a subsidiary of the Bank.

Due to investors include floating rate unsecured term finance certificates issued by a subsidiary.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

18 OTHER LIABILITIES

	31 December 2013			31 December 2012		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Accounts payable	66,621	16,414	83,035	66,586	19,210	85,796
Due to related parties	4,097	-	4,097	2,862	-	2,862
Provision for taxation – current	50	-	50	94	-	94
Provision for taxation – deferred	1,912	-	1,912	1,870	-	1,870
	72,680	**16,414**	**89,094**	**71,412**	**19,210**	**90,622**

19 EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS

The funds received from Unrestricted Investment Accountholders (URIA) are invested on their behalf without recourse to the Group as follows:

	Note	31 December 2013	31 December 2012
Commodity and other placements with banks, financial and other institutions	4	9,427	9,925
Murabaha and other financings	5	422,688	388,553
Investment in mudaraba	6	7,391	7,713
Investment in associates	7	1,636	2,913
Investment securities	8	31,229	23,458
Restricted investment accounts	9	14,271	29,621
Assets acquired for leasing	10	10,292	7,531
Other assets	12	2,311	3,142
Due from the Bank		265,691	206,527
		764,936	679,383
Other liabilities	18	(16,414)	(19,210)
Equity of unrestricted investment accountholders		**748,522**	**660,173**

The movement in investments fair value reserve (included in URIA) is as follows:

	31 December 2013	31 December 2012
At 1 January	4,509	(1,470)
Net movement during the year	(872)	5,979
At 31 December	**3,637**	**4,509**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

19 EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS (continued)

The assets attributable to unrestricted investment accountholders have been disclosed net of impairment provisions amounting to BD 39.9 million (31 December 2012: BD 33.3 million). The movement of impairment provisions relating to unrestricted investment accountholders has been disclosed in note 29.

Other liabilities include profit equalization reserve and the movement is as follows:

	31 December 2013	31 December 2012
At 1 January	3,793	7,015
Net transfer to impairment provisions (note 29)	(4,787)	(5,274)
Net addition during the year	1,954	2,052
At 31 December	**960**	**3,793**

The average gross rate of return in respect of unrestricted investment accounts was 8.36% for 31 December 2013 (31 December 2012: 7.38%) of which 5.57% (31 December 2012: 4.82%) was distributed to the investors and the balance was either set aside as provisions and/or retained by the Bank as share of profits in its capacity as a Mudarib.

The Bank earned a management fee up to 1% of the total invested amount per annum to cover its administration and other expenses related to the management of such funds

20 MINORITY INTEREST

The consolidated financial statements include 100% of the assets, liabilities and earnings of subsidiaries. The ownership interests of the other shareholders in the subsidiaries are called minority interests.

The following table summarises the minority shareholders' interests in the equity of consolidated subsidiaries.

	31 December 2013		31 December 2012	
	Minority %		Minority %	
Faysal Bank Limited	33	31,346	33	32,698
Health Island B.S.C. (C)	50	41,614	50	42,040
Cityview Real Estate Development B.S.C. (C)	49	627	49	627
Marina Reef Real Estate Development B.S.C. (C)	49	-	49	1,975
Sakana Holistic Housing Solutions B.S.C. (C)	50	10,077	50	9,971
Others	5	-	5	-
		83,664		**87,311**

Minority interest in the consolidated income statement of BD 0.4 million (31 December 2012: BD 1.4 million) represents the minority shareholders' share of the earnings of these subsidiaries for the respective years.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

21 SHARE CAPITAL

	Number of shares (thousands)	Share capital
Authorised	8,000,000	754,000
Issued and fully paid		
Total outstanding	2,804,050	264,281
Treasury shares	(120,595)	(11,366)
At 1 January 2012	**2,683,455**	**252,915**
At 31 December 2012 (Audited)	**2,683,455**	**252,915**
Issued and fully paid		
Total outstanding as at 1 January 2013	2,804,050	264,281
Treasury shares	(120,595)	(11,366)
	2,683,455	252,915
Increase in share capital	226,705	21,368
At 31 December 2013 (Audited)	**2,910,160**	**274,283**

The Bank's total issued and fully paid share capital at 31 December 2013 comprises 3,030,755,027 shares at $0.25 per share amounting to BD 285,648,661.The share capital of the Bank is denominated in United States dollars and these shares are traded on Bahrain Bourse in United States dollars and on Kuwait Stock Exchange in Kuwaiti Dinars.

The Bank owned 120,594,984 of its own shares at 31 December 2013 (31 December 2012: 120,594,984). The shares are held as treasury shares and the Bank has the right to reissue these shares at a later date.

The shareholders of the Bank and FLB in their Extraordinary General Meetings held on 21 October 2012 approved the Transfer of Business from FLB to the Bank and the share swap involving issuance of four ordinary shares of the Bank for one ordinary share of FLB directly to the shareholders of FLB (other than for FLB shares held by or on behalf of the Bank). On 17 February 2013, the CBB approved the Transfer of Business from First Leasing Bank B.S.C. (c) ("FLB") to the Bank and the share swap involving issuance of four ordinary shares of the Bank for one ordinary share of FLB directly to the shareholders of FLB (other than for FLB shares held by or on behalf of the Bank). The Transfer of Business from FLB and share swap was completed in March 2013.

22 EARNINGS PER SHARE (BASIC & DILUTED)

Earnings per share (Basic & Diluted) are calculated by dividing the net income attributable to shareholders by the weighted average number of issued and fully paid up ordinary shares during the year.

	31 December 2013	31 December 2012
Net loss attributable to shareholders (BD'000)	(30,300)	(11,491)
Weighted average number of issued and fully paid up ordinary shares ('000)	2,910,160	2,683,455
Earnings per share (Basic & Diluted) – Fils	**(10.41)**	**(4.28)**

Earnings per share on non-sharia compliant income and expenses is included under note 41.

23 INCOME FROM RESTRICTED INVESTMENT ACCOUNTS AS A MUDARIB

Income from restricted investment accounts comprises profit participation as a Mudarib and investment management fees net of contribution made to certain restricted funds.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

24 INCOME FROM MURABAHA AND OTHER FINANCINGS

		Relating to owners
	31 December 2013	31 December 2012
Income from murabaha financing	6,272	5,930
Income from other financings	73,397	84,251
	79,669	**90,181**

25 INCOME FROM OTHER INVESTMENTS

		Relating to owners
	31 December 2013	31 December 2012
Income from investment securities at amortised cost	26,388	30,064
Income from investment securities at fair value through equity	2,219	2,691
Income from investment securities at fair value through income statement	6,654	10,180
Rental income from investment in real estate	1,431	1,250
	36,692	**44,185**

26 OTHER INCOME

		Relating to owners
	31 December 2013	31 December 2012
Income from banking services	11,936	12,910
Fees and commission on letters of credit and guarantee	1,436	2,315
Other fee income	178	791
Foreign exchange and derivative income/(loss)	(343)	2,477
Gain on disposal of fixed assets	448	217
Others	1,724	1,302
	15,379	**20,012**

27 ADMINISTRATIVE AND GENERAL EXPENSES

		Relating to owners
	31 December 2013	31 December 2012
Salaries and other benefits	33,606	34,708
Office expenses	18,448	17,877
Professional fees	2,267	2,392
Other administrative expenses	7,426	7,363
	61,747	**62,340**

28 SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through donations to charitable causes and organizations.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

29 PROVISIONS

	31 December 2013			31 December 2012		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
At 1 January	198,543	33,313	231,856	190,692	25,958	216,650
Charge for the year	41,839	2,449	44,288	33,571	2,959	36,530
Write back during the year	(10,850)	-	(10,850)	(13,170)	(544)	(13,714)
Addition due to acquisition of associate (note 21)	12,184	-	12,184	-	-	-
Transfer from Profit Equalization Reserve (note 19)	-	4,787	4,787	-	5,274	5,274
Utilised during the year	(9,940)	(684)	(10,624)	(7,861)	(334)	(8,195)
Exchange differences	(6,557)	-	(6,557)	(4,689)	-	(4,689)
At 31 December	**225,219**	**39,865**	**265,084**	**198,543**	**33,313**	**231,856**

The allocation of the provision to the respective assets is as follows:

	31 December 2013			31 December 2012		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Commodity and other placements with banks, financial and other institutions	2,460	-	2,460	2,460	-	2,460
Murabaha and other financings	91,445	18,614	110,059	91,194	14,397	105,591
Investment in mudaraba	-	5,575	5,575	-	5,575	5,575
Investment in associates	26,589	-	26,589	27,976	570	28,546
Investments securities	46,808	2,170	48,978	43,566	2,170	45,736
Restricted investment accounts	19,489	3,252	22,741	8,795	728	9,523
Fixed assets	1,057	-	1,057	-	-	-
Investment in real estate	9,679	-	9,679	7,557	-	7,557
Other assets	27,692	10,254	37,946	16,995	9,873	26,868
	225,219	**39,865**	**265,084**	**198,543**	**33,313**	**231,856**

Total provisions of BD 265 million (31 December 2012: BD 231.9 million) include BD 20.7 million (31 December 2012: BD 9.1 million) held as general provisions. The movement in general provision is as follows:

		Relating to owners
	31 December 2013	31 December 2012
At 1 January	9,140	11,234
Charge for the year	17,356	6,434
Write back during the year	(1,006)	(1,320)
Utilised during the year	(3,207)	(7,200)
Allocated to specific provision	(1,408)	-
Exchange differences	(166)	(8)
At 31 December	**20,709**	**9,140**

General provision of BD 20.7 million (31 December 2012: BD 9.1 million) includes BD 1.4 million (31 December 2012: BD 1.2 million) in respect of Murabaha and other financings.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

30 OVERSEAS TAXATION

	Relating to owners	
	31 December 2013	31 December 2012
Current taxes	(1,966)	760
Deferred taxes	2,695	1,748
	729	**2,508**

The Group is subject to income taxes in some jurisdictions. Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences impact the income tax and deferred tax provisions in the period in which such determination is made.

Current tax receivable/(payable)

	31 December 2013	31 December 2012
At 1 January	5,553	4,589
Reversal/(charge) for the year	1,954	(824)
Payments made	4,723	1,989
Exchange differences and other movements	(385)	(201)
At 31 December	**11,845**	**5,553**

Deferred tax asset/(liability)

	31 December 2013	31 December 2012
At 1 January	16,780	20,752
Charge for the year	(2,683)	(1,684)
Charges due to fair value reserve	-	(972)
Exchange differences and other movements	(1,720)	(1,316)
At 31 December	**12,377**	**16,780**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

31 SEGMENTAL INFORMATION

The Group constitutes of three main business segments, namely;

(i) Retail and Corporate banking, in which the Group receives customer funds and deposits and extends financing to its retail and corporate clients.

(ii) Trading Portfolio, where the Group trades in equity deals, foreign exchange and other transactions with the objective of realizing short-term gains.

(iii) Asset Management/Investment Banking, in which the Group directly participates in investment opportunities.

	31 December 2013					31 December 2012				
	Retail & Corporate banking	**Trading Portfolio**	**Asset Management / Investment Banking**	**Others**	**Total**	**Retail & Corporate banking**	**Trading Portfolio**	**Asset Management / Investment Banking**	**Others**	**Total**
Operating income	49,631	29,924	(5,380)	1,187	**75,362**	52,658	35,810	(1,014)	55	**87,509**
Total expenses	(64,866)	(160)	(8,464)	(60)	**(73,550)**	(66,874)	(170)	(7,568)	(102)	**(74,714)**
Net income/(loss) before provision and overseas taxation	**(15,235)**	**29,764**	**(13,844)**	**1,127**	**1,812**	**(14,216)**	**35,640**	**(8,582)**	**(47)**	**12,795**
Provision and overseas taxation	520	(11,922)	(20,301)	(15)	**(31,718)**	(2,611)	(12,194)	(8,089)	(15)	**(22,909)**
Net income/(loss) for the year	**(14,715)**	**17,842**	**(34,145)**	**1,112**	**(29,906)**	**(16,827)**	**23,446**	**(16,671)**	**(62)**	**(10,114)**
Attributable to:										
Equity holders of the Bank	(14,715)	16,451	(33,148)	1,112	**(30,300)**	(18,931)	23,446	(15,944)	(62)	**(11,491)**
Minority interests	-	1,391	(997)	-	**394**	2,104	-	(727)	-	**1,377**
	(14,715)	**17,842**	**(34,145)**	**1,112**	**(29,906)**	**(16,827)**	**23,446**	**(16,671)**	**(62)**	**(10,114)**
Total assets	**1,797,933**	**415,011**	**513,430**	**64,608**	**2,790,982**	**1,736,815**	**346,986**	**573,461**	**66,841**	**2,724,103**
Total liabilities and equity of unrestricted investment account holders	**2,324,494**	**94,227**	**48,300**	**39,896**	**2,506,917**	**2,276,270**	**65,189**	**36,158**	**37,079**	**2,414,696**

The Group constitutes of four geographical segments which are Europe, North America, Middle East & Africa, Asia and others

	31 December 2013						31 December 2012					
	Europe	**North America**	**Middle East & Africa**	**Asia**	**Others**	**Total**	**Europe**	**North America**	**Middle East & Africa**	**Asia**	**Others**	**Total**
Operating income	1,019	1,214	13,139	58,723	1,267	**75,362**	2,803	1,171	25,376	57,988	171	**87,509**
Total expenses	(5,911)	-	(25,258)	(42,416)	35	**(73,550)**	(8,402)	-	(22,093)	(44,170)	(49)	**(74,714)**
Net income/(loss) before provision and overseas taxation	**(4,892)**	**1,214**	**(12,119)**	**16,307**	**1,302**	**1,812**	**(5,599)**	**1,171**	**3,283**	**13,818**	**122**	**12,795**
Provision and overseas taxation	(13,023)	(20)	(4,023)	(14,652)	-	**(31,718)**	(324)	(801)	(15,009)	(6,775)	-	**(22,909)**
Net income/(loss) for the year	**(17,915)**	**1,194**	**(16,142)**	**1,655**	**1,302**	**(29,906)**	**(5,923)**	**370**	**(11,726)**	**7,043**	**122**	**(10,114)**
Attributable to:												
Equity holders of the Bank	(17,915)	1,194	(15,143)	262	1,302	**(30,300)**	(5,923)	370	(11,743)	5,683	122	**(11,491)**
Minority interests	-	-	(999)	1,393	-	**394**	-	-	17	1,360	-	**1,377**
	(17,915)	**1,194**	**(16,142)**	**1,655**	**1,302**	**(29,906)**	**(5,923)**	**370**	**(11,726)**	**7,043**	**122**	**(10,114)**
Total assets	**219,343**	**40,773**	**1,159,412**	**1,325,420**	**46,034**	**2,790,982**	**242,208**	**20,568**	**1,142,771**	**1,266,845**	**51,711**	**2,724,103**
Total liabilities and equity of unrestricted investment account holders	**99,472**	**18,405**	**1,183,042**	**1,194,067**	**11,931**	**2,506,917**	**106,754**	**9,984**	**1,091,207**	**1,147,527**	**59,224**	**2,414,696**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

32 ZAKAH

Zakah is directly borne by the owners and investors in restricted and equity of unrestricted investment accountholders. The Bank does not collect or pay Zakah on behalf of its owners and its investment accountholders.

33 CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

	31 December 2013	31 December 2012
Acceptances and endorsements	47,248	50,463
Guarantees and irrevocable letters of credit	311,496	332,670
Customer and other claims	152,537	146,944
	511,281	**530,077**

Commitments

	31 December 2013	31 December 2012
Undrawn facilities, financing lines and other commitments to finance	**847,886**	**663,497**

Customer and other claims include a net claim amounting to BD 20.8 million (31 December 2012: Nil) for which litigation has been filed against the Bank and the counter claim and litigation filed by the Bank against the counterparty in connection with a real estate transaction. The case is currently under court proceedings and the ultimate outcome cannot presently be determined. The Bank's management is vigorously contesting the litigation and based on the advice received from its external legal counsel, the Bank believes that it has strong grounds to successfully defend against this claim. Accordingly, no provision for this claim has been made in the consolidated financial statements.

34 CURRENCY RISK

Assuming that all other variables held constant, the impact of currency risk on the consolidated income statement/equity based on reasonable shift is summarized below:

	PKR	EUR	USD	PLN
As at 31 December 2013				
Total currency exposure	34,768	22,891	63,367	18,763
Reasonable shift	5.36%	0.07%	0.12%	2.18%
Total effect on income/equity	**1,864**	**16**	**76**	**409**

	PKR	EUR	USD	PLN
As at 31 December 2012				
Total currency exposure	36,315	59,827	52,454	23,132
Reasonable shift	7.79%	0.35%	0.03%	2.79%
Total effect on income/equity	**2,829**	**209**	**16**	**645**

The basis for calculation of the reasonable shift is arrived at by comparing the foreign exchange spot rate as at 31 December as compared to the one year forward rate for the same period.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

34 CURRENCY RISK (continued)

The currency exposure of the assets and liabilities, of the Group, including equity of unrestricted investment accountholders, is as follows:

31 December 2013	United states Dollar	Pakistan Rupee	Swiss Franc	Bahraini Dinar	Euro	UAE Dirham	Hong Kong Dollar	Other	Total
Cash and balances with banks and central banks	51,911	81,997	343	59,143	24,985	676	11	5,502	224,568
Commodity and other placements with banks, financial and other institutions	87,129	1,078	-	35,602	61,149	2,909	-	-	187,867
Murabaha and other financings	148,764	641,089	-	337,432	18,219	12,716	-	30,704	1,188,924
Musharaka financing	-	23,412	-	-	-	-	-	-	23,412
Investment in mudaraba	7,842	-	-	-	-	-	-	-	7,842
Investment in associates	-	314	-	220,090	-	-	25,613	4,713	250,730
Investment securities	74,925	412,840	288	644	3,381	-	-	314	492,392
Restricted investment accounts	25,337	-	-	-	4,053	-	-	-	29,390
Assets acquired for leasing	13,944	-	-	10,292	-	-	-	-	24,236
Investment in real estate	23,456	2,731	19,685	65,115	22,210	-	-	-	133,197
Other assets	29,805	48,949	1,405	2,915	13,339	-	-	4,318	100,731
Fixed assets	1,546	20,223	11	21,637	-	-	-	-	43,417
Intangible assets	75,251	9,025	-	-	-	-	-	-	84,276
Total assets	**539,910**	**1,241,658**	**21,732**	**752,870**	**147,336**	**16,301**	**25,624**	**45,551**	**2,790,982**
Customer current accounts	38,951	258,581	-	67,389	107,973	-	-	6,108	479,002
Due to banks, financial and other institutions	9,744	164,258	-	147,553	46,246	122,818	-	55	490,674
Due to investors	51,229	635,787	-	-	4,602	-	-	8,007	699,625
Other liabilities	2,571	39,766	3,113	39,271	3,798	282	-	293	89,094
Total liabilities	**102,495**	**1,098,392**	**3,113**	**254,213**	**162,619**	**123,100**	**-**	**14,463**	**1,758,395**
Equity of unrestricted investment accountholders	169,785	-	-	571,129	7,608	-	-	-	748,522
Total liabilities and equity of unrestricted investment accountholders	**272,280**	**1,098,392**	**3,113**	**825,342**	**170,227**	**123,100**	**-**	**14,463**	**2,506,917**
Contingent liabilities and commitments	**320,787**	**731,601**	**5,729**	**241,274**	**14,705**	**21,722**	**-**	**23,349**	**1,359,167**
31 December 2012									
Total assets	**578,176**	**1,179,150**	**28,073**	**699,266**	**151,446**	**8,570**	**25,395**	**54,027**	**2,724,103**
Total liabilities and equity of unrestricted investment accountholders	**306,129**	**1,043,121**	**14,051**	**704,594**	**211,273**	**123,016**	**-**	**12,512**	**2,414,696**
Contingent liabilities and commitments	**312,552**	**556,838**	**6,136**	**242,976**	**24,345**	**27,708**	**-**	**23,019**	**1,193,574**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

35 MATURITY PROFILE

The maturity profile of the assets and liabilities of the Group, including equity of unrestricted investment accountholders, is as follows:

31 December 2013	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Cash and balances with banks and central banks	224,568	-	-	-	-	224,568
Commodity and other placements with banks, financial and other institutions	148,935	28,091	10,841	-	-	187,867
Murabaha and other financings	175,359	170,148	182,065	398,383	262,969	1,188,924
Musharaka financing	4,177	5,312	4,539	7,538	1,846	23,412
Investment in mudaraba	129	-	-	7,713	-	7,842
Investment in associates	-	-	-	-	250,730	250,730
Investment securities	96,193	162,360	113,748	109,157	10,934	492,392
Restricted investment accounts	-	-	-	-	29,390	29,390
Assets acquired for leasing	58	-	610	13,999	9,569	24,236
Investment in real estate	-	-	-	101,666	31,531	133,197
Other assets	41,737	4,865	39,673	5,016	9,440	100,731
Fixed assets	45	19	813	5,832	36,708	43,417
Intangible assets	-	-	-	2,749	81,527	84,276
Total assets	**691,201**	**370,795**	**352,289**	**652,053**	**724,644**	**2,790,982**
Customer current accounts	479,002	-	-	-	-	479,002
Due to banks, financial and other institutions	268,905	24,198	190,160	7,411	-	490,674
Due to investors	467,705	70,183	128,318	32,888	531	699,625
Other liabilities	58,826	396	16,775	6,415	6,682	89,094
Total liabilities	**1,274,438**	**94,777**	**335,253**	**46,714**	**7,213**	**1,758,395**
Equity of unrestricted investment accountholders	203,557	101,643	102,080	341,230	12	748,522
Total liabilities and equity of unrestricted investment accountholders	**1,477,995**	**196,420**	**437,333**	**387,944**	**7,225**	**2,506,917**
Contingent liabilities and commitments	**243,193**	**256,568**	**195,864**	**587,829**	**75,713**	**1,359,167**
31 December 2012						
Total assets	**611,654**	**190,826**	**466,513**	**614,823**	**840,287**	**2,724,103**
Total liabilities and equity of unrestricted investment accountholders	**1,504,459**	**204,431**	**518,123**	**178,061**	**9,622**	**2,414,696**
Contingent liabilities and commitments	**570,443**	**147,024**	**224,880**	**239,085**	**12,142**	**1,193,574**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

36 CONCENTRATION OF ASSETS, LIABILITIES AND LETTERS OF CREDIT AND GUARANTEE

Assets and liabilities of the Group, including equity of unrestricted investment accountholders, and letters of credit and guarantee are distributed over the following industry sectors and geographical regions:

31 December 2013	Banks and Financial Institutions	Trading and Manu-facturing	Property and Cons-truction	Services	Private individuals	Textile	Other	Total
Cash and balances with banks and central banks	224,545	-	-	-	-	-	23	224,568
Commodity and other placements with banks, financial and other institutions	187,867	-	-	-	-	-	-	187,867
Murabaha and other financings	180,027	478,516	74,695	43,883	278,046	40,062	93,695	1,188,924
Musharaka financing	3,374	8,471	-	7,146	4,099	322	-	23,412
Investment in mudaraba	452	-	7,390	-	-	-	-	7,842
Investment in associates	177,172	3,443	36,566	33,549	-	-	-	250,730
Investment securities	407,710	53,944	22,182	7,343	-	809	404	492,392
Restricted investment accounts	24,880	-	4,510	-	-	-	-	29,390
Assets acquired for leasing	-	3,975	12,409	350	7,502	-	-	24,236
Investment in real estate	2,722	-	130,475	-	-	-	-	133,197
Other assets	71,462	2,739	11,803	155	13,577	5	990	100,731
Fixed assets	20,922	-	22,495	-	-	-	-	43,417
Intangible assets	84,276	-	-	-	-	-	-	84,276
Total assets	**1,385,409**	**551,088**	**322,525**	**92,426**	**303,224**	**41,198**	**95,112**	**2,790,982**
Customer current accounts	17,249	92,957	14,981	52,682	172,989	2,236	125,908	479,002
Due to banks, financial and other institutions	490,674	-	-	-	-	-	-	490,674
Due to investors	79,425	114,188	13,919	64,043	305,916	2,559	119,575	699,625
Other liabilities	19,755	6,099	9,392	964	37,875	-	15,009	89,094
Total liabilities	**607,103**	**213,244**	**38,292**	**117,689**	**516,780**	**4,795**	**260,492**	**1,758,395**
Equity of unrestricted investment accountholders	45,110	91,865	14,539	36,360	549,057	-	11,591	748,522
Total liabilities and equity of unrestricted investment accountholders	**652,213**	**305,109**	**52,831**	**154,049**	**1,065,837**	**4,795**	**272,083**	**2,506,917**
Contingent liabilities and commitments	**489,380**	**485,122**	**201,417**	**13,337**	**31,638**	**3,889**	**134,384**	**1,359,167**
31 December 2012								
Total assets	**1,163,660**	**457,048**	**348,429**	**235,551**	**254,078**	**96,811**	**168,526**	**2,724,103**
Total liabilities and equity of unrestricted investment accountholders	**578,046**	**400,728**	**81,015**	**284,212**	**786,445**	**45,863**	**238,387**	**2,414,696**
Contingent liabilities and commitments	**496,006**	**512,889**	**15,601**	**121,156**	**3,883**	**21,779**	**22,260**	**1,193,574**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

36 CONCENTRATION OF ASSETS, LIABILITIES AND LETTERS OF CREDIT AND GUARANTEE (continued)

31 December 2013	Asia/ Pacific	Middle East	Europe	North America	Others	Total
Cash and balances with banks and central banks	105,571	67,911	25,967	25,119	-	224,568
Commodity and other placements with banks, financial and other institutions	1,078	145,699	38,932	-	2,158	187,867
Murabaha and other financings	661,506	398,347	85,146	49	43,876	1,188,924
Musharaka financing	23,412	-	-	-	-	23,412
Investment in mudaraba	-	-	322	7,520	-	7,842
Investment in associates	25,971	224,759	-	-	-	250,730
Investment securities	423,715	62,893	3,903	1,881	-	492,392
Restricted investment accounts	-	27,707	1,683	-	-	29,390
Assets acquired for leasing	-	24,188	-	48	-	24,236
Investment in real estate	4,144	87,158	41,895	-	-	133,197
Other assets	50,776	23,877	19,922	6,156	-	100,731
Fixed assets	20,223	23,152	42	-	-	43,417
Intangible assets	9,024	73,721	1,531	-	-	84,276
Total assets	**1,325,420**	**1,159,412**	**219,343**	**40,773**	**46,034**	**2,790,982**
Customer current accounts	290,285	72,178	93,495	13,581	9,463	479,002
Due to banks, financial and other institutions	164,258	323,969	-	-	2,447	490,674
Due to investors	699,623	2	-	-	-	699,625
Other liabilities	39,848	41,980	3,511	3,755	-	89,094
Total liabilities	**1,194,014**	**438,129**	**97,006**	**17,336**	**11,910**	**1,758,395**
Equity of unrestricted investment accountholders	53	744,913	2,466	1,069	21	748,522
Total liabilities and equity of unrestricted investment accountholders	**1,194,067**	**1,183,042**	**99,472**	**18,405**	**11,931**	**2,506,917**
Contingent liabilities and commitments	**1,076,534**	**271,244**	**10,555**	**-**	**834**	**1,359,167**
31 December 2012						
Total assets	**1,266,845**	**1,142,771**	**242,208**	**20,568**	**51,711**	**2,724,103**
Total liabilities and equity of unrestricted investment accountholders	**1,147,527**	**1,091,207**	**106,754**	**9,984**	**59,224**	**2,414,696**
Contingent liabilities and commitments	**892,996**	**280,224**	**15,371**	**2,709**	**2,274**	**1,193,574**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

37 RISK MANAGEMENT

Credit risk

The significant concentration of credit risk at 31 December is set out in note 36.

Non performing financing exposures are conservatively considered as financing exposures which have been past due beyond 90 days and the profit on these assets is not recognized in the consolidated income statement. Following are the details of non performing financing exposures relating to the Bank and its unrestricted investment accountholders:

	31 December 2013			31 December 2012		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Gross exposure						
Past due but performing financing exposures	5,688	4,685	10,373	27,811	26,881	54,692
Non performing financing exposures	143,606	90,059	233,665	134,775	55,205	189,980
	149,294	**94,744**	**244,038**	**162,586**	**82,086**	**244,672**
Fair value of collateral						
Past due but performing financing exposures	3,761	16,256	20,017	42,274	27,733	70,007
Non performing financing exposures	137,329	76,901	214,230	347,997	33,601	381,598
	141,090	**93,157**	**234,247**	**390,271**	**61,334**	**451,605**

Included in the performing financing exposures of the Group are facilities which have been restructured during the year which are as follows:

	31 December 2013			31 December 2012		
	Relating to owners	Relating to unrestricted investment accounts	Total	Relating to owners	Relating to unrestricted investment accounts	Total
Restructured financings	**81,640**	**3,243**	**84,883**	**16,679**	**17,883**	**34,562**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

37 RISK MANAGEMENT (continued)

Profit rate risk

The table below summarises the Group's exposure to profit rate risk. It includes the Group's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

31 December 2013	Up to one month	One-three months	Three-twelve months	One-five years	Over five years	Non rate sensitive	Total
Cash and balances with banks and central banks	74,857	29,505	14,630	-	-	105,576	224,568
Commodity and other placements with banks, financial and other institutions	185,375	1,414	-	-	-	1,078	187,867
Murabaha and other financings	505,912	87,315	165,434	183,626	219,191	27,446	1,188,924
Musharaka financing	1,186	1,070	10,731	10,425	-	-	23,412
Investment securities	69,692	152,546	76,916	61,388	39,488	92,362	492,392
Assets acquired for leasing	10,162	1	991	2,958	10,124	-	24,236
Other assets	411	2,173	3,659	4,612	-	89,876	100,731
Total financial assets	**847,595**	**274,024**	**272,361**	**263,009**	**268,803**	**316,338**	**2,242,130**
Customer current accounts	-	-	-	-	-	479,002	479,002
Due to banks, financial and other institutions	289,552	49,218	141,467	7,263	3,174	-	490,674
Due to investors	205,902	21,458	460,957	10,776	532	-	699,625
Other liabilities	868	61	314	579	3,398	83,874	89,094
Total financial liabilities	**496,322**	**70,737**	**602,738**	**18,618**	**7,104**	**562,876**	**1,758,395**
Equity of unrestricted investment accountholders	273,327	65,055	264,064	146,064	12	-	748,522
Total financial liabilities and equity of unrestricted investment accountholders	**769,649**	**135,792**	**866,802**	**164,682**	**7,116**	**562,876**	**2,506,917**
Total repricing gap	**77,946**	**138,232**	**(594,441)**	**98,327**	**261,687**	**(246,538)**	**(264,787)**
31 December 2012							
Total financial assets	**527,432**	**338,872**	**498,081**	**230,298**	**249,821**	**246,563**	**2,091,067**
Total financial liabilities and equity of unrestricted investment accountholders	**749,453**	**363,027**	**607,910**	**167,601**	**5,734**	**520,971**	**2,414,696**
Total repricing gap	**(222,021)**	**(24,155)**	**(109,829)**	**62,697**	**244,087**	**(274,408)**	**(323,629)**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

37 RISK MANAGEMENT (continued)

	USD	EUR	PKR	BD	AED
As at 31 December 2013					
Total profit rate exposure	192,712	60,941	70,678	383,466	106,803
Reasonable shift	0.21%	0.21%	0.90%	0.30%	0.01%
Total effect on income	**405**	**128**	**636**	**1,150**	**11**

	USD	EUR	PKR	BD	AED
As at 31 December 2012					
Total profit rate exposure	152,617	76,017	40,818	358,304	114,446
Reasonable shift	0.48%	0.72%	2.50%	0.55%	0.32%
Total effect on income	**733**	**547**	**1,020**	**1,971**	**366**

The basis for calculation of the reasonable shift is arrived at by comparing the interbank lending rate at the beginning and the end of the year.

Price risk

The table below summarises the impact of increase/decrease of equity indices on the Group's post tax profit for the year and on other components of equity. The analysis is based on the assumptions that equity indices increased/decreased by 10% (31 December 2012: 10%) with all other variables held constant and all the Group's equity instruments moved according to the historical correlation with the indices:

	Impact on other components of equity	
Index	**2013**	**2012**
Pakistan stock exchange (+/-10%)	898	1,574

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

38 RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence or joint control over the other party in making financial and operating decisions.

Related parties include:

(a) Directors and major shareholders of the Bank and companies in which they have an ownership interest.
(b) Corporate, whose ownership and management is common with the Bank.
(c) DMIT and companies in which DMIT has ownership interest and subsidiaries of such companies.
(d) Associated companies of the Bank.

A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged.

Significant balances with related parties comprise:

	31 December 2013		31 December 2012	
	Relating to owners	Relating to unrestricted investment accounts	Relating to owners	Relating to unrestricted investment accounts
Assets				
Commodity and other placements with banks, financial and other institutions -note (i)	48,287	9,427	49,181	9,427
Murabaha and other financings	77,304	4,829	77,370	4,829
Investment securities	-	3,686	-	5,082
Other assets - note (i)	26,883	-	22,473	-
Liabilities				
Customers' current accounts	1,646	-	1,637	-
Due to banks, financial and other institutions	96,503	-	95,323	-
Equity of unrestricted investment accounts	-	27,786	-	40,808
Other liabilities	4,097	-	2,862	-
Funds managed by related parties	-	6,749	-	7,171

The Group entered into the following significant transactions with related parties during the year:

	31 December 2013	31 December 2012
Income from financings and short-term liquid funds	1,324	1,445
Dividends received	2,161	5,543
Expense recovery	3,216	3,345
Profit paid	36	27

Note (i) – The Group has obtained pledge of specific assets totalling BD 87.7 million (31 December 2012: BD 82.9 million) against the outstanding exposure.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

39 CAPITAL MANAGEMENT

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;

- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

- To maintain a strong capital base to support the development of its business.

The table below summarises the composition of regulatory capital and the ratios of the Group for the years ended (computed under Basel II regulations as prescribed by the CBB)

	31 December 2013	**31 December 2012**
Tier 1	251,231	255,524
Tier 2	10,287	16,522
Total Capital Base	**261,518**	**272,046**
Total Risk-Weighted Exposures	2,047,305	2,151,639
Capital Adequacy Ratio	**12.77%**	**12.64%**

40 PROPOSED DIVIDEND

The Board of Directors has not proposed any dividend for the year ended 31 December 2013 (31 December 2012: Nil).

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

41 NON-SHARIA COMPLIANT INCOME AND EXPENSES

The Group has earned certain income and incurred certain expenses from conventional assets and liabilities. These conventional assets and liabilities are covered by the Sharia Compliance Plan. The details of the total income and total expenses are as follows:

	Year ended	
	31 December 2013	**31 December 2012**
INCOME		
Group's share of income from funds under management	226	305
Income from other financings	73,397	84,251
Share of profit after tax from associates - note (i)	12,554	11,610
Income from investments	35,819	42,036
Other income	12,661	16,438
Gross income	**134,657**	**154,640**
Less: profit paid to banks, financial and other institutions (net) -note (ii)	(62,276)	(79,968)
Total income	**72,381**	**74,672**
EXPENSES		
Administrative and general expenses- note (ii)	(41,165)	(44,810)
Depreciation and amortisation	(8,794)	(9,379)
Total expenses	**(49,959)**	**(54,189)**
Net income before provision for impairment and overseas taxation	22,422	20,483
Provision for impairment (net)	(8,625)	(9,363)
Net income before overseas taxation	13,797	11,120
Overseas taxation	(466)	(2,239)
NET INCOME FOR THE YEAR	**13,331**	**8,881**
Attributable to:		
Equity holders of the Bank	12,682	7,520
Minority interests	649	1,361
	13,331	**8,881**
Basic and diluted earnings per share	**Fils 4.36**	**Fils 2.80**

Note (i) – The share of profit attributable to non-sharia compliant associates is based on their accounting policies which are different from the Group accounting policies. Since the non-sharia income is already disclosed separately and hence no adjustment is made on impact of dissimilar accounting policies.

Note (ii) – Expenses relate to entities which are consolidated line by line and exclude associates.

Note (iii) – One of the subsidiaries presently operating as a conventional bank has increased the number of its Islamic branches during the year to 53 (2012: 52 branches) out of total 269 branches (2012: 265 branches).

42 COMPARATIVES

Certain comparatives figures have been reclassified to conform to the current year presentation.