

**Al Salam Bank-Bahrain B.S.C.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**31 DECEMBER 2013**



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## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL SALAM BANK-BAHRAIN B.S.C.

### Report on the consolidated financial statements

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

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

### Opinion

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



INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF  
AL SALAM BANK-BAHRAIN B.S.C. (continued)

**Other matters**

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

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

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, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2013 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests. The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank.

*Ernst & Young*

30 January 2014  
Manama, Kingdom of Bahrain

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

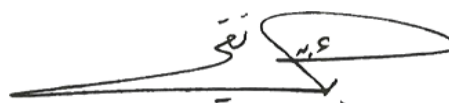
## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

	Note	2013 BD '000	2012 BD '000
<b>ASSETS</b>			
Cash and balances with banks and Central Bank of Bahrain	4	86,097	66,843
Central Bank of Bahrain Sukuk		102,937	117,612
Murabaha and Wakala receivables from banks	5	118,227	103,290
Corporate Sukuk	6	91,106	74,993
Murabaha financing	7	147,616	127,537
Mudaraba financing	7	114,084	99,572
Ijarah Muntahia Bittamleek	9	110,631	82,954
Musharaka		19,145	17,467
Non-trading investments	10	125,923	204,202
Investment properties	11	77,736	2,500
Development properties	12	63,399	-
Investment in an associate	13	8,537	7,573
Other assets	14	22,814	37,675
<b>TOTAL ASSETS</b>		<b>1,088,252</b>	<b>942,218</b>
<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY</b>			
<b>LIABILITIES</b>			
Murabaha and Wakala payables to banks		106,796	90,852
Wakala payables to non-banks		584,365	521,929
Customers' current accounts		70,532	83,921
Term financing	15	23,637	-
Other liabilities	16	30,979	19,175
<b>TOTAL LIABILITIES</b>		<b>816,309</b>	<b>715,877</b>
<b>EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>	17	<b>25,846</b>	<b>18,276</b>
<b>OWNERS' EQUITY</b>			
Share capital	18	149,706	149,706
Treasury stock		(492)	(492)
Reserves and retained earnings		78,580	51,366
Proposed appropriations	18	7,485	7,485
Total equity attributable to shareholders of the Bank		235,279	208,065
Non-controlling interest		10,818	-
<b>TOTAL OWNERS' EQUITY</b>		<b>246,097</b>	<b>208,065</b>
<b>TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY</b>		<b>1,088,252</b>	<b>942,218</b>



Sh. Hessa Bint Khalifa Al Khalifa  
Chairperson of the Board



Yousif A. Taqi  
Director and Chief Executive Officer

The attached notes 1 to 36 form part of these consolidated financial statements.

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

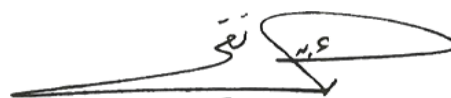
## CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2013

	<i>Note</i>	<b>2013</b> <b>BD '000</b>	<b>2012</b> <b>BD '000</b>
<b>OPERATING INCOME</b>			
Income from financing contracts	20	26,132	20,545
Income from Sukuk		9,448	8,899
Gains on sale of investments and Sukuk		3,833	10,876
Income from FVTPL investments		2,424	635
Fair value changes on FVTPL investments		(1,398)	(7,021)
Net gain from available-for-sale investments	13	-	2,088
Dividend income		570	1,275
Foreign exchange gains		793	644
Fees, commission and other income - net	21	2,305	7,104
		<b>44,107</b>	<b>45,045</b>
Profit on Murabaha and Wakala payables to banks		(682)	(599)
Profit on Wakala payables to non-banks		(17,190)	(20,228)
Profit relating to equity of investment accountholders	17	(148)	(166)
Total operating income		<b>26,087</b>	<b>24,052</b>
<b>OPERATING EXPENSES</b>			
Staff costs		6,469	6,350
Premises and equipment cost		1,147	1,179
Depreciation		280	394
Other operating expenses		3,505	3,541
Total operating expenses		<b>11,401</b>	<b>11,464</b>
<b>PROFIT BEFORE PROVISIONS AND RESULTS OF AN ASSOCIATE</b>		<b>14,686</b>	<b>12,588</b>
Provision for impairment - net	8	(3,208)	(3,058)
Share of profit from an associate	13	894	778
<b>NET PROFIT FOR THE YEAR</b>		<b>12,372</b>	<b>10,308</b>
<i>Attributable to:</i>			
Shareholders of the Bank		12,372	10,272
Non-controlling interest		-	36
		<b>12,372</b>	<b>10,308</b>
<b>WEIGHTED AVERAGE NUMBER OF SHARES (in '000)</b>		<b>1,491,372</b>	<b>1,491,372</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE (FILS)</b>		<b>8.3</b>	<b>6.9</b>



Sh. Hessa Bint Khalifa Al Khalifa  
Chairperson of the Board



Yousif A. Taqi  
Director and Chief Executive Officer

The attached notes 1 to 36 form part of these consolidated financial statements.

Al Salam Bank-Bahrain B.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	2013 BD '000	2012 BD '000
<b>OPERATING ACTIVITIES</b>		
Net profit for the year	12,372	10,308
Adjustments:		
Depreciation	280	394
Fair value changes and gain on investments	1,398	4,933
Provision for impairment - net	3,208	3,058
Share of profit from an associate	(894)	(778)
Operating income before changes in operating assets and liabilities	<u>16,364</u>	<u>17,915</u>
<b>Changes in operating assets and liabilities:</b>		
Mandatory reserve with Central Bank of Bahrain	115	(795)
Central Bank of Bahrain Sukuk	14,675	7,415
Murabaha and Wakala receivables from banks with original maturities of 90 days or more	(12,279)	(37)
Corporate Sukuk	(16,113)	(25,343)
Murabaha financing	(21,436)	6,100
Mudaraba financing	(14,512)	(41,866)
Ijarah Muntahia Bittamleek	(27,701)	(16,499)
Musharaka financing	(1,678)	(5,756)
Non-trading investments, net	75,885	7,751
Development properties	(63,399)	-
Other assets	14,390	5,819
Murabaha and Wakala payables to banks	15,944	(13,721)
Wakala from non-banks	62,436	6,782
Customers' current accounts	(13,389)	17,336
Other liabilities	11,804	(5,738)
Net cash from (used in) operating activities	<u>41,106</u>	<u>(40,637)</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of premises and equipment	(81)	(72)
Purchase of investment properties - net	(53,577)	-
Net cash used in investing activities	<u>(53,658)</u>	<u>(72)</u>
<b>FINANCING ACTIVITIES</b>		
Term financing	23,637	-
Equity of investment accountholders	7,570	2,020
Purchase of treasury stock	-	(27)
Dividends	(7,446)	-
Non-controlling interest	10,818	-
Net cash from financing activities	<u>34,579</u>	<u>1,993</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>22,027</b>	<b>(38,716)</b>
Cash and cash equivalents at 1 January	<u>149,013</u>	<u>187,729</u>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	<b>171,040</b>	<b>149,013</b>
<b>Cash and cash equivalents comprise of:</b>		
Cash and other balances with Central Bank of Bahrain (Note 4)	58,727	35,912
Balances with other banks (Note 4)	7,420	10,866
Murabaha and Wakala receivables from banks with original maturities of less than 90 days	104,893	102,235
	<u>171,040</u>	<u>149,013</u>

The attached notes 1 to 36 form part of these consolidated financial statements.

Al Salam Bank-Bahrain B.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

Year ended 31 December 2013

Amounts in BD '000s

	Attributable to shareholders of the Bank											Non-controlling interest	Total owners' equity
	Share capital	Treasury stock	Statutory reserve	Retained earnings	Changes in fair value	Property fair value reserve	Foreign exchange translation reserve	Share premium reserve	Total reserves	Proposed appropriations	Total		
<b>Balance as of 1 January 2013</b>	<b>149,706</b>	<b>(492)</b>	<b>9,689</b>	<b>39,583</b>	<b>92</b>	-	<b>(571)</b>	<b>2,573</b>	<b>51,366</b>	<b>7,485</b>	<b>208,065</b>	-	<b>208,065</b>
Net profit for the year	-	-	-	<b>12,372</b>	-	-	-	-	<b>12,372</b>	-	<b>12,372</b>	-	<b>12,372</b>
Net change in fair value	-	-	-	-	<b>559</b>	<b>21,659</b>	-	-	<b>22,218</b>	-	<b>22,218</b>	-	<b>22,218</b>
Non-controlling interest arising on consolidation	-	-	-	-	-	-	-	-	-	-	-	<b>10,818</b>	<b>10,818</b>
Changes on investment in an associate	-	-	-	-	-	-	<b>70</b>	-	<b>70</b>	-	<b>70</b>	-	<b>70</b>
Transfer to statutory reserve	-	-	<b>1,237</b>	<b>(1,237)</b>	-	-	-	-	-	-	-	-	-
Proposed dividend for 2013	-	-	-	<b>(7,485)</b>	-	-	-	-	<b>(7,485)</b>	<b>7,485</b>	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	-	<b>(7,446)</b>	<b>(7,446)</b>	-	<b>(7,446)</b>
Transfer	-	-	-	<b>39</b>	-	-	-	-	<b>39</b>	<b>(39)</b>	-	-	-
<b>Balance at 31 December 2013</b>	<b>149,706</b>	<b>(492)</b>	<b>10,926</b>	<b>43,272</b>	<b>651</b>	<b>21,659</b>	<b>(501)</b>	<b>2,573</b>	<b>78,580</b>	<b>7,485</b>	<b>235,279</b>	<b>10,818</b>	<b>246,097</b>
Balance as of 1 January 2012	149,706	(465)	8,662	37,823	(1,830)	-	-	2,573	47,228	-	196,469	4,156	200,625
Net profit for the year	-	-	-	10,272	-	-	-	-	10,272	-	10,272	36	10,308
Net change in fair value	-	-	-	-	1,922	-	-	-	1,922	-	1,922	-	1,922
Changes on investment in an associate	-	-	-	-	-	-	<b>(571)</b>	-	<b>(571)</b>	-	<b>(571)</b>	-	<b>(571)</b>
Treasury shares purchased	-	<b>(27)</b>	-	-	-	-	-	-	-	-	<b>(27)</b>	-	<b>(27)</b>
Transfer to statutory reserve	-	-	<b>1,027</b>	<b>(1,027)</b>	-	-	-	-	-	-	-	-	-
Proposed dividend for 2012	-	-	-	<b>(7,485)</b>	-	-	-	-	<b>(7,485)</b>	<b>7,485</b>	-	-	-
Transfer to other liabilities (note 16)	-	-	-	-	-	-	-	-	-	-	-	<b>(4,192)</b>	<b>(4,192)</b>
Balance at 31 December 2012	149,706	(492)	9,689	39,583	92	-	<b>(571)</b>	2,573	51,366	7,485	208,065	-	208,065

The attached notes 1 to 36 form part of these consolidated financial statements.

## 1 INCORPORATION AND PRINCIPAL ACTIVITIES

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

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

The Group has control over the following entities:

<i>Name of entity</i>	<i>% holding</i>	<i>Nature of entity</i>
Al Salam Leasing Two Ltd ("ASL II")	76%	Aircraft under lease
Auslog Holding Trust	90%	Investment properties
Kenaz Al Hamala Real Estate Investment W.L.L. ("Hamala")	83%	Development properties

These consolidated financial statements have been authorised for issue in accordance with a resolution of the Board of Directors dated 30 January 2014.

## 2 ACCOUNTING POLICIES

### 2.1 BASIS OF PREPARATION

The consolidated financial statements are prepared on a historical cost basis, except for investments held at fair value through profit or loss, available-for-sale equity investments and investment properties which are held at fair value. These consolidated financial statements incorporate all assets, liabilities and off balance sheet financial instruments held by the Group.

These consolidated financial statements are presented in Bahraini Dinars, being the functional and presentation currency of the Group, rounded to the nearest thousand [BD '000], except where otherwise indicated.

#### 2.1.a Statement of compliance

The consolidated financial statements of the Group are prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Islamic Sharia' rules and principles as determined by the Sharia' Supervisory Board of the Group and in conformity with the Bahrain Commercial Companies Law and the CBB and Financial Institutions Law. Matters for which no AAOIFI standards exist, the Group uses the relevant International Financial Reporting Standard.

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the consolidated statement of financial position date (current) and more than 12 months after the consolidated statement of financial position date (non-current) is presented in Note 28.



**2 ACCOUNTING POLICIES (continued)**

**2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

The preparation of the consolidated financial statements requires management to make judgements and estimates that affect the reported amount of financial assets and liabilities and disclosure of contingent liabilities. These judgements and estimates also affect the revenues and expenses and the resultant provisions as well as fair value changes reported in equity.

*Classification of investments*

Management decides upon acquisition of an investment whether it should be classified as fair value through profit or loss, available for sale or held-to-maturity.

**Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimating uncertainty at the date of the consolidated statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

*Collective impairment provisions on financial contracts*

In addition to specific provisions against individually significant financial contracts, the Group also considers the need for a collective impairment provision against financial contracts which although not specifically identified as requiring a specific provision, have a greater risk of default than when originally granted. This collective provision is based on any deterioration in the status, as determined by the Group, of the financial contracts since they were granted (acquired). The amount of the provision is based on the historical loss pattern for other contracts within each grade and is adjusted to reflect current economic changes.

*Impairment losses on financial contracts*

The Group reviews its financial contracts on a regular basis to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

*Impairment of available-for-sale equity investments*

The Group treats available-for-sale equity investments as impaired when there has been a significant or prolonged (judgemental) decline in the fair value below its cost or where other objective evidence of impairment exists. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the present value calculation factors for unquoted equities.

*Valuation of unquoted private equity and real estate investments*

Valuation of above investments is normally based on one of the following:

- valuation by independent external valuers;
- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- present value of expected cash flows at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

The Group calibrates the valuation techniques periodically and tests these for validity using either prices from observable current market transactions in the same instrument or other available observable market data.

**2 ACCOUNTING POLICIES (continued)**

**2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)**

**Going concern**

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

**Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2013. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. All intra-group balances, transactions, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and continue to be consolidated until the date when such control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate. A change in the Group's ownership of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Share of minority stakeholder' interest (non-controlling interest) represents the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated statement of income and within owners' equity in the consolidated statement of financial position, separately from the equity attributable to shareholders of the parent.

**2.3 SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies applied in the preparation of these consolidated financial statements, which are consistent with those of prior year except as set out in 2.3.1.

**2.3.1 Adoption of Financial Accounting Standards FAS 26 - "Investment in Real Estate"**

AAOIFI issued a new accounting standard, Financial Accounting Standard 26 - Investment in real estate ("FAS 26") and is effective for financial periods beginning 1 January 2013. This standard shall apply 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. In accordance with FAS 26, the investment in real estate is initially recognized at cost and subsequently measured based on intention whether the investment in real estate is held-for-use or held for sale. For held-for-use investments, an entity shall choose as its accounting policy either the fair value model or the cost model. The Group has adopted the fair value model for its investments in real estate. Under the fair value model any unrealized gains are recognized directly in owners' equity. Any unrealized losses are adjusted in equity to the extent of the available credit balance. Where unrealized losses exceed the available balance in owners' equity, these are recognized in the consolidated income statement. In case there are unrealized losses relating to investment in real estate that have been recognized in the consolidated income statement in a previous financial period, the unrealized gains relating to the current financial period is recognized to the extent of crediting back such previous losses in the consolidated income statement. Investment in real estate held-for-sale is carried at lower of its carrying value and expected fair value less costs to sell.

**2.3.2 Summary of significant accounting policies**

**a) Financial contracts**

Financial contracts consist of balances with banks and the CBB, CBB Sukuk, Corporate Sukuk, Murabaha financing (net of deferred profit), Mudaraba, Musharaka and Ijarah Muntahia Bittamleek. Balances relating to these contracts are stated net of provisions for impairment.

**2 ACCOUNTING POLICIES (continued)**

**2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3.2 Summary of significant accounting policies (continued)**

**b) Corporate sukuk**

These are quoted securities and classified as investments at amortised cost in accordance with FAS 25 issued by AAOIFI.

**c) Murabaha receivables**

Murabaha is a contract whereby one party ("Seller") sells an asset to the other party ("Purchaser") at cost plus profit and on a deferred payment basis, after the Seller have purchased the asset based on the Purchaser's promise to purchase the same on such Murabaha basis. The sale price comprises the cost of the asset and an agreed profit margin. The sale price (cost plus the profit amount) is paid by the Purchaser to the Seller on installment basis over the agreed finance tenure. Under the Murabaha contract the Group may act either as a Seller or a Purchaser, as the case may be.

The Group considers the promise to purchase made by the Purchaser in a Murabaha transaction in favour of the Seller to be binding.

Murabaha receivables are stated at amortised cost, net of deferred profits, provision for impairment, if any, and amounts settled.

**d) Mudaraba financing**

Mudaraba is a contract between two parties whereby one party is a fund provider (Rab Al Mal) who would provide a certain amount of funds (Mudaraba Capital), to the other party (Mudarib). Mudarib would then invest the Mudaraba Capital in a specific enterprise or activity deploying its experience and expertise for a specific pre-agreed share in the resultant profit. The Rab Al Mal is not involved in the management of the Mudaraba activity. The Mudarib would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Mudaraba contract; otherwise the loss would be borne by the Rab Al Mal. Under the Mudaraba contract the Group may act either as Mudarib or as Rab Al Mal, as the case may be.

Mudaraba financing are recognized at fair value of the Mudaraba assets net of provision for impairment, if any, and Mudaraba capital amounts settled. If the valuation of the Mudaraba assets results in difference between fair value and book value, such difference is recognized as profit or loss to the Group.

**e) Ijarah Muntahia Bittamleek**

Ijara (Muntahia Bittamleek) is an agreement whereby the Group (as lessor) leases an asset to the customer (as lessee) (after purchasing/acquiring the specified asset, either from a third party seller or from the customer itself, according to the customer's request and promise to lease) against certain rental payments for a specific lease term/periods, payable on fixed or variable rental basis.

The Ijara agreement specifies the leased asset, duration of the lease term, as well as, the basis for rental calculation, the timing of rental payment and responsibilities of both parties during the lease term. The customer (lessee) provides the Group (lessor) with an undertaking to renew the lease periods and pay the relevant rental payment amounts as per the agreed schedule and applicable formula throughout the lease term.

The Group (lessor) retains the ownership of the assets throughout the lease term. At the end of the lease term, upon fulfillment of all the obligations by the customer (lessee) under the Ijara agreement, The Group (lessor) will sell the leased asset to the customer (lessee) for a nominal value based on sale undertaking given by the Group (lessor). Leased assets are usually residential properties, commercial real estate or aircrafts.

Depreciation is provided on a systematic basis on all Ijarah Muntahia Bittamleek assets other than land (which is deemed to have an indefinite life), at rates calculated to write off the cost of each asset over the shorter of either the lease term or economic life of the asset.

**2 ACCOUNTING POLICIES (continued)**

**2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3.2 Summary of significant accounting policies (continued)**

**f) Musharaka**

Musharaka is used to provide venture capital or project finance. The Group and customer contribute towards the capital of the Musharaka. Usually a special purpose company or a partnership is established as a vehicle to undertake the Musharaka. Profits are shared according to a pre-agreed profit distribution ratio but losses are borne by the partners according to the capital contributions of each partner. Capital contributions may be in cash or in kind, as valued at the time of entering into the Musharaka.

Musharaka is stated at amortised cost, less any impairment.

**g) Non-trading investments**

These are classified as available-for-sale or fair value through profit or loss.

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs associated with the investment. Acquisition cost relating to investments designated as fair value through profit or loss is charged to consolidated income statement.

Following the initial recognition of investments, the subsequent period-end reporting values are determined as follows:

*Investments available-for-sale*

After initial recognition, equity investments which are classified as investments at fair value through equity are disclosed as "available-for-sale investments". These are normally remeasured at fair value, unless the fair value cannot be reliably determined, in which case they are measured at cost less impairment. Fair value changes are reported in equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported as "changes in fair value" within equity, is included in the consolidated income statement.

Impairment losses on available-for-sale investments are not reversed through the consolidated statement of income and increases in their fair value after impairment are recognised directly in owners' equity.

*Investments carried at fair value through profit or loss*

Investments in this category are designated as such on initial recognition if these investments are evaluated on a fair value basis in accordance with the Group's risk management policy and its investment strategy. These include all private equity investments including those in joint ventures and associates which are not strategic in nature.

Investments at fair value through profit or loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded as "Fair value changes on FVTPL investments" in the consolidated income statement.

**h) Investments in associates**

The Group's investments in its associates, that are acquired for strategic purposes, are accounted for under the equity method of accounting. Other equity investments in associates are accounted for as fair value through profit or loss by availing the scope exemption under FAS 24, Investments in associates. An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor a joint venture. An entity is considered as an associate if the Group has more than 20% ownership of the entity or the Group has significant influence through any other mode.

**2 ACCOUNTING POLICIES (continued)**

**2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3.2 Summary of significant accounting policies (continued)**

**h) Investments in associates (continued)**

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate. Losses in excess of the cost of the investment in an associate are recognised when the Group has incurred obligations on its behalf. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The consolidated income statement reflects the Group's share of 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 equity.

The reporting dates of the associate and the Group are identical and the associates accounting policy conform to those used by the Group for like transactions and events in similar transactions.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in associates. The Group determines at each reporting date whether there is any objective evidence that the investment in associates are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

Profit and losses resulting from transactions between the Group and the associates are eliminated to the extent of the interest in associates.

Foreign exchange translation gains/losses arising out of the above investment in the associate are included in the equity.

**i) Investment properties**

Properties held for rental, or for capital appreciation purposes, or both, are classified as investment properties. Refer to note 2.3.1 for detailed accounting policy relating to investment in real estate.

**j) Development properties**

Properties acquired exclusively for development are classified as development properties and are measured at the lower of cost and net realisable value.

**k) Premises and equipment**

Premises and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is provided on a straight-line basis over the estimated useful lives of all premises and equipment, other than freehold land and capital work-in-progress.

- Computer equipment	3 to 5 years
- Furniture and office equipment	3 to 5 years
- Motor vehicle	5 years
- Leasehold improvements	Over the lease period

**2 ACCOUNTING POLICIES (continued)**

**2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3.2 Summary of significant accounting policies (continued)**

**l) Subsidiaries acquired with a view to sell**

A subsidiary acquired with a view to subsequent disposal within twelve months is classified as "held-for-sale" when the sale is highly probable. Related assets and liabilities of the subsidiary are shown separately on the consolidated statement of financial position as "Assets held-for-sale" and "Liabilities relating to assets held-for-sale". Assets that are classified as held-for-sale are measured at the lower of carrying amount and fair value less costs to sell. Any resulting impairment loss reduces the carrying amount of the assets. Assets that are classified as held-for-sale are not depreciated.

**m) Business combinations and goodwill**

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition (negative goodwill) is recognised directly in the consolidated income statement in the year of acquisition.

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

Goodwill arising from a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Gain on business combination, being the excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over the cost of business acquisition is recognised as gain in the consolidated statement of income.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

**n) Impairment and uncollectability of financial assets**

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss, is recognised in the consolidated income statement.

Impairment is determined as follows:

- (i) for assets carried at amortised cost, impairment is based on estimated cash flows based on the original effective profit rate;
- (ii) for assets carried at fair value, impairment is the difference between cost and fair value; and
- (iii) for assets carried at cost, impairment is based on present value of anticipated cash flows based on the current market rate of return for a similar financial asset.

For available-for-sale equity investments reversal of impairment losses are recorded as increases in cumulative changes in fair value through equity.

**2 ACCOUNTING POLICIES (continued)**

**2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3.2 Summary of significant accounting policies (continued)**

**o) Offsetting**

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

**p) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

**q) Employees' end of service benefits**

The Group provides end of service benefits to its expatriate employees. Entitlement to these benefits is based upon the employees' final salary and length of service, subject to completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

For Bahraini employees, the Group makes contributions to Social Insurance Organisation calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

**r) Revenue recognition**

*Murabaha receivables*

As the income is quantifiable and contractually determined at the commencement of the contract, income is recognized on a straight-line basis over the deferred period. Recognition of income is suspended when the Group believes that the recovery of these amounts may be doubtful or normally when the payments of Murabaha installments are overdue by 90 days, whichever is earlier.

*Corporate sukuk*

Income on Corporate sukuk is recognized on a time-proportionate basis based on underlying rate of return of the respective type of sukuk. Recognition of income is suspended when the Group believes that the recovery of these amounts may be doubtful or normally when the payments are overdue by 90 days, whichever is earlier.

*Mudaraba*

Income on Mudaraba transactions are recognised when the right to receive payment is established or these are declared by the Mudarib, whichever is earlier. In case of losses in mudaraba, the Group's share of loss is recognised to the extent that such losses are being deducted from its share of the mudaraba capital.

*Dividend*

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

*Ijarah Muntahia Bittamleek*

Ijarah Muntahia Bittamleek income is recognised on a time-proportionate basis over the lease term. Income related to non-performing Ijarah Muntahia Bittamleek is suspended. Accrual of income is suspended when the Group believes that the recovery of these amounts may be doubtful or normally when the rental payments are overdue by 90 days, whichever is earlier.

*Musharaka*

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

**2 ACCOUNTING POLICIES (continued)**

**2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3.2 Summary of significant accounting policies (continued)**

**r) Revenue recognition (continued)**

*Fees and commission income*

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following main categories:

Fee income on financing transactions: Fee earned on financing transactions including up-front fees and early settlement fees are recognised when earned. To the extent the fees are deemed yield enhancement they are recognised over the period of the financing contracts.

Fee income from transaction services: Fee arising from corporate finance, corporate advisory, arranging the sale of assets and wealth management are recognised when earned or on a time proportionate basis when the fee is linked to time.

**s) Fair value of financial assets**

For investments that are traded in organised financial markets, fair value is determined by reference to the prevailing market bid price on the reporting date.

For investments where there is no quoted market price, a reasonable estimate of fair value is determined by reference to valuation by independent external valuers or based on recent arm's length market transactions. Alternatively, the estimate would also be based on current market value of another instrument, which is substantially the same, or is based on the assessment of future cash flows. The cash equivalent values are determined by the Group by calculating the present value of future cash flows at current profit rates for contracts with similar terms and risk characteristics.

For investments having fixed or determinable payments, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for investments with similar terms and risk characteristics.

**t) Foreign currencies**

Foreign currency transactions are recorded at rates of exchange prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies at the consolidated statement of financial position date are retranslated at market rates of exchange prevailing at that date. Gains and losses arising on translation are recognised in the consolidated income statement. Non-monetary assets that are measured in terms of historical cost in foreign currencies are recorded at rates of exchange prevailing at the value dates of the transactions. Translation gains or losses on non-monetary items classified as "available-for-sale" and investment in associates are included in consolidated statement of changes in equity until the related assets are sold or derecognised at which time they are recognised in the consolidated income statement. Translation gains on non-monetary assets classified as "fair value through profit or loss" are directly recognised in the consolidated income statement.

**u) Trade and settlement date accounting**

Purchases and sales of financial assets and liabilities are recognised on the trade date, i.e. the date that the Group contracts to purchase or sell the asset or liability.

**v) Derecognition of financial assets**

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.



**2 ACCOUNTING POLICIES (continued)**

**2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.3.2 Summary of significant accounting policies (continued)**

**w) Derecognition of financial liabilities**

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

**x) Fiduciary assets**

Assets held in a fiduciary capacity are not treated as assets of the Group and are accordingly not included in the consolidated statement of financial position.

**y) Dividend on ordinary shares**

Dividend on ordinary shares is recognised as a liability and deducted from equity when it is approved by the Group's shareholders. Dividend for the year that is approved after the reporting date is included in the equity and is disclosed as an event after the balance sheet date.

**z) Equity of investment account holders**

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

Share of income for equity of investment accountholder is calculated based on the income generated by the assets funded by such investment accounts after deducting Mudarib share (as Mudarib and Rabalmal). Operating expenses are charged to shareholders' funds and are not included in the calculation.

The basis applied by the Group in arriving at the equity of investment accountholders' share of income is total investment income less shareholders' income. Portion of the income generated from equity of investment accountholders is transferred to profit equalization reserve, mudarib share and investment risk reserve and the remaining is distributed to the equity of investment accountholders.

**aa) Zakah**

In accordance with the revised Articles of Association of the Group, the responsibility to pay Zakah is on the shareholders of the Group.

**ab) Cash and cash equivalents**

Cash and cash equivalents comprise of cash and balances with the CBB and Murabaha receivables from banks with original maturities of less than 90 days.

**ac) Wakala payables**

The Group accepts funds from banks and customers under Wakala arrangement in which a return is payable to customers as agreed in the agreement. There is no restriction on the Group for the use of funds received under wakala agreement.

**ad) Jointly financed and self financed**

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

The equity of investment accountholders is used to finance the Murabaha and Wakala receivables from banks.

31 December 2013

**2 ACCOUNTING POLICIES (continued)****2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)****2.3.2 Summary of significant accounting policies (continued)****ae) Investment risk reserve**

This is the amount appropriated by the Group out of the income of investment account holders, after allocating the Mudarib share, in order to compensate future losses for investment account holders.

**af) Earnings prohibited by Shari'a**

The Group is committed to contributing to charity any income generated from non-Islamic sources. Accordingly, any earning prohibited by Shari'a is credited to charity funds to be used for social welfare purposes.

**ag) Profit on Murabaha and Wakala payables to banks non-banks**

Profit on these is accrued on a time-apportioned basis over the period of the contract based on the principal amounts outstanding.

**3 CLASSIFICATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS**

31 December 2013

	<i>At fair value through profit or loss BD '000</i>	<i>Available for sale BD '000</i>	<i>At amortised cost / others BD '000</i>	<i>Total BD '000</i>
<b>ASSETS</b>				
Cash and balances with banks and the CBB	-	-	86,097	86,097
CBB Sukuk	-	-	102,937	102,937
Murabaha and Wakala receivables from banks	-	-	118,227	118,227
Corporate Sukuk	-	-	91,106	91,106
Murabaha and mudaraba financing	-	-	261,700	261,700
Ijarah Muntahia Bittamleek	-	-	110,631	110,631
Musharaka	-	-	19,145	19,145
Non-trading investments	112,205	13,718	-	125,923
Investment properties	-	-	77,736	77,736
Development properties	-	-	63,399	63,399
Investment in an associate	-	-	8,537	8,537
Other assets	-	2,656	20,158	22,814
	<u>112,205</u>	<u>16,374</u>	<u>959,673</u>	<u>1,088,252</u>
<b>LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>				
	<i>At fair value through profit or loss BD '000</i>	<i>Available for sale BD '000</i>	<i>At amortised cost / others BD '000</i>	<i>Total BD '000</i>
Murabaha and Wakala payables to banks	-	-	106,796	106,796
Wakala from non-banks	-	-	584,365	584,365
Customers' current accounts	-	-	70,532	70,532
Term financing	-	-	23,637	23,637
Other liabilities	-	-	30,979	30,979
Equity of investment accountholders	-	-	25,846	25,846
	<u>-</u>	<u>-</u>	<u>842,155</u>	<u>842,155</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

**3 CLASSIFICATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT  
ACCOUNTHOLDERS (continued)**

	<i>31 December 2012</i>			
	<i>At fair value through profit or loss BD '000</i>	<i>Available for sale BD '000</i>	<i>At amortised cost / others BD '000</i>	<i>Total BD '000</i>
<b>ASSETS</b>				
Cash and balances with Banks and the CBB	-	-	66,843	66,843
CBB Sukuk	-	-	117,612	117,612
Murabaha and wakala receivables from banks	-	-	103,290	103,290
Corporate Sukuk	-	-	74,993	74,993
Murabaha and mudaraba financing	-	-	227,109	227,109
Ijarah Muntahia bittamleek	-	-	82,954	82,954
Musharaka	-	-	17,467	17,467
Non-trading investments	193,168	11,034	-	204,202
Investment properties	-	-	2,500	2,500
Investment in an associate	-	-	7,573	7,573
Other assets	-	3,056	34,619	37,675
	<u>193,168</u>	<u>14,090</u>	<u>734,960</u>	<u>942,218</u>
<b>LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>				
Murabaha and Wakala payables to banks	-	-	90,852	90,852
Wakala from non-banks	-	-	521,929	521,929
Customers' current accounts	-	-	83,921	83,921
Other liabilities	-	-	19,175	19,175
Equity of investment accountholders	-	-	18,276	18,276
	<u>-</u>	<u>-</u>	<u>734,153</u>	<u>734,153</u>

**4 CASH AND BALANCES WITH BANKS AND THE CBB**

	<i>2013 BD '000</i>	<i>2012 BD '000</i>
Mandatory reserve with the CBB	<b>19,950</b>	20,065
Cash and other balances with the CBB	<b>58,727</b>	35,912
Balances with other banks	<b>7,420</b>	10,866
	<u><b>86,097</b></u>	<u>66,843</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

**5 MURABAHA AND WAKALA RECEIVABLES FROM BANKS**

	<i>2013</i>	<i>2012</i>
	<i>BD '000</i>	<i>BD '000</i>
GCC	<b>112,949</b>	98,012
Europe	<b>5,278</b>	5,278
	<b>118,227</b>	103,290

This includes certain Wakala receivables for investment in commodity Murabaha. In addition to above amounts, deferred profits on Murabaha receivables from banks amounted to BD 12 thousands (2012: BD 14 thousands).

This consists of BD 21,969 thousands (2012: BD 18,276 thousands) of jointly financed assets and BD 96,258 thousands (2012: BD 85,014 thousands) of self financed assets.

**6 CORPORATE SUKUK**

	<i>2013</i>	<i>2012</i>
	<i>BD '000</i>	<i>BD '000</i>
Investment grade	<b>72,540</b>	59,146
Non-investment grade	<b>984</b>	421
Un-rated Sukuk	<b>17,582</b>	15,426
	<b>91,106</b>	74,993

**7 MURABAHA AND MUDARABA FINANCING****7.a Murabaha Financing**

	<i>2013</i>	<i>2012</i>
	<i>BD '000</i>	<i>BD '000</i>
Murabaha financing - gross	<b>152,372</b>	130,936
Less: Provision	<b>(4,756)</b>	(3,399)
Murabaha financing - net	<b>147,616</b>	127,537

Murabaha financing are shown net of deferred profits of BD 29,845 thousands (2012: BD 21,708 thousands).

**7.b Mudaraba Financing**

	<i>2013</i>	<i>2012</i>
	<i>BD '000</i>	<i>BD '000</i>
Mudaraba financing - gross	<b>114,084</b>	99,572
Less: Provision	<b>-</b>	-
Mudaraba financing - net	<b>114,084</b>	99,572

31 December 2013

**8 MOVEMENTS IN PROVISIONS**

	<i>Financing facilities &amp; other assets</i>		<i>Available-for-sale investments</i>		<i>Total</i>	
	<i>2013</i>	<i>2012</i>	<i>2013</i>	<i>2012</i>	<i>2013</i>	<i>2012</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Balance at beginning of the year:						
Specific provision	<b>3,721</b>	1,653	<b>2,483</b>	5,325	<b>6,204</b>	6,978
Collective provision	<b>500</b>	500	-	-	<b>500</b>	500
Reversed on de-recognition	-	-	-	(3,832)	-	(3,832)
Provision for impairment:						
Charge for the year - specific	<b>940</b>	2,202	<b>1,555</b>	990	<b>2,495</b>	3,192
Charge for the year - collective	<b>794</b>	-	-	-	<b>794</b>	-
Recoveries for the year	<b>(81)</b>	(134)	-	-	<b>(81)</b>	(134)
	<b>1,653</b>	2,068	<b>1,555</b>	990	<b>3,208</b>	3,058
Balance at end of the year:						
Specific provision	<b>4,580</b>	3,721	<b>4,038</b>	2,483	<b>8,618</b>	6,204
Collective provision	<b>1,294</b>	500	-	-	<b>1,294</b>	500

In addition to the provisions held above, the financing portfolio and other assets acquired through Bahraini Saudi Bank (B.S.C.) ("BSB") business combination were subject to specific write down of BD 5,321 thousands and a collective impairment write down of BD 3,175 thousands.

**9 IJARAH MUNTAHIA BITTAMLEEK**

This represents net investments in assets leased for periods which either approximate or cover major parts of the estimated useful lives of such assets. The lease documentations provide that the lessor undertakes to transfer the leased assets to the lessee at the end of the lease term upon the lessee fulfilling all its obligations under the lease agreement.

	<i>2013</i>	<i>2012</i>
	<i>BD '000</i>	<i>BD '000</i>
Movements in Ijarah Muntahia Bittamleek assets are as follows:		
At 1 January	<b>82,954</b>	66,477
Additions during the year	<b>35,719</b>	24,194
Ijarah assets depreciation	<b>(8,018)</b>	(7,695)
Provision	<b>(24)</b>	(22)
At 31 December	<b>110,631</b>	82,954
	<i>2013</i>	<i>2012</i>
	<i>BD '000</i>	<i>BD '000</i>
The future minimum lease receivable in aggregate are as follows:		
Due within one year	<b>13,837</b>	18,213
Due in one to five years	<b>55,831</b>	56,851
Due after five years	<b>40,963</b>	7,890
	<b>110,631</b>	82,954

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

**9 IJARAH MUNTAHIA BITTAMLEEK (continued)**

	<i>2013</i>	<i>2012</i>
	<i>BD '000</i>	<i>BD '000</i>
Ijarah Muntahia Bittamleek is divided into the following asset classes:		
Land and buildings	<b>86,738</b>	77,603
Aircraft	<b>21,352</b>	2,310
Machinery	<b>2,541</b>	3,041
	<b>110,631</b>	82,954

The accumulated depreciation on Ijarah Muntahia Bittamleek assets amounted to BD 19,294 thousands (2012: BD 11,812 thousands).

**10 NON-TRADING INVESTMENTS**

Non-trading investments are classified as available-for-sale or fair value through profit or loss.

**Fair value hierarchy**

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

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

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

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

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

<b>31 December 2013</b>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Financial assets at fair value through profit or loss	<b>9,058</b>	-	<b>103,147</b>	<b>112,205</b>
Available-for-sale financial assets	<b>6,455</b>	-	<b>7,263</b>	<b>13,718</b>
	<b>15,513</b>	-	<b>110,410</b>	<b>125,923</b>
<b>31 December 2012</b>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Financial assets at fair value through profit or loss	9,736	445	182,987	193,168
Available-for-sale financial assets	11,034	-	-	11,034
	20,770	445	182,987	204,202

During the years ended 31 December 2013 and 2012, there were no transfers between Level 1, Level 2, and Level 3 fair value measurements.

31 December 2013

**11 INVESTMENT PROPERTIES**

	<i>2013</i>	<i>2012</i>
	<i>BD '000</i>	<i>BD '000</i>
<b>Cost</b>		
At 1 January	2,500	2,500
Additions / transfers	54,877	-
Disposals	(1,300)	-
<b>At 31 December</b>	<b>56,077</b>	<b>2,500</b>
<b>Fair value adjustment</b>		
At 1 January	-	-
Net unrealised gain on investment properties	21,659	-
<b>At 31 December</b>	<b>21,659</b>	<b>-</b>
<b>Total</b>	<b>77,736</b>	<b>2,500</b>
	<i>2013</i>	<i>2012</i>
	<i>BD '000</i>	<i>BD '000</i>
Buildings	33,975	-
Lands	43,761	2,500
	<b>77,736</b>	<b>2,500</b>

**12 DEVELOPMENT PROPERTIES**

These represents properties acquired through investment vehicles exclusively for development in the Kingdom of Bahrain. The carrying amounts include purchase price and related construction costs.

**13 INVESTMENT IN AN ASSOCIATE**

The Bank has a 14.4% stake in Al Salam Bank Algeria (ASBA), an unlisted bank incorporated in Algeria. The investment was earlier classified as non-trading investment due to lack of significant influence. In the Bank's Annual General Assembly Meeting (AGM) held during 2012 some directors of ASBA were elected to the Board of the Bank. Due to common directorship ASBA is significantly influenced by the Bank. Consequently, the non-trading investment has been derecognised and an investment in an associate has been recognised during 2012 with the related gains included under gain from available-for-sale investments.

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**13 INVESTMENT IN AN ASSOCIATE (continued)**

The following table illustrates the summarised financial information of the Group's investment in ASBA:

	<i>2013</i>	<i>2012</i>
	<i>BD '000</i>	<i>BD '000</i>
Associate's statement of financial position:		
Total assets	<b>190,133</b>	158,214
Total liabilities	<b>128,594</b>	101,219
Net assets	<b>61,539</b>	56,995
Total revenue	<b>18,076</b>	14,510
Total expenses	<b>11,868</b>	9,110
Net profit for the year	<b>6,208</b>	5,400
Bank's share of associate's net profit	<b>894</b>	778

**14 OTHER ASSETS**

	<i>2013</i>	<i>2012</i>
	<i>BD '000</i>	<i>BD '000</i>
<b>Assets under conversion</b>		
Non-trading-investments - Debt	<b>3,835</b>	3,777
Non-trading-investments - Available for sale - equity	<b>2,656</b>	3,056
Loans and advances to customers	<b>1,520</b>	11,560
	<b>8,011</b>	18,393
Repossession assets	<b>3,445</b>	6,425
Profit receivable on Murabaha and Mudaraba	<b>3,687</b>	2,454
Profit receivable on Sukuk	<b>2,101</b>	1,883
Premises and equipment	<b>568</b>	767
Prepayments	<b>471</b>	365
Rental receivable on Ijarah Muntahia Bittamleek assets	<b>418</b>	438
Other receivables	<b>4,113</b>	6,950
	<b>22,814</b>	37,675

The assets under conversion of BD 8,011 thousands (2012: BD 18,393 thousands) represent non-Shari'a compliant assets resulted from acquisition of BSB.

The above available for sale equity investments are classified as Level 3 in the fair value hierarchy (note 10).

During the year ended 31 December 2012, the Group received cash and repossessed certain collaterals amounting to a total of BD 6,925 thousands from its customers. These repossessed collaterals are included in other assets net of disposals.

Other receivables include nil (2012: BD 1,369 thousands) relating to sale of investments.



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**15 TERM FINANCING**

Term financing relate to investments and are subject to the following key terms:

a) BD 9,606 thousands carries profit rate of LIBOR plus 3.25% and matures on 13 December 2018. The collateral for this facility is an aircraft under lease, with a carrying value of BD 19,370 thousands; and

b) BD 14,031 thousands carries profit rate of Bank Bill Swap Bid rate ("BBSY") plus 1.93% and matures on 21 August 2016. The collateral for this facility is investment property with a carrying value of BD 22,957 thousands.

**16 OTHER LIABILITIES**

	<i>2013</i>	<i>2012</i>
	<i>BD '000</i>	<i>BD '000</i>
Accounts payable and accruals	<b>14,103</b>	5,631
Profit payable	<b>5,061</b>	4,259
Development cost payable and advance received from customers	<b>6,700</b>	2,225
Dividends payable	<b>3,377</b>	2,394
Non-controlling interest of ex-BSB shareholders *	<b>1,101</b>	4,192
End of service benefits	<b>637</b>	474
	<b>30,979</b>	19,175

\* The shareholders of BSB in an Extraordinary General Assembly Meeting held on 22 December 2011 resolved to merge BSB's operations with those of the Group. Consequently, on 24 April 2012, the Commercial Registration of BSB was cancelled by MOIC. Following this, the Group acquired all the assets, and assumed all the liabilities of BSB, with effect from 25 April 2012 and integrated BSB's operations with those of the Group. The Group's financial obligations to the non-controlling interest of BSB have been transferred to other liabilities in the consolidated statement of financial position, pending settlement.

**17 EQUITY OF INVESTMENT ACCOUNTHOLDERS**

Equity of investment account holders funds is commingled with the Bank's funds and used to fund / invest in Islamic modes of finance and no priority is granted to any party for the purpose of investments and distribution of profits. According to the terms of acceptance of the unrestricted investment accounts, 100% of the funds are invested taking into consideration the relevant weightage, if any. The Mudarib's share of profit ranges between 40% and 50%. Operating expenses are charged to shareholders' funds and not included in the calculation.

The balances consists savings accounts of BD 11,186 thousands (2012: BD 10,511 thousands) and call accounts of BD 14,660 thousands (2012: BD 7,765 thousands).

The return on jointly invested assets and distribution to investment account holders were as follows:

	<i>2013</i>	<i>2012</i>
	<i>BD '000</i>	<i>BD '000</i>
Gross return from commingled assets	<b>279</b>	301
Bank's share as Mudarib	<b>(131)</b>	(135)
<b>Distributions to investment account holders</b>	<b>148</b>	166

The average profit rate for the holders is 0.6% (2012: 0.7%).

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**18 OWNERS' EQUITY**

	<i>2013</i>	<i>2012</i>
	<i>BD '000</i>	<i>BD '000</i>
<b>18.1 Share capital</b>		
Authorised:		
2,500,000,000 ordinary shares (2012: 2,000,000,000 shares) of BD 0.100 each	<b>250,000</b>	200,000
Issued and fully paid at BD 0.100 per share:		
Balance at beginning and end - 1,497,063,825 shares	<b>149,706</b>	149,706

In an Extraordinary General Assembly Meeting held on 8 October 2013, the shareholders resolved to increase the authorised share capital to 2,500,000,000 shares of nominal value BD 0.100 each. The shareholders have also resolved to acquire all of the issued and fully paid up ordinary shares of BMI Bank B.S.C (c) ("BMI"), a retail bank incorporated in the Kingdom of Bahrain, through a share exchange, by offering to issue 643,866,927 new fully paid up ordinary shares of the Bank translating to 11.0 shares of the Bank for every ordinary share of BMI, subject to obtaining all necessary regulatory approvals.

**18.2 Proposed appropriations**

The Board of Directors in its meeting on 30 January 2014 has resolved to recommend a cash dividend of 5 fils per share or 5% (2012: 5 fils or 5%) of the paid-up capital subject to approval at the forthcoming annual general meeting.

**19 STATUTORY RESERVE**

As required by Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net profit for the year has been transferred to the statutory reserve. The Group may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital of The Group. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the CBB.

**20 INCOME FROM FINANCING CONTRACTS**

	<i>2013</i>	<i>2012</i>
	<i>BD '000</i>	<i>BD '000</i>
Murabaha financing	<b>11,672</b>	10,771
Mudaraba financing	<b>6,673</b>	4,498
Ijarah Muntahia Bittamleek*	<b>6,472</b>	4,236
Musharaka	<b>938</b>	488
Murabaha and Wakala receivables from banks	<b>377</b>	552
	<b>26,132</b>	20,545

\* Depreciation on Ijarah Muntahia Bitamleek amounts to BD 8,018 thousands (2012: BD 7,695 thousands).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

**21 FEES, COMMISSION AND OTHER INCOME - NET**

	<i>2013</i>	<i>2012</i>
	<i>BD '000</i>	<i>BD '000</i>
Financing and transaction related fees and commissions	<b>792</b>	299
Fiduciary and other fees	<b>317</b>	524
Other income *	<b>1,196</b>	6,281
	<b>2,305</b>	7,104

\* During the year ended 31 December 2012, the Group received cash and repossessed certain collaterals amounting to a total of BD 6,925 thousands from its customers. These repossessed collaterals are included in other assets. The excess amount over carrying values amounting nil (2012: BD 6,000 thousands) is included in other income.

**22 TOTAL COMPREHENSIVE INCOME**

	<i>2013</i>	<i>2012</i>
	<i>BD '000</i>	<i>BD '000</i>
<b>NET PROFIT FOR THE YEAR</b>	<b>12,372</b>	10,308
Other comprehensive income:		
Net changes in fair value	<b>559</b>	1,922
Changes in properties fair value	<b>21,659</b>	-
Exchange differences on investment in an associate	<b>70</b>	(571)
<b>Other comprehensive income for the year</b>	<b>22,288</b>	1,351
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>34,660</b>	11,659
<i>Attributable to:</i>		
Owners of the Bank	<b>34,660</b>	11,623
Non-controlling interest	<b>-</b>	36
	<b>34,660</b>	11,659

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

**23 RELATED PARTY TRANSACTIONS**

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

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

	<i>2013</i>			<i>Total BD '000</i>
	<i>Associates and joint venturs BD '000</i>	<i>Directors and related entities BD '000</i>	<i>Senior management BD '000</i>	
<b>Assets:</b>				
Murabaha financing	30,190	27	38	30,255
Mudaraba financing	14,310	80	-	14,390
Ijarah Muntahia Bittamleek	-	1,983	227	2,210
Musharaka financing	1,405	-	-	1,405
Other assets	1,346	27	7	1,380
<b>Liabilities and equity of investment accountholders:</b>				
Wakala payables to non-banks	2,222	1,564	547	4,333
Customers' current accounts	2,202	1,075	25	3,302
Equity of investment accountholders	-	716	106	822
Other liabilities	322	443	2	767
Contingent liabilities	1,647	-	-	1,647
	<i>2012</i>			
	<i>Associates and joint venturs BD '000</i>	<i>Directors and related entities BD '000</i>	<i>Senior management BD '000</i>	<i>Total BD '000</i>
<b>Assets:</b>				
Murabaha financing	30,198	13	70	30,281
Mudaraba financing	14,214	100	-	14,314
Ijarah Muntahia Bittamleek	-	2,310	-	2,310
Musharaka financing	2,061	-	-	2,061
Other assets	822	4	-	826
<b>Liabilities and equity of investment accountholders:</b>				
Wakala payables to non-banks	2,459	926	230	3,615
Customers' current accounts	5,145	154	10	5,309
Equity of investment accountholders	1,866	110	10	1,986
Other liabilities	-	325	-	325
Commitments	9,425	-	-	9,425
Contingent liabilities	4,273	-	-	4,273

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

**23 RELATED PARTY TRANSACTIONS (continued)**

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

	<b>2013</b>			
	<i>Associates and joint venturs BD '000</i>	<i>Directors and related entities BD '000</i>	<i>Senior management BD '000</i>	<i>Total BD '000</i>
<b>Income:</b>				
Income from financing contracts	4,702	269	3	4,974
<b>Expenses:</b>				
Profit on Wakala payables to non-banks	60	44	14	118
Share of profits on equity of investment account holders	-	1	-	1
	<b>2012</b>			
	<i>Associates and joint venturs BD '000</i>	<i>Directors and related entities BD '000</i>	<i>Senior management BD '000</i>	<i>Total BD '000</i>
<b>Income:</b>				
Income from financing contracts	2,311	7	8	2,326
<b>Expenses:</b>				
Profit on Wakala payables to non-banks	66	33	5	104
Share of profits on equity of investment account holders	2	1	-	3

As of 31 December 2013, Ijarah Muntahia Bittamleek included nil (2012: BD 2,310 thousands) of facilities provided to directors and their related entities which are past due and on which profit is not being recognised.

Directors' remuneration for 2013 amounted to BD 365 thousands (2012: BD 100 thousands).

Compensation of key management personnel, consisting solely of short-term benefits, for the year was BD 1,326 thousands (2012: BD 1,161 thousands).

**24 CONTINGENT LIABILITIES AND COMMITMENTS**

	<b>2013</b>	<b>2012</b>
	<b>BD '000</b>	<b>BD '000</b>
<b>Contingent liabilities on behalf of customers</b>		
Guarantees	6,881	9,744
Letters of credit	70	814
Acceptances	260	275
	<b>7,211</b>	<b>10,833</b>
<b>Irrevocable unutilised commitments</b>		
Unutilised financing commitments	4,703	20,396
Unutilised non-funded commitments	6,463	6,219
Commitments towards development cost	2,799	-
Unutilised capital commitments	-	1,391
	<b>13,965</b>	<b>28,006</b>
	<b>21,176</b>	<b>38,839</b>

**24 CONTINGENT LIABILITIES AND COMMITMENTS (continued)**

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

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

**Operating lease commitment - Bank as lessee**

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

	2013 BD '000	2012 BD '000
Within 1 year	659	714
After one year but not more than five years	472	915
	<u>1,131</u>	<u>1,629</u>

**25 RISK MANAGEMENT****25.1 Introduction**

Risk is inherent in the Group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to early settlement risk and operational risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry, they are monitored through the Group's strategic planning process.

***Risk management structure***

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

***Board of Directors***

The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

***Executive Committee***

The Executive Committee has the responsibility to monitor the overall risk process within the Bank.

***Shari'a Supervisory Board***

The Group's Shari'a Supervisory Board is entrusted with the responsibility to ensure the Group's adherence to Shari'a rules and principles in its transactions and activities.

***Credit/ Risk Committee***

Credit/ Risk committee recommends the risk policy and framework to the Board. Its primary role is selection and implementation of risk management systems, portfolio monitoring, stress testing, risk reporting to the Board, Board Committees, Regulators and Executive management. In addition, individual credit transaction approval and monitoring is an integral part of the responsibilities of Credit/Risk Committee.

**25 RISK MANAGEMENT (continued)**

**25.1 Introduction (continued)**

***Asset and Liability Committee***

The Asset and Liability Committee establishes policy and objectives for the asset and liability management of The Group's financial position in terms of structure, distribution, risk and return and its impact on profitability. It also monitors the cash flow, tenor and cost/yield profiles of assets and liabilities and evaluates The Group's financial position both from profit rate sensitivity and liquidity points of view, making corrective adjustments based upon perceived trends and market conditions, monitoring liquidity, monitoring foreign exchange exposures and positions.

***Board Audit Committee***

The Audit Committee is appointed by the Board of Directors who are non-executive directors of the Group. The Board Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting, the audit thereof, the soundness of the internal controls of the Group, the measurement system of risk assessment and relating these to the Group's capital, and the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

***Internal Audit***

Risk management processes throughout the Group are audited by the internal audit function, that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board Audit Committee.

***Risk measurement and reporting systems***

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worse case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Board of Directors, the Credit / Risk Committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Board of Directors receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Group.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information. A daily briefing is given to the Chief Financial Officer and all other relevant members of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

**25 RISK MANAGEMENT (continued)****25.2 Credit risk**

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, setting limits for transactions with counterparties, and continually assessing the creditworthiness of counterparties.

In addition to monitoring credit limits, the Group manages the credit exposures by entering into collateral arrangements with counterparties in appropriate circumstances and by limiting the duration of the exposure.

**Maximum exposure to credit risk without taking account of any collateral and other credit enhancements**

The table below shows the maximum exposure (excluding sovereign exposure) to credit risk for the components of the consolidated statement of financial position. The maximum exposure is shown net of provision, before the effect of mitigation through the use of master netting and collateral agreements.

	<i>Gross maximum exposure 2013 BD '000</i>	<i>Gross maximum exposure 2012 BD '000</i>
<b>ASSETS</b>		
Balances with other banks	7,420	10,866
Murabaha receivables from banks	118,227	103,290
Corporate Sukuk	91,106	74,993
Murabaha and Mudaraba financing	203,691	171,308
Ijarah Muntahia Bittamleek	108,090	79,913
Musharaka financing	19,145	17,467
Other assets	13,852	18,586
Total	<b>561,531</b>	476,423
Contingent liabilities and commitments	<b>22,307</b>	40,468
<b>Total credit risk exposure</b>	<b>583,838</b>	516,891

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

***Type of credit risk***

Various contracts entered into by the Group comprise Murabaha financing, Mudaraba financing, Musharaka financing, Sukuk and Ijarah Muntahia Bittamleek contracts. Murabaha financing contracts cover land, buildings, commodities, motor vehicles and others. Mudaraba financing consist of financing transactions entered through other Islamic banks and financial institutions. Mudaraba is a partnership agreement in which the Islamic bank acts as the provider of funds (the Rabamal) while the recipient of the funds (the Mudarib or the manager) provides the professional, managerial and technical know-how towards carrying out the venture, trade or service with an aim of earning profit. The various financial instruments are:

***Murabaha financing***

The Group arranges Murabaha transactions by buying an asset (which represents the object of the Murabaha) and then selling this asset to customers (beneficiary) after adding a margin of profit over the cost. The sale price (cost plus profit margin) is paid in installments over the agreed period.



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**25 RISK MANAGEMENT (continued)****25.2 Credit risk (continued)***Ijarah Muntahia Bittamleek*

The legal title of the leased asset under Ijarah Muntahia Bittamleek passes to the lessee at the end of the Ijarah term, provided that all Ijarah installments are settled.

a) The credit quality of balances with banks and Murabaha receivables from banks subject to credit risk is as follows:

	<i>31 December 2013</i>				
	<i>Neither past due nor impaired</i>			<i>Past due or</i>	<i>Total</i>
	<i>'A' Rated</i>	<i>'B' Rated</i>	<i>Unrated</i>	<i>individually</i>	
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>impaired</i>	<i>BD '000</i>
Balances with banks	6,182	199	1,039	-	7,420
Murabaha and Wakala receivables from banks	38,114	36,114	43,999	-	118,227
	<b>44,296</b>	<b>36,313</b>	<b>45,038</b>	<b>-</b>	<b>125,647</b>
	<i>31 December 2012</i>				
	<i>Neither past due nor impaired</i>			<i>Past due or</i>	<i>Total</i>
	<i>'A' Rated</i>	<i>'B' Rated</i>	<i>Unrated</i>	<i>individually</i>	
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>impaired</i>	<i>BD '000</i>
Balances with banks	6,486	144	4,236	-	10,866
Murabaha and Wakala receivables from banks	30,670	33,135	39,485	-	103,290
	<b>37,156</b>	<b>33,279</b>	<b>43,721</b>	<b>-</b>	<b>114,156</b>

The ratings referred to in the above tables are by one or more of the 4 international rating agencies (Standards & Poors, Moody's, Fitch and Capital Intelligence). The unrated exposures are with various high quality Middle East financial institutions, which are not rated by a credit rating agency. In the opinion of the management, these are equivalent to "A" rated banks.

b) The credit quality of Corporate sukuk and financing facilities that are subject to credit risk, based on internal credit ratings, is as follows:

	<i>31 December 2013</i>					
	<i>Neither past due nor impaired</i>			<i>Past due</i>		<i>Total</i>
	<i>Satisfactory</i>	<i>Watch List</i>	<i>Substandard</i>	<i>Not</i>		
				<i>impaired</i>	<i>Impaired</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Corporate Sukuk	91,106	-	-	-	-	91,106
Murabaha and Mudaraba financing	179,610	3,995	3,740	12,720	3,626	203,691
Ijarah Muntahia Bittamleek	92,724	2,683	1,041	10,717	925	108,090
Musharaka financing	10,675	74	-	8,306	90	19,145
Other assets	78	-	190	-	1,252	1,520
	<b>374,193</b>	<b>6,752</b>	<b>4,971</b>	<b>31,743</b>	<b>5,893</b>	<b>423,552</b>

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**25 RISK MANAGEMENT (continued)****25.2 Credit risk (continued)**

	31 December 2012					
	Neither past due nor impaired			Past due		
	Satisfactory	Watch List	Substandard	Not impaired	Impaired	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Corporate sukuk	74,993	-	-	-	-	74,993
Murabaha and Mudaraba financing	151,926	1,284	1,801	8,517	7,780	171,308
Ijarah Muntahia Bittamleek	63,266	655	1,041	13,819	1,132	79,913
Musharaka financing	17,273	-	-	100	94	17,467
Other assets	148	-	3,910	1	1,502	5,561
	<b>307,606</b>	<b>1,939</b>	<b>6,752</b>	<b>22,437</b>	<b>10,508</b>	<b>349,242</b>

In addition to the above, the financing facilities provided to the Government of Bahrain and its related entities amount to BD 60,550 thousands (2012: BD 64,841 thousands).

All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risk ratings are assessed and updated regularly.

c) Past due but not impaired financing facilities are analysed as follows:

	31 December 2013			
	0-30 days	31-90 days	> 90 days	Total
	BD '000	BD '000	BD '000	BD '000
Murabaha and Mudaraba financing	916	978	10,826	12,720
Ijarah Muntahia Bittamleek	977	732	9,008	10,717
Musharaka financing	486	-	7,820	8,306
	<b>2,379</b>	<b>1,710</b>	<b>27,654</b>	<b>31,743</b>

	31 December 2012			
	0-30 days	31-90 days	> 90 days	Total
	BD '000	BD '000	BD '000	BD '000
Murabaha and Mudaraba financing	1,298	1,196	6,023	8,517
Ijarah Muntahia Bittamleek	272	1,819	11,728	13,819
Musharaka financing	-	-	100	100
Other assets	-	1	-	1
	<b>1,570</b>	<b>3,016</b>	<b>17,851</b>	<b>22,437</b>

All the past due but not impaired financing facilities are covered by collateral of BD 112,955 thousands (2012: BD 36,579 thousands). The utilisation of the collateral will be on customer by customer basis and is limited to the customers' total exposure.

The maximum credit risk, without taking into account the fair value of any collateral and Shari'a-compliant netting agreements, is limited to the amounts on the consolidated statement of financial position plus commitments to customers disclosed in Note 24 except capital commitments.

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**25 RISK MANAGEMENT (continued)****25.2 Credit risk (continued)**

During the year BD 14,416 thousands (2012: BD 23,725 thousands) of financing facilities were renegotiated. All renegotiated facilities are performing and are fully secured.

At 31 December 2013, the amount of credit exposure in excess of 15% of the Bank's regulatory capital to individual counterparties was BD 9,993 thousands (2012: BD 5,453 thousands).

**25.3 Legal risk and claims**

Legal risk is the risk arising from the potential that unenforceable contracts, lawsuits or adverse judgements can disrupt or otherwise negatively affect the operations of the Group. The Group has developed controls and procedures to identify legal risks and believes that losses will be minimised.

As at 31 December 2013, legal suits amounting to BD 1,978 thousands (2012: BD 1,978 thousands) were pending against the Group. Based on the opinion of the Group's legal counsel, the total estimated liability arising from these cases is not considered to be material to the Group's consolidated financial position as the Group also has filed counter cases against these parties.

**26 CONCENTRATIONS**

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. The Group manages its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with customers in specific locations or businesses.

The distribution of assets, liabilities and equity of investment account holders by geographic region and industry sector was as follows. For quoted investments this is analysed with reference to the indices in which the investments are listed. For unquoted investments, this is analysed by changing the key inputs used in the valuation assumptions.

	<i>Liabilities, equity of investment account holders and</i>			<i>Liabilities, equity of investment account holders and</i>		
	<i>Assets</i>	<i>owners' equity</i>	<i>Contingent liabilities and Commitments</i>	<i>Assets</i>	<i>owners' equity</i>	<i>Contingent liabilities and Commitments</i>
	<i>2013</i>	<i>2013</i>	<i>2013</i>	<i>2012</i>	<i>2012</i>	<i>2012</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
<b>Geographic region</b>						
GCC	932,131	822,694	20,660	829,357	713,695	25,379
Arab World	8,582	126	-	7,610	124	-
Europe	47,098	4,123	-	38,135	14,242	-
Asia Pacific	97,318	15,133	1,647	63,134	6,083	15,089
North America	3,123	12	-	3,556	9	-
Others	-	67	-	426	-	-
	<b>1,088,252</b>	<b>842,155</b>	<b>22,307</b>	942,218	734,153	40,468
Owners' equity	-	<b>246,097</b>	-	-	208,065	-
	<b>1,088,252</b>	<b>1,088,252</b>	<b>22,307</b>	942,218	942,218	40,468

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**26 CONCENTRATIONS (continued)**

	<i>Liabilities, equity of investment account holders and</i>			<i>Liabilities, equity of investment account holders and</i>		
	<i>Assets</i>	<i>owners' equity</i>	<i>Contingent liabilities and Commitments</i>	<i>Assets</i>	<i>owners' equity</i>	<i>Contingent liabilities and Commitments</i>
	<i>2013</i>	<i>2013</i>	<i>2013</i>	<i>2012</i>	<i>2012</i>	<i>2012</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
<b>Industry sector</b>						
Trading and manufacturing	73,735	28,465	5,264	58,398	44,242	17,255
Banks and financial institutions	187,791	131,086	55	182,737	114,831	-
Real estate	347,882	114,614	8,623	257,335	86,932	8,679
Aviation	25,520	9,680	-	13,125	-	-
Individuals	95,963	418,189	1,287	72,813	361,700	1,829
Government and public sector	280,697	43,855	-	265,716	51,778	-
Others	76,664	96,266	7,078	92,094	74,670	12,705
	<b>1,088,252</b>	<b>842,155</b>	<b>22,307</b>	<b>942,218</b>	<b>734,153</b>	<b>40,468</b>
Owners' equity	-	246,097	-	-	208,065	-
	<b>1,088,252</b>	<b>1,088,252</b>	<b>22,307</b>	<b>942,218</b>	<b>942,218</b>	<b>40,468</b>

**27 MARKET RISK**

Market risk arises from fluctuations in global yields on financial instruments and foreign exchange rates that could have an indirect effect on the Group's assets value and equity prices. The Board has set limits on the risk that may be accepted. This is monitored on a regular basis by the Asset and Liability Committee of the Group.

**27.1 Equity price risk**

Equity price risk arises from fluctuations in equity prices. The Board has set limits on the amount and type of investments that may be accepted. This is monitored on an ongoing basis by the Group's Investment Committee.

The effect on income (as a result of changes in the fair values of non-trading investments held at fair value through profit or loss and available-for-sale investments) solely due to reasonably possible changes in equity prices, is as follows:

	<i>2013</i>			
	<i>10% increase</i>		<i>10% decrease</i>	
	<i>Effect on net profit BD '000</i>	<i>Effect on equity BD '000</i>	<i>Effect on net profit BD '000</i>	<i>Effect on equity BD '000</i>
Quoted:				
Bahrain	-	305	-	(305)
Saudi	602	-	(602)	-
Singapore	-	340	(340)	-
Frankfurt	304	-	(304)	-
Unquoted	10,315	992	(10,315)	(992)

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**27 MARKET RISK (continued)****27.1 Equity price risk (continued)**

	2012			
	10% increase		10% decrease	
	Effect on net profit BD '000	Effect on equity BD '000	Effect on net profit BD '000	Effect on equity BD '000
	Quoted:			
Bahrain	-	248	(248)	-
Saudi	376	-	(376)	-
Singapore	142	856	(142)	(856)
Frankfurt	456	-	(456)	-
Unquoted	18,343	306	(18,343)	(306)

**27.2 Profit return risk**

The Group has exposure to fluctuations in the profit rates on its assets and liabilities. The Group recognises income on certain financial assets on a time-apportioned basis. The Group has set limits for profit return risk and these are monitored on an ongoing basis by the Group's Asset Liability Committee (ALCO).

The Group manages exposures to the effects of various risks associated with fluctuations in the prevailing levels of market profit rates on its financial position and cash flows.

The effect on income solely due to reasonably possible immediate and sustained changes in profit return rates, affecting both floating rate assets and liabilities and fixed rate assets and liabilities with maturities less than one year are as follows:

	2013			
	Change in rate %	Effect on net profit BD '000	Change in rate %	Effect on net profit BD '000
	US dollars	0.25	(271)	(0.25)
Bahraini dinars	0.25	(78)	(0.25)	78

	2012			
	Change in rate %	Effect on net profit BD '000	Change in rate %	Effect on net profit BD '000
	US dollars	0.25	(497)	(0.25)
Bahraini dinars	0.25	(357)	(0.25)	357

In addition to profit generating Islamic financing and investment products considered in arriving at the effect on net profits, the other assets include assets-under-conversion amounting to BD 5,355 thousands (2012: BD 15,336 thousands) which are interest bearing. The Group is in the process of converting these into Shari'a compliant contracts. If all the interest bearing assets were converted into Shari'a complaint contracts on 1 January 2014, the change in profit rate by 0.25% would result in a profit or loss of BD 13 thousands (2012: BD 38 thousands).

The Group has entered into profit rate swaps for a notional amount of BD 15,080 thousands (2012: BD 15,080 thousands) with a counterparty to minimise the impact of the fluctuations in the profit rates. The Group pays a fixed rate and receives floating rates with reference to an index. The maturity of the contract is 1 to 5 years. The fair value adjustment is included in other assets and is classified as level 2 in fair value hierarchy.

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**27 MARKET RISK (continued)****27.3 Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. Positions are monitored on a periodic basis by the Group's Asset Liability Committee to ensure positions are maintained within established limits.

Substantial portion of the Group's assets and liabilities are denominated in Bahrain dinars or US dollars. The Group had the following significant net long positions in foreign currencies as of 31 December :

	<i>2013</i>	<i>2012</i>
	<i>BD '000</i>	<i>BD '000</i>
US dollars	<b>4,763</b>	-
Saudi riyals	<b>34,419</b>	39,918

The effect on income solely due to reasonably possible immediate and sustained changes in exchange rates is as follows:

	<i>2013</i>			
	<i>Change in</i>	<i>Effect on</i>	<i>Change in</i>	<i>Effect on</i>
	<i>rate</i>	<i>net profit</i>	<i>rate</i>	<i>net profit</i>
	<i>%</i>	<i>BD '000</i>	<i>%</i>	<i>BD '000</i>
US dollars to Bahraini dinars	<b>1</b>	<b>48</b>	<b>(1)</b>	<b>(48)</b>
Saudi riyals to Bahraini dinars	<b>1</b>	<b>344</b>	<b>(1)</b>	<b>(344)</b>

	<i>2012</i>			
	<i>Change in</i>	<i>Effect on</i>	<i>Change in</i>	<i>Effect on</i>
	<i>rate</i>	<i>net profit</i>	<i>rate</i>	<i>net profit</i>
	<i>%</i>	<i>BD '000</i>	<i>%</i>	<i>BD '000</i>
US dollars to Bahraini dinars	1	-	(1)	-
Saudi riyals to Bahraini dinars	1	399	(1)	(399)

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**28 LIQUIDITY RISK**

Liquidity risk is the risk that the Group will be unable to meet its liabilities as they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may impact certain sources of funding. To mitigate this risk, management has diversified funding sources and assets are managed with liquidity in mind, maintaining an adequate balance of cash, cash equivalents and readily marketable securities. Liquidity position is monitored on an ongoing basis by the Group's Asset Liability Committee.

The table below summarises the expected maturity profile of the Bank's assets and liabilities as at 31 December 2013 and 2012:

	<i>31 December 2013</i>				<i>Total BD '000</i>
	<i>Up to 3 months BD '000</i>	<i>3 months to 1 year BD '000</i>	<i>1 to 5 years BD '000</i>	<i>Over 5 years BD '000</i>	
<b>ASSETS</b>					
Cash and balances with banks and the CBB	76,122	6,970	3,005	-	86,097
CBB Sukuk	-	18,770	84,167	-	102,937
Murabaha & Wakala receivables from banks	118,227	-	-	-	118,227
Corporate Sukuk	-	12,964	52,473	25,669	91,106
Murabaha and Mudaraba financing	50,540	38,892	141,178	31,090	261,700
Ijarah Muntahia Bittamleek	11,078	2,759	55,831	40,963	110,631
Musharaka financing	7,968	7,821	2,201	1,155	19,145
Non-trading investments	-	-	125,923	-	125,923
Investment properties	-	-	77,736	-	77,736
Development properties	-	-	63,399	-	63,399
Investment in an associate	-	-	8,537	-	8,537
Other assets	19,526	2,009	1,279	-	22,814
	<b>283,461</b>	<b>90,185</b>	<b>615,729</b>	<b>98,877</b>	<b>1,088,252</b>
<b>LIABILITIES AND EQUITY OF</b>					
<b>INVESTMENT ACCOUNTHOLDERS</b>					
Murabaha and Wakala payables to banks	-	10,680	96,116	-	106,796
Wakala payables to non-banks	-	58,436	525,929	-	584,365
Customers' current accounts	70,532	-	-	-	70,532
Term financing	291	900	22,446	-	23,637
Other liabilities	27,545	3,198	236	-	30,979
Equity of investment accountholders	7,754	5,169	12,923	-	25,846
	<b>106,122</b>	<b>78,383</b>	<b>657,650</b>	<b>-</b>	<b>842,155</b>

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## 28 LIQUIDITY RISK (continued)

	31 December 2012				
	Up to 3 months BD '000	3 months to 1 year BD '000	1 to 5 years BD '000	Over 5 years BD '000	Total BD '000
<b>ASSETS</b>					
Cash and balances with banks and the CBB	57,733	4,255	4,855	-	66,843
CBB Sukuk	8,897	6,143	80,715	21,857	117,612
Murabaha & Wakala receivables from banks	103,290	-	-	-	103,290
Corporate Sukuk	-	3,770	57,813	13,410	74,993
Murabaha and Mudaraba financing	54,767	47,397	89,922	35,023	227,109
Ijarah Muntahia Bittamleek	10,471	7,742	56,851	7,890	82,954
Musharaka financing	5,374	4,759	6,960	374	17,467
Non-trading investments	-	11,034	193,168	-	204,202
Investment properties	-	-	-	2,500	2,500
Investment in an associate	-	-	7,573	-	7,573
Other assets	12,169	8,371	9,451	7,684	37,675
	<u>252,701</u>	<u>93,471</u>	<u>507,308</u>	<u>88,738</u>	<u>942,218</u>
<b>LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS</b>					
Murabaha and Wakala payables to banks	-	9,085	81,767	-	90,852
Wakala payables to non-banks	-	175,126	346,803	-	521,929
Customers' current accounts	83,921	-	-	-	83,921
Other liabilities	7,306	11,226	197	446	19,175
Equity of investment accountholders	5,483	3,655	9,138	-	18,276
	<u>96,710</u>	<u>199,092</u>	<u>437,905</u>	<u>446</u>	<u>734,153</u>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

**28 LIQUIDITY RISK (continued)**

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2013 and 2012 based on contractual undiscounted payment obligation:

	31 December 2013					Total BD '000
	On	Up to	3 months	1 to 5	Over 5	
	demand	3 months	to 1 year	years	years	
	BD '000	BD '000	BD '000	BD '000	BD '000	
<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNT</b>						
<b>HOLDERS' COMMITMENTS AND CONTINGENT LIABILITIES</b>						
Murabaha & Wakala payables to banks	-	98,665	8,131	-	-	106,796
Wakala payables to non-banks	-	332,080	232,919	19,366	-	584,365
Customers' current accounts	70,532	-	-	-	-	70,532
Equity of investment accountholders	-	25,846	-	-	-	25,846
Term financing	-	389	2,036	20,736	4,779	27,940
Unutilised commitments	-	5,165	4,579	608	814	11,166
Commitments towards development cost	-	-	2,799	-	-	2,799
Contingent liabilities	6,881	252	78	-	-	7,211
Other financial liabilities	-	8,246	4,333	3,304	-	15,883
Profit due on financing contracts	-	1,334	4,069	1,108	-	6,511
	<b>77,413</b>	<b>471,977</b>	<b>258,944</b>	<b>45,122</b>	<b>5,593</b>	<b>859,049</b>

	31 December 2012					Total BD '000
	On	Up to	3 months	1 to 5	Over 5	
	demand	3 months	to 1 year	years	years	
	BD '000	BD '000	BD '000	BD '000	BD '000	
<b>LIABILITIES, EQUITY OF INVESTMENT ACCOUNT</b>						
<b>HOLDERS' COMMITMENTS AND CONTINGENT LIABILITIES</b>						
Murabaha & Wakala payables to banks	-	90,852	-	-	-	90,852
Wakala payables to non-banks	-	275,126	232,463	14,340	-	521,929
Customers' current accounts	83,921	-	-	-	-	83,921
Equity of investment accountholders	-	18,276	-	-	-	18,276
Unutilised commitments	14,238	4,026	4,596	3,218	537	26,615
Unutilised capital commitments	-	-	-	1,391	-	1,391
Contingent liabilities	9,923	649	-	261	-	10,833
Other financial liabilities	-	5,180	6,587	196	-	11,963
Profit due on financing contracts	-	1,331	4,608	953	-	6,892
	<b>108,082</b>	<b>395,440</b>	<b>248,254</b>	<b>20,359</b>	<b>537</b>	<b>772,672</b>

31 December 2013

**29 SEGMENT INFORMATION****Primary segment information**

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

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

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

Segment information is disclosed as follows:

	<i>31 December 2013</i>				
	<i>Banking</i>	<i>Treasury</i>	<i>Investments</i>	<i>Capital</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Operating income	15,059	6,633	1,031	3,364	26,087
Segment result	9,591	5,825	(1,957)	(1,087)	12,372
<b>Other information</b>					
Segment assets	381,307	397,309	208,039	101,597	1,088,252
Segment liabilities, and equity	688,122	107,237	48,872	244,021	1,088,252
	<i>31 December 2012</i>				
	<i>Banking</i>	<i>Treasury</i>	<i>Investments</i>	<i>Capital</i>	<i>Total</i>
	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>	<i>BD '000</i>
Operating income	7,035	11,437	(2,418)	7,008	23,062
Segment result	826	10,627	(3,852)	2,707	10,308
<b>Other information</b>					
Segment assets	348,043	361,628	171,287	61,260	942,218
Segment liabilities, and equity	629,981	90,966	2,547	218,724	942,218

**Secondary segment information**

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

**30 FIDUCIARY ASSETS**

Funds under management at the year-end amounted to BD 96,686 thousands (2012: BD 96,973 thousands). These assets are held in a fiduciary capacity and are not included in the consolidated statement of financial position.

**31 SHARI'A SUPERVISORY BOARD**

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

**32 FAIR VALUE OF FINANCIAL INSTRUMENTS**

The estimated fair value of the Bank's financial instruments are not significantly different from their carrying values as at 31 December 2013 and 2012.

**33 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A**

During the year, the Group received Sharia' prohibited income totaling BD 130 thousands (2012: BD 236 thousands). These include, income earned from the conventional financing and investments, penalty charges from customers and income on current account balances held with correspondent banks. These funds were allocated to charitable contributions.

**34 SOCIAL RESPONSIBILITY**

The Group discharges its social responsibility through charity fund expenditures and donations to individuals and organisations which are used for charitable purposes. During the year the Group paid an amount of BD 215 thousands (2012: BD 77 thousands) on account of charitable donations.

**35 ZAKAH**

Pursuant to a resolution of the shareholders in an EGM held on 12 November 2009, it was resolved to amend the articles of association of the Group to inform the shareholders of their obligation to pay Zakah on income and net worth. Consequently, Zakah is not recognized in the consolidated income statement as an expense. The total Zakah payable by the shareholders for 2013 has been determined by the Shari'a supervisory board as 4.1 fils (2012: 3.6 fils) per share.

**36 CAPITAL ADEQUACY**

The adequacy of the Group's capital is monitored using, primarily, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the CBB. The primary objective of the Group's capital management is to ensure that it complies with externally imposed capital requirements. The Group complied in full with all externally imposed capital requirements during the years ended 31 December 2013 and 31 December 2012.

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**36 CAPITAL ADEQUACY (continued)**

The risk assets ratio calculations, in accordance with the 'Basel II' capital adequacy guidelines of the CBB are as follows:

	<i>2013</i>	<i>2012</i>
	<i>BD '000</i>	<i>BD '000</i>
Capital base (Tier 1)	<b>187,565</b>	145,974
Credit risk weighted exposures	<b>828,766</b>	662,977
Market risk weighted exposures	<b>4,300</b>	1,213
Operational risk weighted exposures	<b>42,064</b>	34,881
Total risk weighted exposure	<b>875,130</b>	699,071
Capital adequacy	<b>21.4%</b>	20.9%
Minimum requirement	<b>12.0%</b>	12.0%