

BANK ALKHAIR B.S.C. (c)
CONSOLIDATED FINANCIAL STATEMENTS
31 December 2013

Commercial registration	:	53462 (registered with the Central Bank of Bahrain as a wholesale Islamic bank).
Registered Office	:	4 th Floor Building No. 2304, Road 2830, Seef District 428 PO Box 31700, Manama, Kingdom of Bahrain
Directors	:	Yousef A. Al-Shelash, <i>Chairman</i> Hethloul Saleh Al-Hethloul Abdullatif Abdullah Al-Shalash Ayman Ismail Abudawood Abdulaziz Naif Al Orayer Ahmed Saleh Dehailan Khaled Shaheen Saqer Shaheen Khaled Abdulla Mohammed Ateeq (w.e.f. 27 June 2013) Abdullah Ali Al Dubaikhi (w.e.f. 27 June 2013) Majed Abdulrahman Al Qasem (w.e.f. 27 June 2013) Sultan Abdulrahman Abalkheel (w.e.f. 27 June 2013) Abdulrazaq Mohamed Al Wohaib (w.e.f. 27 June 2013) Ali Saleh Al Othaim (w.e.f. 27 June 2013) Khalid Mohamed Abdulrahim (w.e.f. 27 June 2013) Waleed Abdulrahim Alasfoor (w.e.f. 27 June 2013)
Acting Chief Executive Officer	:	Jonathan H. Holley
Auditors	:	KPMG Fakhro

CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

CONTENTS	Page
Chairman's report	1
Shari'ah Report	2
Independent auditors' report to the shareholders	3
Consolidated financial statements	
Consolidated statement of financial position	4
Consolidated income statement	5
Consolidated statement of changes in equity	6-7
Consolidated statement of cash flows	8
Consolidated statement of changes in restricted investment accounts	9
Notes to the consolidated financial statements	10-51

**CHAIRMAN'S REPORT
for the year ended 31 December 2013**

In the name of Allah, the Most Beneficent, the Most Merciful, Prayers and Peace be upon our Prophet Mohammed, His Companions and Relatives.

On behalf of the Board of Directors, it is my privilege to present the annual report and consolidated financial statements of Bank Alkhair for the year ended 31 December 2013. I am pleased to report that the Bank's ninth full year of operations was marked by an overall notable improvement in performance from prior years.

During 2013, we successfully completed the process of restructuring and realigning our domestic and international banking operations; improved the performance and asset quality of our portfolio companies; and achieved our stated goal of returning the Bank to profitability. These achievements, which took place against the headwinds of continued global economic volatility and challenging market conditions, constitute an important milestone for Bank Alkhair.

The Bank continued to witness a substantial improvement in the performance and quality of its portfolio assets during 2013, which continue to be a major contributor to total revenues. Notable achievements in 2013 include Bahrain Financing Company expanding its international operations into India and Malaysia; while t'azur Company established a fully-licensed takaful company in Oman, and has filed for an IPO on the Muscat Securities Market during the first quarter of 2014. Elsewhere, the Al Tajamout Mall – the premier upscale shopping and entertainment complex in Jordan – which was launched in 2012 is now completed and fully let to prime occupants.

I am delighted to report that these successful strategic and business achievements enabled the Bank to meet its stated goal of returning to profitability in 2013. Net profit for the year was US\$ 4.7 million compared with a loss of US\$ 39.8 million in 2012; while total income grew to US\$ 34.7 million from US\$ 5.3 million in 2012. At the end of the year, total assets stood at US\$ 628.6 million versus US\$ 442.2 million at the end of 2012; with total equity growing to US\$ 248.6 million from US\$ 195.9 million at the end of the previous year.

Throughout 2013, we continued to enhance the Bank's institutional capability, with the further strengthening of our corporate governance and risk management frameworks. We also resumed recruitment of high-calibre professionals to strengthen our investment banking team in Bahrain, while continuing to enhance the skills sets of existing staff. At the same

time, we initiated the development of a world-class private cloud and integrated business continuity planning platform from a leading global specialist IT provider, through which to ensure the highest levels of data integrity and protection of our clients' information.

The Board of Directors' current three-year term expired in 2013. Following the election of the new Board, I would like to thank

the outgoing Directors for their valuable contributions, and welcome the eight new Directors. Their diverse knowledge, experience and expertise, and commitment to the highest standards of governance, will help the enlarged Board guide the Bank in implementing its strategy of business growth and sustainable profitability.

Looking forward to 2014, we are optimistic about the Bank's future prospects. Operationally, we have developed a strategy to diversify our revenue streams by growing significantly our commercial activities to balance our portfolio revenues. We also have ambitious plans to expand our capital markets business, and double its contribution to total income during the year ahead. The measures we have taken over the past few years to redefine our strategy and business model, and strengthen our adoption of sound governance principles, have placed us in a stronger position to grow our share of the fast-growing Islamic finance industry, whose assets are forecast to hit the US\$ 2 trillion mark by the end of 2014.

The consensus of delegates at the recent World Islamic Banking Conference in Bahrain, and the World Islamic Economic Forum in London, is that the Islamic finance industry has truly come of age as a driver of global economic growth. Such a view is strong validation of the pioneering vision and foresight of our founding shareholders. Nine years on, Bank Alkhair is strongly placed to take advantage of the improving economic environment to capture new business opportunities and grow its global footprint. As we strive to meet our ambitious goals, we remain constant to our focus on innovation and professionalism; and our commitment to the principles of Islamic Shari'ah, and the highest standards of fairness, transparency, accountability and responsibility.

In conclusion, on behalf of the Board of Directors, I express my sincere appreciation to our shareholders for their enduring support and confidence; to our Shari'ah Supervisory Board for its guidance and counsel; and to our clients and business partners for their trust and collaboration. In particular, I thank the Government of Bahrain and its leaders for their encouragement and support of the Islamic banking sector. Special acknowledgement is also due to the Central Bank of Bahrain and the regulatory bodies in other jurisdictions where we operate, for their constructive advice and cooperation. Finally, I pay tribute to the dedication, commitment and positive attitude of our management and staff around the world; and their contribution to the progress of Bank Alkhair in a challenging but successful year.

May Allah guide us on the proper path, and lead us to the realisation of our goals for the future success of the Bank.



Yousef A. Al-Shelash
Chairman of the Board
27 February 2014

**SHARI'AH SUPERVISORY BOARD REPORT
TO THE SHAREHOLDERS OF
BANK ALKHAIR B.S.C. (c)**

Asslamo A'laikom WA Rahmatu Allah WA Barakatuh

In compliance with the terms of our letter of appointment, we are required to report as follows:

We have reviewed through the Shari'ah department and under our supervision the principles and the contracts relating to the transactions conducted by Bank Alkhair B.S.C. (c) ("the Bank") and its subsidiaries (together "the Group") during the year ended 31 December 2013. We have conducted our review with a view to form an opinion as to whether the Group has complied with rules and principles of Islamic Shari'ah and also with the specific fatwa's, rulings and guidelines issued by us.

The Group's management is responsible for ensuring that the Group conducts its business in accordance with the rules and principles of Islamic Shari'ah. It is our responsibility to form an independent opinion, based on our review of the operations of the Group, and to report this to you.


We conducted our review through the Shari'ah department and under our supervision which included examining, on a test basis, each type of transaction and the relevant documentation and procedures adopted by the Group. We planned and performed our review so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to give assurance that the Group has not violated any rules and principles of Islamic Shari'ah.

In our opinion:


- The contracts, transactions and dealings entered into by the Group during the year ended 31 December 2013 are in compliance with the rules and principles of Islamic Shari'ah except part of the investment in Taj Mall project, Open Silicon and The Independent For Logistics & Warehousing which were not submitted to the Shari'ah Board for approval before its execution, and appear later to be having explicitly non-Shari'ah Compliance issues.
- The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Islamic Shari'ah rules and principles.
- The Shari'ah Board advised the Bank's management that all earnings that have been realized from sources or by means prohibited by rules and principles of Islamic Shari'ah principles shall be disposed off and given to charity under the supervision of the Shari'ah Board.
- The calculation of Zakah is in compliance with the rules and principles of Islamic Shari'ah.

We supplicate to Allah the Almighty to grant us success and a straight path.


Wa Asslamo A'laikom Wa Rahmatu Allah Wa Barakatuh.



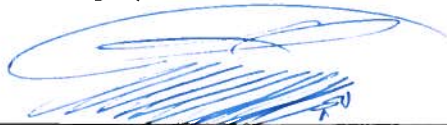
Dr. Khalid Al Mathkoor




Dr. Abdul Sattar Abu Ghuddah



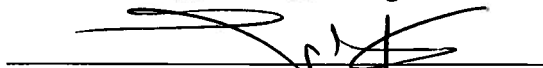
Dr. Sh. Nizam M. Yacoubi



Dr. Aagil Al Nashmy



Dr. Ali M. Al Qaradaghi



Dr. Mohamed Daud Bakar



**KPMG Fakhro
Audit**
12th Floor
Fakhro Tower
PO Box 710, Manama
Kingdom of Bahrain

CR No. 6220
Tel +973 17 224807
Fax +973 17 227443
Internet www.kpmg.com.bh

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
BANK ALKHAIR BSC (c)**
Manama, Kingdom of Bahrain

27 February 2014

Report on the consolidated financial statements

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

Respective responsibilities of board of directors and auditors

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 board of directors of the Bank. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Basis of opinion

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

Opinion

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

Report on other regulatory requirements

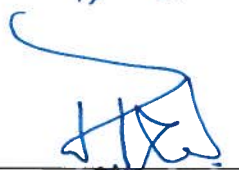
As required by the Bahrain Commercial Companies Law and Volume 2 of the Central Bank of Bahrain (CBB) Rule Book, we report that the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; the financial information contained in the chairman's report 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, applicable provisions of Volume 6 and CBB directives), or the terms of the Bank's memorandum and articles of association having occurred during the year that might have had a material adverse effect on the business of the Bank or on its financial position; and satisfactory explanations and information have been provided to us by the management in response to all our requests. Except for the matters discussed in the Shari'a Supervisory Board Report dated 27 February 2014, we are not aware of any other breaches of the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2013

US\$ 000's

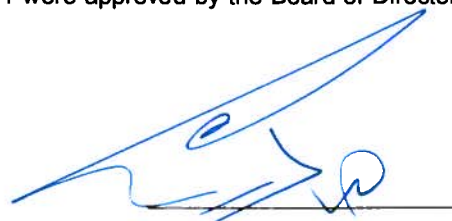
	Note	31 December 2013	31 December 2012
ASSETS			
Cash and balances with banks	4	15,836	7,985
Placements with financial institutions		74,390	63,733
Financing receivables	5	52,309	86,623
Investment securities	6	79,186	112,905
Assets held-for-sale	7	216,764	18,932
Equity-accounted investees	8	107,389	106,006
Investment property	9	73,719	17,706
Other assets	10	7,410	25,988
Equipment		1,587	2,277
TOTAL ASSETS		628,590	442,155
LIABILITIES AND EQUITY			
LIABILITIES			
Due to financial institutions	11	51,173	153,121
Due to customers	12	217,594	68,176
Liabilities related to assets held-for-sale	7	92,427	-
Other liabilities	13	18,810	24,978
TOTAL LIABILITIES		380,004	246,275
EQUITY			
Share capital	14	207,862	207,862
Statutory reserve		664	337
Fair value reserve		114	114
Foreign currency translation reserve		(9,499)	(8,485)
Accumulated losses		(29,768)	(32,715)
Equity attributable to the shareholders of the parent		169,373	167,113
Non-controlling interests		28,456	28,767
Non-controlling interests related to assets held-for-sale	7	50,757	-
TOTAL EQUITY (page 6)		248,586	195,880
TOTAL LIABILITIES AND EQUITY		628,590	442,155

The consolidated financial statements consisting of pages 4 to 51 were approved by the Board of Directors on 27 February 2014 and signed on its behalf by:



Yousef Abdullah Al-Shelash

Chairman



Hethloul Saleh Al-Hethloul

Board Member

The accompanying notes 1 to 35 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2013

US\$ 000's

	note	2013	2012
Continuing operations			
Finance income		7,034	8,742
Finance expense		(8,240)	(7,814)
Net finance (expense)/ income		(1,206)	928
Income from investment securities	15	7,232	(10,676)
Fees and commission income	16	7,009	3,754
Share of profit of equity-accounted investees	8	5,752	10,575
Gain on acquisition of assets held-for-sale	7	14,453	-
Other income		1,428	709
Total income		34,668	5,290
Staff cost		15,330	19,080
Legal and professional expenses		7,891	13,394
Premises cost		2,254	2,848
Business development expenses		609	1,066
Depreciation		953	1,881
Other operating expenses		4,202	6,229
Total expenses		31,239	44,498
Profit / (loss) for the year before Zakah and impairment		3,429	(39,208)
Provision for Zakah	17	(145)	(1,719)
(Charge) / reversal of impairment	18	(2,017)	1,100
Profit / (loss) for the year from continuing operations		1,267	(39,827)
Income from assets held-for-sale and discontinued operations	7	3,472	64
Profit / (loss) for the year		4,739	(39,763)
Attributable to:			
Shareholders of the parent		3,274	(36,868)
Non-controlling interests		(249)	(2,895)
Non-controlling interests relating to assets held-for-sale		1,714	-
		4,739	(39,763)

The accompanying notes 1 to 35 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2013

US\$ 000's

	Attributable to the shareholders of the parent					Non-controlling interests	Non-controlling interests related to assets held-for-sale	Total equity	
	Share capital	Statutory reserve	Fair value reserve	Foreign currency translation reserve *	Accumulated losses				Total
2013									
As at 1 January 2013	207,862	337	114	(8,485)	(32,715)	167,113	28,767	-	195,880
Profit for the year (page 4)	-	-	-	-	3,274	3,274	(249)	1,714	4,739
Foreign currency translation differences	-	-	-	(746)	-	(746)	(62)	-	(808)
Share of changes in reserves of equity-accounted investees	-	-	-	(268)	-	(268)	-	-	(268)
Total recognised income and expense for the year	-	-	-	(1,014)	3,274	2,260	(311)	1,714	3,663
Transfer to statutory reserve	-	327	-	-	(327)	-	-	-	-
Non-controlling interests related to assets held-for-sale	-	-	-	-	-	-	-	49,043	49,043
As at 31 December 2013	207,862	664	114	(9,499)	(29,768)	169,373	28,456	50,757	248,586

* Translation reserve amounting to US\$ 6,306 thousand (31 December 2012: US\$ 6,306 thousand) is attributable to assets held-for-sale and will be recycled to the consolidated income statement on disposal

The accompanying notes 1 to 35 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*
for the year ended 31 December 2013

US\$ 000's

	Attributable to the shareholders of the parent					Non-controlling interests	Total equity	
	Share capital	Statutory reserve	Fair value reserve	Foreign currency translation reserve	Accumulated losses			Total
2012								
As at 1 January 2012	207,862	337	(227)	(8,642)	4,153	203,483	31,683	235,166
Loss for the year (page 4)	-	-	-	-	(36,868)	(36,868)	(2,895)	(39,763)
Foreign currency translation differences	-	-	-	417	-	417	(21)	396
Fair value changes	-	-	192	-	-	192	-	192
Share of changes in reserves of equity-accounted investees	-	-	149	(260)	-	(111)	-	(111)
Total recognised income and expense for the year	-	-	341	157	(36,868)	(36,370)	(2,916)	(39,286)
As at 31 December 2012	207,862	337	114	(8,485)	(32,715)	167,113	28,767	195,880

The accompanying notes 1 to 35 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2013

US\$ 000's

	2013	2012
OPERATING ACTIVITIES		
Profit / loss for the year	4,739	(39,763)
Adjustments for:		
Provision for Zakah	145	1,719
Gain on sale of investment securities	(1,022)	(1,375)
Fair value changes in investment securities	(5,202)	13,386
Share of profit of equity-accounted investees	(5,752)	(10,575)
Gain on acquisition of assets held-for-sale	(14,453)	-
Income from assets held-for-sale and discontinued operations	(3,472)	-
Depreciation and amortisation	953	1,881
Other Income	(1,133)	-
Sukuk amortisation	(348)	(1,054)
Charge / (reversal) of impairment	2,017	(1,100)
	(23,528)	(36,881)
Changes in:		
Financing receivables	31,290	9,215
Other assets	7,354	16,914
Due to financial institutions	(86,838)	(5,167)
Due to customers	149,418	(20,307)
Other liabilities	(6,348)	7,054
Proceeds from sale of investment securities	34,210	17,970
Purchase of investment securities	(16,952)	(13,000)
Net cash generated from / (used in) operating activities	88,606	(24,202)
INVESTING ACTIVITIES		
Net disposal / (purchase) of equipment	105	(275)
Investments in equity-accounted investees	(2,600)	3,252
Purchase of investment property	(56,013)	-
Dividends received from equity-accounted investees	4,336	-
Net cash (used in) / generated from investing activities	(54,172)	2,977
FINANCING ACTIVITIES		
(Repayment) / draw down of bank financing	(15,110)	15,110
Net cash (used in) / generated from financing activities	(15,110)	15,110
Net increase/ (decrease) in cash and cash equivalents during the year	19,324	(6,115)
Effect of exchange rate changes on cash and cash equivalents	(816)	275
Cash and cash equivalents at the beginning of the year	71,718	77,558
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	90,226	71,718
Cash and cash equivalents comprise:		
Cash and balances with banks	15,836	7,985
Placements with financial institutions	74,390	63,733
	90,226	71,718

The accompanying notes 1 to 35 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the year ended 31 December 2013

US\$ 000's

	At 1 January 2013	Deposit	Gross income	Wakil fee	Withdrawals	At 31 December 2013
2013						
Wakala contract	-	500	15	(3)	(512)	-

	At 1 January 2012	Deposit	Gross income	Wakil fee	Withdrawals	At 31 December 2012
2012						
Wakala contract	3,604	-	91	(36)	(3,659)	-

The accompanying notes 1 to 35 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

US\$ 000's

1. REPORTING ENTITY

Bank Alkhair B.S.C. (c) ("the Bank") was incorporated in the Kingdom of Bahrain and registered with the Ministry of Industry and Commerce under Commercial Registration No. 53462 on 29 April 2004 and operates under a wholesale Islamic banking license granted by the Central Bank of Bahrain (CBB). The Bank's registered office is at the 4th floor of Building No. 2304, Road No. 2830, Seef District 428, Manama, Kingdom of Bahrain.

The Bank and its subsidiaries (together referred to as "the Group") aim to provide a full range of investment banking products and services that are compliant with Shari'ah principles. The principal products and services offered by the Group are:

- financial advisory services;
- private equity, equity structuring, private placements and initial public offerings;
- facility structuring, restructuring and placement including project finance, securitisation and Sukuk;
- structuring and marketing of both open and closed end mutual funds as well as client portfolio management and brokerage services that aim to meet investor driven return and asset criteria;
- advisory and investment services for takaful (Islamic insurance) and retakaful (Islamic reinsurance) providers; and
- mergers and acquisitions, including deal sourcing, structuring, valuations and advisory.

Consolidated financial statements

The consolidated financial statements comprise the results of the Bank and its subsidiaries.

The following are the principal subsidiaries of the Bank that are consolidated:

Subsidiary	Ownership	Year of incorporation / Acquisition	Country of incorporation	Principal activity
Alkhair International Islamic Bank Malaysia Berhad	100%	2004	Malaysia	Alkhair International Islamic Bank Malaysia Berhad was established in 2004 to source investment opportunities in the Far East and monitor the performance of the acquired companies on behalf of the Bank and investors and to establish distribution channels for the Group. In 2007, Alkhair International Islamic Bank Malaysia Berhad was granted an investment banking license by Bank Negara Malaysia to carry out investment banking activity in currencies other than the Malaysian Ringgit.
Alkhair Capital Menkul Degerler A.S.	91.9%	2007	Turkey	The main activities of Alkhair Capital Menkul Degerler A.S. are to provide investment consultancy and asset management.
Alkhair Capital Saudi Arabia	53.4%	2009	Kingdom of Saudi Arabia	Alkhair Capital Saudi Arabia was incorporated in March 2009 and registered with Capital Markets Authority. Its principal activities are Asset Management, Corporate Finance & Investment banking and Brokerage.
Al-Tajamouat for Touristic Projects Co Plc	50.6%	2013	Jordan	Al-Tajamouat for Touristic Projects Co was incorporated in January 2004. Its principal activities are real estate property investment & development and ownership and operation of a shopping mall in Amman.

The Bank has other special purpose entities (SPE's) holding companies and subsidiaries which are set up to supplement the activities of the Bank and its principal subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

US\$ 000's

2. BASIS OF PREPARATION**(a) Statement of compliance**

The consolidated financial statements have been prepared in accordance with Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). In line with the requirement of AAOIFI and the CBB Rule Book, for matters that are not covered by FAS, the Group uses guidance from the relevant International Financial Reporting Standards ('IFRS').

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except for certain investment securities carried at fair value. The consolidated financial statements are presented in United States Dollars (US\$), being the functional currency of the Group's operations. All financial information presented in US\$ has been rounded to the nearest thousands, except when otherwise indicated.

Going concern

The Bank's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for foreseeable future. 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, and accordingly, the consolidated financial statements have been prepared on a going concern basis.

(c) Basis of consolidation**(i) Subsidiaries**

Subsidiaries are those enterprises (including special purpose entities) controlled by the Bank. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases.

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or investment transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. The assessment of whether the Group has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Group and the SPE. Where the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE.

The Group in its fiduciary capacity also manages and administers assets held in trust and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's fiduciary assets under management is set out in note 21.

Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the consolidated income statement. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013**

US\$ 000's

2. BASIS OF PREPARATION (continued)*Non-controlling interests*

Interests in the equity of subsidiaries not attributable to the parent are reported in consolidated statement of financial position as non-controlling interests. Profits or losses attributable to non-controlling interests are reported in the consolidated income statement as income attributable to non-controlling interests. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in equity in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other equity are reclassified to the consolidated income statement.

(ii) Investment in associates (Equity-accounted investees)

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

On initial recognition of an associate, the Group makes an accounting policy choice as to whether the associate shall be equity accounted or designated as at fair value through income statement. The Group makes use of the exemption in FAS 24 – *Investment in Associates* for venture capital organisation and designates certain of its investment in associates, as 'investments carried at fair value through income statement'. These investments are managed, evaluated and reported on internally on a fair value basis (refer note 3 (b)).

If the equity accounting method is chosen for an associate, these are initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investees after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investees arising from changes in the investee's equity. When the Group's share of losses exceeds its interest in an equity-accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the equity-accounted investees.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an equity-accounted investee at the date of acquisition is recognised as goodwill, and included within the carrying amount of the investment. When the excess is negative, a bargain purchase gain is recognised immediately in the consolidated income statement.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013**

US\$ 000's

2. BASIS OF PREPARATION (continued)

If the ownership interest in an equity-accounted investee is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in equity is reclassified to the consolidated income statement where appropriate.

(iii) Transactions eliminated on consolidation and equity accounting

Intra-group balances and transactions, and any unrealised gains or losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Intra-group gains on transactions between the Group and its equity-accounted investees are eliminated to the extent of the Group's interest in the investees. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

The reporting period of the Group's subsidiaries and equity-accounted investees are identical and their accounting policies conform to those used by the Bank for like transactions and events in similar circumstances. The accounting policies of the subsidiaries and equity-accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Business combination

Business combinations are accounted for using the acquisition method as at the acquisition date i.e. when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in the consolidated income statement immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in consolidated income statement. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by Group entities to all periods presented in these consolidated financial statements except for standards issued and effective from 1 January 2013, FAS 26 – *Investment in real estate* which is given below:

The Group has adopted Financial Accounting Standard 26 ("FAS 26") "Investment in real estate" issued by AAOIFI during 2012, which is effective from 1 January 2013. The new standard replaces the requirements of FAS 17 which was applied for investments in real estate. The significant requirement of the standard is that for investment in real estate held-for-use, the entity shall choose either fair value model or cost model as its accounting policy. Where the entity adopts fair value model, then fair value changes should be directly recognised in equity under 'property fair value reserve'. The standard has to be applied retroactively.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013**

US\$ 000's

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Previously, the Group was following the fair value model. On the date of adoption of the standard, the Group opted to measure investment property using the cost model. The adoption of the new standard did not have any material impact on the consolidated financial statements of the Group.

New standards, amendments and interpretations issued but not yet effective for adoption

There are no AAOIFI accounting standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2014 that would be expected to have a material impact on the Group.

a) Foreign currency transactions

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in US\$, which is the Bank's functional and presentation currency.

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

Other group companies

As at the reporting date, the assets and liabilities of subsidiaries, equity-accounted investees and joint venture are translated into the Bank's functional currency at the rate of exchange prevailing at the reporting date, and their statements of income are translated at the average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate reserve in equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

b) Investment securities

Investment securities comprise debt and equity instruments, but exclude investment in subsidiaries and equity-accounted investees (refer note 2 (c ii)).

(i) Classification

The Group segregates its investment securities into debt-type instruments and equity-type instruments.

Debt-type instruments

Debt-type instruments are investments that provide fixed or determinable payments of profits and capital. Investments in debt-type instruments are classified in the following categories:

At fair value through income statement (FVTIS)

These investments are either not managed on contractual yield basis or designated on initial recognition at FVTIS to avoid any accounting mismatch that would arise on measuring the assets or liabilities or recognising the gains or losses on them on different bases. Currently, the Group does not have any investment under this category.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013**

US\$ 000's

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**b) Investment securities (continued)***At amortised cost*

This classification is for debt-type instruments which are not designated as FVTIS and are managed on contractual yield basis. These include investments in medium to long-term sukuk.

Equity-type instruments

Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities. Investments in equity type instruments are classified in the following categories:

At fair value through income statement (FVTIS)

Equity-type instruments classified and measured at FVTIS include investments held-for-trading and those designated on initial recognition at FVTIS.

Investments are classified as held-for-trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealers margin or that form part of a portfolio where there is an actual pattern of short-term profit taking. The Group currently does not have any of its investments classified as investments held-for-trading purposes.

On initial recognition, an equity-type instrument is designated as FVTIS only if the investment is managed and its performance is evaluated and reported on internally by the management on a fair value basis. This category currently includes investment in private equity, funds and investment in associates (refer note 2 (c) (ii))

At fair value through equity (FVTE)

Equity-type instruments other than those designated at FVTIS are classified as at fair value through equity. This category includes investment in unquoted equity securities.

(ii) Recognition and de-recognition

Investment securities are recognised at the trade date i.e. the date that the Group contracts to purchase or sell the asset, at which date the Group becomes party to the contractual provisions of the instrument. Investment securities 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.

(iii) Measurement

Investment securities are measured initially at fair value, which is the value of the consideration given. For investments carried at FVTIS, transaction costs are expensed in the consolidated income statement. For other investment securities, transaction costs are included as a part of the initial recognition.

Subsequent to initial recognition, investments carried at FVTIS and FVTE are re-measured to fair value. Gains and losses arising from a change in the fair value of investments carried at FVTIS are recognised in the consolidated income statement in the period in which they arise. Gains and losses arising from a change in the fair value of investments carried at FVTE are recognised in the consolidated statement of changes in equity and presented in a separate fair value reserve within equity.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013**

US\$ 000's

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**b) Investment securities (continued)**

When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in equity is transferred to the consolidated income statement.

Investments carried at FVTE where the entity is unable to determine a reliable measure of fair value on a continuing basis, such as investments that do not have a quoted market price or where there are no other appropriate methods from which to derive reliable fair values, are stated at cost less impairment allowances.

Subsequent to initial recognition, debt-type investments other than those carried at FVTIS are measured at amortised cost using the effective profit method less any impairment allowances.

(iv) Measurement principles*Amortised cost measurement*

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus capital repayments, plus or minus the cumulative amortisation using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The calculation of the effective profit rate includes all fees and points paid or received that are an integral part of the effective profit rate.

Fair value measurement

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

The Group measures the fair value of quoted investments using the market bid-prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active or the instrument is not quoted, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flow analyses and other valuation models with accepted economic methodologies for pricing financial instruments.

c) Financing receivables

Financing receivables comprise Shari'ah compliant financing contracts with fixed or determinable payments. These include financing provided through Murabaha contracts. Financing assets are recognised on the date they are originated and are carried at their amortised cost.

d) Placements with financial institutions

These comprise inter-bank placements made using Shari'ah compliant contracts. Placements are usually for short-term and are stated at their amortised cost.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013**

US\$ 000's

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**e) Due to financial institutions**

These comprise funds from financial institutions received on Shari'ah compliant contracts. Due to financial institutions are stated at their amortised cost.

f) Due to customers

These comprise funds payable to corporate customers received using Shari'ah compliant contracts. Due to customers are stated at their amortised cost.

g) Impairment of assets

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

Financial assets carried at amortised cost

For financial assets carried at amortised cost impairment is measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses are recognised in consolidated income statement and reflected in an allowance account. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the consolidated income statement. The Group considers evidence of impairment for financial assets carried at amortised cost at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

Investments carried at fair value through equity (FVTE)

In the case of investments in equity securities classified as FVTE, a significant or prolonged decline in the fair value of the security below its cost is an objective evidence of impairment. If any such evidence exists for FVTE investments, the unrealised re-measurement loss shall be transferred from equity to the consolidated income statement.

The cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated income statement is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are subsequently reversed through equity.

For FVTE investments carried at cost less impairment due to the absence of reliable fair value, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the estimated recoverable amount is assessed to be below the cost of the investment. Currently, the Group does not have any investments under this category.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

US\$ 000's

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**g) Impairment of assets (continued)***Non-financial assets*

The carrying amount of the Group's assets or its cash generating unit, other than financial assets carried at amortised cost and investments carried at FVTE, are reviewed at each reporting date to determine whether there is any indication of impairment. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other asset and groups. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset or a cash generating unit is the greater of its value in use or fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of expected return and the risks specific to the asset or cash generating unit. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the consolidated income statement. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Separately recognised goodwill is not amortised and is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on separately recognised goodwill are not reversed.

In assessing the impairment of investment property, the Group periodically uses external independent valuers to determine the recoverable amount based on market value of property.

h) Investment property

Investment property comprise land and building. Investment property is investments that earn rental income and/or are expected to benefit from capital appreciation or land held for undetermined future use. Investment properties are measured initially at cost, including directly attributable expenditures. Subsequently, investment property is carried at cost less accumulated depreciation (where applicable) and accumulated impairment losses (if any). Impairment of investment property is evaluated on assets-by-assets and not on portfolio basis at each reporting period.

Depreciation is calculated to write-off the cost of items of investment property less their estimated residual value using straight line basis over their estimated useful life. Depreciation is recognised in the consolidated income statement. Land is not depreciated. The building is depreciated over useful life of 50 years. Depreciation methods and estimated useful life and residual value are reviewed at each reporting period and adjusted if appropriate.

Investment properties are derecognised when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement in the year of retirement or disposal.

i) Equipment

Equipment includes computers, office equipment, fixtures and fittings. Equipment is recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method to write-off the cost of the assets over their estimated useful lives ranging from 1 to 8 years. The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013**

US\$ 000's

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**j) Assets held-for-sale and discounted operations***i) Classification*

The Group classifies non-current assets or disposal groups as held-for-sale if its carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use within twelve months. A disposal group is a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. A subsidiary acquired exclusively with a view to resale is classified as disposal group held-for-sale and income and expense from its operations are presented as part of discontinued operation.

If the criteria for classification as held for sale are no longer met, the entity shall cease to classify the asset (or disposal group) as held for sale and shall measure the asset at the lower of its carrying amount before the asset (or disposal group) was classified as held-for-sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held-for-sale and its recoverable amount at the date of the subsequent decision not to sell.

Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets and investment property carried at fair value, which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognised in the consolidated income statement. Gains are not recognised in excess of any cumulative impairment loss.

ii) Measurement

Non-current assets or disposal groups classified as held for sale, other than financial instruments, are measured at the lower of its carrying amount and fair value less costs to sell. Financial instruments that are non-current assets and 'held-for-sale' continue to be measured in accordance with their stated accounting policies. On classification of equity-accounted investee as held-for-sale, equity accounting is ceased at the time of such classification as held-for-sale. Non-financial assets (i.e. intangible assets, equipment) are no longer amortised or depreciated.

iii) Discounted operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held-for-sale, if earlier. When an operation is classified as a discontinued operation, the comparative consolidated income statement is re-presented as if the operation had been discontinued from the start of the comparative year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

US\$ 000's

3. *SIGNIFICANT ACCOUNTING POLICIES (continued)***k) Restricted investment accounts**

Restricted investment accounts represent funds received by the Group from third parties for investment in specified products as directed by the investment account holders. These assets are managed in a fiduciary capacity and the Group has no entitlement to these assets. Clients bear all of the risks and earn all of the rewards on these investments. Restricted investments are not included in the consolidated statement of financial position since the Group does not have the right to use or dispose these investments except within the conditions of the contract between the Group and holders of restricted investment accounts.

l) Revenue recognition

Revenue is recognised when it is probable that future economic benefits will flow to the Group and the amount of the revenue can be reliably measured. Revenue earned by the Group and gain / loss on assets are recognised on the following basis:

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

Gain / (loss) on sale of investment securities (realised gain / (loss)) is recognised on trade date at the time of derecognition of the investment securities. The gain or loss is the difference between the carrying value on the trade date and the consideration received or receivable.

Fair value gain / (loss) on investment securities (unrealised gain or loss) is recognised on each measurement date in accordance with the accounting policy for equity-type instruments carried at fair value through income statement (refer note 3 b).

Sukuk Income comprises the coupon profit on Sukuk and realised gain or loss on the sale of Sukuk. The coupon profit is recognised through the effective profit rate in accordance with the accounting policy for debt-type instrument carried at amortised costs (refer to 3 b). Realised gain or loss on sale of Sukuk is recognised on trade date at the time of de-recognition of the Sukuk. The gain or loss is the difference between the carrying value on the trade date and the fair value of consideration received or receivable.

Fees and Commission income represents advisory fees, arrangement fees, management fees and brokerage fees. Fees and Commission income is recognised at the fair value of consideration received or receivable and when the service is provided and income is earned. This is usually when the Group has performed all significant acts in relation to a transaction and it is highly probable that the economic benefits from the transaction will flow to the Group. Significant acts in relation to a transaction are determined based on the terms for each transaction.

Finance income and expense

Finance income and expense is recognised on a time apportioned basis over the period of the Shari'ah complaint contracts based on effective profit rate.

m) Employee benefits**(i) Short-term benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided and recognised as staff cost in the consolidated income statement. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013**

US\$ 000's

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**m) Employee benefits (continued)****(ii) Post-employment benefits**

Pensions and other social benefits for local employees are covered by the Social Insurance Organisation scheme, which is a "defined contribution scheme" in nature, and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. Contributions by the Group are recognised as staff cost in the consolidated income statement when they are due. Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Certain employees on fixed contracts are also entitled to leaving indemnities payable, based on length of service and final remuneration. Provision for this unfunded commitment has been made by calculating the notional liability had all employees left at the reporting date. These benefits are in the nature of "defined benefit scheme" and any increase or decrease in the benefit obligation is recognised as staff cost in the consolidated income statement.

n) Earnings prohibited by Shari'ah

The Bank is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Bank uses these funds for charitable purposes.

o) Zakah

The Bank is not obliged to pay Zakah on behalf of its shareholders. However, the Bank is required to calculate and notify individual shareholders of their pro-rata share of the Zakah payable amount.

p) Provision for Zakah

Provision for Zakah represents Zakah from operation in Kingdom of Saudi Arabia and computed in accordance with Saudi Arabia Zakah regulations.

q) Offsetting of financial instruments

Financial instruments comprise of financial assets and financial liabilities. Financial assets include cash and balances with banks, placements with financial institutions, financing receivables, investment securities and other assets. Financial liabilities include due to financial institutions, due to customers, other liabilities and financial guarantees.

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

r) Statutory reserve

The Bahrain Commercial Companies Law 2001 requires that 10 percent of the annual net profit be appropriated to a statutory reserve which is normally distributable only on dissolution. Appropriations may cease when the reserve reaches 50 percent of the paid up share capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

US\$ 000's

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**s) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

t) Contingent liabilities and contingent assets

Contingent liabilities are not recognised in the consolidated financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefits is probable. Contingent assets are not recognised in the consolidated financial statements, but are disclosed when an inflow of economic benefits is probable.

u) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and commitments. Financial guarantee liabilities are recognised initially at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable.

v) Leases

Payments under operating lease are recognised in the consolidated income statement on a straight line basis over the term of the lease. Lease incentives are recognised as an integral part of the total lease expense, over the term of the lease.

w) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from the contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

x) Trade date accounting

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

y) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise cash in hand, bank balances and placements with financial institutions with maturities of three months or less from the acquisition date that are subject to insignificant risk of changes in fair value and are used by the Group in the management of its short-term commitments.

z) Critical accounting estimates and judgements

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013**

US\$ 000's

3. *SIGNIFICANT ACCOUNTING POLICIES (continued)*
z) *Critical accounting estimates and judgements (continued)*

Judgements**(i) Classification of investments**

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments at fair value through income statement or investments carried at fair value through equity or investments carried at amortised cost. The classification of each investment reflects the management's judgement in relation to its strategy for each investment and is subject to different accounting treatments based on such classification (refer note 3 (b)).

(ii) Special purpose entities

The Group sponsors the formation of special purpose entities (SPE's) primarily for the purpose of allowing clients to hold investments. The Group provides corporate administration, investment management and advisory services to these SPE's, which involve the Group making decisions on behalf of such entities. The Group administers and manages these entities on behalf of its clients, who are by and large third parties and

are the economic beneficiaries of the underlying investments. The Group does not consolidate SPE's that it does not have the power to control.

In determining whether the Group has the power to control an SPE, judgements are made about the objectives of the SPE's activities, its exposure to the risks and rewards, as well as about the Group intention and ability to make operational decisions for the SPE and whether the Group derives benefits from such decisions.

Estimations**(i) Fair value of financial instruments**

Where the fair values of financial assets and financial liabilities cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility for discount rates.

Fair value is determined for each investment individually in accordance with the valuation policies set out below:

- For investment that is traded in an active market, fair value is determined by reference to the quoted bid market price prevailing on the reporting date;
- For investment in unquoted equity securities, the Bank establishes fair value by using valuation techniques. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same and discounted cash flow analysis; and
- Investments in funds or similar investment entities are carried at the latest net asset valuation provided by the fund administrator.

The impact on fair value of financial instruments measured at fair value for changes in key assumptions is given in note 20.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013**

US\$ 000's

3. *SIGNIFICANT ACCOUNTING POLICIES (continued)*
z) *Critical accounting estimates and judgements (continued)*

(ii) Impairment of financing receivables

Each counterparty exposure is evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation and the net realisable value of any underlying assets/collaterals. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently evaluated by the Risk Management Department. All individually significant financing receivables are tested for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

Financing receivables that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss in respect of a financing receivables measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective profit rate. Losses are recognised in profit or loss and reflected in an allowance account against financing receivable.

Profit on the impaired asset does not continue to be recognised. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through consolidated income statement.

(iii) Impairment of cash generating units

Cash generating units include the Group's investments in certain subsidiaries and equity-accounted investees and investment property that generate cash flows that are largely independent from other assets and activities of the Group. The basis of impairment assessment for such cash generating units is described in accounting policy 3 (g). For equity-accounted investees with indicators of impairment, the recoverable amounts have been determined based on higher of fair value less costs to sell or value in use.

Value in use for the equity-accounted investees was determined by discounting the future cash flows expected to be generated from continuing operations, comparison to similar instruments for which market observable prices exist and other valuation models.

The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length. Fair value less costs to sell of certain cash generating units is based on indicative offer prices received by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

US\$ 000's

3. *SIGNIFICANT ACCOUNTING POLICIES (continued)*
 z) *Critical accounting estimates and judgements (continued)*

Key assumptions used in the calculation of value in use were the following: cash flows were projected based on 3-5 year business plans, after ensuring consistency with historical operating results and forecasted economic growth rates for mature companies. Terminal growth rates were determined based on the IMF's forecast GDP growth rate in 5 years' time. The forecast period is based on the Group's long term perspective with respect to the operations of these CGU's.

Discount rates were based on a CAPM formula, with the risk-free rate obtained from the yield on 10-year bonds issued by the government in the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally, as well as liquidity and control factors. The key assumptions described above may change as economic and market conditions change.

4. CASH AND BALANCES WITH BANKS

	31 December 2013	31 December 2012
Cash on hand	19	19
Balances with banks	15,817	7,966
	15,836	7,985

5. FINANCING RECEIVABLES

	31 December 2013	31 December 2012
Gross murabaha receivables	56,224	87,735
Less: Deferred profits	(641)	(862)
Less: Specific impairment allowances	(2,974)	-
Less: Collective impairment allowances	(300)	(250)
	52,309	86,623

Financing receivables comprise due from customers under murabaha financing contracts. The average profit on these balances during the year was 7.2% per annum (2012: 7.6% per annum).

6. INVESTMENT SECURITIES

	31 December 2013	31 December 2012
Equity type instruments		
<i>At fair value through income statement:</i>		
- Quoted equity securities	51	23,691
- Unquoted equity securities *	29,846	32,771
- Quoted funds	7,154	1,983
- Unquoted funds*	28,360	28,397
Total equity type instruments	65,411	86,842
Debt type instruments		
<i>At amortised cost :</i>		
- Sukuk #	13,775	26,063
	79,186	112,905

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

US\$ 000's

6. *INVESTMENT SECURITIES (continued)*

* Unquoted equity securities and unquoted funds carried at fair value through income statement primarily comprise assets managed by the Group. These investments are carried at fair value determined based on valuation techniques. During the year, the Group recognised a net fair value loss of US\$ 2.9 million (31 December 2012: fair value gain of US\$ 1.4 million) on these investments.

The fair value of the investments carried at amortised cost at 31 December 2013 is US\$ 13,734 (2012: US\$ 27,259)

Movement on investments carried at fair value through income statement as follows:

	At 1 January 2013	Additions during the year	Disposals/Reclassified during the year	Foreign currency changes	Fair value changes	At 31 December 2013
Investment in associates	83,309	4,249	(36,028)	-	5,051	56,581
Quoted funds	1,983	5,333	(57)	(222)	117	7,154
Equity investments (< than 20% stake)	1,550	352	(248)	(12)	34	1,676
	86,842	9,934	(36,333)	(234)	5,202	65,411

7. **ASSETS AND LIABILITIES HELD-FOR-SALE**

	31 December 2013	31 December 2012
Subsidiary held-for-sale		
- Assets	195,232	-
- Liabilities	(92,427)	-
Net assets	102,805	-
Equity-accounted investee	21,532	18,932

On 31 May 2013, the Group acquired additional stake of 4.17% in Al-Tajamouat for Touristic Projects Co Plc (TAJ), a company listed on the Amman Stock Exchange, Jordan to take the Group's overall stake to 50.63% resulting in TAJ becoming a subsidiary. The investment was previously accounted for as investment carried at fair value through income statement.

The total consideration for the controlling stake amounted to US\$ 35,838 thousand. As per acquisition accounting requirements, the net identifiable assets and liabilities recognized on acquisition were measured at their fair values on the date of acquisition. The Bank has recognised identifiable assets of US\$ 206,594 thousand and liabilities of US\$ 107,260 thousand at the date of acquisition which also represents the management's estimated fair value less cost to sell of the investment.

As the fair value of the recognized net identifiable assets is in excess of the consideration paid, the excess of US\$ 14,453 thousand has been recognized as a gain on bargain purchase under "gain on acquisition of assets held-for-sale" in the consolidated income statement (i.e. negative goodwill). The gain on bargain purchase primarily arose from the fact that the previously held stake in TAJ was measured at the quoted market price, which was substantially below the fair value of the underlying net assets of TAJ.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

US\$ 000's

7. *ASSETS AND LIABILITIES HELD-FOR-SALE (continued)*

The Group has an active plan approved by the Board, to sell its stake in TAJ, and accordingly, the asset and liabilities acquired are classified as held-for-sale in the consolidated statement of financial position. The equity of the remaining stake of 49.37% held by external parties is classified as “non-controlling interests related to assets held-for-sale” in the consolidated statement of financial position. The net result of operations of the subsidiary during the year was income of US\$ 3,472 thousand (2012: Nil) which is presented separately as “income from assets held-for-sale and discontinued operation” in the consolidated income statement.

Further, assets held-for-sale includes investment in Burj Bank Limited, a commercial bank in Pakistan of US\$ 21,532 thousand (31 December 2012: US\$ 18,932 thousand), an equity-accounted investee, which was classified as held-for-sale in June 2012 based on an agreement signed with a potential buyer. During the year, the Bank subscribed to share right issue amounting US\$ 2,600 thousand as per local regulatory requirements.

The buyer was eventually not approved by the local regulator and the transaction could not be completed for reasons beyond the control of the management. Subsequent to the year-end, the Group signed a memorandum of understanding with a new buyer, a local commercial bank. The completion of the deal is subject to the regulatory approvals and conclusion of the due diligence process. The management is confident that the sale process will be completed and regulatory approvals will be obtained. Accordingly, the investment in Burj Bank Limited continues to be classified as held-for-sale.

8. **EQUITY-ACCOUNTED INVESTEEES**

	31 December 2013	31 December 2012
BFC Group Holdings Ltd.	94,337	93,205
t'azur Company B.S.C. (c)	13,052	12,801
	107,389	106,006

The Bank has 43.36% stake (2012: 43.36%) in BFC Group Holdings Ltd. (“BFC”), a company incorporated in the United Arab Emirates. BFC is a holding company of a group of money changers in different jurisdictions. BFC is engaged in buying and selling foreign currencies and traveller's cheques, handling of remittance business and provision of other exchange house services in both local and foreign currencies.

The Bank has 25.86% stake (2012: 25.86%) in t'azur B.S.C. (c), an unlisted regional takaful company incorporated in the Kingdom of Bahrain. t'azur Company B.S.C (c) has a commitment to provide a Qard Hassan to the extent of the accumulated deficit in the participants' fund of US\$ 32.5 million at 31 December 2013 (31 December 2012: US\$ 31.2 million). The Group's share of the commitment is US\$ 8.4 million (31 December 2012: US\$ 8.1 million).

The movement on equity-accounted investees is as follows:

	2013	2012
At 1 January	106,006	114,952
Acquisitions during the year	2,600	-
Share of profits of equity-accounted investees	5,752	10,575
Share of reserves of equity-accounted investees	(33)	103
Transferred to assets held-for-sale (note 7)	(2,600)	(16,372)
Dividends received	(4,336)	(3,252)
At 31 December	107,389	106,006

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

US\$ 000's

8. EQUITY-ACCOUNTED INVESTEEES (continued)

Summarised financial information of associates that have been equity accounted not adjusted for the percentage ownership held by the Group (based on most recent audited financial statements / most recent management accounts):

	2013	2012
Assets	336,647	324,670
Liabilities	(94,200)	(79,164)
Revenue	58,303	66,853
Profit for the year	14,208	19,428

9. INVESTMENT PROPERTY
31 December 2013

	Carrying value	Fair value
Land – Kingdom of Bahrain	17,706	18,748
Land and building – Kingdom of Saudi Arabia	56,013	56,013
	73,719	74,761

31 December 2012

	Carrying value	Fair value
Land – Kingdom of Bahrain	17,706	17,706
	17,706	17,706

During the year, the Group acquired land and buildings in the Kingdom of Saudi Arabia. The primary objective is to earn rental income from lease of building, accordingly, the land and buildings are classified as investment property. The fair value was determined based on valuation by external independent valuers and recent transaction prices.

10. OTHER ASSETS

	31 December 2013	31 December 2012
Advance for purchase of investments	-	7,145
Fees and expenses recoverable	4,776	4,314
Prepayments and advances	2,731	1,353
Receivable from sale of investment securities	-	11,900
Intangible assets	300	528
Others	1,505	4,516
	9,312	29,756
Less: Provision for impairment	(1,902)	(3,768)
	7,410	25,988

11. DUE TO FINANCIAL INSTITUTIONS

	31 December 2013	31 December 2012
Placements from financial institutions	51,173	138,011
Bank financing	-	15,110
	51,173	153,121

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

US\$ 000's

11. DUE TO FINANCIAL INSTITUTIONS (continued)

In February 2013, the Group repaid the bank financing. The average profit rate on placements from financial institutions was 3.58% per annum (2012: 3.81% per annum).

12. DUE TO CUSTOMERS

This includes deposits from corporate customers on Wakala basis with maturities ranging from 1 month to 1 year (2012: 1 month to 1 year) and carries an average profit rate of 3.70% per annum (2012: 2.74% per annum).

13. OTHER LIABILITIES

	31 December 2013	31 December 2012
Provision for legal and professional expenses	820	6,800
Accruals and other provisions	1,765	1,564
Restructuring provision	419	419
Deal-related payables	4,740	4,740
Staff-related payables	2,512	2,240
Trade and other payables	8,554	9,215
	18,810	24,978

14. SHARE CAPITAL

	31 December 2013	31 December 2012
Authorised: 750,000,000 (2012: 750,000,000) ordinary shares of US\$1 each	750,000	750,000
Issued and fully paid up:		
186,070,234 (2012: 186,070,234) ordinary shares of US\$1 each, issued against cash	186,070	186,070
20,371,807 (2012: 20,371,807) ordinary shares of US\$1 each, issued in kind	20,372	20,372
1,419,873 (2012: 1,419,873) ordinary shares of US\$1 each, granted to employees	1,420	1,420
	207,862	207,862

15. INCOME FROM INVESTMENT SECURITIES

	2013	2012
Dividend income	-	28
Fair value gain / (loss) on investment securities carried at FVTIS	5,202	(13,386)
Gain on sale of investment securities carried at FVTE	424	1,011
(Loss) / gain on sale of investment securities carried at FVTIS	(76)	282
Sukuk Income:		
- Sukuk profit	1,008	1,307
- Gain on sale of sukuk	674	82
	7,232	(10,676)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

US\$ 000's

16. FEES AND COMMISSION INCOME

	2013	2012
Advisory fees	-	75
Arrangement fees	3,791	1,135
Management fees	2,911	2,170
Brokerage fees	307	374
	7,009	3,754

17. PROVISION FOR ZAKAH

Provision for Zakah represents the Zakah from operations of Alkhair Capital Saudi Arabia, calculated in accordance with the Zakah Regulations of the Kingdom of Saudi Arabia.

18. (CHARGE) / REVERSAL OF IMPAIRMENT

	2013	2012
Impairment allowance on:		
Investment carried at fair value through equity	-	(1,650)
Financing receivables	(3,024)	(250)
Other assets	(297)	-
Equipment	-	(2,000)
Reversal of impairment allowance on:		
Other assets	1,304	5,000
	(2,017)	1,100

19. COMMITMENTS AND CONTINGENCIES

	31 December 2013	31 December 2012
Lease commitments	1,206	2,882
Guarantees	5,311	3,315
Financing	500	-
	7,017	6,197

Litigations and claims

The Bank has filed a number of legal cases against the former Chief Executive Officer before the Civil and Criminal Courts of the Kingdom of Bahrain and the UK. At the same time the former CEO has filed a court case in the Bahraini courts for wrongful dismissal. The Bahraini Courts have ruled in favor of the Bank in a number of the civil and criminal cases. The case in the UK was filed by the bank to remedy the damages resulting from defamation and unlawful conspiracy. The case is still in its early stages.

A number of employment claims have been filed against the Bank by former employees. The Bank's external legal counsel has confirmed that the Bank has strong grounds to successfully defend itself against these claims. No disclosure regarding contingent liabilities arising from the employment claims has been made as the directors of the Bank believe that such disclosures may be prejudicial to the Bank's legal position.

The Group's share of commitments arising from its equity-accounted investees is given in note 8.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

US\$ 000's

20. FAIR VALUE

Fair value is the amount for which an asset could be exchanged or an obligation settled between well informed, willing parties (seller and buyer) in an arm's length transaction. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to curtail materially the scale of its operation or to undertake a transaction on adverse terms. Generally accepted methods of determining fair value include reference to quoted prices and the use of valuation techniques such as discounted cash flow analysis.

Valuation techniques

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

The fair value of unquoted funds are based on net asset values which are determined by the fund manager using the quoted market prices of the underlying assets, if available, or other acceptable methods such as a recent price paid by another investor, the market value of a comparable company or other proprietary valuation models.

The fair value of other financial instruments on the consolidated statement of financial position are not significantly different from the carrying values included in the consolidated financial statements.

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

- Level 1** quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2** other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3** techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

31 December 2013

Investments carried at fair value through income statement

Investments carried at fair value through equity

Level 1	Level 2	Level 3	Total
7,205	49,497	8,709	65,411
-	-	-	-
7,205	49,497	8,709	65,411

31 December 2012

Investments carried at fair value through income statement

Investments carried at fair value through equity

Level 1	Level 2	Level 3	Total
25,674	49,534	11,634	86,842
-	-	-	-
25,674	49,534	11,634	86,842

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

US\$ 000's

20. FINANCIAL INSTRUMENTS (continued)

Movements in level 3 financial instruments

The following table shows the reconciliation of the opening and closing amount of Level 3 financial assets which are recorded at fair value:

	At 1 January 2013	Total losses recorded in consolidate d income statement	Total gains recorded in equity	Purchases	Sales/ transfers	At 31 December 2013
Investments carried at fair value through:						
- income statement	11,634	(3,000)	-	75	-	8,709
- equity	-	-	-	-	-	-
	11,634	(3,000)	-	75	-	8,709

	At 1 January 2012	Total gains recorded in consolidated income statement	Total gains recorded in equity	Purchases	Sales/ transfers	At 31 December 2012
Investments carried at fair value through:						
- income statement	11,634	-	-	-	-	11,634
- equity	-	-	-	-	-	-
	11,634	-	-	-	-	11,634

Transfers between level 1, level 2 and level 3

There were no transfers between the levels during the year ended 31 December 2013.

The following table shows the impact on fair value of level 3 financial instruments using reasonably possible alternative assumptions.

For investment securities the Bank adjusted the discount rate \pm 1% and carrying values \pm 5% where appropriate, which is considered by the Bank to be within a range of reasonably possible alternatives.

	Carrying amount	Effects of reasonably possible alternative assumptions on carrying amount
31 December 2013		
Investments carried at fair value through income statement	8,709	435
31 December 2012		
Investments carried at fair value through income statement	11,634	582

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

US\$ 000's

21. ASSETS UNDER MANAGEMENT

	31 December 2013	31 December 2012
Proprietary	58,131	61,168
Clients	166,803	169,946
	224,934	231,114

Proprietary assets are included in the consolidated statement of financial position under "investment securities". Client assets, which represent client investments, are managed in a fiduciary capacity without recourse to the Group and are not included in the consolidated statement of financial position.

22. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include significant shareholders and entities over which the Bank and shareholders exercise significant influence, directors, members of Shari'ah Supervisory Board and executive management of the Bank.

Compensation of key management personnel

Key management personnel of the Group comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group. The key management personnel compensation during the year is as follows:

	2013	2012
Short term employee benefits	2,482	3,153
Post-employment benefits	606	548
	3,088	3,701

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

US\$ 000's

22. RELATED PARTY TRANSACTIONS (continued)

The significant related party transactions and balances included in this consolidated financial statements are as follows:

	2013				2012			
	Associates	Significant shareholders/entities in which directors have interest	Senior management	Other entities	Associates	Significant shareholders/entities in which directors have interest	Senior management	Other entities
Assets								
Financing receivables	7,281	-	-	7,097	6,556	-	-	7,108
Investment securities	56,581	-	-	16,197	83,309	-	-	11,181
Assets held-for-sale	21,532	-	-	-	18,932	-	-	-
Equity-accounted investees	107,389	-	-	-	106,006	-	-	-
Other assets	1,177	-	11	2,532	2,536	-	90	842
Liabilities								
Due to financial institutions	22,888	-	-	-	26,191	-	-	-
Due to customers	-	-	-	50,077	-	-	-	660
Other liabilities	149	754	606	221	152	1,284	548	66
Income / (expenses)								
Income from investment securities	5,050	-	-	695	(13,729)	-	-	1,199
Fees and commission	2,314	-	-	2,646	2,067	-	-	1,228
Net finance income / (expense)	(674)	-	-	956	(663)	-	-	577
Share of profit of equity-accounted investees	5,752	-	-	-	10,575	-	-	-
Directors' and Shari'ah board remuneration and expenses	-	(874)	-	(33)	-	(818)	-	(52)

23. RISK MANAGEMENT

Risk is an inherent part of the Group's business activities. The Group's risk management and governance framework is intended to provide progressive controls and continuous management of the major risks involved in the Group's activities. Risks are managed by a process of identification, measurement and monitoring, and are subject to risk limits and other controls. The process of risk management is critical to the Group's operations and each business unit within the Group is accountable for the risk exposures relating to their responsibilities. The Group's main risk exposure categories are Investment and Credit risk, Market risk, Liquidity risk and Operational risks.

- Risk identification: The Group's exposure to risk through its business activities, including investment in Private Equity, Brokerage, and Capital Markets, is identified through the Group's risk management infrastructure.
- Risk measurement: The Group measures risk using basic risk management position methodologies which reflect the Group's investment risks, foreign exchange and profit rate exposure risks. The Bank relies on both quantitative and qualitative approaches in quantifying risks.
- Risk monitoring: The Group's risk management policies and procedures incorporate respective limits and the Group's activities are regularly reviewed. The Bank has also reviewed and strengthened its corporate governance arrangements.
- Risk reporting: The Group undertakes reporting of all core risks relevant to its businesses on a consolidated basis. In line with the board-approved risk framework. The Bank has risk governance arrangements to oversee risk management and transaction approval and key governance committees include; the Group Asset and Liability Committee ("ALCO") which oversees liquidity, cash flow planning and general asset liability management, the Group Risk Executive Committee ("REXCO") which oversees risk management across the group including review and approval of risk limits, credit facilities and key risk processes and the Investment and Post Investment Management Committee ("IPIMC") which is responsible for review and approval of new investments, funding requirements, divestments and general investment processes.

Group Risk Framework and Governance

The Board of Directors is ultimately accountable for the risk management of the Group. The Board has advocated a wholly integrated risk management process within the Group, in which all business activities are aligned to the risk framework. The Group Risk Framework establishes Group risk management standards, risk processes, structures, and defines the Bank's risk philosophy.

Board of Directors

The Board of Directors is responsible for defining the Group's risk appetite within which it manages its risk exposures and reviews the Group's compliance with delegated risk authorities.

Audit Committee

The Audit Committee is appointed by the Board of Directors and consists of four non-executive Board members. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and oversight of the Internal Audit function.

Shari'ah Supervisory Board

The Group's Shari'ah Supervisory Board is vested with the responsibility of ensuring that the Group complies with the Shari'ah rules and principles in its transactions, activities and general philosophy.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013**

US\$ 000's

23. RISK MANAGMENET (continued)

Group Risk Executive Committee

Group Risk Executive Committee REXCO has the overall responsibility for ensuring that the Group develops appropriate risk policies and strategies for the relevant business activities, and makes preparations for forthcoming regulatory arrangements in line with Basel Committee recommendations. It oversees the risk management activities of the Group, reviews and approves risk management principles, frameworks, policies, limits, processes and procedures. It is responsible for assessing fundamental risk issues within the general development strategy of the Group.

Internal Audit and Independent Review

All key operational, financial and risk management processes are audited by Internal Audit according to risk based auditing standards. Internal Audit examines the adequacy of the relevant policies and procedures and the Group's compliance with internal policies and regulatory guidelines. Internal Audit discusses the result of all assessments with management and reports its findings and recommendations to the Audit Committee. The Internal Audit recommendations are tracked for resolution via the Committee.

Group Asset and Liability Committee (ALCO)

The Group Asset and Liability Committee establishes the funding, liquidity and market risk policies for the Group. It is composed of the heads of key business areas and finance, risk, operations and control areas. ALCO's objectives are to manage the assets and liabilities of the Group, determine the statement of financial position mix and appropriate risk and return profile. It oversees all treasury and capital markets activities and all areas affected by liquidity and market risk. Cash flow management is a major focus of ALCO and ALCO regularly reviews the business line investment plans to ensure that sufficient funding is in place. ALCO ensures that the appropriate mix of short and long term funding strategies are developed in conjunction with the Group's treasury and capital markets functions.

Risk Management

The Risk Management function is responsible for designing and implementing the Group's risk framework, including policies, processes and systems. With the establishment of the Board Risk Committee, the Chief Risk Officer now reports functionally to the Board Risk Committee and administratively to the Chief Executive Officer. Risk Management conducts risk assessments of individual transactions (including their respective credit, investment, counterparty and operational risks), products and services. Risk Management is responsible for ensuring that the Group's processes capture all sources of transaction risk and that appropriate limit methodologies are developed for use in the management of business risk. In addition to the above the Risk Function also supports investment processes throughout the investment cycle including periodic valuation and reporting.

Treasury Activities

Treasury is responsible for managing the Group's day to day funding, liquidity management, foreign exchange and profit rate exposures, under the review of Risk Management and the supervision of ALCO.

Investment Monitoring and Reporting

Proprietary investment risks are identified and assessed via extensive due diligence activities conducted by the respective departments. This is supported by Risk Management which undertakes an independent risk assessment of every investment transaction. Post-acquisition investment management is rigorously exercised, mainly via board representation within the investee company, during the life of the investment transaction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

US\$ 000's

23. RISK MANAGEMENT (*continued*)

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

The information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the Bank's management of capital is explained in notes 24 to 27 and 34.

24. CREDIT RISK

Credit Risk Policy Framework

The Bank has a Group Credit Risk Policy framework establishing Group credit risk appetite, credit risk origination, underwriting and administration standards. The credit policy articulates key credit markets, minimum criteria for the granting of credit, minimum requirements on collateral and defines roles and responsibilities for credit risk management. The policy provides a guideline to business units when originating credit business.

In order to strengthen the Bank's credit risk management processes through a rigorous and consistent analysis of credit worthiness, the Bank introduced Internal Credit Rating Models covering corporate entities, banking counterparties and real estate exposures. The ratings coming out of the rating models are used together with other supporting information on the obligor's creditworthiness when making credit decisions.

Credit Risk Management

Credit risk is the risk that the Group will incur a loss of principal or profit earned because its customers, clients or counterparties fail to discharge their contractual obligations and arises principally from the Group's balances with banks, placements with financial institutions, financing receivables, investment securities – sukuk and other receivables. Institutional Banking proposes limits for its interbank placement activities and other client groups for review and approval by REXCO. Further, Risk Management independently analyses the applications and rates for the respective counterparties. Based on this an independent recommendation is forwarded to the REXCO for approval. REXCO periodically reviews these limits for appropriateness in prevailing market conditions.

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position. There is no significant use of master netting and collateral agreements.

	Maximum exposure 2013	Maximum exposure 2012
<u>On balance sheet</u>		
Balances with banks	15,817	7,966
Placements with financial institutions	74,390	63,733
Financing receivables	52,309	86,623
Investment securities – Sukuk	13,775	26,063
Other assets	4,479	23,359
<u>Off balance sheet</u>		
Guarantees	5,311	3,315
Financing	500	-
	166,581	211,059

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

US\$ 000's

24. CREDIT RISK (continued)

Risk Exposure Concentration

Risk concentration arises 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 geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include guidelines to focus on maintaining a diversified portfolio. In line with regulatory requirements, the bank has a group level Large Exposure Policy which details the Bank's approach in managing concentration risk to sectors, asset classes, single obligors and countries including defining specific limits.

Concentration of risks is managed by counterparty, by geographical region and by industry sector. The maximum credit exposure to any client, or counterparty, or group of closely related counterparties as of 31 December 2013 was US\$ 39.2 million (2012: US\$ 30.8 million), relating to "placement with financial institution and financing receivables".

Geographical Exposure Distribution

The analysis by geographical region of the Group's financial assets having credit risk exposure is as follows:

REGION	Total Assets	Off-balance sheet	Total 2013	Total 2012
Bahrain	37,112	-	37,112	22,761
Other Middle East	65,472	500	65,972	109,237
North America	385	5,000	5,385	4,145
Asia Pacific	52,790	-	52,790	69,206
Europe	5,011	311	5,322	5,710
Total	160,770	5,811	166,581	211,059

Industry Sector Exposure

The distribution of assets and off-statement of financial position items by industry sector is as follows:

INDUSTRY SECTOR	Total Assets	Off-balance sheet	Total 2013	Total 2012
Banking and finance	104,585	311	104,896	95,262
Industrial	9,858	500	10,358	13,706
Real estate and construction	16,585	-	16,585	43,384
Technology	3,501	5,000	8,501	6,512
In-house funds	894	-	894	2,381
Trade	22,118	-	22,118	41,670
Government	3,229	-	3,229	6,775
Individual	-	-	-	1,369
Total	160,770	5,811	166,581	211,059

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

US\$ 000's

24. CREDIT RISK (continued)

Collateral and other credit enhancements

The Group utilizes collateral and other credit enhancements mostly on its credit facilities, in line with Shari'ah requirements. Before taking any form of collateral the Bank pre-assesses impediments that may restrict accessibility to collateral should the need arise as well as acceptability from a Shari'ah perspective. In this respect the Bank will formally agree with the customer at the time of signing the offer letter on the usage, redemption and utilization of collateral when the customer/counterparty defaults. In the past year, the Bank has obtained collateral including shareholders' personal guarantees, cash, real estate, unlisted equity shares and debentures. The Bank's credit policy discourages taking collateral value where there is positive correlation between collateral value and obligor's ability to pay.

Credit quality per class of financial assets

The Group did not apply a standard credit rating to its investment business, as the Group assessed credit quality according to the policies of the respective business areas. Management considers the credit quality of the Group's financial assets to be of standard quality as of 31 December 2013. Following is an analysis of credit quality by class of financial assets:

	2013				
	Neither past due nor impaired	Past due but not impaired	Individually impaired	Impairments/ provisions	Total
Balances with banks	15,817	-	-	-	15,817
Placements with financial institutions	74,390	-	-	-	74,390
Financing receivables	52,609	-	2,974	(3,274)	52,309
Investment securities – Sukuk	13,775	-	-	-	13,775
Other assets	3,919	560	1,902	(1,902)	4,479
Guarantees	5,311	-	-	-	5,311
Financing	500	-	-	-	500
Total	166,321	560	4,876	(5,176)	166,581

Exposures that are past due but not impaired are either past due for less than 90 days and the financial condition of the customer is sound, or has adequate unimpaired collateral coverage. Provisioning is driven by the performance of the customer against laid down terms and conditions of the facility, internal credit grading and classification system calculated on net exposure after deducting the discounted value of recoverable collateral and any disposal costs.

	2012				
	Neither past due nor impaired	Past due but not impaired	Individually impaired	Impairments / provisions	Total
Balances with banks	7,966	-	-	-	7,966
Placements with financial institutions	63,733	-	-	-	63,733
Financing receivables	86,873	-	-	(250)	86,623
Investment securities – Sukuk	26,063	-	-	-	26,063
Other assets	8,676	13,314	5,137	(3,768)	23,359
Guarantees	3,315	-	-	-	3,315
Total	196,626	13,314	5,137	(4,018)	211,059

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

US\$ 000's

24. CREDIT RISK (continued)

Ageing analysis of past due but not impaired by class of financial assets:

	2013			
	Less than 120 days	Less than 365 days	More than 365 days	Total
Other assets	177	279	104	560

	2012			
	Less than 120 days	Less than 365 days	More than 365 days	Total
Other assets	11,971	1,224	119	13,314

25. LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial assets.

The key features of the Group's liquidity methodology are:

- The Group Asset and Liability Committee ("ALCO") is responsible for liquidity monitoring, cash flow planning and general asset liability management.
- In accordance with the Basel recommendations on liquidity management, the Group measures liquidity according to two criteria: "normal business", reflecting day-to-day expectations regarding the funding of the Group; and "crisis scenario", reflecting simulated extreme business circumstances in which the Group's survival may be threatened.
- The Group's liquidity policy is to hold sufficient liquid assets to cover its committed statement of financial position requirements, plus its budgeted expenses for the liquidity horizon and its forecast investment commitments over the liquidity horizon.

Analysis of financial liabilities

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations.

	Gross undiscounted cash flows				Carrying value
	Less than 3 months	3 to 12 months	Over 1 year	Total	
At 31 December 2013					
Due to financial Institutions	30,723	20,749	-	51,472	51,173
Due to customers	65,411	156,720	-	222,131	217,594
Other liabilities	11,236	-	2,430	13,666	13,666
Total financial liabilities	107,370	177,469	2,430	287,269	282,433

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

US\$ 000's

25. LIQUIDITY RISK MANAGEMENT (continued)

	Gross undiscounted cash flows				Carrying value
	Less than 3 months	3 to 12 months	Over 1 year	Total	
At 31 December 2012					
Due to financial Institutions	130,521	23,552	-	154,073	153,121
Due to customers	42,006	26,522	-	68,528	68,176
Other liabilities	17,508	-	2,233	19,741	19,741
Total financial liabilities	190,035	50,074	2,233	242,342	241,038

The table below shows the contractual expiry by maturity of the Group's commitments.

	On demand	3 to 12 months	Over 1 year	Carrying value
31 December 2013				
Lease Commitments	-	1,079	127	1,206
Guarantees	5,311	-	-	5,311
Financing	500	-	-	500
Total	5,811	1,079	127	7,017

	On demand	3 to 12 months	Over 1 year	Carrying value
31 December 2012				
Lease Commitments	-	1,676	1,206	2,882
Guarantees	3,315	-	-	3,315
Total	3,315	1,676	1,206	6,197

26. MARKET RISK MANAGEMENT

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to adverse changes in market variables such as profit rates, foreign exchange rates, equity prices and commodities. The Group classifies exposures to market risk into either trading or non-trading portfolios. The Group does not currently engage in trading activity. Non-trading positions are managed and monitored using sensitivity analysis.

Market Risk: Non-trading*Profit rate risk*

Profit rate risk arises from the possibility that changes in profit rates will affect future cash flows or the fair values of the financial instruments. The Board has set limits on profit rate positions by maturity. The Group currently has limited exposure to profit rate risk. The Group's assets and liabilities that are exposed to profit rate risk include: placements with financial institutions, financing receivables, investments in sukuk and due to financial and non-financial institutions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

US\$ 000's

26. MARKET RISK MANAGEMENT (continued)

Profit rate risk (continued)

The following table demonstrates the sensitivity to a reasonable possible change in profit rates by 200 bps, with all other variables held constant. The effect of decreases in profit rate is expected to be equal and opposite to the effect of the increases shown.

	2013			2012		
	Balance	Change in profit rate (+/-)	Effect on net profit (+/-)	Balance	Change in profit rate (+/-)	Effect on net profit (+/-)
Assets						
Placements with financial institutions	74,390	200	1,459	63,733	200	1,246
Financing receivables	52,309	200	992	86,623	200	1,523
Investment securities – Sukuk	13,775	200	13	26,063	200	19
Liabilities						
Due to financial institutions	51,173	200	(867)	153,121	200	(2,609)
Due to customers	217,594	200	(2,332)	68,176	200	(1,135)
Total			(735)			(956)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to adverse changes in foreign exchange rates. The Board has set limits on positions by currency. Positions are monitored regularly to ensure that positions are maintained within established limits.

The table below indicates the currencies to which the Group has significant exposure. The analysis shows the impact of a 20% movement in the currency rate against the United States Dollar, with all other variables held constant on the consolidated statement of income and equity. The effect of decreases in the currency rates is expected to be equal and opposite to the effect of the increases shown.

Currency	2013			2012		
	Exposure (USD equivalent)	Effect on net profit (+/-)	Effect on equity (+/-)	Exposure (US\$ equivalent)	Effect on net profit (+/-)	Effect on equity (+/-)
Kuwaiti Dinar	(10,423)	(2,085)	-	(12,160)	(2,432)	-
Turkish Lira	4,718	264	680	7,074	322	1,093
Malaysian Ringgit	85	17	-	42	8	-
Euro	27	5	-	141	28	-
Jordanian Dinar *	50,323	10,065	-	23,732	4,746	-
Sterling Pounds	77	15	-	157	31	-

* Jordanian Dinar is officially pegged to International Monetary Fund (IMF) special drawing rights (SDR's). In practice this is fixed at 1US\$=0.709 JOD most of the times.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013**

US\$ 000's

26. MARKET RISK MANAGEMENT (continued)*Equity price risk*

Equity price risk is the risk that the fair value of equities decreases as the result of adverse changes in the levels of equity prices and the value of individual stocks. Equity price risk arises from the Group's investment portfolio. The Group conducts significant investment activity in private equity, mainly in unquoted entities. The Group manages this risk through diversification of its investments in terms of geographical distribution and industry concentration by arranging representation on the Board of Directors within the investee company, wherever possible. Investments are managed within maximum concentration risk limits, approved by the Board of Directors of the Bank.

*Sensitivity analysis**Unquoted securities - Investment securities carried at fair value through income statement:*

The effect on profit as a result of a change in the fair value of equity instruments at 31 December 2013 due to a reasonable possible change (i.e. +/-15%) in the value of individual investments, with all other variables held constant, is US\$ 8.8 million (2012: US\$ 9.2 million). The effect of decrease in the value of individual investments is expected to be equal and opposite to the effect of an increase.

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties prepay or request repayment earlier than expected. The Group is not exposed to any significant prepayment risk.

27. OPERATIONAL RISK

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal controls or procedures, systems failures, fraud, business interruption, compliance breaches, human error, management failure or inadequate staffing. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or lead to financial loss.

While operational risks cannot be entirely eliminated, they are managed and mitigated by ensuring that appropriate infrastructure, controls, systems, procedures and trained and competent people are in place throughout the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

US\$ 000's

28. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

	31 December 2013							
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Total up to 1 year	Over 1 year	Undated	Total
ASSETS								
Cash and balances with banks	15,836	-	-	-	15,836	-	-	15,836
Placements with financial institutions	73,327	1,063	-	-	74,390	-	-	74,390
Financing receivables	8,976	7,646	19,659	10,028	46,309	6,000	-	52,309
Investment securities	79	91	8,844	22,687	31,701	47,485	-	79,186
Assets held-for-sale	-	21,532	-	195,232	216,764	-	-	216,764
Equity-accounted investees	-	-	-	-	-	-	107,389	107,389
Investment properties	-	-	-	-	-	-	73,719	73,719
Other assets	-	6,627	-	483	7,110	300	-	7,410
Equipment	-	-	-	-	-	-	1,587	1,587
Total assets	98,218	36,959	28,503	228,430	392,110	53,785	182,695	628,590
LIABILITIES								
Due to financial institutions	12,342	18,246	19,875	710	51,173	-	-	51,173
Due to customers	16,829	48,256	78,613	73,896	217,594	-	-	217,594
Liabilities related to assets held-for-sale	-	-	-	92,427	92,427	-	-	92,427
Other liabilities	-	11,236	-	5,144	16,380	2,430	-	18,810
Total liabilities	29,171	77,738	98,488	172,177	377,574	2,430	-	380,004
Commitments	5,811	64	64	951	6,890	127	-	7,017
Net liquidity gap	63,236	(40,843)	(70,049)	55,302	7,646	51,228	182,695	241,569
Net cumulative gap	63,236	22,393	(47,656)	7,646	7,646	58,874	241,569	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

US\$ 000's

28. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

	31 December 2012							
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Total up to 1 year	Over 1 year	Undated	Total
ASSETS								
Cash and balances with banks	7,985	-	-	-	7,985	-		7,985
Placements with financial institutions	63,489	244	-	-	63,733	-		63,733
Financing receivables	9,197	8,968	18,506	49,952	86,623	-		86,623
Investment securities	154	93	33,230	1,550	35,027	77,878		112,905
Assets held-for-sale	-	18,932	-	-	18,932	-		18,932
Equity-accounted investees	-	-	-	-	-	-	106,006	106,006
Investment properties	-	-	-	-	-	-	17,706	17,706
Other assets	15	25,400	-	-	25,415	573	-	25,988
Equipment	-	-	-	-	-	-	2,277	2,277
Total assets	80,840	53,637	51,736	51,502	237,715	78,451	125,989	442,155
LIABILITIES								
Due to financial institutions	61,380	68,551	21,881	1,309	153,121	-	-	153,121
Due to customers	23,626	18,260	25,679	611	68,176	-	-	68,176
Other liabilities	-	17,507	-	5,238	22,745	2,233	-	24,978
Total liabilities	85,006	104,318	47,560	7,158	244,042	2,233	-	246,275
Commitments	3,315	362	362	952	4,991	1,206	-	6,197
Net liquidity gap	(7,481)	(51,043)	3,814	43,392	(11,318)	75,012	125,989	189,683
Net cumulative gap	(7,481)	(58,524)	(54,710)	(11,318)	(11,318)	63,694	189,683	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

US\$ 000's

29. SEGMENT INFORMATION

Operating segments are reported in accordance with internal reporting provided to Executive Management (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses its performance. All operating segments used by the Group meet the definition of a reportable segment under FAS 22.

During the year, the Group has changed its reportable segments as a result of the recent restructuring of its business and in-line with the current internal reporting to the Chief Operating decision-maker for segment measurement and monitoring. Currently, the Group is organised into business units based on their nature of operations and services and has three reportable operating segments which are as follows:

**Investment Banking & Alkhair
Capital Menkul Degerler A.S**

The Group's Investment banking business is engaged in transaction origination and structuring, investment, placement to third-party investors, restructuring and managing portfolio companies. This segment focuses on stable companies, historically revenue-generating with positive profitability, requiring growth capital or partial exits. The segment focuses on specific sectors and geographies, whilst avoiding start-ups, venture capital, and greenfield investments. The segment targets businesses in the oil & gas services; industrial services; building materials; logistics; and agri-business; specifically in the MENA region including Turkey.

Alkhair Capital Menkul Degerler A.S originates Shari'ah compliant PE transactions, especially proprietary deals from direct contacts with a wide range of local sources. The Turkey office also provides a post-investment management services (post management until successful exit, advisory for an IPO or trade sale) to co-investors.

The business manages the Bank's Global Private Equity Fund. It also sources and manages investments on behalf of the Bank's Strategic Acquisition Fund.

**Alkhair International Islamic
Bank Malaysia Berhad**

Alkhair International Islamic Bank Malaysia Berhad was established in 2004 to source investment opportunities in the Far East and monitor the performance of the acquired companies on behalf of the Bank and investors and to establish distribution channels for the Group.

Alkhair Capital Saudi Arabia

Alkhair Capital Saudi Arabia was incorporated in March 2009 and registered with Capital Markets Authority. Its principal activities are Asset Management, Corporate Finance & Investment banking and Brokerage.

Information regarding the results of each reportable segment is included below. Inter-segment pricing is determined on an arm's length basis. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

US\$ 000's

29. SEGMENT INFORMATION (continued)

	For the year ended 31 December 2013				
	Investment Banking & Alkhair Capital Menkul Degerler A.S	Alkhair International Islamic Bank Malaysia Berhad	Alkhair Capital Saudi Arabia	Inter-company	Total
External revenue					
Net finance expense	(4,054)	2,848	-	-	(1,206)
Income from investment securities	5,503	1,641	88	-	7,232
Fees and commission	3,060	2,162	1,787	-	7,009
Share of profit of equity-accounted investees	5,752	-	-	-	5,752
Gain on acquisition of assets held-for-sale	14,453	-	-	-	14,453
Other income	1,370	(23)	81	-	1,428
Inter-segment income	(3,250)	586	2,664	-	-
Total income	22,834	7,214	4,620	-	34,668
Total operating expenses	(22,319)	(4,016)	(4,904)	-	(31,239)
(Charge) / reversal of impairment	1,007	(3,024)	-	-	(2,017)
Provision for Zakah	-	-	(145)	-	(145)
Income from assets held-for-sale	3,472	-	-	-	3,472
(Loss) / profit for the year	4,994	174	(429)	-	4,739
Equity-accounted investees	107,389	-	-	-	107,389
Capital expenditure	24	27	56,013	-	56,064
Segment assets	451,611	132,392	68,382	(23,795)	628,590
Segment liabilities	295,006	102,695	6,098	(23,795)	380,004

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

US\$ 000's

29. SEGMENT INFORMATION (continued)

	For the year ended 31 December 2012				
	Investment Banking & Alkhair Capital Menkul Degerler A.S	Alkhair International Islamic Bank Malaysia Berhad	Alkhair Capital Saudi Arabia	Inter-company	Total
External revenue					
Net finance expense	(2,457)	3,385	-	-	928
Income from investment securities	(11,707)	1,031	-	-	(10,676)
Fees and commission	2,229	1,145	380	-	3,754
Share of profit of equity-accounted investees	10,575	-	-	-	10,575
Other income	685	24	-	-	709
Inter-segment income	(3,267)	317	2,950	-	-
Total income	(3,942)	5,902	3,330	-	5,290
Total operating expenses	(32,483)	(4,479)	(7,536)	-	(44,498)
Reversal of impairment	1,350	(250)	-	-	1,100
Income from assets held for sale and discontinued operations	64	-	-	-	64
Provision for tax	-	-	(1,719)	-	(1,719)
Profit / (loss) for the year	(35,011)	1,173	(5,925)	-	(39,763)
Equity-accounted investees	106,006	-	-	-	106,006
Capital expenditure	255	-	20	-	275
Segment assets	272,538	185,567	70,099	(86,049)	442,155
Segment liabilities	167,888	156,990	7,446	(86,049)	246,275

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

US\$ 000's

29. *SEGMENT INFORMATION (continued)***Geographic segment information:**

The Group operates in five geographic markets: Bahrain, Other Middle East, North America, Asia Pacific and Europe. The following tables show the distribution of the Group's total income and non-current assets by geographical segments

31 December 2013	Bahrain	Other Middle East	North America	Asia Pacific	Europe	Total
Total income	7,897	19,073	-	7,214	484	34,668
Net income	(11,667)	17,496	-	174	(1,264)	4,739
Non-current assets *	18,633	56,270	-	194	209	75,306

31 December 2012	Bahrain	Other Middle East	North America	Asia Pacific	Europe	Total
Total income	1,877	(2,091)	-	4,229	1,275	5,290
Net loss	(25,801)	(11,346)	(237)	(500)	(1,879)	(39,763)
Non-current assets *	18,934	377	-	365	307	19,983

* includes equipment and investment property

30. SHARI'AH SUPERVISORY BOARD

The Bank's Shari'ah Supervisory Board consists of six Islamic scholars who review that the Bank is compliant with general Shari'ah principles and specific fatwas, rulings and guidelines issued. 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'ah principles.

31. EARNINGS AND EXPENSES PROHIBITED BY SHARI'AH

The Group did not receive any significant income or incur significant expenses that were prohibited by the Shari'ah.

32. SOCIAL RESPONSIBILITIES

The Group discharges its social responsibilities through donations to good faith charity funds.

33. ZAKAH

The Bank is not obliged to pay Zakah. Payment of Zakah is the responsibility of the shareholders of the Bank. Zakah payable by shareholders on their holdings in the Bank is calculated on the basis of a method prescribed by the Bank's Shari'ah Supervisory Board. Zakah payable by the shareholders in respect of the year ended 31 December 2013 was US\$ 0.04887 cents per share (2012: US\$ 0.0283 cents per share).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

US\$ 000's

34. CAPITAL MANAGEMENT

The Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Bank as a whole. In implementing current capital requirements CBB requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. CBB capital adequacy regulations are based on the principles of Basel II and IFSB capital adequacy guidelines.

The Bank's regulatory capital is analysed into two tiers:

- *Tier 1 capital*, includes ordinary share capital, disclosed reserves including share premium, general reserves, legal / statutory reserve as well as retained earnings after deductions for goodwill and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- *Tier 2 capital*, includes interim retained profits reviewed by the auditors and an allowed portion profit equalisation reserve (PER) and investment risk reserves (IRR). As per CBB, the PER & IRR can be up to a maximum amount equal to the capital charge pertaining to 30% of the risk weighted assets financed by unrestricted investment accounts.

Certain limits are applied to elements of the capital base in line with regulatory requirements. Tier 1 capital should represent at least half of the total eligible capital, i.e., Tier 2 capital is limited to 100% of Tier 1 capital. The limit on Tier 2 capital is based on the amount of Tier 1 capital after all deductions of investments pursuant to Prudential Consolidation and Deduction Requirements (PCD) Module of the CBB. The PCD Module sets out the regulatory rules for prudential consolidation, pro-rata consolidation or deduction where the own controlling or significant minority stakes in regulated financial entities, insurance entities and have significant exposures to investment in commercial entities. It also sets out the framework for the prudential deductions from capital for various instances including exposures to counterparties exceeding the large exposure limits as set out by CBB.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The primary objectives of the Group's capital management are to ensure that the Group complies with regulatory capital requirements and that the Group maintains adequate capital ratios in order to support its business and to maximise shareholders' value.

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

The Group has adopted the standardised approach for credit risk and market risk and basic indicator approach for operational risk regulatory capital computation purposes under the CBB capital adequacy framework. The Group does not have Basel II permissible credit risk mitigants against any of its credit exposures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

US\$ 000's

34. *CAPITAL MANAGEMENT (continued)*

The Group's capital adequacy ratio, calculated in accordance with the capital adequacy rules determined by the Central Bank of Bahrain, is as follows:

	2013	2012
Regulatory capital base:		
Tier 1 capital	65,382	91,515
Tier 2 capital	-	-
Total regulatory capital	65,382	91,515
Risk-weighted assets	430,348	405,597
Tier 1 capital adequacy ratio	15.19%	22.56%
Total capital adequacy ratio	15.19%	22.56%

The Group has complied with the externally imposed capital requirements set by the regulator for its consolidated capital adequacy ratio throughout the year.

Capital allocation

The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Bank's capital management policy seeks to maximise return on risk adjusted while satisfying all the regulatory requirements. The Bank's policy on capital allocation is subject to regular review by the Board.

35. COMPARATIVES

Certain prior year amounts have been regrouped to conform to current year's presentation. Such regrouping did not affect previously reported loss or equity.