Precision in the Details

Annual Report 2013

بنــك الإثمـار
Ithmaar Bank

Contents

Ithmaar Bank B.S.C. (stock code “ITHMR”) is a Bahrain-based Islamic retail bank that is licensed and regulated by the Central Bank of Bahrain (CBB). Ithmaar Bank provides a diverse range of Sharia-compliant products and services that cater to the financing and investment needs of individuals and institutions.

Ithmaar Bank is a subsidiary of Dar Al-Maal Al-Islami Trust (DMIT), and has a paid-up capital of BD 285.6 million and is listed on the Bahrain Bourse and the Kuwait Stock Exchange.

Ithmaar Bank, formerly an investment bank, completed in April 2010 a comprehensive reorganisation with its then wholly-owned subsidiary, Shamil Bank, to emerge as a premier Islamic retail bank. Ithmaar also maintains a presence in Bahrain and overseas markets through its subsidiaries, associated and affiliated companies, as well as a representative office. These include Bahrain-based BBK, Ithmaar Development Company Limited, Naseej and Solidarity, as well as Faysal Bank Limited (Pakistan), Faisal Private Bureau (Switzerland), and Ithraa Capital (Saudi Arabia).

OUR VISION
A trusted leading Islamic financial institution offering a comprehensive range of financial solutions and contributing to social development.

OUR MISSION
To be the preferred Bank for our customers, counterparties and strategic partners by creating value through innovation. These include: retail and commercial banking, asset management, private banking, takaful, and real estate development.

OUR VALUES
- Comply with Sharia principles
- Honesty, integrity and objectivity in all our relationships
- Market and customer focused
- Continuous improvement, creativity, innovation and willingness to bring about changes
- Active role in community

	2013	2012	2011	2010	2009
Net loss (BD '000)	**(29,906)**	(10,114)	(23,337)	(52,783)	(94,819)
Net loss attributable to shareholders (BD '000)	**(30,300)**	(11,491)	(23,708)	(56,704)	(93,275)
Total equity attributable to shareholders (BD '000)	**200,401**	222,096	217,464	247,530	268,211
Book value per share (fils)	**72**	83	81	90	118
Earnings per share (fils)	**(10.41)**	(4.28)	(8.72)	(22.21)	(42.64)
Total assets (BD '000)	**2,790,982**	2,724,103	2,601,081	2,543,795	2,301,937
Funds under management (restricted and unrestricted investment accounts) (BD '000)	**929,222**	985,283	969,422	1,118,318	831,836
Return on average shareholders' equity	**-14.34%**	-5.23%	-10.20%	-21.99%	-30.26%
Return on average assets	**-1.08%**	-0.38%	-0.91%	-2.18%	-4.13%
Return on average paid in capital	**-11.49%**	-4.54%	-9.37%	-24.26%	-45.12%
Cost to operating income ratio	**97.60%**	85.38%	121.71%	72.06%	139.31%
Capital adequacy ratio	**12.77%**	12.64%	12.88%	13.20%	12.77%
Market price per share (fils)	**87**	64	25	47	90
Market price per share/Book value per share	**1.21**	0.77	0.32	0.52	0.76

We are pleased to report that Ithmaar Bank continues to forge ahead with plans to become a premier Islamic retail bank.

HRH Prince Amr Mohammed Al Faisal
Chairman

Ahmed Abdul Rahim
Chief Executive Officer

In the name of Allah, most Gracious, most Merciful

DEAR SHAREHOLDERS,

We are pleased to share certain strategic decisions taken by Ithmaar Bank in early 2014 aimed at significantly transforming the Group's operations. Key decisions include the full conversion of its subsidiary Faysal Bank Limited (FBL) Pakistan's remaining conventional operations to Islamic banking, and cost rationalization programmes across Ithmaar Group (the Group).

As part of the reorganization within Group entities and business acquisition, the Group managed the seamless integration of business and systems at Ithmaar Bank and Shamil Bank in April 2010; Ithmaar Bank and First Leasing Bank in 2013; and FBL's acquisition of the Pakistan operations of Royal Bank of Scotland in 2010. The full potential of cost synergies has still not been realized, and the focus is now on reviewing and rationalizing the human resources and IT infrastructure.

It has been another extremely challenging year for all of us, on all fronts and on all levels. We have accepted these challenges as they have provided us with new opportunities.

Economically, socially and politically, the world remains a turbulent place with ongoing, constantly developing, and ever-changing difficulties continuously challenging the global markets. Our region, and our Bank, has not been immune.

However, we are pleased to report that Ithmaar Bank continues to forge ahead with plans to become a premier Islamic retail bank. These plans are fast taking shape and, despite the extremely challenging environment in which we must operate, we have already started seeing tangible results.

New products and enhanced services are the key drivers of our business growth, and our increased branch and ATM network has helped extend our reach. These factors have contributed to our improving performance - which includes improved liquidity and increased deposits – and mark important milestones in Ithmaar Bank's transformation into the region's premier Islamic retail bank.

Ithmaar Bank is reporting a net loss of BD 29.9 million for the year ended 31 December 2013, despite reporting a profit of BD 1.8 million, before taxation and provisions, for the same period. The end of year results include a net loss of BD 25.4 million for the fourth quarter of 2013, compared to a net loss of BD 4.2 million for the same period last year.

One of the major factors impacting the performance of the Group for this year is the significant reduction in regulatory benchmark profit rates in Pakistan, coupled with increased minimum profit rate on certain liability products resulting in significant margin compression in FBL. Operating income of BD 75.4 million in 2013 is 13.9 percent lower than that reported for 2012 mainly due to significant compression of margins in FBL. However, the benchmark rate was increased in the fourth quarter of 2013, and the positive impact will be witnessed in 2014.

Expenses, continue to be under control and the new cost rationalization measures are further expected to improve the efficiency ratio in future. Ithmaar Bank's balance sheet continues to be stable, with good growth in core business: unrestricted investment account deposits grew by 13.4 percent despite a reduction in average profit rates, a reaffirmation of investor confidence. The customer base in Bahrain has more than doubled in the last three years. Liquid assets, comprising cash, balances and commodity placements with banks, financial and other institutions, have also increased and represent about 14.8 percent of the balance sheet. These liquid assets exclude investments in government securities held by an overseas subsidiary which are highly liquid. The average maturity profile of Modarabas is now about eighteen months. Overall, we continue to increase our market share in our core business based on data published by the Central Bank of Bahrain.

One of the key initiatives to further improve the Group's performance is to enhance monitoring of non-core assets and initiate remedial measures leading to accelerated recovery of the existing non-performing assets. In addition, the orderly exit from certain investments continues to be high on our priorities.

In line with the Bank's commitment to concentrate on and further develop its core business, Ithmaar Bank entered into a share swap arrangement with the shareholders of one of its Bahrain-based associates,

Joint Message

First Leasing Bank. This increased Ithmaar Bank's issued and paid-up capital by BD 21.4 million to BD 285.6 million. Ithmaar also completed in 2013 the voluntary surrender of Faisal Private Bank's (Switzerland) banking and securities dealer license, and renamed the entity as Faisal Private Bureau (Switzerland).

Meanwhile, Ithmaar Bank continued to invest heavily in developing its products and services, on expanding its retail banking network and on improving its customer service offerings. The Bank continues to grow closer to its customers, listening closely to their needs and providing tailored financial solutions.

Technology and internal controls are the backbone that support business growth. The Group continues to invest in further enhancing systems and controls, and is implementing new solutions for risk, anti-money laundering, core banking, and others.

In 2013, for example, Ithmaar continued the expansion and renovation of its retail banking network in Bahrain by adding another branch, renovating two branches and adding seven Automated Teller Machines to what is now one of Bahrain largest networks with a total of 17 branches and 47 ATMs in strategic locations. Faysal Bank Limited has continued the planned expansion of its branch network and, at 269 branches, is amongst the top 10 banks in Pakistan. In the same year, Ithmaar Bank introduced an innovative savings account exclusively for youth, launched the first Islamic segmented MasterCard Debit Cards in Bahrain and signed a key agreement to allow anyone with a globally-issued MasterCard credit or debit card, to use Ithmaar ATMs. Ithmaar Bank also introduced an education finance solution to help parents manage the financial commitments required for their children's education and further improved and re-launched its popular prize-based savings account, Thimaar.

This clear focus on developing Ithmaar Bank's core business in Bahrain delivered significant growth in the Bank's retail banking business. Total customer current accounts, savings accounts, Thimaar and unrestricted investment account deposits, for example, increased by 21 percent in 2013, from BD 431 million to BD 521 million during the year. Similarly, Ithmaar Bank continued to expand its financing business, which increased by 20 percent, from BD 233 million to BD 281 million, during the year. Faysal Bank's core business continues to grow with significant improvement in the current and savings account by 20 percent, financing portfolio has registered a modest growth due to the decrease in benchmark rates and excess liquidity has been temporarily deployed in government securities.

Ithmaar's achievements have helped earn the Bank international praise, earning it a prestigious regional award in recognition of its corporate governance practices, and another regional award in recognition of its unique products. The share price of Ithmaar Bank has significantly improved during 2013 by around 35 percent; a clear vote of confidence from our esteemed shareholders.

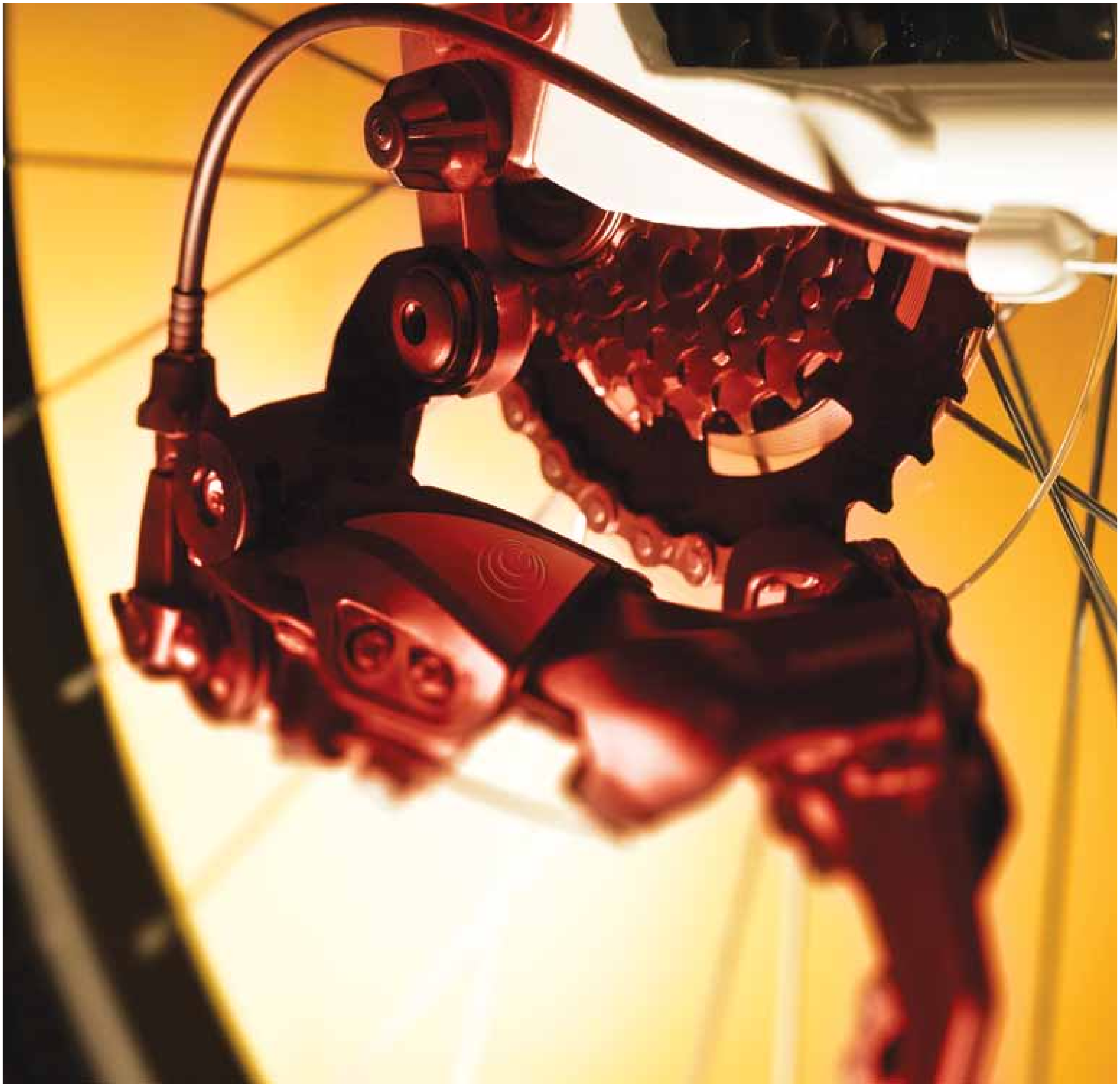
The global Islamic banking growth forecast is impressive and, in certain sectors, outpaced conventional banks. The Group is well poised to participate in, and benefit from, this opportunity.

These achievements are a result of the commitment, dedication and expertise of the people at Ithmaar Group, who we continue to regard as our greatest asset.

We take this opportunity to thank our shareholders for their continued support, our customers and investors for their confidence, our regulators for their guidance and the members of the Board of Directors and the Sharia Supervisory Board for their continued support to realizing the Ithmaar Bank vision of becoming the region's premier Islamic retail bank.

Amr Mohammed Al Faisal
Chairman

Ahmed Abdul Rahim
Chief Executive Officer



Review of Operations

STRATEGY AND OBJECTIVES

Ithmaar Bank's strategy has one single focus: return to sustainable profitability and infusion of additional capital. The strategies to achieve key objectives include firm focus on core business; improve asset allocation; cost rationalization; and improve efficiency.

ECONOMIC OUTLOOK

Global economic activity is expected to improve in 2014-2015, largely on expected recovery of the advanced economies. Global growth is now projected at around 3.7 percent in 2014 and 3.9 percent in 2015. [Source: IMF World Economic Outlook – January 2014]

Bahrain's economy showed positive signs due to increased oil prices and increased hydrocarbon outputs. On a year-on-year basis, the GDP grew by 5.3 percent for the year 2013 compared to 3.4 percent in 2012. [Source: Kingdom of Bahrain – Economic Year Book 2013 issued by Bahrain Economic Development Board]. During January 2014, the country rating for Bahrain was affirmed as BBB+ [Source: Fitch Rating].

Pakistan's Growth rate has been revised upward to 2.8 percent for fiscal year 2014. [IMF on Pakistan Economy – January 2014]. The Pakistan Rupee continues to be under pressure and also reflects the state of economy coupled with weak exports, widening current account deficit, excessive government borrowings, reduced foreign inflows, increased oil imports and repayments to IMF. [Source: Asian Development Bank]

FIRM FOCUS ON CORE BUSINESS

The Group restructuring initiatives, with focus on core retail business, continued during 2013 with Ithmaar Bank's reorganization with First Leasing Bank and voluntary surrender of the banking and securities dealer license of Faisal Private Bank (Switzerland) and its conversion to Faisal Private Bureau (Switzerland) to provide wealth and asset management business. The reorganization with First Leasing Bank increased Ithmaar Bank's issued and paid-up capital by BD 21.4 million to BD 274.3 million after the Bank issued 226.7 million shares to all First Leasing Bank shareholders, except those held by and on behalf of Ithmaar Bank, at a nominal value of 25 cents per share.

ITHMAAR BANK MARKET SERVED (BAHRAIN)

FINANCINGS - FYE 2013

TERRITORY		SECTOR	
Bahrain	74%	Personal	47%
GCC	5%	Financial Institutions	3%
Others	21%	Real estate and construction	19%
		Trade and manufacturing	13%
		Services	18%
Total	**100%**		100%

DEPOSITS - FYE 2013

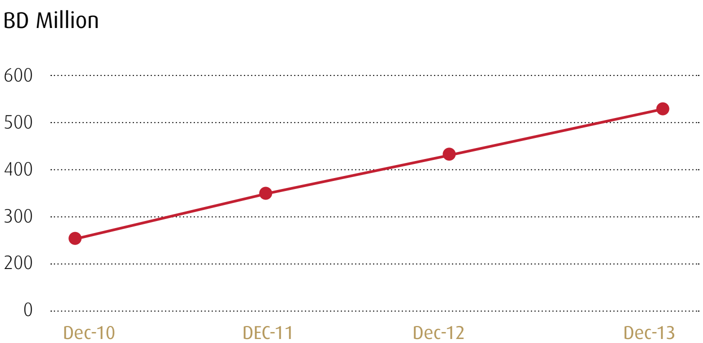
TERRITORY		SECTOR	
Bahrain	81%	Personal	51%
GCC	4%	Financial Institutions	7%
Others	15%	Real estate and construction	8%
		Trade and manufacturing	11%
		Services	14%
		Government related	9%
Total	**100%**		**100%**

During the year, Ithmaar continued the expansion and renovation of its Bahrain retail banking network by renovating two branches and adding a new branch and seven Automated Teller Machines to what is now one of Bahrain largest networks with a total of 17 branches and 47 ATMs in strategic locations across the Kingdom.

The newest branch, an exclusively ladies only branch, was introduced to address the specific requirements of Ithmaar Bank's female customers and underscores just how seriously the Bank takes its customers' feedback. The branch, on Bukawara Road in East Riffa, is being run entirely by female Ithmaar Bank employees - from tellers to the branch manager - to ensure a strict ladies-only application.

The focus on developing Ithmaar Bank's core business delivered significant growth in the Bank's retail banking business which did particularly well in 2013. Total customer current accounts, savings accounts, Thimaar and URIA deposits, for example, increased by 21 percent in 2013, from BD 431 million at the end of 2012 to BD 521 million.

ITHMAAR BANK RETAIL BANKING -CUSTOMER FUNDS (BAHRAIN)



Similarly, Ithmaar Bank continued to expand its financing business, which increased by 21 percent, from BD 233 million at the end of 2012 to BD 281 million.

Private Banking continued in 2013 to achieve strong growth in their total liabilities as well as in booking assets. The total liabilities portfolio has reached more than BD 288 million, enabling Ithmaar to increase their base of High-Net-Worth Individuals in Bahrain.

Currently, Ithmaar Bank serves private banking customers based in the GCC, particularly those in Bahrain, Saudi Arabia, the UAE and Qatar. Private Banking has concentrated in 2013 on developing their existing relationships while also identifying new opportunities in the region.

The newest branch, an exclusively ladies only branch, was introduced to address the specific requirements of Ithmaar Bank's female customers and underscores just how seriously the Bank takes its customers' feedback.

Private Banking continues to expand their client base while offering a better client relationship experience through internal operational improvements as well as enriching Ithmaar Premier, a service-oriented programme for high net worth individuals which Private Banking, together with Retail Banking, introduced in 2011. The Programme, which aims to identify and retain the Bank's existing clients by setting a new level of customer service and superior added value benefits, witnessed a substantial increase in membership by existing as well as new customers during 2013. The Programme continues to introduce value added features and setting a new standard for Ithmaar Bank's client relationship experience.

Following Private Banking's launch of their Customer Relationship Management (CRM) project in 2012, the CRM has improved the level of efficiency through applying best industry practices, which led to a better client relationship experience, as well as identifying critical areas for improvement in the operational and marketing workflows. In addition, Private Banking has been actively involved in the marketing and sales efforts for projects in the Dilmunia Island namely, Sea Villa residential project and Temara residential plots.

ITHMAAR BANK FINANCING (BAHRAIN)

	BD Million Home Finance	BD Million Auto Finance	BD Million Personal Finance	BD Million Credit Cards	BD Million Corporate & SME Banking	BD Million Total
Dec-10	8	12	102	1.3	157	281
Dec-11	9	12	149	1.5	168	340
Dec-12	16	14	201	1.9	233	465
Dec-13	19	11	249	1.9	217	498

Corporate and SME Banking continued in 2013 to focus on expanding its geographic footprint to become a major player in Islamic Banking within the GCC region.

Ithmaar Bank is a prominent player in the growing field of small and medium-sized enterprise (SME) financing along with large corporate firms. The Bank serves a carefully selected customer base with a range of well-established financial products that highly meet the market needs. Corporate and SME Banking showed sustainable improvement in performance during 2013, despite the challenging local, regional and international markets and the highly competitive environment of the Bank's core market, Bahrain. In spite of this, a well-structured plan has been implemented to address these challenges.

Private Banking continued in 2013 to achieve strong growth in their total liabilities as well as in booking assets.

In 2013, International Banking continued to focus on building relationships and providing financial solutions and facilities to financial institutions and corporate customers in international markets. This is an area that supports Ithmaar Bank's geographic diversification strategy. Though based mainly in Bahrain, its range of operations presently spans the Middle East, North Africa, Turkey and the Far East.

In 2013, International Banking had a successful year and provided strong foundations for future growth while pursuing market diversification and development. Key new markets have been identified for special development.

Treasury, being primarily responsible for cash management of the Bank, continued to work in 2013 towards reducing net funding costs while assisting International Banking to further develop inter-bank and money market operations. Treasury fulfils its traditional role of managing the Bank's day-to-day liquidity through active market participation and securing medium to long-term funds for financing. It also helps generate income for the Bank through the investment of excess liquidity.

IMPROVE ASSET ALLOCATION

The main objective of Asset Management is to preserve the value of the existing investment portfolio of the Bank and identify opportunities for investment exits at acceptable valuations. The planned and managed exit from certain non-revenue generating investments will help restore the asset allocation to be in line with peers and facilitate the additional deployment of funds in financing, thereby contributing to the net margins.

ITHMAAR BANK MARKET SHARE

BAHRAIN

	Customer Deposits (%)	Housing Financing (%)	Auto Financing (%)	Credit Card Receivables (%)	Personal Financing (%)	Corporate Financing (%)
Dec-10	6.1	2.4	11.2	2.5	8.1	4.3
Dec-11	6.7	1.4	13.6	2.7	10.8	4.1
Dec-12	7.0	2.3	13.8	2.6	13.6	4.3
Sep-13	6.5	2.2	11.2	3.2	14.4	4.0

Based on statistics compiled by the Central Bank of Bahrain.

In 2013, Asset Management continued to effectively manage and monitor Ithmaar Bank's investments. Asset Management also manages a number of the Bank's funds, including Dilmunia Development Fund, Shamil Bosphorus Modaraba, European Real Estate Fund and US Development Opportunities Fund 1.

COST RATIONALIZATION AND IMPROVED EFFICIENCY

The Group has embarked on cost rationalization. The Group has not realized the full potential of its reorganization and business acquisition-related cost synergies. The focus is now on reviewing and rationalizing the human resources, processes and IT infrastructure. This major exercise involves the use of in-house and external experts to review and provide appropriate recommendation to rationalize human capital, reengineer processes; realize certain group synergies in IT, and outsourcing.

INNOVATIVE NEW PRODUCTS AND SERVICES

7esabi, Youth Account: To complement its product range, Ithmaar Bank introduced a new savings account exclusively for youth. Called 7esabi, pronounced "hesabi" an Arabic term meaning "My Account", the innovative account offers unique benefits and features for youth. 7esabi was designed to get youth familiarised with the basic concepts of banking as early as possible. In doing so, it will help encourage youth to develop responsible spending-saving patterns that could dramatically help them in the future.

MasterCard Premier and Debit Plus: Ithmaar Bank launched the first Islamic segmented MasterCard Debit Cards in Bahrain with the introduction of two new debit cards from the MasterCard Premium Debit Card Collection. All eligible Ithmaar Bank customers had their existing debit cards upgraded, at no additional cost, to the new MasterCard Debit Plus card, while Ithmaar Premier Customers received an exclusive Ithmaar MasterCard Premier Debit Card. The new cards offer customers privileges and value-added features as part of the Bank's commitment towards enhancing its customers' experience.

Ithmaar Bank also signed a key agreement with MasterCard to allow tourists and businessmen arriving in Bahrain from around the world, as well as expatriates and residents with globally-issued MasterCard credit and debit cards, to use their cards at Ithmaar Bank ATMs. This allows all MasterCard users seamless access to Ithmaar Bank's ATMs – including cash withdrawals and balance inquiries - regardless of where, or by which bank, the card was issued.

Education Finance: Responding to market needs, the Ithmaar Bank Education Finance solution that was introduced in 2013, allows parents to pay a regular monthly amount to the Bank which, in turn, makes timely fee payments on behalf of the parents to the school. The Education Finance solution includes Life Takaful coverage to ensure that, in the tragic event of the parent's loss, the outstanding amount is paid and the child continues their education. It also includes Unemployment Takaful coverage to cover instalments for up to four months.

Thimaar: Ithmaar Bank also re-launched, in mid-October 2013, its popular prize-based savings account, Thimaar. Thimaar, Arabic for fruits or harvest, is a Sharia-compliant account designed to encourage people to adopt a more responsible spending/saving pattern by offering cash prizes, along with an expected profit rate and other benefits, as additional incentives to save. The Account, which offers best in kind incentives, was re-launched to offer even bigger prizes to even more winners.

Ithmaar Bank has long recognized its people as its greatest asset, and invests heavily in ensuring they remain among the very best.

AWARD WINNING PERFORMANCE

In June 2013, Ithmaar Bank earned a prestigious regional award in recognition of its corporate governance practices when it was chosen, from among banks across the Middle East, North Africa and South Asia, for the Hawkamah Bank Corporate Governance Award.

The Award is a regional initiative that aims to recognize, support and encourage superior governance practices in the region's banking sector. Earning the Award is a result of Ithmaar Bank's commitment to applying international best practice applications across its operations and, in particular, with regards to its corporate governance policies.

Ithmaar's achievements have also helped earn the Bank international praise, with the Bank's Mobicash solution earning multiple awards including the "Best Mobile Banking Service" award at the Banker Middle East Products Award 2013. The Award was presented to Ithmaar Bank after a record level of votes was cast during a month-long selection process. In total, organisers received votes from 14,300 individuals with more than 670,000 votes cast across all categories. The Award is organised and presented by CPI Financial, a prominent group which publishes Banker Middle East, Islamic Business and Finance, Wealth, Finance ME and Emirates Review.

EXECUTIVE CHANGE

Ahmed Abdul Rahim is the new Chief Executive Officer. In August 2013, Mohammed Bucheerei concluded his forty-three year banking career and retired from his post as the Ithmaar Bank Chief Executive Officer.

GREATEST ASSET

Ithmaar Bank has long recognized its people as its greatest asset, and invests heavily in ensuring they remain among the very best. The Bank, which continues to seek capable and experienced personnel in line with its growth and demand, focuses on maintaining its merit and performance-based culture.

TRAINING

BIBF Levy Training	2362 hours Managers and above: 330 hours Below Managers: 2032
External Training	1067 hours Managers and above: 855 hours Below Managers: 212 hours
Islamic Banking Ethics and Governance Course	580 hours
Anti Money Laundering (AML)	- All New Joiners took the AML course, 40 of them took the e-learning AML course. - Refresher: 109 employees took the e-learning AML course from various departments in the Bank.

STAFF OVERVIEW

Bahrain Operations Only	Number of employees				
	Managerial	Supervisory	Clerical	Other Supporting Staff	Total
Bahraini					
Male	61	59	59	16	195
Female	7	41	26	9	83
Non-Bahraini					
Male	16	2	0	1	19
Female	2	1	0	0	3
Total	**86**	**103**	**85**	**26**	**300**
	Chief Executive Officer Chief Operating Officer General Manager Assistant General Manager Executive Senior Manager Senior Manager Manager	Senior Associate Associate Senior Officer	Officer	Senior Staff Staff	

The Bank has long encouraged diversity and equal opportunity for all employees. Female employees accounted for 29 percent of the total workforce in 2013. The majority (75 percent) of Ithmaar Employees hold at least undergraduate degrees.

Ithmaar Bank recognizes training as an important element of its Human Capital development, and employees have attended various training courses, both in Bahrain and abroad, in 2013.

Ithmaar Bank continued in 2013 to support various initiatives undertaken by the Bahrain Association of Banks (BAB).

The Bank continues to encourage its employees to obtain professional qualifications. During the year, an employee earned the coveted Certified Islamic Professional Accountant (CIPA) certification, another employee earned the Certified Financial Accountant (CFA Level III) certification, and another employee obtained the Level 3 Diploma in Human Resources Practice from the Chartered Institute of Personal Development.

In 2013, Ithmaar Bank also continued its long-standing tradition of celebrating employee achievements, and honoured select employees with the Employee of the Month Award. To help further reinforce its long-established performance-based culture, Ithmaar Bank also continued to encourage positive competition between branch employees with the highly competitive Best Branch Award.

DOMESTIC SYSTEMICALLY IMPORTANT BANKS

The CBB has named Ithmaar Bank as one of Bahrain's Domestic Systemically Important Banks (DSIBs). This is in recognition of the Bank's importance to the national economy.

ROLE IN THE COMMUNITY

Ithmaar Bank believes in being a good, responsible corporate citizen. Ithmaar Bank continued in 2013 to support worthy national causes and presented financial support to, for example, schools and hospitals.

In line with Ithmaar Bank's long standing commitment to playing a real and meaningful role in the local community, in 2013 the Bank participated in the first Tamkeen Conference and Exhibition. The event was organised to support the private sector and empower Bahrainis to become employees of choice. Ithmaar Bank, through its then wholly-owned subsidiary Shamil Bank, provided in 2007 the ground-breaking Nibras SME Financing Scheme.

The scheme, which was expanded after its early success, has since served as a blueprint for current Tamkeen-supported financing offerings with other banks in Bahrain.

Ithmaar Bank continued in 2013 to support various initiatives undertaken by the Bahrain Association of Banks (BAB).

Ithmaar Bank also continued its long-standing support for the Accounting and Auditing Organisation for Islamic Financial Institution (AAOIFI), supporting two of the Institution's key events during the year. Ithmaar Bank's relationship with, and support for, the AAOIFI go back to the very establishment of the Institution. The Chairman of Ithmaar Bank's Sharia Supervisory Board, Sheikh Abdulla Sulaiman Al Manee'a, represents the Bank on the AAOIFI Board.

Ithmaar Bank also supported in 2013 the Fourth Sharia Auditing Conference which was hosted in Bahrain by the General Council for Islamic Banks and Financial Institutions (CIBAFI).

The Bank also provided its staff to voluntarily teach at different government schools as part of the inJAz programme.

Meanwhile, Ithmaar Bank continued its long-standing support for the World Islamic Banking Conference (WIBC) and, in 2013, was a Platinum Strategic Partner at the event.

Ithmaar Bank also continued to invest its own staff time and resources on training and developing aspiring job seekers. In 2013, the Bank provided on-the-job training opportunities to university students from different universities across Bahrain. The Bank also provided its staff to voluntarily teach at different government schools as part of the inJAz programme. InJAz Bahrain is a member of the worldwide Junior Achievement Organisation that inspires and prepares young Bahrainis to succeed in the global economy. Topics covered included Banks in Action, Business Ethics, Success Skills and Career with a Purpose.

Ithmaar Bank, which has long-maintained that education is vital to sustainable economic growth, continued to support the education of under privileged students. Together with the Kingdom of Bahrain's Royal Charity Organisation, Ithmaar continues to sponsor orphaned students from pre-school right through to Grade 12 at an accredited private school in Bahrain, and, in collaboration with an accredited local university, Ithmaar supported undergraduate degree courses for 52 orphaned students to date. Ithmaar has also provided financial support for postgraduate research and assisted a student earn a Doctorate Degree.

The positive story for 2013 is that the total income for 2013 mainly comprises recurring income whereas 2012 income included certain one-off items.

Total income for 2013 at BD 155.4 million declined by 15.3 percent as compared to BD 183.4 million in 2012. There are three major factors contributing to this decline in total income. Firstly, the 2012 results include a one-off gain of BD 10.5 million attributable to share of profit of an associate. As a result, total share of profit after taxes from associates in 2013 is at BD 14.5 million, 28.4 percent lower from BD 20.3 million in 2012. Secondly, the decrease in benchmark profit rates in Pakistan has adversely impacted the income in FBL. Reduction of around 200 basis points over past 18 months resulted in a 11.7 percent decline in income from Murabaha and other financings which declined to BD 79.7 million in 2013 from BD 90.2 million in 2012. Thirdly, Income from investments at BD 36.7 million in 2013 has declined by 16.9 percent from BD 44.2 million in 2012 due to higher gains on disposal of trading portfolio in 2012.

The recurring operating income for 2013 at BD 75.4 million is stable as compared to 2012.

The growth and resultant improved volume of certain low cost liability products, coupled with decreased benchmark profit rates in Pakistan have reduced the profits paid to financial and other institutions by 16.5 percent from BD 95.9 million in 2012 to BD 80 million in 2013. This is despite increased minimum profit rate on current accounts in Pakistan.

The recurring operating income for 2013 at BD 75.4 million is stable as compared to 2012 after adjusting the one-off items and margin compression. Overall expenses are well under control and have in fact declined by 1.6 percent from BD 74.7 million in 2012 to BD 73.6 million in 2013. This is despite an increased number of branches of the Group by five in 2013 and the full year impact in 2013 of nine branches opened during 2012.

FINANCIAL POSITION

The balance sheet remained stable at BD 2.79 billion. The capital adequacy ratio as at 31 December 2013 was 12.77 percent (2012: 12.64 percent).

Equity of unrestricted investment account holders increased by an impressive 13.4 percent to reach BD 748.5 million as at 31 December 2013 from BD 660.2 million as at 31 December 2012. This was primarily achieved through the launch of new products and services, coupled with enhanced customer services through new branches and ATMs network. The low cost customer current accounts also registered an impressive growth of 6.4 percent to BD 479 million as at 31 December 2013 from BD 450 million as at 31 December 2012. The owners' equity remains stable at BD 200.4 million.

The balance sheet remained stable at BD 2.79 billion. The capital adequacy ratio as at 31 December 2013 was 12.77 percent (2012: 12.64 percent).

During the year 2013 the Group has improved its maturity profile with a shift in liabilities from short-term to medium/long-term maturities. Overall, during the past three years customer accounts have consistently registered significant growth. Maintaining adequate liquidity continues to be the focus and as apparent, the liquid assets have increased by 10.2 percent to reach BD 412.4 million as at 31 December 2013 (14.8 percent of the total assets) as compared to BD 374.2 million as at 31 December 2012.

SHARE PERFORMANCE

Increase in Ithmaar's share price by 35 percent during 2013 reflects investor confidence in the Bank. Ithmaar shares continue to be one of the most actively traded shares on Bahrain Bourse and Kuwait Stock Exchange.

Subsidiaries and Associates

KEY OPERATING SUBSIDIARIES

Faysal Bank Limited (FBL)

Faysal Bank Limited (the Bank) was incorporated in Pakistan on October 3, 1994. Its shares are listed on Karachi, Lahore and Islamabad Stock Exchanges. The Bank is mainly engaged in Corporate, Commercial and Consumer banking activities. The Bank has a network of 269 branches including 53 Islamic banking branches as of 31 December 2013, with combined business assets of over PKR 300 billion. The Group owns 66.6 percent of FBL.

The current strategy of FBL focuses on growth in deposits (including improvement in low cost deposits portfolio) and reduction on operating costs in order to achieve higher profitability. The total assets and total shareholders' equity as of 31 December 2013 amounted to PKR 355.3 billion and PKR 22.2 billion respectively. The investment is in Pak Rupees (PKR) and exposes the Bank to foreign exchange risk. The cumulative foreign exchange loss as of 31 December 2013 amounted to BD 10.2 million (included in the foreign exchange translation reserve statement of changes in equity).

Faisal Private Bureau (formerly Faisal Private Bank) [FPB]

FPB, a wholly-owned subsidiary of the Group, was established in 1980 as Sharia Investment Services in Geneva, Switzerland, and later got a banking license and was providing Islamic financial services in the European region. FPB voluntarily surrendered its banking license in June 2013 and the activities of the new entity are restricted to providing advice and wealth management services.

The current strategy of FPB focuses on serving existing clients of the erstwhile Faisal Private Bank through providing advice and wealth management services. The total assets and total shareholders' equity as of 31 December 2013 amounted to BD 11.6 million and BD 6.6 million respectively. The Funds Under Management (FUM) as at 31 December 2013 amounted to BD 57.6 million.

Ithmaar Development Company (IDC)

Ithmaar Development Company (IDC) is a wholly-owned subsidiary of the Group which was established in 2007 with the objective of developing and managing major development, real estate and other infrastructure projects. IDC's flagship project include Dilmunia, a 1.25 million square meters man-made island off the coast of Bahrain. IDC, together with Ithmaar, is aggressively working on the sale of parcels relating to the project and has achieved success relating to sea-facing plots named 'Sea Villa' and 'Temara' during 2013.

"Sea Villa" consists of thirty-two sea-facing villas located in north-eastern part of Health Island (50 percent subsidiary of IDC) owned land on a total area of 20,000 square meters. All the plots were sold within three days after the sales announcement by IDC in June 2013.

"Temara" consists of thirty-seven residential plots (twenty-two sea-facing and fifteen coastal plots) located in southern part of Dilmunia Fund land ranging from 596 square meters to 1,488 square meters. 67 percent of the total plots were sold within one day after the sales announcement by IDC in August 2013.

The current strategy of IDC focuses on the infrastructure development relating to Dilmunia project as well as providing development management services to Naseej relating to the Private Public Partnership Housing Project (PPPHP) project (resulting in fee income).

KEY OPERATING ASSOCIATES

BBK B.S.C. (BBK)

BBK is one of the largest commercial banks in Bahrain with a presence in Kuwait, India and Dubai (United Arab Emirates). BBK provides a full range of lending, deposit, treasury and investment services, and has established a number of subsidiaries in the areas of brokerage, financial services and credit cards. The Group owns 25.4 percent of BBK. BBK has 16 branches (including seven financial malls) and 47 ATMs in Bahrain.

BBK's strategy focuses on growth of its retail banking business through branch expansion in GCC and international markets (mainly India). The total assets and total shareholders' equity as of 31 December 2013 amounted to BD 3.2 billion and BD 333 million respectively.

Naseej B.S.C. (Naseej)

Naseej is the MENA region's first fully-integrated real estate and infrastructure development company, encompassing the entire value chain from concept to completion. The Company's core activities comprise design and master planning; development and construction; building components; mortgage facilitation; and asset management. Naseej was established by prominent private and public sector investors to act as a pioneering catalyst for addressing the region's affordable housing development needs. The Group owns 30.7 percent of Naseej.

Naseej's strategy focuses on pursuing property development and investment opportunities in affordable housing and retail real estate sectors in the MENA region besides working on the Private Public Partnership Housing Project (PPPHP) project in Bahrain which was awarded to the Company in 2012 and the financial close achieved in September 2013.

Solidarity Group Holdings (Solidarity)

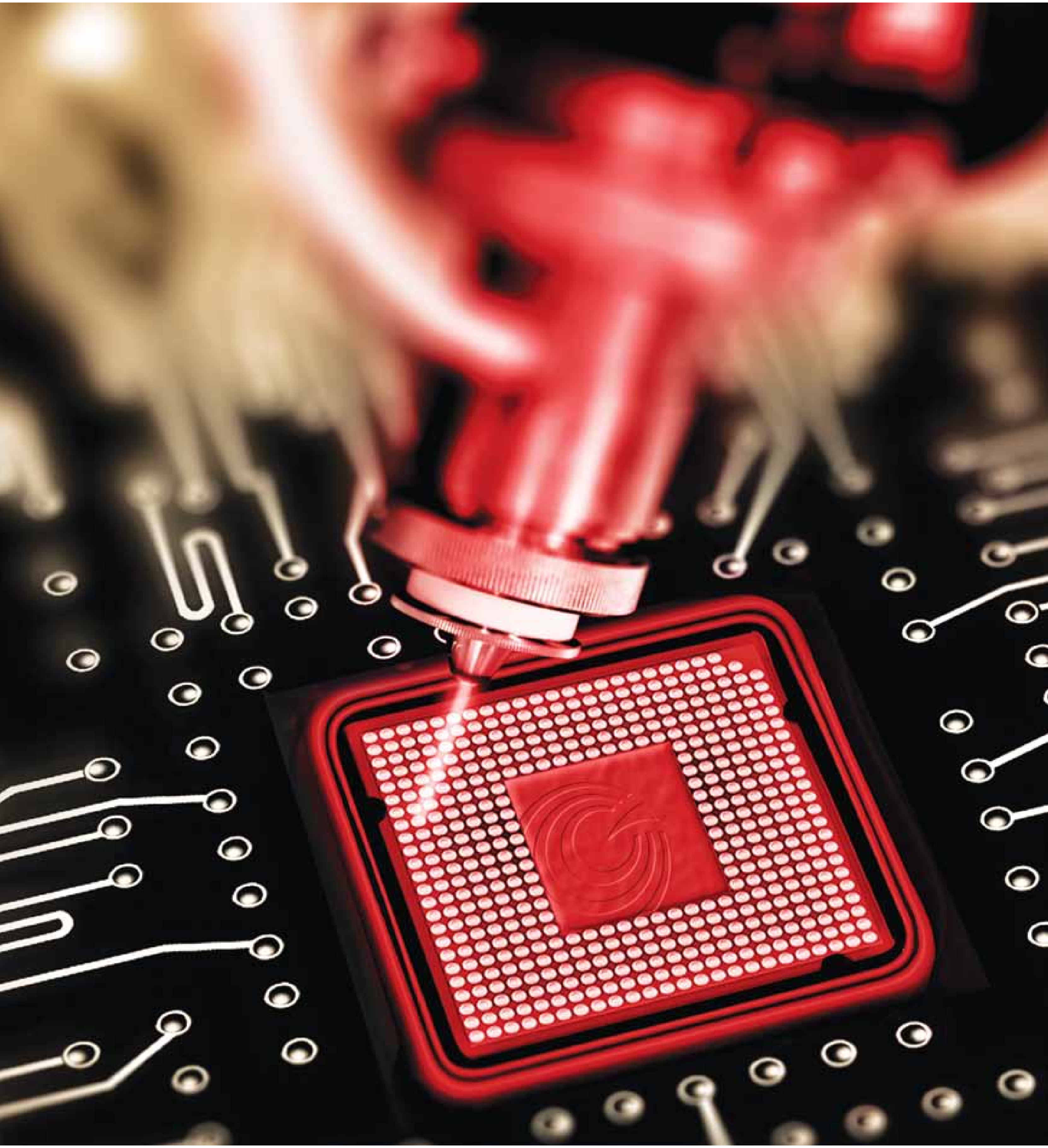
Solidarity is one of the largest takaful (Islamic insurance) companies. The Company provides general and family takaful products and services, which comply with the principles of the Islamic Sharia, around the globe. Solidarity operates two fully-owned subsidiaries in Bahrain while having business in Jordan, Saudi Arabia and Malaysia. During 2012 Solidarity acquired and consolidated its stake to 51.4 percent in First Insurance Company in Jordan, while divesting its wholly-owned subsidiary in Egypt, Solidarity Family Takaful Egypt. The Group owns 33.8 percent of Solidarity.

Solidarity's strategy focuses on providing general takaful services both locally and in key international markets (mainly Jordan, Saudi Arabia and Malaysia) in order to achieve sustainable profitable growth. The total assets and total shareholders' equity as of 31 December 2013 amounted to BD 132.3 million and BD 96.75 million respectively.

CITIC International Asset Management Limited (CITICIAM)

CITICIAM is part of the CITIC Group, a major diversified financial and investment conglomerate wholly-owned by the State Council of the People's Republic of China. CITICIAM's principal activity is to invest in companies and projects in China and internationally, both for its own account and on behalf of clients. Established in 2002 to specialize in distressed asset management, the current portfolio of CIAM includes direct investments in real estate, high technology, health, retail and industrial projects. The Group owns 20 percent of CITICIAM.

CITICIAM's strategy focuses on investment mainly in China in environmental, agricultural, natural resources and health sector of China specifically in companies (mainly SME's) which are run in line with the state policies and contribute to the socio-economic development of China.



Precision, consistency and commitment.

Thanks to precise planning, consistent achievements and unwavering commitment, Ithmaar Bank has seen solid growth during 2013.

Board of Directors

HRH PRINCE AMR MOHAMMED AL FAISAL
Chairman
Appointed 5 November 2009, Elected 28 March 2010 and 31 March 2013 (approved by the CBB on 9 May 2013).

HRH Prince Amr has more than 25 years of extensive and diversified experience in commercial and investment banking, executive management, architecture and engineering.

He is a Member of the Board of Supervisors of Dar Al Maal Al Islami Trust, Faisal Islamic Bank (Sudan) and Faisal Islamic Bank (Egypt). HRH Prince Amr is also Founder and Director of the Red Sea Bureau for Engineering Consultancy (Jeddah), Chairman of the Board of Directors of Al Daleel Company for Information Systems (headquartered in Jeddah with sister companies in Tunisia, Sudan and Pakistan), Al Wadi Company for Trading Ltd. (Jeddah) and Amr Establishment for Marketing and Commerce.

He is a Fellow of the Saudi Association for Construction Societies, City Development and Clean Environment and a Member of the Saudi Council of Engineers. HRH Prince Amr holds a Bachelor of Arts Degree in Architecture from King Abdulaziz University, Saudi Arabia.

SHEIKH ZAMIL ABDULLAH AL-ZAMIL
Independent, Non-Executive Board Member
Elected 28 March 2010 and 31 March 2013 (approved by the CBB on 9 May 2013)

Sheikh Al-Zamil is a prominent businessman in the Kingdom of Saudi Arabia and in GCC countries.

He is Executive Vice-President of Zamil Group Holdings Company and serves as the Chairman of Zamil Offshore Services Co. and Zamil Operations & Maintenance Co. Ltd. Sheikh Al-Zamil is actively involved in various institutions such as the Chambers of Commerce, industrial companies and banks in his capacity as a Director.

Educated in the United States, he holds a Master's Degree in Petroleum Engineering from West Virginia University.

TUNKU DATO' YA'ACOB BIN TUNKU ABDULLAH
Independent, Non-Executive Board Member
Elected 11 May 2006, 28 March 2010 and 31 March 2013 (approved by the CBB on 9 May 2013)

Prince Ya'acob has over 30 years of banking and finance experience.

He is Chairman of MAA Group Berhad (Malaysia), which he joined in 1999. Prior to his current position, Prince Ya'acob worked for 19 years at Malaysian Assurance Alliance Berhad, where his last position was as Chairman. He also worked at PriceWaterhouse, UK and Malaysia.

Prince Ya'acob holds a Bachelor of Science Degree with Honours from the City University in London and is a Fellow of the Institute of Chartered Accountants of England and Wales.

SHAIKHA HISSAH BINT SAAD AL-SABAH
Independent, Non-Executive Board Member
Elected 11 May 2006 and 28 March 2010 and 31 March 2013 (approved by the CBB on 9 May 2013)

Shaikha Hissah has over 15 years of banking experience.

She is President of the Council of Arab Businesswomen, and has a long history in the Kuwait Government and private voluntary service, in sectors which include medical services, research and development, defense, and narcotics and addiction control. Shaikha Hissah is also the President of the Council of Arab African Business Women.

Shaikha Hissah studied Public Administration and Political Science at the American University of Beirut, Lebanon, and holds a Doctorate in Humane Letters.

ABDELHAMID MOHAMED ABOUMOUSA
Executive Board Member
Elected 11 May 2006, 28 March 2010 and 31 March 2013 (approved by the CBB on 9 May 2013)

Mr. Aboumousa has more than 45 years of banking experience.

He is Governor of Faisal Islamic Bank of Egypt, which he joined in 1977. Prior to this, Mr. Aboumousa worked in the Central Bank of Egypt for 16 years and is a Member of the Coordinating Council that determines the monetary and fiscal policy objectives of the Egyptian economy. He is also a member of the General Assembly of the Public Banks, representing the Egyptian Government in the state owned banks.

He holds a Bachelor of Science Degree in Accounting and a Diploma in Finance from Cairo University in Egypt, and a Diploma in Banking Economics from Lwegi Boconi University in Milano, Italy.

KHALID ABDULLA-JANAHI
Executive Board Member
Elected 11 May 2006, 28 March 2010 and 31 March 2013 (approved by the CBB on 9 May 2013)

Mr. Janahi has more than 27 years of banking experience.

He is Group Chief Executive of Dar Al-Maal Al Islami Trust (DMI Trust), Chairman of Faisal Private Bureau (Switzerland), DMI Administrative Services, Islamic Investment Company of the Gulf (Bahamas) Ltd., Solidarity Group, Naseej and Ithmaar Development Company, Bahrain.

He is also the Chairman of the Executive Committee and Member of the Board of Solidarity Saudi Takaful Company, Saudi Arabia.

Mr. Janahi is a member of the Board of Faisal Islamic Bank of Egypt and the Centre for International Business and Management (CIBAM) at the University of Cambridge.

He holds a Bachelor of Science degree in Computer Science & Accountancy from the University of Manchester, UK; and is a Fellow of the Institute of Chartered Accountants in England and Wales.

MOHAMMED A. RAHMAN BUCHEEREI
Executive Board Member
Elected 28 March 2010 and 31 March 2013 (approved by the CBB on 9 May 2013)

Mr. Bucheerei has 43 years of experience in Accounting, Commercial and Offshore Banking.

He was Chief Executive Officer of Ithmaar Bank from July 12, 2010 to August 31, 2013, and has been a Member of the Ithmaar Board of Directors since March 2010. He is also a Member of the Bank's Executive Committee.

Previously, Mr. Bucheerei served as the General Manager of the Private Offices of HRH Prince Mohamed Al Faisal Al Saud, Saudi Arabia and Executive Vice-President, Shamil Bank of Bahrain. He currently serves on the Boards of Islamic Investment Company of the Gulf (Bahamas and Sharjah) Limited, Faysal Bahamas Limited, Crescent International Limited (Bermuda), DMI (Jersey) Limited, MFAI (Jersey) Limited, Gulf Investors Asset Management Company (Saudi Arabia), Cantara S.A . (Switzerland) and Overland Capital Group, USA.

He studied accounting, mathematics and economics at Gulf Polytechnic, Bahrain.

NABEEL KHALED MOHAMED KANOO
Independent, Non-Executive Board Member
Elected 28 March 2010 and 31 March 2013 (approved by the CBB on 9 May 2013)

Mr. Kanoo counts over 15 years of business and management experience.

He is Director of PR and Marketing of YBA Kanoo as a group, a Director of YBA Kanoo's Saudi Arabia Board, a Director of YBA Kanoo's Bahrain Board, a Director of Kanoo Travel Co. UK and France, a Director of Kanoo and El-Shabrawy Ltd. Co. Egypt and a Board Member of the Bahrain Chamber of Commerce.

Mr. Kanoo holds a Bachelor of Business Management Degree from St. Edwards University, Austin, Texas.

ABDULELLAH EBRAHIM AL-QASSIMI
Independent, Non-Executive Board Member
Appointed 15 July 2012 and Elected 31 March 2013 (approved by the CBB on 9 May 2013)

Mr. Al-Qassimi has more than 30 years of diversified management experience.

His previous positions include Chief Executive of the Labour Fund (Tamkeen), from which he resigned in May 2010, Deputy Chief Executive Officer of Labour Fund Project at the Bahrain Economic Development Board, Assistant Undersecretary for Training at the Bahrain Ministry of Labour and Social Affairs, Director of Engineering and Maintenance at the Bahrain Ministry of Health. He has also served as the Chairman of the Bahrain Qualifications Framework Steering Committee and the Steering Committee of Career Expo and was a Board member of the Bahrain Society of Engineers and the Bahrain Consumer Protection Society.

He is currently a Member of the Board of Tamkeen, Solidarity Group Holding, Durah Resort Management Company, Bahrain Development Bank, and the American Mission Hospital Association, as well as a Member of the Committee for HRH Princess Sabeeka bint Ibrahim Al Khalifa's Award for Women Empowerment (Supreme Council for Women, SCW) and the Committee for the Awards of Women Entrepreneurs (SCW) and the Audit Committee of Naseej B.S.C. (Closed).

Mr. Al-Qassimi holds a BSc in Civil Engineering from Queen Mary College, University of London, UK, and MSc in Health Facility Planning from the University of North London, UK, and a Diploma in Health Care Management from the Royal College of Surgeons in Ireland, Bahrain.

IMTIAZ AHMAD PERVEZ
Non-Executive Board Member
Appointed 15 July 2012 and Elected 31 March 2013 (approved by the CBB on 9 May 2013)

Mr. Pervez has more than 35 years of banking experience.

He has previously served on the Boards of AlBaraka Bank Pakistan Limited, Faysal Islamic Bank of Bahrain, Faysal Investment Bank of Bahrain EC., Faysal Bank Ltd., Pakistan, Al Faysal Investment Bank Ltd., Pakistan, Trust Leasing Corp. Limited, and Namco Management Company Ltd.

He has also held many senior positions in the banking industry including those of Chief Operating Officer of the Faysal Islamic Bank of Bahrain EC and CEO of Al Faysal Investment Bank Ltd., Pakistan.

Mr. Pervez holds a BA degree from University of the Punjab, Pakistan and is a Fellow of the Institute of Islamic Banking & Insurance, London.

GRAHAM R. WALKER
Non-Executive Board Member
Elected 31 March 2013 (approved by the CBB on 9 May 2013)

Mr. Walker has more than 45 years of experience in banking and financial services. He has a strong record in General Management, Finance and Strategic Planning gained internationally in banking, securities and investment management.

Mr. Walker served as Finance Director and a member of the Executive Committee at Ithmaar Bank from 2003 to 2008.

Previously, Mr. Walker served at Dar Al-Maal Al-Islami Trust (DMI Trust) where he was Executive Vice President, Group Head of Finance and Risk Management. He also served as Director and member of the Audit Committees of Solidarity General, Solidarity Family, Shamil Bank and Faysal Bank Limited (Pakistan) as well as a Director and Chairman of the Audit Committee at Citic International Assets Management Limited (Hong Kong). Mr. Walker was earlier Chief Operating Officer at Foreign & Colonial Management Limited and Deputy Managing Director of Standard Chartered Equitor Limited.

Mr. Walker qualified as a Chartered Accountant and is a member of the Institute of Chartered Accountants of Scotland.

OMAR ABDI ALI
Non-Executive Board Member
Elected 31 March 2013 (approved by the CBB on 9 May 2013)

Mr. Ali has more than 45 years of experience in financial and general management in development as well as commercial and investment banking in Africa, the Middle East and Europe. He is Founder and Chairman of the Board of Directors of Quadron Investments Co. Ltd. (Sudan) and Integrated Property Investments (United Kingdom and Tanzania).

Previously, Mr. Ali served at Dar Al-Maal Al-Islami Trust (DMI – Trust) where he was Chief Executive Officer and Chief Operating Officer from 1986 to 1999 and, before that, Executive Vice-President Finance and Vice-President in charge of Internal Audit from 1983 to 1986. Prior to his DMI appointments, Mr. Ali was Director of Finance and Chief Financial Officer at the Arab Authority for Agricultural Investment and Development (Sudan).

He is currently a member of the Board of directors of Faisal Islamic Bank of Egypt and serves as chairman of the Audit and Risk Committees of the Board. He has served in the African Development Bank for ten years and his last post there was CFO of the Bank. He has also served in the Arab Fund for Economic and Social Development and the Arab Authority for Agriculture and Investment where he was also the CFO. He has served these two institutions for seven years.

Mr. Ali is a Certified Accountant, Leeds College of Commerce, UK, and a Fellow of the Association of Chartered Certified Accountants.

Executive Management

AHMED ABDULRAHIM
Chief Executive Officer

Ahmed Abdulrahim, who was appointed the Ithmaar Bank Acting Chief Executive Officer in September 2013 and then Chief Executive Officer, has more than 35 years of retail banking experience. He currently serves as a Board Member of Faysal Bank Limited (Pakistan), Family Bank, The Benefit Company B.S.C and Injaz Bahrain.

Prior to his current appointment, he was the Ithmaar Bank General Manager, Retail Banking, and has held several other senior positions at the Bank since 2006.

Prior to Ithmaar Bank's reorganisation with its then wholly-owned subsidiary, Shamil Bank, Mr. Abdul Rahim held the dual roles of Ithmaar Bank Chief Operating Officer and Shamil Bank Deputy Chief Executive Officer.

Mr. Abdul Rahim had held senior positions at the National Bank of Bahrain (NBB) before his Ithmaar Bank appointments. His NBB appointments included Manager FX and Funding, Chief Internal Auditor and, later, Assistant General Manager, Corporate Services.

He holds an MBA from the University of Glamorgan, Wales (UK), and is an Associate in Financial Accounting from the Institute of Financial Accountants, London (UK). He also holds an Executive Management Diploma from the University of Bahrain and an Advanced Banking Diploma from the Bahrain Institute of Banking and Finance.

RAVINDRA ANANT KHOT
Chief Operating Officer

Ravindra Khot, who was appointed the Ithmaar Bank Chief Operating Officer in September 2013, has more than 28 years of banking and finance experience. Prior to his current appointment, he was the Ithmaar Bank Chief Financial Officer.

Mr. Khot had previously held many senior positions both in Bahrain and abroad.

He was Vice President, Financial Administration at TAIB Bank, Bahrain; Senior Manager, Assurance and Advisory at PricewaterhouseCoopers, Bahrain; Principal Consultant, Financial Services, Consulting at Oracle Financial Services (erstwhile i-flex Solutions Ltd), India; and Senior Vice President, Group Financial Controller at Bahrain Middle East Bank BSC, Bahrain.

Mr. Khot is a Fellow Chartered Accountant (FCA), the Institute of Chartered Accountants of India, and holds a Bachelor of Commerce, (Financial Accounting) from the University of Mumbai, India.

TAWFIQ MOHAMMED AL BASTAKI
Chief Risk Officer & General Manager, Risk Management and Compliance

Tawfiq Al Bastaki, who was appointed the Ithmaar Bank Chief Risk Officer and General Manager, Risk Management & Compliance in September 2013, has more than 20 years of management and banking experience.

Prior to his current appointment, he was the Ithmaar Bank Assistant General Manager, Risk Management and Compliance (Chief Risk Officer).

Mr. Al Bastaki had held many senior at Ithmaar Bank, both before and after its reorganisation with its then wholly-owned subsidiary, Shamil Bank. He was Managing Director, Risk Management and Compliance at Ithmaar Bank, and before that, Assistant General Manager Risk Management and Compliance after serving as Assistant General Manager, Credit Analysis Department at Shamil Bank.

In his earlier career, Mr. Al Bastaki held senior positions at BBK, including Corporate Banking Manager; Card Center Manager; and Risk Administration Manager.

Mr. Al Bastaki holds a B.Sc. in Islamic Banking from the University College of Bahrain, an Executive Management Diploma from the University of Bahrain, and an Advanced Diploma in Banking from the Bahrain Institute for Banking and Finance.

ABDULHAKEEM KHALIL AL MUTAWA
General Manager, Retail & Private Banking

Abdulhakeem Al Mutawa, who was appointed the Ithmaar Bank General Manager, Retail and Private Banking in September 2013, has more than 30 years of management and banking experience.

Prior to his current appointment, he was the Ithmaar Bank Assistant General Manager, Head of Private Banking and led the investment placement and private banking activities.

Prior to Ithmaar Bank's reorganisation with its then wholly-owned subsidiary, Shamil Bank, and its subsequent transformation into an Islamic retail bank, Mr. Al-Mutawa held several other senior positions at the Bank, including Head of Private Banking at Shamil Bank, as well as other senior positions in investment and corporate banking.

Mr. Al-Mutawa spent more than 12 years in a commercial capacity in the airline and aviation industry. In his early career, he was a practicing engineering.

Mr. Al-Mutawa holds an MBA from the University of Bahrain and a Bachelor degree in engineering from the University of Texas at Austin.

YOUSIF AHMED AL HAMMADI
General Manager, Commercial Banking

Yousif Al Hammadi, who was appointed the Ithmaar Bank General Manager, Commercial Banking in October 2010, has more than 35 years of banking experience.

Prior to his current appointment, he was the Al Baraka Islamic Bank Deputy General Manager, Head of Commercial, International and Investment Banking.

Before joining Al Baraka Islamic Bank, Mr. Al Hammadi was Vice President and Head of Commercial Operation/Branches at Shamil Bank and, before that, he was Manager, Commercial Banking Department at the National Bank of Bahrain.

Mr. Al Hammadi holds both an Ordinary and Higher National Diploma in Business Studies from the UK, and an Advanced Banking Diploma, from the Bahrain Institute for Banking and Finance.

ABDULRAHMAN MOHAMMED AL SHAIKH
General Manager, Banking Operations, Information Technology and Administration

Abdulrahman Al Shaikh, who was appointed the Ithmaar Bank General Manager, Banking Operations, Information Technology and Administration in September 2013, has almost 40 years of banking experience.

Prior to his current appointment, he was the Ithmaar Bank Assistant General Manager, Banking Operations Department.

Mr. Al Shaikh has held many senior positions at Shamil Bank, including Head of the Banking Operations Department; Head of the Banking Operations Department and Information Technology; and Assistant Vice President, Banking Operations Department.

Prior to joining Shamil Bank, Mr. Al Shaikh held various senior positions at Bank of America, Bahrain, including Assistant Vice President, Operations Manager; Head of Letter of Credit; and Head of FX Processing Department. He started his career in 1976 at Habib Bank.

Mr. Al Shaikh holds a Commercial Diploma from Bahrain.

ASFAR AMANULLAH
Assistant General Manager, Internal Audit Department

Asfar Amanullah, who was appointed the Ithmaar Bank Assistant General Manager, Internal Audit Department in July 2012, has more than 25 years of auditing and banking experience.

Prior to his current appointment, he was an Executive Senior Manager at Ithmaar Bank's Internal Audit Department.

Before joining Ithmaar Bank in 2005, Mr. Amanullah, was the Financial Controller at the Liquidity Management Centre, and was, previously, Manager Audit at Pricewaterhouse Coopers – Bahrain. Prior to that, he was Vice President, Accounts Department, at the Pakistan Industrial Credit and Investment Corporation. He started his career in 1986 at A.F.Ferguson & Co, a member firm of Pricewaterhouse Coopers.

Mr. Amanullah is a Fellow of Chartered Accountant (FCA), Institute of Chartered Accounts in Pakistan, and holds a Bachelor of Commerce from University of Karachi.

SHAHRIAR KHOSHABI
Assistant General Manager, International Banking and Treasury

Shahriar Khoshabi, who was appointed the Ithmaar Bank Assistant General Manager, International Banking and Treasury in September 2013, has more than 30 years of banking experience.

Prior to his current appointment, he was the Ithmaar Bank Assistant General Manager, Financial Institutions.

Before joining Ithmaar Bank in 2010, Mr. Khoshabi, was Assistant General Manager, International Banking at Awal Bank, and was, previously Vice president and Division Head, Financial Institutions at Gulf International Bank. Earlier senior appointments included Assistant General Manager, International Banking at BBK; Assistant Vice President, Credit and Marketing, at Bank of America Bahrain.

In his earlier career, Mr. Khoshabi was the Assistant Treasurer at Bankers Trust and Company; Manager, Credit, Marketing and Financial Institutions at Citibank NA Bahrain; and Assistant Manager, Risk Management, at the National Bank of Bahrain.

Mr. Khoshabi holds a Master of Business Administration and Bachelors of Science in Business and Finance, both from the USA.

MOHAMMED HASAN JANAHI
Assistant General Manager, Retail Banking

Mohammed Janahi, who was appointed the Ithmaar Bank Assistant General Manager, Retail Banking in August 2008, has more than 28 years of experience.

Prior to his current appointment, he was the Assistant General Manager, Retail Banking, at Shamil Bank, prior to its reoganisation with Ithmaar Bank.

Mr. Janahi has held many senior positions at Shamil Bank and, before that, BBK.

He joined Shamil Bank in 2002 as Manager, Retail Banking, before being promoted, first to Senior Manager, Retail Banking in 2006, then to Assistant General Manager in 2008. Prior to joining Shamil Bank, Mr. Janahi was Head of Branches Administration and Collection Unit at BBK which he had joined in 1985.

He holds an Advanced Diploma in Banking and Finance, from the Bahrain Institute of Banking and Finance.

YOUSIF ABDULLA ALKHAN
Assistant General Manager, Information Technology

Yousif AlKhan, who was appointed the Ithmaar Bank Assistant General Manager, Information Technology in July 2008, has almost 25 years of experience.

Prior to his current appointment, he was the Assistant General Manager, Information Technology at Shamil Bank, prior to its reoganisation with Ithmaar Bank.

Mr. AlKhan has held many senior positions at Shamil Bank and its predecessor, Faysal Islamic Bank of Bahrain. He started his career as a Computer Programmer at the Information Technology Department of Faysal Islamic Bank of Bahrain in 1989, and has since developed his career within the Bank.

He was with the Corporate Banking department for a year but has, otherwise, focused on his Information Technology career, becoming first Assistant Vice President, then Resident Vice President before being promoted, first to Vice President then Senior Manager at the Information Technology Department. Mr. AlKhan was appointed Head of the Information Technology Department in 2005, and in 2008 promoted to Assistant General Manager.

He holds a Bachelors in Computer Science from the University of Bahrain, and an MBA from AMA International University, Bahrain.

Sharia Supervisory Board

SHEIKH ABDULLAH SULAIMAN AL MANEE'A
Chairman

Sheikh Al Manee'a is a prominent, highly-respected Sharia scholar from the Kingdom of Saudi Arabia. He is the Vice Chairman of the Sharia Board of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and a member of the Senior Scholars Council of the Kingdom of Saudi Arabia and the Awqaf Supreme Council. He is also Chairman or a member of the Sharia Supervisory Boards of several other Islamic banks and financial institutions.

An expert at the Islamic Fiqh Academy, Sheikh Al Manee'a holds a Master's degree from the Higher Institute for Judgment and has authored several books including 'Paper Money: Truth, History and Reality' and 'Economic Research'.

SHEIKH DR. NEDHAM YAQOUBY
Member

Sheikh Yaqouby is a prominent, highly-respected Sharia scholar and a successful businessman from the Kingdom of Bahrain. He is a member of the Sharia Board of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), and is also a member of the Sharia Supervisory Boards of several regional and international banks as well as many investment funds around the world.

In 2007, the King of Bahrain, His Majesty King Hamad bin Isa Al Khalifa, awarded Sheikh Yaqouby the Order Merit in recognition of his services in Bahrain and abroad. Sheikh Yaqouby has also received the Euromoney award for Innovation in Sharia Supervision, as well as the Malaysian Islamic Banking award.

Sheikh Yaqouby holds a Master's degree from McGill University, Canada, and a PhD from Lahaye University in the Netherlands. He has authored four books and delivered more than 500 lectures on Islamic Finance.

SHEIKH MOHSIN AL-ASFOOR
Member

Sheikh Al-Asfoor is a well-known and highly-respected Sharia scholar from the Kingdom of Bahrain. In addition to his membership of the Ithmaar Bank Sharia Advisory Board, he serves on the Sharia Advisory Boards of six other companies. He has previously been a judge at the Supreme Sharia Court of Appeal (Jaafari).

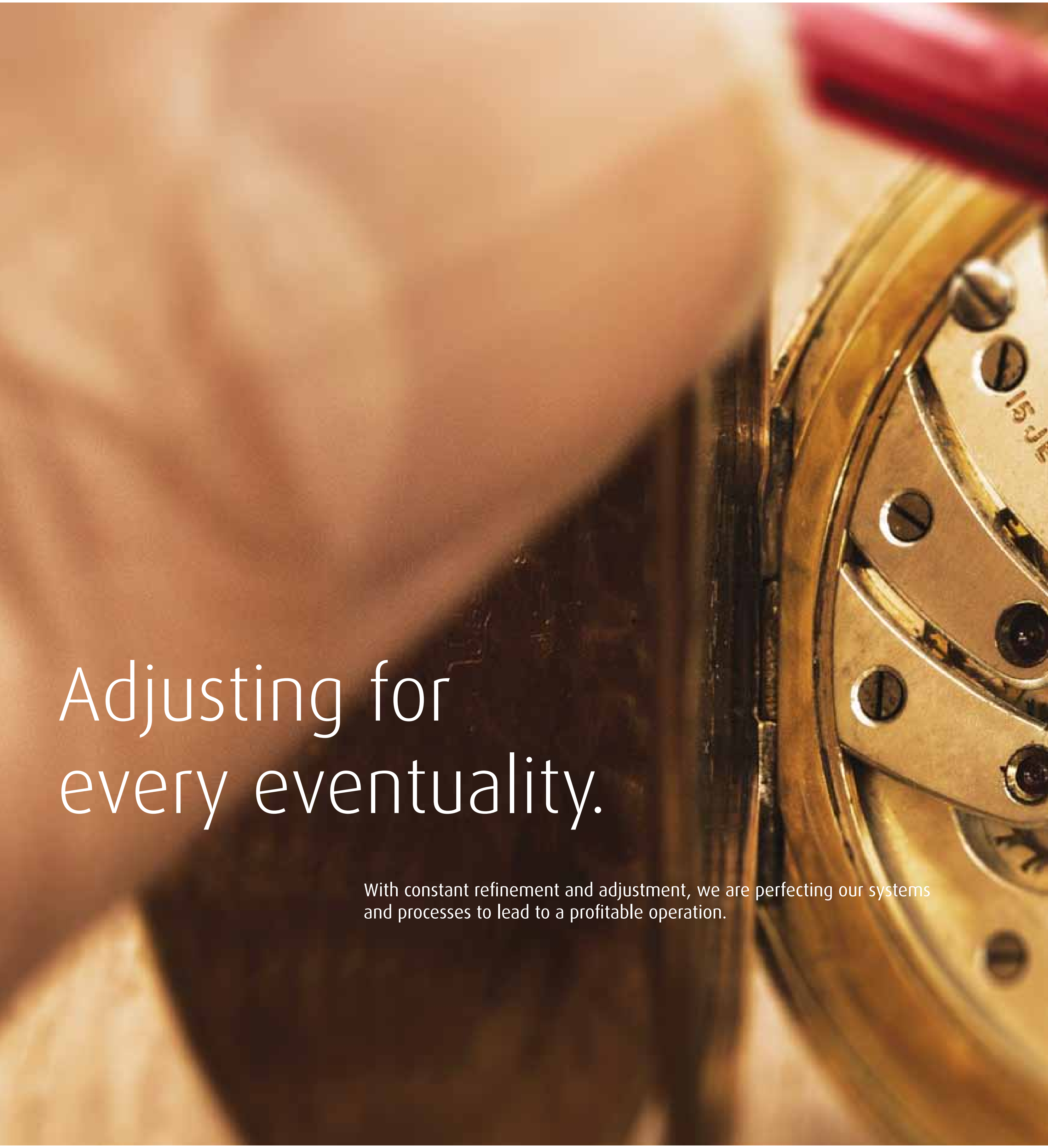
Sheikh Al-Asfoor is a member of Curriculum Development at the Jaafari Religious Institute as well as the Sharia Board of the International Islamic Rating Agency of the Islamic Development Bank. He is a graduate of Islamic Hawza from Qom, Iran and has authored more than 60 books on Islamic Sharia.

SHEIKH DR. OSAMA MOHAMMED SAAD BAHAR
Member

Sheikh Bahar is a well-known, highly-respected Sharia scholar from Bahrain.

He is currently a Sharia member and Head of the Sharia Compliance and Advisory at First Energy Bank, following earlier senior positions at Islamic banks in Bahrain including Head of Sharia Compliance at Al Salam Bank and before that, Sharia Compliance Officer at ABC Islamic Bank.

Sheikh Bahar is also a chairman of the Sharia Supervisory Boards of several Banks in the Kingdom of Bahrain and a member of Sharia Supervisory Boards in many other Banks in Bahrain and abroad. Sheikh Bahar holds a Doctorate from Lahaye University in the Netherlands, a Master's degree from Al Emam Al Awzae University in Lebanon, and a Bachelor's degree in Islamic Sharia from Prince Abdul Qader Al Jaazaeri University of Islamic Studies in Algeria.



Adjusting for every eventuality.

With constant refinement and adjustment, we are perfecting our systems and processes to lead to a profitable operation.


5 ADJ.

Corporate Governance

Ithmaar Bank complies with the High Level Controls Module of the Rulebook issued by the Central Bank of Bahrain and the Corporate Governance Code of the Kingdom of Bahrain.

The Bank's Corporate Governance Policy provides guidance on engaging with our stakeholder groups. It is based on the Central Bank of Bahrain's Rulebooks on High Level Controls and Public Disclosures, the Bank's Articles and Memorandum of Association, the Bahrain Commercial Companies Law, Islamic Financial Services Board recommendations, AAOIFI standards and international standards. It also includes principles regarding the Bank's responsibility towards the environment.

The Bank aspires to be a model corporate citizen and adheres to Sharia principles in striking a balance between the interest of its various stakeholders.

Recognising its fundamental stewardship role towards its shareholders, it is the Bank's policy to treat its shareholders, major and minor, equally and fairly in line with the governing laws and regulatory guidelines. The overarching goal of the Bank is to ensure sustainable growth with due consideration to both current and future risks, and thereby generate optimum value to shareholders over the long-term.

The Bank respects a business approach that is transparent, honest and fair. It has established various written policies such as Code of Ethics, Anti-Money Laundering and Whistle-Blowing Policy for strict adherence by Directors, executives and employees at all levels. These are distributed as guidelines through multiple internal communication channels of the Bank.

The Bank aspires to be a model corporate citizen. The Bank adheres to Sharia principles in striking a balance between the interests of its various stakeholders.The Bank is committed to upholding the highest standards of corporate governance, which it regards as a key factor in ensuring fairness for all stakeholders and achieving organisational efficiency.

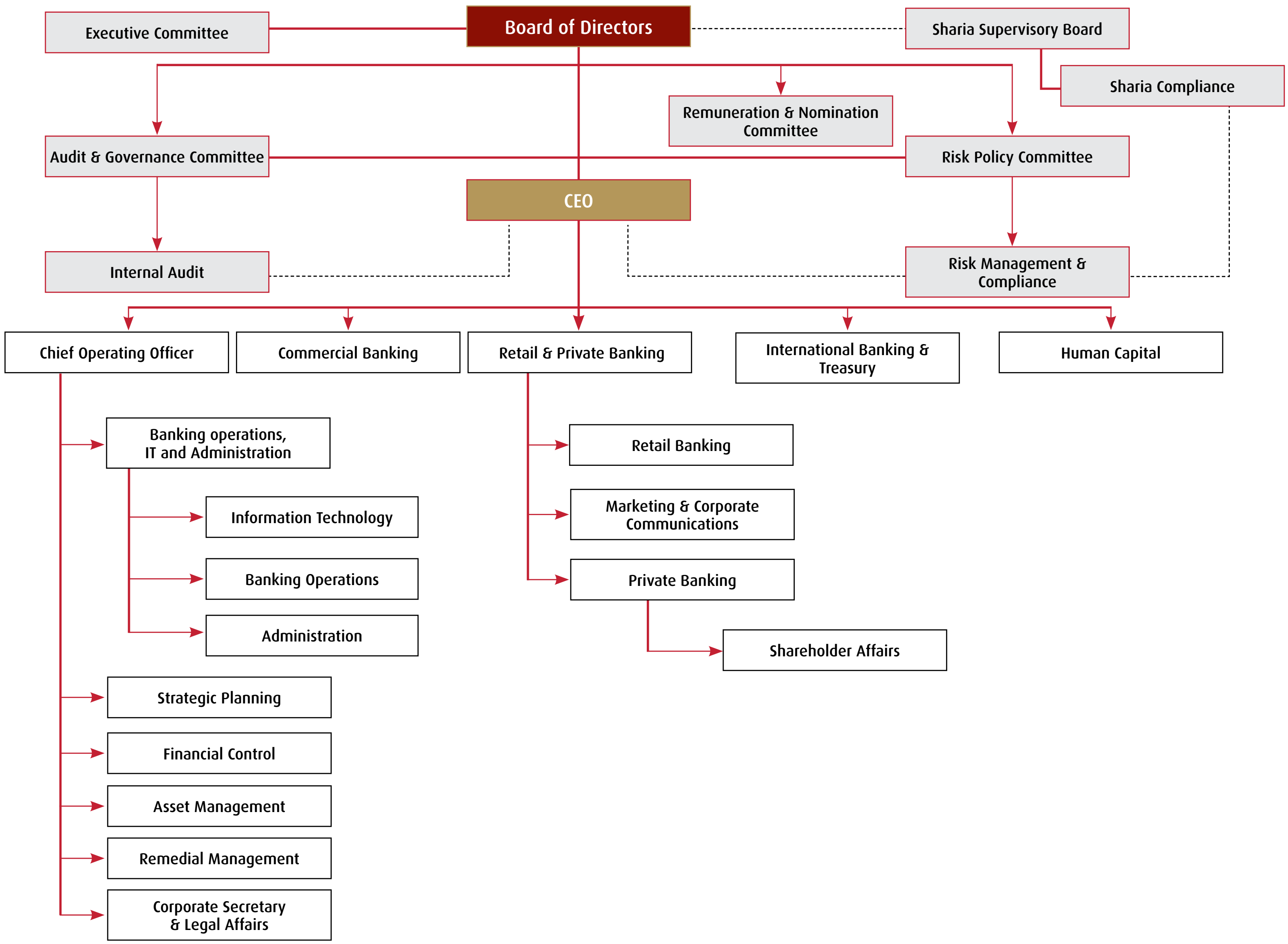
The Board's adherence to corporate governance practices is underlined by various principles, such as integrity, transparency, independence, accountability, responsibility, fairness, Sharia principles and social responsibility.

Moreover, the Bank's corporate governance policies are designed to lay a solid foundation for management and the Board of Directors in managing the Bank , promote ethical and responsible decision-making, safeguard integrity in financial reporting, make timely disclosures, respect the rights of shareholders, recognise and manage risk , encourage enhanced performance, remunerate fairly and responsibly and recognise the legitimate interest of stakeholders. The Bank's written Code of Conduct and Business Ethics that binds all employees, members of the Sharia Supervisory Board and Directors, lends further weight to the practical implementation of our stated policies.

The Bank's Corporate Governance policy is posted on the Bank's website.

BANK ADMINISTRATION

The Bank is administered by the Board of Directors and the Sharia Supervisory Board, and, for day-to-day matters, by the Executive Management.



Note: For Corporate Secretarial related matters, the Corporate Secretary reports to the Chief Executive Officer

BOARD OF DIRECTORS

The Board of Directors comprises twelve members of whom five are independent. The Board is headed by a Chairman.

The Board of Directors is accountable to the shareholders for setting the broad policy guidelines and strategic direction and the creation and delivery of strong, sustainable financial performance and long-term shareholder value. The Chairman is responsible for leading the Board and ensuring its effectiveness.

The Board's role includes the task of monitoring management in such a manner as to ensure that appropriate policies and processes are in place, that they are operating effectively, and that the Bank is meeting its plans and budget targets.

The Board of Directors duties and responsibilities are documented in its Charter and include, inter alia, the following responsibilities:

- Set the Bank's strategic direction
- Overall responsibility for the performance of the Bank
- Select, appoint and evaluate the Management
- Review management performance and compensation
- Review management structure and succession planning
- Advise and counsel management
- Monitor and manage potential conflict of interest
- Ensure the integrity of the financial information
- Monitor the effectiveness of the governance and compliance practices
- Timely and adequate disclosures
- Ensure effective internal control measures
- Arrange shareholders' general meetings
- Ensure equitable treatment of minority shareholders

Some of the responsibilities of the Board of Directors are delegated to the Committees of the Board.

The Board of Directors has drawn a 'Business Discretionary Powers' policy which outlines authorities and approval powers for the Board and the Management. These powers conform to the provisions of the Article and Memorandum of Association. In general, all business decisions relating to strategic investments, and financing exceeding certain limits, including business relationship with connected counterparties requires the Board approval.

All transactions that require Board approval have been approved by the Board as per applicable regulations. The Board of Directors' functions, mandate, appointment, responsibilities and terminations are governed by the Articles of Association of the Bank which complies with applicable statutory and regulatory structures. Board members serve three year terms, unless reinstated.

The next election of Directors will take place during the next Annual General Meeting of the Bank in March 2016.

STRUCTURE AND COMPOSITION OF THE BOARD

The Bank is administrated at the high level by a Board of Directors. The actual size of the Board is determined by the shareholders in the General Meetings based on recommendations from the Corporate Governance Committee. In all cases the size of the Board is subject to the Bank's Articles of Association and the rules and procedures decreed by the Ministry of Industry and Commerce and/or the Central Bank of Bahrain.

DUTIES OF DIRECTORS

Directors, individually and collectively, are bound by distinct fiduciary duties to the Bank. Directors owe their fiduciary duty to the Bank as a corporate being in its own right and not just individual shareholders and/ or group of shareholders. These duties apply to all Directors whether they are representing (appointed by) major shareholders or are elected as an Independent Director.

The main duties that Directors owe the Bank are the duty of obedience, the duty of care and the duty of loyalty.

Duty of Obedience
Directors are required to act in accordance with the Bank's rules and policies and in furtherance of its goals as stated in the mission statement and Memorandum & Articles of Association. In addition, Directors must comply with all relevant laws and regulations. The duty of obedience forbids acts outside the scope of internal authorities, powers and limits.

Duty of Care
Directors are under duty to exercise the same care that an ordinary, prudent person would exercise in a like position or under similar circumstances. In complying with this duty, Directors are expected to –

- Attend all Board meetings. At a minimum, Directors are expected to attend not less than 75 percent of all scheduled Board meetings.
- Consider all material information reasonably available and/or seek relevant information prior to making a business decision relating to the issue. Directors have the rights of access to the Management and/ or advisors when in doubt.

Duty of Loyalty

This duty requires Directors to act solely in the best interest of the Bank, free of any self-dealing, conflicts of interest, or other abuse of the principal for personal advantage. Directors are barred from using Bank properties or assets for their personal pursuits, insider trading, or taking business opportunities for themselves. This duty also requires Directors to retain the confidentiality of information that is explicitly deemed confidential by the Bank, as well as information that appears to be confidential from its nature or matter.

The Bank provides insurance to indemnify Directors for negligence, default, breach of duty or breach of trust provided such breach has occurred in good faith.

The above duties are detailed in the Bank's Code of Conduct and Business Ethics policy approved by the Board.

DIRECTORS' ELECTION SYSTEM

Any shareholder who owns 10 percent or more of the capital of Ithmaar Bank shall have the right to appoint a representative on the Board of Directors of Ithmaar Bank. In the event that a shareholder exercises this right, such shareholder shall lose the right to vote for the percentage for which the shareholder has appointed a representative on the Board of Directors.

Subject to the foregoing, the General Assembly shall elect members of the Board of Directors by a secret ballot. The members shall be elected by the relative majority of valid votes.

All appointments to the Board of Directors are governed by and subject to Ithmaar Bank's Memorandum & Articles of Association, the Code of Conduct and Business Ethics, the Corporate Governance Policy and laws, rules, regulations, policies and charters in place as amended from time to time.

The Remuneration and Nomination Committee reviews annually the composition and performance of the Board of Directors. The Remuneration and Nomination Committee's duties in relation to the composition and performance of the Board of Directors include, among other things, assessing the skills required for the Board of Directors to competently discharge its responsibilities and meet its objectives as well as developing and implementing a plan to identify, assess and enhance Directors' competencies. In the event of a vacancy on the Board of Directors, the Remuneration and Nomination Committee shall make recommendations to the Board of Directors for the appointment of a Director, which recommendation shall be made pursuant and subject to the legal and regulatory requirements in place.

All Directors receive a letter of appointment signed by the Chairman in which relevant information, including termination and responsibilities, are described. Directors also receive a copy of the Bank's Code of Conduct and Business Ethics.

BOARD INDUCTION PROGRAMME

The Company Secretary provides sufficient information to newly appointed/elected Board members including a discussion of the Corporate Governance Principles of the Bank and the Code of Conduct and Business Ethics. These Board members are also received by the Chief Executive Officer of the Bank who provides them with details on the structure of the Bank , strategic and business plans, the past financial performance and outstanding issues. The Board is continuously kept abreast of new regulations and laws.

DIRECTORS' REMUNERATION

It is the Bank's objective to attract and retain high quality Directors. One aspect of achieving this is by remunerating Directors in a manner consistent with prevailing best practice. Directors are entitled to remuneration comprising sitting fees paid per meeting attended. Non-resident members are also entitled for full travel expenses. Remunerations are recommended by the Remuneration & Nomination Committee, the structure of which is approved by the shareholders.

Currently, the Bank does not pay any performance related remuneration. If any, this will be in accordance with the Memorandum & Articles of Association and subject to shareholder approval. Non-Executive Directors are not entitled to any performance related remuneration.

Directors' sitting fees for 2013 amounted to BD 80,490 (2012: BD 73,138). Sharia Supervisory Board retention fee amounted to BD 22,620 (2012: BD 22,620) and their sitting fees for 2013 was BD 7,163 (2012: BD 3,770).

BOARD COMMITTEES

In accordance with regulatory requirements and best practices, the Board has established the following committees and has adopted charters setting out the matters relevant to their composition, responsibilities and administration.

AUDIT AND GOVERNANCE COMMITTEE

(name changed from Audit Committee effective 5 July 2013)

The Audit and Governance Committee is appointed by the Board of Directors to assist in reviewing the selection and application of the accounting and financial policies, reviewing the integrity of the accounting and financial reporting systems and the effectiveness of the internal controls framework, monitoring the activities and performance of the internal audit function and external auditors and to coordinate and integrate the implementation of the Corporate Governance Policy framework. The Audit and Governance Committee reviews and, as appropriate, approves and / or recommends for the approval of the Board of Directors, among other things: the interim and annual consolidated financial results; status updates on implementation on various regulatory reports; internal and external audit reports and status of their implementation (as appropriate); liquidity and capital adequacy action plan; new accounting and regulatory pronouncements and their implications.

This committee also assists the Board in fulfilling its governance responsibility, particularly to (a) oversee and monitor the implementation of a robust compliance framework by working together with the Management, and the Sharia Supervisory Board, and (b) provide the Board of Directors with reports and recommendations based on its findings in the exercise of its function.

The Audit and Governance Committee is chaired by an Independent Director and comprises:

- Tunku Dato' Ya'acob Bin Tunku Abdullah - Chairman and Member
- Sheikh Zamil Abdullah Al-Zamil - Member
- Imtiaz Ahmed Pervez - Member
- Sheikh Dr. Osama Bahar - Member, effective 5 July 2013.

Sheikh Dr. Bahar is a Religious Supervisory Board Member with a voting right in respect of the agendas relating to the Corporate Governance.

The key matters reviewed and, as appropriate, approved and / or recommended for the approval of the Board of Directors during the year include:

- Reviewing the consolidated financial statements and recommending to the Board for approval;
- Reviewing and approving the proposed annual Internal Audit plan and strategy and all reports issued by the Internal Audit Department; and
- Providing oversight for the Corporate Governance, Compliance and Regulatory requirements.

RISK POLICY COMMITTEE

The primary objectives of the Risk Policy Committee are to make recommendations to the Board in relation to the Bank's overall risk appetite and tolerances and the policies within which to manage the aforementioned. These policies are defined as credit risk, market risk, operational risk and liquidity risk in addition to any other risk categories the Bank faces in carrying out its activities. The Risk Policy Committee also recommends and monitors the Bank's overall risk management framework which involves developing across all business activities and operations policies, internal controls, methods of risk management and methods of reporting to the Board.

The Risk Policy Committee of the Board of Directors duly discharged its responsibilities during the meetings where key matters were discussed or through circular resolutions.

The Risk Policy Committee comprises:

- Abdelhamid Mohamed Aboumousa - Chairman and Member
- Abdulellah Ebrahim Al-Qassimi – Member
- Nabeel Khaled Mohamed Kanoo – Member, effective 5 July 2013

The key matters reviewed, approved (as appropriate) and recommended for approval (as appropriate) to the Board of Directors during the year include:

- Issuing new policy on Assets Management to reflect the Bank's strategy of becoming a commercial financial institution;
- Updating and aligning all risk policies in line with changes in the regulatory requirements;
- Establishing new risk limits for better control of credit risks;
- Assessing impacts on the Basel III – capital and liquidity ratios on the Bank's financials;
- Implementing processes for managing risks at subsidiaries;
- Revising new Credit and Investment Grading systems; and
- Improving the stress testing methodologies.

EXECUTIVE COMMITTEE

The Executive Committee is appointed by the Board of Directors to assist with the oversight of the general management of the Bank and its business by management, considering and recommending to the Board of Directors the strategy, business plans and budget as well as evaluating the financial and business performance of the Bank. The Executive Committee reviews and, as appropriate, approves and / or recommends for the approval to the Board of Directors: credit proposals over certain threshold; review of asset quality and exit strategies; status updates and reports from the management in respect of group reorganization; consolidated financial performance; liquidity and capital adequacy action plan; strategic business plan; and key management initiatives, including with respect to funds under management.

The Executive Committee comprises:

- Omar Abdi Ali – Chairman and Member, effective 5 July 2013
- Mohammed A. Rahman Bucheerei - Member
- Graham R. Walker - Member, effective 5 July 2013
- Nabeel Khaled Mohamed Kanoo - Chairman and Member until 5 July 2013
- Juma Abull – Member until 5 July 2013

The key matters reviewed and, as appropriate, approved and / or recommended for the approval of the Board of Directors during the year include:

- Evaluating the financial and business performance and monitoring the implementation of the approved business / budget plans against Key Performance Indicators (KPIs);
- Reviewing the strategic business plan and annual budget;
- Reviewing the financial position (including the capital adequacy and liquidity positions) and the status of its overall business portfolio; and
- Reviewing strategic and other investments.

REMUNERATION AND NOMINATION COMMITTEE

(name changed from CORPORATE GOVERNANCE, REMUNERATION and NOMINATION COMMITTEE effective 5 July 2013)

The Remuneration and Nomination Committee is appointed by the Board of Directors to provide a formal forum for communication between the Board and Management on human resource issues. The Remuneration and Nomination Committee reviews and, as appropriate, approves and / or recommends for the approval of the Board of Directors: candidates for Board election, the appointment of new senior management executives; reviewing the Bank's remuneration policies as well as guidelines for increments and promotions.
The Committee has at least two Independent Directors, one of whom acts as the Chairperson:

- Shaikha Hissah bint Saad Al-Sabah - Chairperson and Member
- Omar Abdi Ali – Member, effective 5 July 2013
- Abdulellah Ebrahim Al-Qassimi – Member, effective 5 July 2013
- Nabeel Khaled Mohamed Kanoo – Member, until 5 July 2013
- Sheikh Dr. Osama Bahar – Member, until 5 July 2013

The key matters reviewed, approved (as appropriate) and recommended for approval (as appropriate) to the Board of Directors during the year include:

- Recommending to the Board the appointment, reappointment, reelection or removal of Directors;
- Recommending to the Board changes in the structure and job descriptions of Approved Persons, including the Chief Executive Officer; and
- Recommending to the Board the compensation adjustments, based on annual appraisals, and promotion of executive management including the selection of the Chief Executive Officer.

ATTENDANCE

2013 Board of Directors / Board Committees Meetings Attendance

	Board of Directors		Audit & Governance Committee*		Risk Policy Committee		Remuneration & Nomination Committee**		Executive Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
1. **HRH Prince Amr Mohamed Al Faisal**	4	4	-	-	-	-	-	-	-	-
2. **Mr. Khalid Abdulla-Janahi**	4	4	-	-	-	-	-	-	-	-
3. **Tunku Dato' Ya'acob Bin Tunku Abdullah**	4	4	4	4	-	-	-	-	-	-
4. **Sheikha Hissah Bint Saad Al-Sabah**	4	3	-	-	-	-	3	3	-	-
5. **Sheikh Zamil Abdullah Al-Zamil**	4	3	4	4	-	-	-	-	-	-
6. **Governor Abdel Hamid Abo Moussa**	4	4	-	-	3	3	-	-	-	-
7. **Mr. Nabeel Khalid Kanoo**	4	3	-	-	2	1	2	2	2	1
8. **Mr. Mohammed Bucheerei**	4	4	-	-	-	-	-	-	3	3
9. **Mr. Abdulellah Ebrahim Al-Qassimi**	4	2	-	-	4	2	1	1	-	-
10. **Mr. Imtiaz Ahmad Pervez**	4	4	4	4	-	-	-	-	-	-
11. **Mr. Graham R. Walker**	3	3	-	-	-	-	-	-	2	2
12. **Mr. Omar Abdi Ali**	3	3	-	-	-	-	-	-	2	2

Dates of meetings during 2013	Board of Directors	Audit & Governance Committee	Risk Policy Committee	Remuneration & Nomination Committee	Executive Committee
	4 March	20 February	3 March	3 March	4 March
	2 June	8 May	1 June	1 June	2 June
	9 September	5 August	8 September	8 September	9 September
	2 December	6 November		1 December	30 November

**Name changed from Audit Committee effective 5 July 2013*

*** Name changed from Corporate Governance, Renumeration & Nomination Committee effective 5 July 2013*

Notes:

- *Sheikh Dr. Osama Bahar (Sharia Supervisory Board Member) also serves as a member of the Audit & Governance Committee and the Renumeration & Nomination Committee.*
- *The Executive Committee included Juma Abull until 5 July 2013.*

In accordance with the Bank's Articles of Association, the Board of Directors meets at least four times a year and the Board expects each Director to attend at least 75 percent of all Board meetings and the meetings of the committees on which they serve.

The Board of Directors is responsible for setting the Bank's strategic direction in accordance with the objectives upon which the Bank is established and ensuring that the business activities are aligned with the terms of the Bank's license as well as the interest of the Shareholders. The Board of Directors has the overall responsibility for the performance of the Bank and therefore the Board of Directors, among other things receive, review and, as appropriate, approve: the status updates from the chairpersons of the various committees of the Board; the status updates and reports from the management in respect of the strategic business plan; the consolidated financial performance; the liquidity and capital adequacy action plan; the regulatory reports and related communications; new regulatory updates; related party proposals; and key management initiatives, including with respect to funds under management.

The key matters reviewed and approved (as appropriate) during the year include:

- Approving the strategic business plan;
- Overseeing the implementation of strategic initiatives with respect to group restructuring/reorganization;
- Reviewing Action plan to improve the capital adequacy ratio; and
- Reviewing the implications of the Bank's classifications as a Domestically Systemic Important Bank.

SHARIA SUPERVISORY BOARD

The Bank shall always conduct its business in accordance with the Islamic Sharia rules.

In compliance with licensing requirements of the Central Bank of Bahrain (CBB), the Bank's Memorandum & Articles of Association and the general practice of Islamic Banking, the Bank , at all times, has a Sharia Supervisory Board (SSB) appointed by the shareholders at General Meeting based on recommendations of the Board of Directors (through the Remuneration & Nomination Committee).

The SSB actively participates in developing and overseeing the Bank's products and business activities. It is responsible for certifying every product to ensure strict adherence to the principles of Sharia.

The SSB has full access to the Board and the management personnel of the Bank including access to the Bank's Sharia Compliance Officer who is proactively involved in: (a) reviewing and advising on the Sharia compliance of all products and investment projects, (b) auditing the operations of the Bank from a Sharia point of view, and (c) producing reports to the SSB in order to ensure that the Bank's activities are under a strict and direct oversight of Sharia guidelines. Furthermore, the Sharia Compliance Officer monitors on a day-to-day basis to ensure that all areas of the Bank adhere to SSB's recommendations, advice and opinions.

The SSB operates within its own charter which sets forth its policies, procedures, meeting operations and responsibilities in addition to the qualifications for membership. This charter was developed in coordination with the Board and is disclosed on the Bank's website.

SSB members are entitled to remuneration comprising an annual retainer fee and sitting fees paid per meeting attended. Non-resident members are also entitled for full travel expenses. These remunerations are recommended by the Remuneration & Nomination Committee, the structure of which is approved by the shareholders.

Currently, the Bank does not pay any performance related remuneration to SSB members. If any, this will be structured in accordance with the Memorandum and Articles of Association and subject to shareholder approval.

The profiles of all members of the SSB are given in the section on Sharia Supervisory Board.

Business Units
Retail & Private Banking
Retail Banking
Private Banking
Product Management and Development
Commercial Banking
Corporate Banking
SME Banking
Qatar Representative Office
International Banking and Treasury
International Banking
Treasury

Support Units
Financial Control
Human Capital
Asset Management
Administration
Information Technology
Banking Operations
General Counsel and Legal
Remedial Management
Strategic Planning
Marketing and Corporate Communications
Shareholder Affairs
Risk Management and Compliance
Internal Audit

MANAGEMENT

The day-to-day operations of the Bank are handled by the management team.

Departments are grouped into Business and Support Units with clear delineation between them to avoid conflict of interests. These safeguard measures are reinforced by independent internal audit and risk management and compliance departments

The Risk Management and Compliance Department reports, functionally, to the Risk Policy Committee and, administratively, to the Chief Executive Officer.

The Internal Audit Department reports, functionally, to the Audit and Governance Committee and, administratively, to the Chief Executive Officer. The Department operates independently of the Bank's senior management, in accordance with the internal audit plan approved by the Audit and Governance Committee. The Department audits compliance with the policies and procedures of the Bank and the effectiveness of internal controls, including areas of risk management.

MANAGEMENT REMUNERATION

The Chief Executive Officer and senior management are compensated in line with market trends. The Bank is working on implementing recent CBB guidelines with respect to management remuneration.

The total remuneration of the Executive Management Team in 2013 was BD 2,791,902. This amount includes the guaranteed cash components such as the basic salary and benefits, allowances and the variable performance reward related to 2013.

MANAGEMENT COMMITTEES

The Bank has in place the following Management committees. The members of committees comprise the Heads of Divisions who are drawn from relevant and related functions.

Investment and Credit Committee
The main objective of this Committee is to manage the credit risk of the Bank including reviewing, approving and ratifying business proposals falling within its authority, reviewing risk management reports and resolving all credit-related issues. The Committee is chaired by the Chief Executive Officer.

Asset-Liability Committee
The Committee is responsible for business performance review, managing the market and liquidity risks of the Bank and monitoring capital adequacy ratio. The main functions are to develop and manage the Bank's assets and liabilities in accordance with the Strategic Business Plan and relevant banking regulations and laws. The Committee is chaired by the Chief Executive Officer.

Management Committee
The Committee's principal objective is to manage operations risk. It focuses on improving communications and cooperation among the various divisions and departments of the Bank and optimising the Bank's operational efficiency. The Committee is chaired by the Chief Executive Officer.
The Management Committee has several Sub Committees, including the FATCA Steering Committee, the Business Continuity Plan and Crisis Management Team Committee, and the IT Steering Committee.

COMMUNICATION WITH STAKEHOLDERS

The Board acknowledges the importance of regular communication with stakeholders and particularly the investors, through a number of means to promote greater understanding and dialogue. Measures adopted include Annual General Meetings, annual reports, quarterly disclosures of financial reports and various announcements made during the year as well as the Bank's website, through which stakeholders have an overview of the Bank's performance and operations.

The Chairman of the Board (or any other Director if delegated by the Chairman) maintains continuing personal contact with its major shareholders to solicit their views.

Views of shareholders are communicated to and discussed at Board meetings, which are part of the agenda.

The Chairman discusses the views of the major shareholders with the Board of Directors.

The Bank maintains a website which stakeholders may access for information, which includes the Bank's profile, corporate information, press releases, financial performance and performance of investment funds and career opportunities, amongst others.

To further assist with shareholder communications, the Bank has a dedicated Shareholders Affairs Department with the primary responsibility of acting as a liaison between the Bank, shareholders and the stock exchanges where the Bank is listed. Views of shareholders are communicated to and discussed at Board meetings, which are part of the agenda.

Interests of Directors and Executive Management

The interests of Directors and Executive Management in the shares of the Bank are disclosed in the Report of the Directors and Share Information respectively.

Share Information

Information on the distribution of share ownership together with key statistics on the performance of the Bank's shares on the Bahrain Bourse are disclosed in the section on Share Information of the annual report.

> The Board of Directors is structured to include independent Directors with additional responsibilities of protecting minority shareholder's rights.

Shareholders' Rights

Recognising the importance of shareholders, it is Ithmaar's policy to treat its shareholders equally and fairly in line with the laws of regulatory agencies. Basic legitimate rights of shareholders include the right to participate in shareholder meetings, the right to appoint other persons as a proxy for participating in and voting at meetings, and the right to participate in the election or disqualification of a Director, jointly or severally. Their rights also include voting on the appointments of independent auditors, voting for other businesses of Ithmaar, such as increases in, or reduction of capital, right to receive dividend payments, as well as the right to give opinions and the right to inquire during shareholder meetings.

Rights of Minority Shareholders

The Board of Directors is structured to include independent Directors with additional responsibilities of protecting minority shareholders' rights.

As additional measures to protect minority interests, the Bank subscribes to the following guidelines:

- Mandatory shareholder approval of major transactions such as change in capital or transfer of business (as per limits prescribed by the Central Bank of Bahrain);
- Mandatory disclosures of transactions by substantial shareholders;
- Pre-emptive rights on issuance of new shares;
- Limitations on Bank's business transactions with Directors, controllers, and related parties as per the rules of the Central Bank of Bahrain;
- Exercise rights to elect independent Directors;
- Penalties for insider trading; and
- Provisions on takeovers, mergers, and acquisitions.

CODE OF BUSINESS CONDUCT AND ETHICS

The Bank's Code of Business Conduct and Ethics applies to members of the Board, as well as executive management, officers, employees, agents, consultants, and others, when they are representing or acting for the Bank. The Board expects all Directors, as well as officers and employees, to act ethically at all times and to acknowledge their adherence to the Bank's policies. Any waiver of the Code of Business Conduct and Ethics for a Director or executive officer may be granted only by the Board or the appropriate Board committee and must be promptly disclosed to the shareholders.

RISK GOVERNANCE STRUCTURE

Risk is an integral part of Ithmaar Bank's business and managing it is critical to the Bank's continuing success and profitability. The essence of effective risk management is to enhance shareholder and investment account holders' value through business profits commensurate with the risk appetite of the Bank.

Ithmaar has adopted an integrated risk management framework to proactively identify, assess, manage and monitor risks in its decisions and operations. Ithmaar's risk management framework is based on guidelines issued by the Central Bank of Bahrain, sound principles of risk management issued by the Bank for International Settlements and international best practices, wherever applicable.

The Ithmaar risk management charter, which details the roles and responsibilities of the Board and of the senior management, lays the foundations for a risk governance structure in the Bank. The risk strategy in terms of the overall risk appetite, risk tolerance levels and risk management methodologies are assimilated in the various risk policies and the Internal Capital Adequacy Assessment Programme (ICAAP) report of the Bank which are reviewed and approved by the Board of Directors. The risk strategy of the Bank is reviewed annually in line with the Bank's business strategy. The Board also oversees the establishment and implementation of risk management systems and policies for all material risks exposure of the Bank.

The essence of effective risk management is to enhance shareholder and investment account holders' value through business profits commensurate with the risk appetite of the Bank.

The Risk Policy Committee assists the Board of Directors and the senior management in performing their risk management oversight function. The Committee is responsible to ensure that the Bank adopts, maintains and applies appropriate risk management policies and procedures.

The process of risk management is carried out by an independent control function; The Risk Management Department (RMCD) headed by the Chief Risk Officer with a direct reporting line to the Risk Policy Committee. The Department is mandated with identifying, quantifying and assessing all risks and recommending appropriate prudential limits and risk management methodologies within the parameters of the overall risk management strategy approved by the Board. Further, the RMCD plays an active role in highlighting all risks associated with a product before it is approved and launched by the Bank.

RISK MANAGEMENT STRATEGY

The risk management strategy in respect of each of these types of risks is set out below:

CREDIT RISK

Credit risk is the risk of potential loss arising from failure of a counterparty to meet its contractual obligations. Ithmaar manages its credit risk arising from its banking exposures by implementing robust policies and procedures with respect to identification, measurement, mitigation, monitoring and controlling the risks. A centralised credit risk management system is in place where all significant exposures are independently reviewed by the Risk Management Department before approval by appropriate approval authorities.

The risk policies of the Bank set guidelines to limit concentration risk within the portfolio by larger exposure, connected counterparty, country, industry, tenor and products. The RMCD has also developed internal rating and scoring models incorporating both quantitative and qualitative risk parameters for the grading and classification of credit risk exposures.

The Bank uses a robust management information system to monitor its exposures and concentrations by various dimensions. The significant concentration of credit risk as at 31 December 2013 is set out in Note 37.

All credit exposures are subject to at least an annual review as per policy. All financings exposures are reviewed and rated annually and appropriate provisions are maintained for any classified account as per the provisioning policy in line with relevant Central Bank of Bahrain (CBB) guidelines. All financing exposures are classified as past due and impaired when any exposure installment not paid over 90 days period. The Bank follows, except the subsidiary entities which may follow their own regulatory guidelines, a time based criteria of past due days to estimate the specific provisioning requirements. However, each investment exposure is evaluated individually for impairment assessment on its merits, strategy, and estimated cash flows recoverability.

Highly Levereged Counterparties (HLCs) are determined based on CBB rules and related Basel documents which includes the following criteria:

1. Supervision by a regulator
2. Dislosures; and
3. High debt to equity ratio which is based on industry average.

The Bank has carried out an assessment of HLCs to ensure compliance with the above rules.

ECAI Ratings

The Bank has adopted CBB guidelines for utilization of external ratings, where available, by External Credit Assessment Institutions (ECAI) for the purpose of risk assessment. In case of multiple ECAI rating of a single counterparty, the lowest of all is taken to assign the relevant risk category. The Bank complies with all the qualitative requirements stipulated by CBB for the recognition process and eligibility criteria of ECAI rating in the credit risk management policy of the Bank. ECAI ratings ae applied, where applicable to all financing exposures with counterparty credit risks.

Credit Risk Mitigation

The Bank uses a variety of tools to mitigate its credit risk, the primary one being that of securing the exposure by suitable collaterals. While existence of collaterals is not a precondition for financing, exposures are fully or partially collateralized as a second line of defense. The Bank has clear policies on types of assets that can be accepted as collateral and the mode of valuation of these assets. In general all collaterals are valued periodically depending on the collateral type. The legal validity and enforceability of the documents used for collateral have been established by qualified personnel, including lawyers and Sharia scholars.

The Bank's credit portfolio is supported by various types of collateral such as real estate, listed equity, cash and guarantees. The Bank prefers liquid and marketable credit collateral, however other types of collateral are accepted provided that such collateral can be reasonably valued. Only unconditional and irrevocable third party guarantees are acceptable after analyzing the financial strength of the guarantors as per policy.

MARKET RISK

Market risk is the potential loss arising from change in the value of any exposure due to adverse changes in the underlying benchmark market rates, i.e. foreign exchange rates, equity prices and profit rates.

As per current business strategy, the Bank does not maintain an active trading book and all Ithmaar's market risk exposures primarily is foreign exchange risk stemming from net open currency positions (NOP) in the balance sheet.

Market risk activities are governed by the market risk policy of the Bank. Implementation of the policy, procedures and regulatory and internal limits for the Bank is the responsibility of the relevant Business Units with oversight by the Asset Liability Committee (ALCO) and Risk Policy Committee.

The key market risk factors the Bank is exposed to are discussed below:

Foreign Exchange Risk

Foreign exchange risk is the risk to earnings and value caused by a change in foreign exchange rates. At Ithmaar, foreign exchange risk is the risk that an exposure denominated in any foreign currency may be adversely affected due to volatility in foreign exchange rates compared to the base currency of the Bank. Foreign exchange risk management at the Bank is ensured through regular measurement and monitoring of net open foreign exchange positions vis-à-vis appropriate NOP limits. The Bank also subscribes to utilize any appropriate Sharia compliant hedging mode wherever feasible. For more details, please refer to Section 26 of the Basel II disclosures.

Liquidity Risk

Liquidity risk is the risk that the Bank is unable to meet its financial obligations as they fall due, which could arise due to mismatches in cash flows. Funding and liquidity management is performed centrally by the Treasury, with oversight from ALCO and Risk Policy Committee. The Bank liquidity policies are designed to ensure it will meet its obligations as and when they fall due, by ensuring it is able to generate funds on an unsecured basis from the market, or has sufficient high quality liquid assets(HQLAs) to sell and raise immediate funds without incurring unacceptable costs and losses.

The Bank's credit portfolio is supported by various types of collateral such as real estate, listed equity, cash and guarantees.

The liquidity policy also sets out the minimum acceptable standards for the management of Ithmaar Bank's assets and liabilities including maintenance of high quality liquid assets, prudent assets and liabilities maturity mismatch limits, and mechanism of monitoring liquidity risk in the Bank. The RMCD independently monitors liquidity risk, including liquidity mismatch limits, maintenance of regulatory and internal liquidity ratios and the funding maturity profile on a regular basis.

A liquidity contingency policy is in place and provides the mechanism for management of liquidity in adverse market conditions.

Profit Rate Risk in the Banking Book

Profit rate risk in the Bank's banking book is the risk of adverse changes in expected net earnings and economic value of the balance sheet resulting from the impact of changes in profit rates on mismatched assets and liabilities in the banking book. The Bank measures and manages profit rate risk in the banking book by setting internal limits for assets and liability mismatch gaps.

The measurement methods for profit rate sensitivity analysis are risk sensitive assets and liabilities maturity gap analysis (to measure the profit rate sensitivity of earnings) and duration (to measure profit rate sensitivity of capital).

Profit rate risk is regularly monitored by the ALCO and Risk Policy Committee.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events which includes but not limited to legal risk and Sharia compliance risk. This definition excludes strategic and reputational risks

The Bank has in place Policies and Procedures which provide detailed guidelines for management of Operational Risks in the Bank. The approach to Operational Risk includes emphasis on:

- Establishment of an effective governance structure with clear reporting lines and segregation of duties.
- Maintenance of an effective internal control environment
- Escalation and resolution of risk and control incidents and issues

A workflow process for reporting of Operational Risk events and maintaining a database of all internal Risk events is in place. Bank has also implemented a Risk Control Self- assessment (RCSA) process whereby the risk in a process is identified and evaluated taking into consideration the residual risk. The Risk Register which enables the RCSA process is prepared jointly by the risk and line managers.

The Operational Risk management process through RCSA and loss reporting is complemented by the department level procedures which ensure that concerned staff are well aware of their responsibilities and processes associated with their responsibilities.

Profit rate risk is regularly monitored by the ALCO and Risk Policy Committee.

The Bank has Board approved policies and procedures for various departments including the Strategic Planning Department which is responsible for budget formulation, monitoring and management reporting. The Bank has in place a Business Continuity Policy which deals with the policy initiatives to ensure that the Bank continues its critical activities following a disastrous event. Policies addressing the effective management of Human Resources including improving the skill-set of the employees is in place.

Detailed Procedures are in place which enhance the internal controls, as well as provide guidelines for conduct of business process.

Reputation Risk

Reputation risk is the risk that an event will adversely affect Ithmaar Bank's reputation in the market, which, in turn, may adversely impact its ability to effectively undertake its activities.

Sound corporate governance is a cornerstone in managing reputation risk. The Bank has in place a Corporate Governance Policy and a Code of Conduct and Business Ethics for the members of the Board, management and staff. This Code helps to build an atmosphere of professionalism, integrity and ethical behavior within the Bank. It will also help in preventing any reputation risks.

RISK MANAGEMENT REPORTING AND CONTROL

Effective measurement, reporting and control of risk are vital to ensure that Ithmaar's business activities are managed in accordance with its overall strategies and risk management objectives. The risk management, reporting and control framework ensures quantifications of credit, market and liquidity risks and its aggregation. The Bank is currently upgrading its IT and Management Information Systems which would further support its risk management processes.

RISK MANAGEMENT POLICIES AND PROCEDURES

Ithmaar has developed a comprehensive framework of policies and procedures to identify, measure, monitor and report the key risks the Bank is exposed to. The policy has various chapters divided into four volumes, each addressing a specific risk area, namely, High Level Controls, Credit Risk Management, Market Risk Management and Operations Risk Management.

INTERNAL CONTROLS

The Board of Directors of the Bank places significant emphasis on efficient internal control systems to ensure shareholders' and investment account holders' interest and Bank's assets are safeguarded.

This internal control mechanism is delineated with appropriate policies, procedures, control manuals, and regular management reporting system. The Board has approved the organizational structure of the Bank to enhance efficient functioning of management and to avoid any conflict of interest. The organization structure clearly defines the lines of responsibility, approval authority and accountability aligned to business and operations requirements which support the maintenance of a strong control environment. Appropriate processes such as authorization of limits, segregation of duties, reconciliation of accounts and the valuation of assets and positions are robustly operational. Well established budgeting and forecasting procedures are in place and reports are regularly presented to the Board detailing:

- Business plans and strategies;
- Results of operations;
- Key risk areas;
- Variances against budget; and
- Other performance data.

CAPITAL RISK MANAGEMENT

Ithmaar's capital management policy is to ensure that it meets the capital requirements as mandated by the Central Bank of Bahrain (CBB) and is able to estimate an appropriate capital level in order to support its business growth. Capital management also ensures that shareholder value is protected and enhanced.

Regulatory capital is the minimum capital that is required by regulatory authority, to be maintained by the Bank commensurate to the underlying risks. The Bank has adopted the capital charge computations and adequacy ratios as per Pillar 1 as per CBB of Capital Adequacy and Prudential Consolidation & Deduction ("PCD").

Capital management is a coordinated effort by the business divisions, Risk Management, Strategic Planning and Financial Control and is a part of a broader Internal Capital Adequacy Assessment Process (ICAAP). ICAAP covers the capital charge for all material risks in the pillar 1 and 2. ICAAP also recommends an internal capital adequacy ratio target over and above the regulatory requirement to absorb any un-expected losses arising due to pillar 2 risks. The adequacy and sufficiency of capital ratio is also tested with a mechanism of stress scenario across various risk dimensions on periodic basis. A comprehensive risk assessment of the Business and Budget Plans are independently performed by RMCD, which inter alia, assesses the capital requirement of the Bank both for current and future activities under normal and stressed scenarios. Overseas subsidiaries manage their own capital as prescribed by host regulatory requirements. However, the input is taken from the material subsidiary entities of the Bank for capital planning purposes.

Capital management also ensures that shareholder value is protected and enhanced.

Ithmaar's capital position is monitored on a regular basis and reported to the ALCO, the Board Audit & and Risk Policy Committee.
The Pillar 3 disclosure section covers the capital management reports as of 31 December 2013.

RISK MANAGEMENT OF SUBSIDIARIES

Each operating subsidiary has a dedicated Risk Management and Compliance function for implementing policies and supervising appropriate management of overall risks of the subsidiary including assessment, mitigation and monitoring of risks, and reporting on the risk status.

Effective oversight controls over the performance of the subsidiaries are ensured with the guidelines of subsidiary governance policy of the Bank. All policies are subject to the review by the Risk Policy Committee of Ithmaar Bank. RMCD is also mandated to receive, independently review periodic risk reports from all material subsidiaries for RPC and Board submission. Non-operating subsidiaries are subject to relevant and applicable risk principles applicable at Ithmaar Bank.

COMPLIANCE RISK MANAGEMENT

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss of reputation that the Bank may suffer as a result of its failure to comply with the requirements of relevant laws and regulations. By the terms of its license and listing rules, the Bank is subject to compliance with the requirements stipulated by CBB, Bahrain Bourse, Kuwait Stock Exchange (KSE), Bahrain Commercial Companies Law and FAS issued by AAOIFI, Sharia Standards and SSB Fatwas.

Compliance risk is managed through the Compliance Policy which provides for the assessment of compliance risks, implementation of controls, monitoring and testing of framework effectiveness, the escalation, remediation of compliance incidents and control weaknesses.

The Bank's management ensures that business is conducted in conformity with high ethical standards and is in compliance with all applicable laws and regulations.

The Bank has appointed a compliance officer in accordance with CBB directives to ensure that the Bank's operations achieve a consistently high level of compliance with all relevant laws and regulations. Each of Ithmaar's subsidiaries also employs local compliance officers, if applicable, to ensure adherence to local requirements and regulatory issues. Consolidated reports are prepared for the Board's review.

CUSTOMER COMPLAINT PROCEDURES

The Bank has in place a formal customer complaints procedure that complies with the Code of Best Practice on Consumer Credit and Charging issued by the Bankers Association of Bahrain. A dedicated customer complaints officer is responsible for handling and resolving complaints. Contact details of this Officer are published at all branches. All customer complaints are promptly resolved up to the best satisfaction of the customers.

ANTI-MONEY LAUNDERING

It is the Bank's policy to prohibit and actively prevent money laundering and any activity that facilitates money laundering or the funding of terrorist or criminal activities.

For this purpose, the Bank has defined strict policies and procedures in compliance with the Financial Crimes Regulations issued by CBB. These policies and procedures apply to all employees, branches and offices of the Bank.

The Bank's management ensures that business is conducted in conformity with high ethical standards and is in compliance with all applicable laws and regulations.

The Bank has adopted specific initiatives and measures to facilitate implementation of these policies and procedures. These include the appointment of a Money Laundering Reporting Officer (MLRO), who is empowered with sufficient mandate to implement the Bank's Anti-Money Laundering (AML) programmes. The MLRO independently enforces the AML policies and reports any incidents to the Board of Directors and/or the applicable regulatory authorities. All employees undergo compulsory AML trainings with regular refresher courses.

The Bank's AML and Know Your Customer (KYC) framework incorporates the following four key elements: customer acceptance, customer identification procedures, transaction monitoring and risk management.

Each of Ithmaar's subsidiaries also employs local compliance officers, if applicable, to ensure adherence to local requirements and regulatory issues.

RELATED PARTY TRANSACTIONS

Business transactions with persons and companies connected with the Bank (which include, inter alia, Directors, their immediate family members, major shareholders, associates and subsidiaries) are termed as Related Party Transactions. For avoidance of any possibility of conflicts of interest, the Bank treats all these transactions at arms' length and are approved by the Board of Directors with the interested party being refrained from voting. The Bank complies with relevant rules issued by the regulatory authorities in this respect and all transactions are appropriately disclosed in the Report of the Directors.

Funds Under Management

As a commercial financial institution, a fundamental objective of Ithmaar Bank is to act as a financial intermediary, channeling funds between deficit and surplus agents, for economic benefits. This is usually done through pooling monetary resources from Investment Accountholders (IAH), investing them in the market, and sharing the profits with IAHs at predetermined rates and conditions set out in the agreements. This activity is known as Funds Under Management (FUM).

STRUCTURE OF THE FUNDS

The Bank provides three types of FUMs, namely, Un-restricted Investments Accounts (URIA), Restricted Investments Accounts (RIA), and Collective Investment Undertakings (CIU).

I. Un-restricted Funds (URIA)

In the case of URIA accounts, the Bank as Mudarib (investment manager) is authorised by the Investment Account Holders (IAHs) to invest their funds in any manner which the Bank deems appropriate, without laying down restrictions as to where, how, and for what purpose their contribution amounts should be invested. All URIA funds are accounted for as 'on' balance sheet items. These funds are open for the public (natural persons and corporates including financial institutions) provided they satisfy the Bank's KYC requirements.

As of 31 December 2013, the Bank operated URIA funds are as follows:

- General Mudaraba
- Special Mudaraba

II. Restricted Funds (RIA)

Under this, the Bank as the Mudarib is restricted by the IAHs with regard to the use of their funds - where, how, for what period, and for what purpose their contribution amounts are invested. Such features are required to be agreed between the parties at the time of contracting (such as signing the Mudaraba and/or Agency agreements) so as to formalise the relationship. RIAs funds are accounted for as 'off' balance sheet items as the Bank has no discretion on the utilisation of funds in case of RIA funds. As per CBB's instructions, all future RIA funds shall be structured as CIUs.

As of December 2013, the Bank operated the following RIAs:

- Dilmunia Development Fund
- Shamil Bosphorus Modaraba
- European Real Estate Fund
- US Development Opportunities Fund 1.

The funds managed by the Bank are mainly in Real Estate and Private Equity. These are subject to various risks including:

- Foreign Exchange risk as a result of fluctuating currency exchange rates.
- Liquidity risk due to the nature of the holdings in those funds being non-marketable nor listed on any security exchange platforms.
- Market risk as a result of changing market conditions, including demand and price changes.
- Economic risk due to changes in the economic climate.
- Credit risk of parties with whom the Fund conducts business and may also bear the risk of settlement default.
- Risks of changes in government policy, including issuing necessary approvals.
- The value of Investments in real estate and/or the rental income derived from them will fluctuate as property values and rental incomes rise and fall.
- Investments in real estate may be affected by changes in the general economic climate, competition on rental rates, the financial standing of tenants, the quality of maintenance, insurance and management services and changes in operation costs.
- Investments in real estate which require development or refurbishment works may also entail risks associated with construction delays, cost overruns and an inability to rent either at all or at satisfactory rental levels following completion of the development or refurbishment works.
- The value of the Investments may be affected by uncertainties, such as political developments, changes in governmental policies, taxation, currency repatriation restrictions, and restrictions on foreign investment in some or all of the countries in which the Fund may be directly or indirectly invested.
- The regulatory supervision, legal infrastructure and accounting, auditing and reporting standards in emerging markets may not provide the same degree of protection or information as would generally exist in more mature or developed markets.
- Risks from uncertainties such as political or diplomatic developments, social and religious instability, changes in government policies, taxation, and interest rates and other political and economic developments in legislation, in particular changes in legislation relating to the right of, and level of, foreign ownership.
- Risks outside control of funds, including labour unrest, civil disorder, war, subversive activities, sabotage, fires, floods, acts of God, explosions or catastrophes.

The specific risks for each fund is detailed in the respective prospectus. Ithmaar Bank discloses all risks related to individual funds on its corporate website www.ithmaarbank.com

III. Collective Investment Undertakings (CIU).
CIU have the following features:

The collective capital raised from the public or through private placement, including investments seeded by the operator, is invested in financial instruments and other assets which operate on the basis of risk-spreading as appropriate, the holdings of which may be repurchased or redeemed.

These funds are structured in accordance with relevant CIU rules issued by CBB and are offered to the following:

Investor classifications	Retail CIU	Expert CIU	Exempt CIU	Private investment units
		Bahrain domiciled REIT		
Target market	All	Expert investors	Accredited CIU	High networth
	No specific criteria	Person/corporation with total assets ≥ USD 100k & Gov. entities	Person/corporation with total assets ≥ USD 1,000k & Gov. entities	Person/corporation with total assets ≥ USD 25,000k & Gov. entities
Minimum contribution	Any	USD 10k	USD 100K	USD 3,000k

All Investors are required to meet the KYC requirements as per CBB rules.

As of 31 December 2013, the Bank operated four RIA funds and one CIU fund (Aldar Private Equity Fund - under liquidation). These are given on page 66 of this report.

RISK AND REWARD

In accordance with the principles of Islamic Sharia, all FUMs are managed on profit and loss sharing basis with the IAH bearing all risks except for gross negligence and misconduct.

The profit or loss of a FUM is determined using the accounting policies normally applied by the Bank. The distribution of the profit or loss may either be on a limited or continuous basis as follows:

Specific Term
The IAH invests for a specific term, and profits/losses are accounted for at the time the fund is liquidated (or staged liquidation) and the capital is returned to the IAHs along with any profits/losses.

Open Term
The IAH invests for an unspecified terms (such as Savings Accounts), and profits are accounted for on a periodical basis during the Mudaraba period.

In case of RIA and CIU, specific expenses that may arise in relation to the launching of a Mudaraba fund and in employment of funds may be charged against the gross revenue of that Mudaraba, provided this is set out in the related Mudaraba agreement. Audit and legal fees, documentation and printing charges are all examples of expenses that may be charged to the Mudaraba. Distributable profit is calculated after all permitted expenses have been deducted. URIA funds are not subject to administration fees.

The Bank applies appropriate income smoothening techniques to ensure that profits are fairly distributed to the IAHs, both current and future. These include Profit Equalisation Reserves and Investment Risk Reserves.

REDEMPTIONS

All funds are redeemed on their respective maturities. In special circumstances, the Bank may allow early withdrawals by either finding a purchaser for the contribution, or by purchasing the IAH’s contribution at prevailing market prices and provided such exposure does not cause any violations of regulatory or internal limits.

FIDUCIARY OBLIGATIONS

Although the IAH is fully responsible for risks associated with his/her investments in an FUM, the Bank is bound by its fiduciary obligation and duty of care to safeguard the assets of the IAHs. In this respect, the Bank subscribes to the following guiding principles issued by the Islamic Financial Services Board (IFSB):

- Aspire to the highest standards of truthfulness, honesty and fairness in all its statements and dealings, and treat its customers fairly
- Exercise due care and diligence in all its operations, including the way it structures and offers its products and provides financing, with particular regard to Sharia compliance, and to the thoroughness of research and risk management
- Ensure that it has in-place the necessary systems and procedures, and that its employees have the necessary knowledge and skills, to manage FUMs in accordance with this policy and other regulatory rules
- Take steps to ensure that it understands the nature and circumstances of its IAHs, so that it offers those products most suitable for their needs, as well as offering financing only for Sharia- compliant projects
- Provide clear and truthful information both in any public document issued and to its actual and prospective clients, both during the sales process and in subsequent communications and reports
- Recognise the conflicts of interest between it and its clients that arise from the type of products it offers, and either avoid them, or disclose and manage them, bearing in mind its fiduciary duties to Investment Accountholders as well as shareholders
- Ensure that its operations are governed by an effective system of Sharia governance and that it conducts its business in a socially responsible manner

INVESTMENT OBJECTIVES

The investment objective of the funds is to provide maximum returns to both the IAHs and the Bank in a manner that is consistent with the Mudaraba agreement of the specific fund and Sharia guidelines while at the same time managing risks within predetermined levels.

GOVERNANCE OF FUNDS UNDER MANAGEMENT

The Board of Directors is responsible for ensuring that the Funds Investment Objectives are adhered to. The Board has established an Audit and Governance Committee commissioned, amongst other responsibilities, to look after the interests of the IAHs. The Asset-Liability Committee (ALCO) and Investment and Credit Committee (ICC) play a pivotal role in monitoring the performance of funds. The Asset Management Department is responsible for the effective management of RIA and CIU funds. Customer affairs are handled by various business units including Private Banking, Corporate Banking, International Banking, and Retail Banking departments.

RIA and CIU funds are launched after comprehensive due diligence of the market and the needs and risk appetite of investors. A comprehensive policy is in place which outlines processes for managing funds. All funds are reviewed independently by the Risk Management and Compliance Department prior to their approval and launch. Once approved, these Funds are utilised strictly in accordance with the fund's prospectus and terms of approval.

URIA Funds are primarily used for retail and commercial financings. The Bank diversifies the portfolio through establishing prudent limits determined by geographical areas, industry sectors, tenors, customer type, etc. The composition, characteristics and diversification of the Bank's funding structure is recorded in various risk policies.

All funds are reviewed periodically, at least annually, to assess their performance. These reviews are submitted to ICC for its review and approval. In case of adverse change in the risk profile of the Fund, the review is raised to the authority which originally approved the initial proposal.

The Profit Distribution Sheet (Mudaraba Account) provides details on investment period and Bank's share of investment in 2013 as shown below:

Period	Bank's share (%)
Undetermined term (savings account)	60
1 month	50
3 months	45
6 months	40
1 year	35
18 months	33
2 years	30
30 months	28
3 years	25

The average benchmark and declared rate of return or profit rate on Profit Sharing Investment Accounts (PSIA) by maturity in percentage terms paid annually in 2013:

BD or US$ denominated	1 day	7 days	1 month	3 months	6 months	9 months	1 year	18 months	2 years	30 months	3 years
Savings	0.25	–	–	–	–	–	–	–	–	–	–
Mudaraba	–	0.25	1.49	1.99	2.49	2.59	2.97	3.21	3.72	4.06	4.47
Special Mudaraba	–	–	2.05	2.30	3.05	3.18	3.46	3.95	4.65	4.75	5.28

Consolidated Financial Statements

for the year ended 31 December 2013

In the Name of Allah, the Beneficent, the Merciful

REPORT OF THE SHARIA SUPERVISORY BOARD ON THE ACTIVITIES OF ITHMAAR BANK B.S.C. FOR THE FINANCIAL YEAR FROM 1 JANUARY 2013 UNTIL 31 DECEMBER 2013, CORRESPONDING TO THE PERIOD FROM 19 SAFAR 1434 H UNTIL 28 SAFAR 1435 H.

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

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

1. Issued fatwas and Sharia resolutions related to the Bank's products and activities and followed them up through the Bank's internal Sharia Audit Department while also guiding the management towards Sharia-compliant transactions.
2. Studied different mechanisms of financing and prepared its documents with the concerned departments in order to develop products.
3. Examined the books, records and transactions through the internal Sharia Audit Department and auditing some of their samples as per established auditing standards.
4. Examined the statement of financial position, income statement and the Bank's overall banking activities through it.

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

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

In view of the above the Sharia Supervisory Board hereby resolves as follows:

i: With regard to the Bank's business in general:

a. The Bank's overall investment activities and banking services were conducted in full compliance with the principles and provisions of Islamic Sharia and in accordance with the Sharia Supervisory Board-approved standard contracts.
b. Gains made from sources prohibited by Sharia were evaded and transferred to the Charity Fund.
c. All the amounts collected as customers' donations and commitments on late payments were posted to the Charity Fund.
d. Shareholders are responsible for payment of Zakat on their shares.

ii: Conventional assets and liabilities:

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

REPORT OF THE SHARIA SUPERVISORY BOARD ON THE ACTIVITIES OF ITHMAAR BANK B.S.C. FOR THE FINANCIAL YEAR FROM 1 JANUARY 2013 UNTIL 31 DECEMBER 2013, CORRESPONDING TO THE PERIOD FROM 19 SAFAR 1434 H UNTIL 28 SAFAR 1435 H. (continued)

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

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

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

His Eminence Shaikh Abdulla Al Manee'
Chairman

His Eminence Shaikh Mohsin Al-Asfoor
Member

His Eminence Shaikh Nizam Yacooby
Member

His Eminence Shaikh Dr. Osama Bahar
Member

Manama, Kingdom of Bahrain
23 February 2014

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

PRINCIPAL ACTIVITIES

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

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

CONSOLIDATED FINANCIAL POSITION AND RESULTS

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

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

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

DIRECTORS

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

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

DIRECTORS' SITTING FEES

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

INTERESTS OF DIRECTORS

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

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

DIVIDEND

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

AUDITORS

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

By order of the Board of Directors

HRH Prince Amr Mohamed Al Faisal
Chairman
2 March 2014

REPORT ON THE FINANCIAL STATEMENTS

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

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

OPINION

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

REPORT ON REGULATORY REQUIREMENTS AND OTHER MATTERS

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

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

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

(iii) we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association, having occurred during the year that might have had a material adverse effect on the business of the Bank or on its financial position; and

(iv) satisfactory explanations and information have been provided to us by the management in response to all our requests.

The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group.

PricewaterhouseCoopers

2 March 2014
Manama, Kingdom of Bahrain

Consolidated Statement of Financial Position

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

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

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

HRH Prince Amr Mohamed Al Faisal
Chairman

Ahmed Abdul Rahim
CEO

The notes 1 to 42 on pages 68 to 111 form an integral part of the consolidated financial statements.

Consolidated Income Statement

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

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

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

HRH Prince Amr Mohamed Al Faisal
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Consolidated Statement of Changes in Owners' Equity

for the year ended 31 December 2013

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

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

The notes 1 to 42 on pages 68 to 111 form an integral part of the consolidated financial statements.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

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

The notes 1 to 42 on pages 68 to 111 form an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

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

The notes 1 to 42 on pages 68 to 111 form an integral part of the consolidated financial statements.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

	Notes	Year Ended 31 December 2013 (Audited)	Year Ended 31 December 2012 (Audited)
FINANCING ACTIVITIES			
Taxes paid		**(4,723)**	(1,989)
Net cash used in financing activities		**(4,723)**	(1,989)
Foreign currency translation adjustments		**(27,201)**	12,062
Net increase in cash and cash equivalents		**49,178**	39,717
Cash and cash equivalents at the beginning of the year		**290,802**	251,085
Cash and cash equivalents at the end of the year	4	**339,980**	290,802

The notes 1 to 42 on pages 68 to 111 form an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Restricted Investment Accounts

for the year ended 31 December 2013
(Expressed in thousands of Bahraini Dinars unless otherwise stated)

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

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

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

The notes 1 to 42 on pages 68 to 111 form an integral part of the consolidated financial statements.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

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

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

The notes 1 to 42 on pages 68 to 111 form an integral part of the consolidated financial statements.

1. INCORPORATION AND ACTIVITIES

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

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

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

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

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

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

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

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

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

1. INCORPORATION AND ACTIVITIES (continued)

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

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

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

2. SIGNIFICANT GROUP ACCOUNTING POLICIES

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

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

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

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

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

(I) NEW ACCOUNTING STANDARD: ISSUED AND EFFECTIVE

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

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

This standard shall apply in the recognition, measurement and disclosure of the entity's direct investment in real estate that is acquired for the purpose of earning periodical income or held for future capital appreciation or both.

The adoption of FAS 26 does not have any material impact on the consolidated income statement, consolidated statement of changes in owner's equity or consolidated statement of financial position.

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(II) BASIS OF PREPARATION

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

(III) STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank, the Bahrain Commercial Companies Law, the CBB and the Financial Institutional Law. In accordance with the requirement of AAOIFI, for matters where no AAOIFI standards exist, the Group uses the relevant International Financial Reporting Standards (IFRS).

(IV) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

Subsidiaries

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

Associates

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

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

Intra-Group balances and minority interest

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

(b) Foreign currency transactions and balances

Functional and presentation currency

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

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(IV) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Foreign currency transactions and balances (continued)

Transactions and balances

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

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

1. Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of statement of financial position;
2. Income and expenses for each income statement are translated at average exchange rates; and
3. All resulting exchange differences are recognised as a separate component of equity.

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

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

(c) Accounting estimates and judgements

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

1. Classification of investments

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

2. Special purpose entities

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

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(IV) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Accounting estimates and judgements (continued)

3. Impairment on financing assets and investments

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

4. Liquidity mismatch

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

(d) Cash and cash equivalents

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

(e) Murabaha and other financings

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

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

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

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

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

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

(f) Musharaka financing

Musharaka financing is stated at cost less provision for impairment.

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

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(IV) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Investments

1. Investments carried at amortised cost

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

2. Investments carried at fair value through equity

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

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

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

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

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

3. Investments carried at fair value through income statement

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

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(IV) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Investments (continued)

4. Restricted investment accounts

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

5. Investment in real estate

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

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

6. Investment in mudaraba

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

7. Fair value

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

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

(h) Assets acquired for leasing (Ijarah)

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

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

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(IV) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Fixed assets

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

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

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

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

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

(j) Intangible assets

1. Goodwill

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

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

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

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

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

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(IV) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Intangible asset (continued)

2. Computer software

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

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

3. Other acquired intangible assets

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

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

(k) Current taxation

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

(l) Deferred taxation

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

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

(m) Provision for staff benefits

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

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

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(IV) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Due to investors

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

(o) Equity of unrestricted investment accountholders

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

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

(p) Restricted investment accounts

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

(q) Treasury shares

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

(r) Statutory reserve

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

(s) Revenue recognition

1. Profit participation and management fees

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

2. Profit on Murabaha and other financings

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

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

2. SIGNIFICANT GROUP ACCOUNTING POLICIES (continued)

(IV) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Revenue recognition (continued)

3. Income from assets acquired for leasing

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

4. Income from Mudaraba contracts

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

5. Profit on Musharaka contracts

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

6. Dividend income

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

7. Fees and commissions

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

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

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

(t) Profit allocation between group and investment accountholders

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

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

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

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

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

3. CASH AND BALANCES WITH BANKS AND CENTRAL BANKS

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

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

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

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

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

4. COMMODITY AND OTHER PLACEMENTS WITH BANKS, FINANCIAL AND OTHER INSTITUTIONS (continued)

The movement in provisions is as follows:

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

5. MURABAHA AND OTHER FINANCINGS

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

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

The movement in provisions is as follows:

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

Total provision of BD 110.1 million (31 December 2012: BD 105.6 million) includes general provision of BD 1.4 million (31 December 2012: BD1.2 million).

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

6. INVESTMENT IN MUDARABA

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

The movement in provisions is as follows:

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

7. INVESTMENT IN ASSOCIATES

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

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

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

7. INVESTMENT IN ASSOCIATES (continued)

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

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

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

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

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

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

Summarised financial position of associates that have been equity accounted:

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

8. INVESTMENT SECURITIES

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

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

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

8. INVESTMENT SECURITIES (continued)

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

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

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

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

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

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

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

8. INVESTMENT SECURITIES (continued)

Investments measured at fair value

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

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

Reconciliation of Level 3 Items

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

9. RESTRICTED INVESTMENT ACCOUNTS

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

The movement in provisions is as follows:

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

10. ASSETS ACQUIRED FOR LEASING

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

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

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

11. INVESTMENT IN REAL ESTATE

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

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

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

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

12. OTHER ASSETS

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

12. OTHER ASSETS (continued)

The movement in provisions is as follows:

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

13. FIXED ASSETS

Relating to owners

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

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

14. INTANGIBLE ASSETS

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

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

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

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

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

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

15. CUSTOMERS' CURRENT ACCOUNTS

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

16. DUE TO BANKS, FINANCIAL AND OTHER INSTITUTIONS

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

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

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

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

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

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

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

17. DUE TO INVESTORS

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

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

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

18. OTHER LIABILITIES

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

19. EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS

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

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

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

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

19. EQUITY OF UNRESTRICTED INVESTMENT ACCOUNTHOLDERS (continued)

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

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

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

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

The Bank earned a management fee up to1% of the total invested amount per annum to cover its administration and other expenses related to the management of such funds.

20. MINORITY INTEREST

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

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

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

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

21. SHARE CAPITAL

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

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

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

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

22. EARNINGS PER SHARE (BASIC & DILUTED)

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

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

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

23. INCOME FROM RESTRICTED INVESTMENT ACCOUNTS AS A MUDARIB

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

24. INCOME FROM MURABAHA AND OTHER FINANCINGS

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

25. INCOME FROM OTHER INVESTMENTS

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

26. OTHER INCOME

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

27. ADMINISTRATIVE AND GENERAL EXPENSES

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

28. SOCIAL RESPONSIBILITY

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

29. PROVISIONS

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

29. PROVISIONS (continued)

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

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

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

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

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

30. OVERSEAS TAXATION

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

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

Current tax receivable/(payable)

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

Deferred tax asset/(liability)

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

31. SEGMENTAL INFORMATION

The Group constitutes of three main business segments, namely:

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

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

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

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

31. SEGMENTAL INFORMATION (continued)

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

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

32. ZAKAH

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

33. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

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

Commitments

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

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

34. CURRENCY RISK

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

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

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

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

34. CURRENCY RISK (continued)

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

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

35. MATURITY PROFILE

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

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

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

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

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

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

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

37. RISK MANAGEMENT

Credit risk

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

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

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

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

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

37. RISK MANAGEMENT (continued)

Profit rate risk

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

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

37. RISK MANAGEMENT (continued)

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

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

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

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

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

38. RELATED PARTY TRANSACTIONS AND BALANCES

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

Related parties include:

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

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38. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

Significant balances with related parties comprise:

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

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

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

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

39. CAPITAL MANAGEMENT

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

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The table below summarises the composition of regulatory capital and the ratios of the Group for the years ended 31 December (computed under Basel II regulations as prescribed by the CBB).

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

40. PROPOSED DIVIDEND

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

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

41. NON-SHARIA COMPLIANT INCOME AND EXPENSES

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

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

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

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

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

42. COMPARATIVES

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

1. BACKGROUND

The Public Disclosure (PD) module of the Central Bank of Bahrain (CBB) rulebook was introduced with effect from January 2008. The disclosures in this report are in addition to the disclosures set out in the Group's consolidated financial statements for the year ended 31 December 2013, presented in accordance with Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). These disclosures are mainly related to compliance with the Basel II Pillar III Quantitative disclosure requirements and should be read in conjunction with the Group's consolidated financial statements and annual report for the year ended 31 December 2013.

2. BASEL II FRAMEWORK

CBB has issued Basel II guidelines for the implementation of Basel II capital adequacy framework for Banks incorporated in the Kingdom of Bahrain.

The Basel II framework provides a risk based approach for calculation of regulatory capital. The Basel II framework is expected to strengthen the risk management practices across the financial institutions.

The Basel II framework is based on three pillars as follows:-

- Pillar I: Minimum capital requirements including calculation of the capital adequacy ratio
- Pillar II: Supervisory review process which includes the Internal Capital Adequacy Assessment Process
- Pillar III: Market discipline which includes the disclosure of risk management and capital adequacy information.

3. METHODOLOGY

As per the requirements of CBB's Basel II capital adequacy framework, the method for calculating the consolidated capital adequacy ratio for the Group is summarized as follows:

- Line by line consolidation is performed for the risk exposures and eligible capital of all the subsidiaries within the Group with the exception of Ithmaar's banking subsidiaries incorporated outside Kingdom of Bahrain which are operating under Basel II compliant jurisdictions, where full aggregation is performed of the risk weighted exposures and eligible capital as required under Prudential Consolidation and Deduction module (PCD).

- Pro-rata aggregation of risk weighted exposures and eligible capital of Ithmaar's significant investments (20% – 50%) in banking and other financial entities as required under PCD module.

4. APPROACHES ADOPTED FOR DETERMINING REGULATORY CAPITAL REQUIREMENTS

The approach adopted for determining regulatory capital requirements under CBB's Basel II guidelines is summarised as follows:

Credit Risk	Standardised approach
Market Risk	Standardised approach
Operational Risk	Basic Indicator approach

5. GROUP STRUCTURE

The Group's consolidated financial statements are prepared and published on a full consolidation basis, with all subsidiaries being consolidated in accordance with AAOIFI. However, the CBB's consolidated capital adequacy methodology accommodates both line-by-line and aggregation forms of consolidation.

Line by line consolidation is performed for the risk exposures and eligible capital of all the subsidiaries within the Group except for the following:

Subsidiary	Country of Incorporation	Ownership	Approach
Faysal Bank Limited	Pakistan	66.6 per cent	Full Aggregation

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

6. CONSOLIDATED CAPITAL STRUCTURE FOR CAPITAL ADEQUACY PURPOSE

A. Tier 1 Capital	
Issued and fully paid-up ordinary capital	274,283
Reserves	
General reserves	21,385
Statutory reserve	14,360
Share Premium	56,404
Others	(8,147)
Accumulated losses	(122,508)
Minority interest in the equity of subsidiaries	28,132
Aggregation	66,842
Sub-Total	**330,751**
Regulatory deductions:	
Goodwill	(4,712)
Loss for the year	(33,072)
Total Tier 1 capital before PCD deductions	**292,967**
B. Tier 2 Capital	
General Provision	15,250
Profit Equalization Reserves	473
Unrealized gains arising from fair valuations (45%)	6,905
Aggregation	10,287
Total Tier 2 capital before PCD deductions	**32,915**
C. Total Available Capital (A+B)	**325,882**
D. General deductions from Tier 1 & 2 under PCD Module	
Deduction of unconsolidated financial subsidiaries which are aggregated or deducted	(37,562)
Deduction of unconsolidated financial associates which are aggregated or deducted	(1,686)
Excess over maximum permitted large exposure limit	(25,116)
Total Deductible Items	**(64,364)**
E. Total Eligible Capital (C-D)	**261,518**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

7. DISCLOSURE OF THE REGULATORY CAPITAL REQUIREMENTS FOR CREDIT RISK UNDER STANDARDIZED APPROACH

Exposure funded by Self Finance

	Risk weighted assets	Capital requirement
Claims on sovereign	33,589	4,031
Banks	61,841	7,421
Corporate portfolio	197,478	23,697
Investments in securities	388,318	46,598
Holding of real estate	330,541	39,665
Regulatory retail	637	76
Past due financings	26,118	3,134
Other assets	74,579	8,949
Aggregation	564,534	67,744
Total	**1,677,635**	**201,315**

Exposure funded by Unrestricted Investment Accounts (URIA)

	Risk weighted assets	Capital requirement
Claims on Banks	26	3
Corporate portfolio	27,848	3,342
Equity portfolio	7,634	916
Holding of real estate	13,208	1,585
Regulatory retail	58,430	7,012
Past due financings	24,646	2,958
Total	**131,792**	**15,816**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

8. GROSS CREDIT EXPOSURES

	Gross credit exposure	Average gross credit exposure
Credit risk exposure relating to on balance sheet assets are as follows:		
Cash and balances with banks and central banks	224,568	214,716
Commodity and other placements with banks, financial and other institutions	187,867	178,598
Murabaha and other financings	1,188,924	1,186,464
Musharaka financing	23,412	19,589
Investments	937,787	928,014
Other assets	100,731	98,940
Fixed assets	43,417	43,682
Intangible assets	84,276	87,541
Total on balance sheet credit exposure	**2,790,982**	**2,757,544**
Credit risk exposure relating to off balance sheet items are as follows:		
Financial guarantees and irrevocable letters of credit	358,744	370,939
Financing commitments, Undrawn facilities and other credit related liabilities	1,000,423	905,432
Total off balance sheet credit exposure	**1,359,167**	**1,276,371**
Total credit exposure	**4,150,149**	**4,033,915**
Total credit exposure financed by URIA	**764,936**	**722,160**
Total credit exposure financed by URIA (%)	**18.43%**	**17.90%**

Average gross credit exposures have been calculated based on the average of balances outstanding during the year ended 31 December 2013.

9. GEOGRAPHICAL DISTRIBUTION OF CREDIT EXPOSURES

	Asia/ Pacific	Middle East	Europe	North America	Others	Total
On-balance sheet items						
Cash and balances with banks and central banks	105,571	67,911	25,967	25,119	-	224,568
Commodity and other placements with banks, financial and other institutions	1,078	145,699	38,932	-	2,158	187,867
Murabaha and other financings	661,506	398,347	85,146	49	43,876	1,188,924
Musharaka financing	23,412	-	-	-	-	23,412
Investments	453,830	426,705	47,803	9,449	-	937,787
Other assets	50,776	23,877	19,922	6,156	-	100,731
Fixed assets	20,223	23,152	42	-	-	43,417
Intangible assets	9,024	73,721	1,531	-	-	84,276
Total on balance sheet items	**1,325,420**	**1,159,412**	**219,343**	**40,773**	**46,034**	**2,790,982**
Off balance sheet items	**1,076,534**	**271,244**	**10,555**	**-**	**834**	**1,359,167**
Total credit exposure	**2,401,954**	**1,430,656**	**229,898**	**40,773**	**46,868**	**4,150,149**

The Group uses the geographical location of the credit exposures as the basis to allocate to the respective geographical region as shown above.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

10. INDUSTRIAL DISTRIBUTION OF CREDIT EXPOSURES

	Banks and Financial Institutions	Trading and Manufacturing	Property and Construction	Services	Private individuals	Textile	Other	Total
On-balance sheet items								
Cash and balances with banks and central banks	224,545	-	-	-	-	-	23	224,568
Commodity and other placements with banks, financial and other institutions	187,867	-	-	-	-	-	-	187,867
Murabaha and other financings	180,027	478,516	74,695	43,883	278,046	40,062	93,695	1,188,924
Musharaka financing	3,374	8,471	-	7,146	4,099	322	-	23,412
Investments	612,936	61,362	213,532	41,242	7,502	809	404	937,787
Other assets	71,462	2,739	11,803	155	13,577	5	990	100,731
Fixed assets	20,922	-	22,495	-	-	-	-	43,417
Intangible assets	84,276	-	-	-	-	-	-	84,276
Total on balance sheet items	**1,385,409**	**551,088**	**322,525**	**92,426**	**303,224**	**41,198**	**95,112**	**2,790,982**
Off balance sheet items	**489,380**	**485,122**	**201,417**	**13,337**	**31,638**	**3,889**	**134,384**	**1,359,167**
Total credit exposure	**1,874,789**	**1,036,210**	**523,942**	**105,763**	**334,862**	**45,087**	**229,496**	**4,150,149**

11. MATURITY BREAKDOWN OF CREDIT EXPOSURES

	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	5 - 10 years	10 - 20 years	Over 20 years	Total
On-balance sheet items								
Cash and balances with banks and central banks	224,568	-	-	-	-	-	-	224,568
Commodity and other placements with banks, financial and other institutions	148,935	28,091	10,841	-	-	-	-	187,867
Murabaha and other financings	175,359	170,148	182,065	398,383	251,325	11,644	-	1,188,924
Musharaka financing	4,177	5,312	4,539	7,538	1,846	-	-	23,412
Investments	96,380	162,360	114,358	232,535	21,486	9,237	301,431	937,787
Other assets	41,737	4,865	39,673	5,016	9,440	-	-	100,731
Fixed assets	45	19	813	5,832	5,104	3,202	28,402	43,417
Intangible assets	-	-	-	2,749	3,546	48,360	29,621	84,276
Total on balance sheet items	**691,201**	**370,795**	**352,289**	**652,053**	**292,747**	**72,443**	**359,454**	**2,790,982**
Off balance sheet items	**243,193**	**256,568**	**195,864**	**587,829**	**75,713**	**-**	**-**	**1,359,167**
Total credit exposure	**934,394**	**627,363**	**548,153**	**1,239,882**	**368,460**	**72,443**	**359,454**	**4,150,149**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

12. RELATED-PARTY BALANCES UNDER CREDIT EXPOSURE

A number of banking transactions are entered into with related parties in the normal course of business. The related party balances included under credit exposure at 31 December 2013 were as follows:

Affiliated companies	165,485
Directors & key management	4,931
Total	**170,416**

Concentration of risk to individual counterparties where the credit exposure is in excess of the 15% individual obligor limit:

Non-banks	59,823
Total	**59,823**

13. PAST DUE AND IMPAIRED FINANCINGS AND RELATED PROVISIONS FOR IMPAIRMENT

	Gross exposure	Impairment provisions	Net exposure
Analysis by industry			
Manufacturing	87,845	69,708	18,137
Agriculture	4,684	2,157	2,527
Construction	33,190	5,038	28,152
Finance	771	559	212
Trade	46,005	18,542	27,463
Personal	10,228	2,416	7,812
Real estate	22,761	7,632	15,129
Technology and telecommunications	344	313	31
Transportation	1,518	779	739
Other sectors	26,319	17,756	8,563
Total	**233,665**	**124,900**	**108,765**
Ageing analysis			
Over 3 months up to 1 year	47,708	1,409	46,299
Over 1 year up to 3 years	26,925	5,298	21,627
Over 3 years	159,032	118,193	40,839
Total	**233,665**	**124,900**	**108,765**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

13. PAST DUE AND IMPAIRED FINANCINGS AND RELATED PROVISIONS FOR IMPAIRMENT (continued)

	Relating to owners	Relating to unrestricted investment accounts	Total
Movement in impairment provisions			
At 1 January	90,647	20,731	111,378
Charge for the year	15,563	2,449	18,012
Write back during the year	(6,872)	-	(6,872)
Addition due to acquisition of associate	8,487	-	8,487
Utilized during the year	(2,078)	(115)	(2,193)
Exchange differences	(6,176)	2,264	(3,912)
At 31 December	**99,571**	**25,329**	**124,900**

14. PAST DUE AND IMPAIRED FINANCINGS BY GEOGRAPHICAL AREAS

	Gross exposure	Impairment provisions	Net exposure
Analysis by Geography			
Asia / Pacific	122,553	78,971	43,582
Middle East	107,661	45,927	61,734
Europe	3,451	2	3,449
Total	**233,665**	**124,900**	**108,765**

15. DETAILS OF CREDIT FACILITIES OUTSTANDING THAT HAVE BEEN RESTRUCTURED DURING THE YEAR

Restructured financings during the year ended 31 December 2013 aggregated to BD 84.9 million. This restructuring had an impact of BD 0.2 million on present earnings during the year ended 31 December 2013. Further, this restructuring is expected to have positive impact of BD 5.1 million on the Group's future earnings in 2014. Extension of maturity dates was the basic nature of concessions given to all the restructured facilities.

16. CREDIT EXPOSURES WHICH ARE COVERED BY ELIGIBLE FINANCIAL COLLATERAL

	Gross Exposure	Eligible Financial Collateral
Exposure funded by Self Finance		
Corporate portfolio	630,604	74,935
Retail portfolio	92,677	12,164
Past due financings	52,125	3,791
Total	**775,406**	**90,890**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

16. CREDIT EXPOSURES WHICH ARE COVERED BY ELIGIBLE FINANCIAL COLLATERAL (continued)

	Gross Exposure	Eligible Financial Collateral
Exposure funded by Unrestricted Investment Accounts		
Corporate portfolio	115,158	22,330
Retail portfolio	260,035	346
Past due financings	65,312	8,354
Total	**440,505**	**31,030**

17. DISCLOSURE OF REGULATORY CAPITAL REQUIREMENTS FOR MARKET RISK UNDER THE STANDARDIZED APPROACH

	Risk weighted assets			Capital requirement		
	31 December 2013	Maximum Value	Minimum Value	31 December 2013	Maximum Value	Minimum Value
Foreign exchange risk	53,963	53,118	53,963	6,476	6,374	6,476
Aggregation	23,634	62,011	23,634	2,836	7,441	2,836
Total	**77,597**	**115,129**	**77,597**	**9,312**	**13,815**	**9,312**

18. DISCLOSURE OF REGULATORY CAPITAL REQUIREMENTS FOR OPERATIONAL RISK UNDER THE BASIC INDICATOR APPROACH

For regulatory reporting, the capital requirement for operational risk is calculated based on basic indicator approach. According to this approach, the Bank's average gross income over the preceding three financial years is multiplied by a fixed alpha coefficient.

The alpha coefficient has been set at 15% under CBB Basel II guidelines. The capital requirement for operational risk at 31 December 2013 aggregated to BD 19.23 million.

19. TIER ONE CAPITAL RATIOS AND TOTAL CAPITAL RATIOS

	Tier One Capital Ratio	Total Capital Ratio
Ithmaar consolidated	11.17%	12.77%
Significant Bank subsidiaries whose regulatory capital amounts to over 5% of group consolidated regulatory capital whether on a stand-alone or sub-consolidated basis are as follows:		
Faysal Bank Limited	9.73%	11.23%

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

20. EQUITY POSITION IN BANKING BOOK

At 31 December 2013, the Group's investment securities aggregated to BD 492.4 million. Out of the total investment securities, BD 13 million were listed investment securities and the remaining BD 479.4 million represented unlisted investment securities.

Cumulative realized losses from sale of investment securities during the year amounted to BD 0.6 million. Total unrealized loss recognized in the consolidated statement of changes in owners' equity amounted to BD 2.3 million.

At 31 December 2013, capital requirements using standardized approach aggregated to BD 18 million for listed investment securities and BD 29.5 million for unlisted investment securities before aggregation/pro-rata aggregation of investments in Banking and other financial entities.

21. GROSS INCOME FROM MUDARABA AND PROFIT PAID TO UNRESTRICTED INVESTMENT ACCOUNTHOLDERS

	31 December				
	2013	2012	2011	2010	2009
Income from unrestricted investment accounts	**38,000**	35,139	25,608	23,203	18,411
Less: return to unrestricted investment accounts	**(29,079)**	(26,686)	(24,512)	(21,261)	(16,888)
Group's share of income from unrestricted investment accounts as a Mudarib	**8,921**	8,453	1,096	1,942	1,523

For the year ended 31 December 2013 the return to unrestricted investment accountholders based on the average balance outstanding during the year stood at 5.57%. The Group's share of income from unrestricted investment account (Mudarib) including management fee for the year ended 31 December 2013 as a percentage of gross income from unrestricted investment accounts stood at 8.36%.

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

22. MOVEMENT IN PROFIT EQUALIZATION RESERVE AND PROVISIONS – URIA

	31 December				
	2013	2012	2011	2010	2009
Profit Equalization Reserve					
As at 1 January	3,793	7,015	3,074	1,168	1,374
Net addition	1,954	2,052	3,941	2,266	-
Transfer to impairment provisions	(4,787)	(5,274)	-	-	-
Net utilization	-	-	-	(360)	(206)
As at 31 December	**960**	**3,793**	**7,015**	**3,074**	**1,168**
Amount appropriated as a percentage of gross profit	5%	6%	15%	10%	-
Provisions					
As at 1 January	33,313	25,958	26,302	24,289	17,554
Net addition	2,449	2,415	549	2,060	6,735
Transfer from Profit Equalization Reserve	4,787	5,274	-	-	-
Net utilization	(684)	(334)	-	(47)	-
Reclassification	-	-	(893)	-	-
As at 31 December	**39,865**	**33,313**	**25,958**	**26,302**	**24,289**

At 31 December 2013, the ratio of profit equalization reserve and provisions to equity of unrestricted investment accountholders stood at 0.13% and 5.33% respectively.

At 31 December 2013, the ratio of financings to URIA stood at 57.8%.

The following table summarizes the breakdown of URIA and impairment provisions:

	31 December				
	2013	2012	2011	2010	2009
URIA: Banks	**45,110**	13,262	21,964	31,511	31,510
URIA: Non-Banks	**703,412**	646,911	534,727	419,367	339,085
Provisions: Banks	**2,402**	669	1,024	1,838	2,065
Provisions: Non-Banks	**37,463**	32,644	24,934	24,464	22,224

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

23. GROSS RETURN FROM RESTRICTED INVESTMENT ACCOUNTS (RIA)

	31 December				
	2013	2012	2011	2010	2009
Gross income	**1,613**	101	908	2,836	2,090
Mudarib fee	**226**	305	1,061	4,618	6,768

24. AVERAGE DECLARED RATE OF RETURN ON GENERAL MUDARABA DEPOSITS

	31 December				
	2013	2012	2011	2010	2009
	Percentage				
7 Days	**0.25**	0.25	0.30	0.50	0.50
30 Days	**1.49**	1.90	2.31	3.00	3.17
90 Days	**1.99**	2.48	2.90	3.25	3.25
180 Days	**2.49**	2.90	3.25	3.50	3.50
360 Days	**2.97**	3.40	3.50	3.70	3.63

25. PROFIT RATE RISK

Profit rate risk is the risk that the value of the financial instrument will fluctuate due to changes in the market profit rates.

	USD	**EUR**	**PKR**	**BD**	**AED**
Total profit rate exposure	192,712	60,941	70,678	383,466	106,803
Rate shock (assumed) (+/-)	0.21%	0.21%	0.90%	0.30%	0.01%
Total estimated impact (+/-)	**405**	**128**	**636**	**1,150**	**11**

(Expressed in thousands of Bahraini Dinars unless otherwise stated)

26. CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Substantial portion of the Group's assets and liabilities are denominated in US Dollars, Bahraini Dinars and Pakistani Rupee. Bahraini Dinars and Saudi Riyal are pegged to US Dollars and as such currency risk is minimal

The significant net foreign currency positions at 31 December 2013 were as follows:

	Long/(Short)
Pakistani Rupee	34,768
Euro	(22,891)
United States Dollars	63,367
Polish Zloty	18,763
UAE Dirham	(106,799)
Hong Kong Dollar	25,624

27. LIQUIDITY RATIOS

	31 December				
	2013	2012	2011	2010	2009
Liquid assets to total assets	14.78%	13.74%	12.80%	13.48%	17.02%
Short term assets to short term liabilities	66.97%	56.98%	63.80%	63.44%	83.39%

28. LEGAL CONTINGENCIES AND COMPLIANCE

At 31 December 2013, the Group had contingent liabilities towards customer and other claims aggregating to BD 152.5 million. The management is of the view that these claims are not likely to result into potential liabilities. During the year 2013, the Bank paid penalty of BD three thousand imposed by the CBB due to delay in compliance of regulatory submission requirement.

Share Information

SHAREHOLDING STRUCTURE

	31-Dec-13			31-Dec-12		
	No. of shareholders	**No. of shares**	**%**	No. of shareholders	No. of shares	%
1-10,000	**135**	**736,015**	**4.46**	129	668,043	0.02
10,001 - 100,000	**2,273**	**50,977,744**	**75.07**	2,278	49,599,163	1.77
100,001 - 1,000,000	**441**	**147,806,445**	**14.56**	452	152,350,779	5.43
1,000,001 - 10,000,000	**145**	**468,829,280**	**4.79**	142	439,916,122	15.69
over 10,000,000	**34**	**2,362,405,543**	**1.12**	33	2,161,516,160	77.09
Total	**3,028**	**3,030,755,027**	**100.00**	3,034	2,804,050,267	100.00

SHAREHOLDING BY NATIONALITY

	31-Dec-13			31-Dec-12		
	No. of shareholders	**No. of shares**	**%**	No. of shareholders	No. of shares	%
Bahamas	**2**	**1,384,545,224**	**45.68**	2	1,384,545,224	49.38
Kingdom of Bahrain	**830**	**288,931,050**	**9.53**	879	233,835,876	8.34
Kingdom of Saudi Arabia	**889**	**382,277,726**	**12.61**	931	446,286,022	15.92
Other GCC Countries	**886**	**770,762,236**	**25.43**	798	551,695,452	19.67
Other Countries	**421**	**204,238,791**	**6.74**	424	187,687,693	6.69
Total	**3,028**	**3,030,755,027**	**100.00**	3,034	2,804,050,267	100.00

SHARES OWNED BY GOVERNMENT - DEC 2013

	No. of shares	%
Ministry of Finance, Social Insurance Organisation (Pension Fund)	51,551,210	1.7

MAJOR SHAREHOLDERS OF ITHMAAR BANK (INDIVIDUALLY HOLDING MORE THAN 5%) - DEC 2013

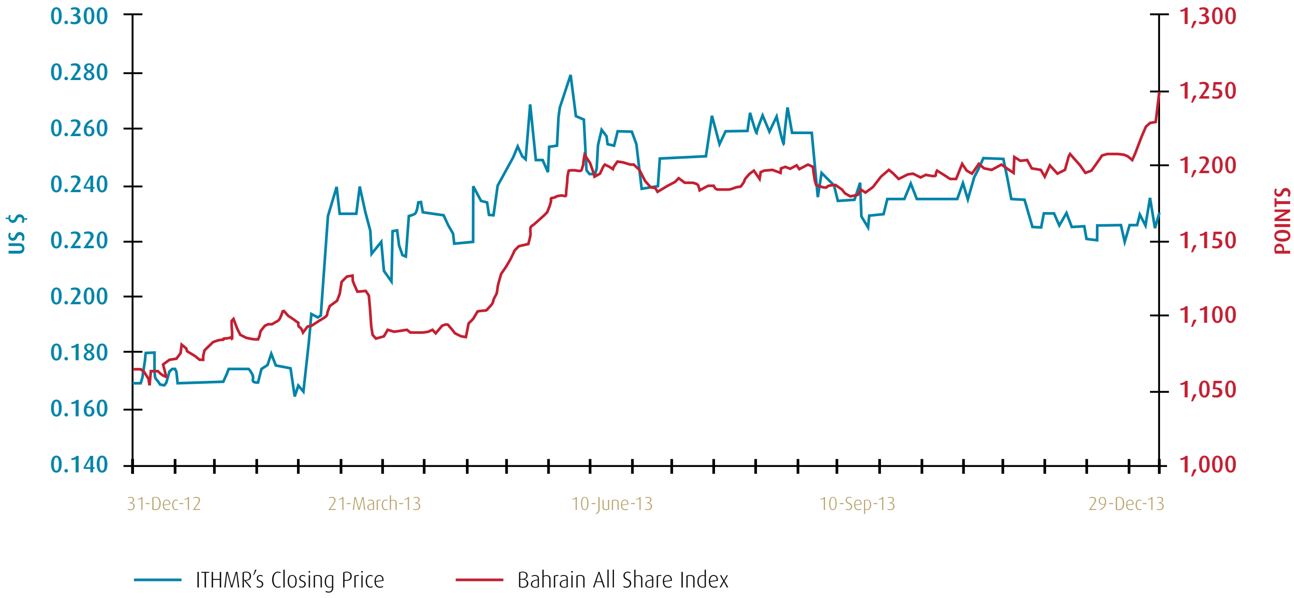
Shareholder	No. of shares	%
Dar Al-Maal Al-Islami Trust	790,416,000	26.08
Islamic Inv. Co. of the Gulf	594,129,224	19.60
Others	1,646,209,803	54.32
Total	**3,030,755,027**	**100.00**

PERFORMANCE IN THE BAHRAIN BOURSE

Stock Code: ITHMR

Share Price Relative to Indices – 2013

	Open	High	Low	Close	% Change in 2013
ITHMR's Share Price (US $)	0.170	0.290	0.165	0.230	35.29
Commercial Banks Sector's Index	1,792.20	2,456.44	1,797.96	2,456.44	37.06
Bahrain All Share Index	1,065.61	1,248.86	1,054.99	1,248.86	17.20
Esterad Index	1,102.58	1,270.28	1,084.99	1,270.28	15.21
Dow Jones Bahrain Index	89.53	110.67	89.06	110.67	23.61



ITHMAAR SHARE TRADING

	2013	2012
Volume, No. of shares	**251,334,462**	147,210,169
Value, BD	**21,712,664**	8,589,367

MARKET CAPITALISATION AND TURNOVER

	2013			2012		
Benchmark	**Market cap (BD)**	**% of total market cap**	**Share turnover (%)**	Market cap (BD)	% of total market cap	Share turnover (%)
ITHMR	**262,796,768**	**3.77**	**8.26**	179,711,582	3.07	4.78
Commercial Bank Sector	**3,252,843,598**	**46.72**	**4.72**	2,327,593,590	39.75	2.94
Market	**6,962,951,211**	**100.00**	**3.04**	5,855,641,334	100.00	1.74

RANKING

ITHMR's ranking in 2013 out of the 41 local listed companies in the Bahrain Bourse.

Value of Shares Traded	4
Volume of Shares Traded	3
Number of Transactions	2
Market capitalization	8
Share turnover	4
Number of trading days	4

	2013		2012	
Trading days	**No of days**	**%**	No of days	%
ITHMR	**186**	**75.30**	173	69.76
Market	**247**	**100.00**	248	100.00

TRADING OF DIRECTORS AND EXECUTIVE MANAGEMENT SHARES DURING 2013.

		No. of shares trading during 2013
1	**HRH. Prince Amr Mohd Al-Faisal**	6,100
2	**Abdulhameed Abu Moussa**	106.100
3	**Sh. Hissa Al-Sabah**	64,200
4	**Nabeel Kanoo**	106,000
5	**Abdulelah Al-Qassimi**	106,000

Corporate Information

NAME OF COMPANY:	Ithmaar Bank B.S.C.
LEGAL FORM:	Ithmaar Bank B.S.C. is a Bahrain-based licensed Islamic retail bank regulated by the Central Bank of Bahrain. Formerly an investment bank, it completed a comprehensive reorganisation with its then wholly-owned subsidiary, Shamil Bank of Bahrain B.S.C. (c) in April 2010. Ithmaar Bank B.S.C. is incorporated as a Bahrain shareholding company under Bahrain Commercial Companies Law (Law No. 21 of 2001) with its shares listed on the Bahrain Bourse and the Kuwait Stock Exchange.
COMPANY REGISTRATION NUMBER:	CR 15210
STOCK EXCHANGE LISTINGS:	Bahrain Bourse and Kuwait Stock Exchange
STOCK CODE	"ITHMR"
REGISTERED OFFICE:	Seef Tower, Building 2080, Road 2825, Al Seef District 428 P.O. Box 2820, Manama, Kingdom of Bahrain Telephone:+973 1758 4000, +973 1758 5000 Facsimile: +973 1758 4017, +973 1758 5151 Swift Code: FIBHBHBM E-mail: info@ithmaarbank.com Website: www.ithmaarbank.com
HEAD OFFICE:	Seef Tower, Building 2080, Road 2825, Al Seef District 428 P.O. Box 2820, Manama, Kingdom of Bahrain
ACCOUNTING YEAR END:	31 December
COMPLIANCE OFFICER	Tawfiq Mohammed Al-Bastaki *Chief Risk Officer & General Manager, Head Risk Management and Compliance*
COMPANY SECRETARY	Dana Aqeel Raees *Executive Senior Manager - Legal Department*
AUDITORS	PricewaterhouseCoopers ME Limited P.O. Box 21144, Manama, Kingdom of Bahrain