Eskan Bank B.S.C. (c)

REPORT OF THE BOARD OF DIRECTORS, INDEPENDENT AUDITORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2013

Chairman's Statement

On behalf of the Board of Directors, I have the privilege to present the consolidated financial statements of Eskan Bank for the year ended 31 December 2013. This proved to be a highly successful year, marked by a number of important new initiatives to support the implementation of the Bank's new five-year strategy supported by sound financial results.

Eskan Bank's new strategy, which was approved by the Board of Directors in 2011, widens the scope of the Bank's activities to support the social agenda of Bahrain's Economic Vision 2030 in connection with its mandate. In particular, it defines the Bank's role to assist the Ministry of Housing in achieving the Government's commitment to significantly reduce the backlog of housing applications by low-to-medium income Bahraini families by accelerating the construction of social housing units in partnership with the private sector.

Our vision is to be an acknowledged industry leader in the facilitation of housing solutions with a focus on the development of cohesive communities, and the formation of a fair and efficient mortgage market in the Kingdom. In this respect, during 2013, the Bank made progress on the implementation of its plan to develop 2,500 social and affordable housing units on its land bank and through private sector tie-ups.

Eskan Bank is working closely with the Ministry of Housing, the Ministry of Finance, and other related Government institutions, on new initiatives designed to make it economically viable for property developers and financial institutions to engage in social housing construction and financing.

The Social Housing Finance Scheme is an initiative launched in 2013 jointly by Ministry of Housing, Ministry of Finance and Eskan Bank. This scheme allows the private sector property developers to offer house units as per the Ministry of Housing specifications to eligible beneficiaries and allows financial institutions to offer mortgages to finance the house units for purchase by Bahraini families, while the Government subsidizes the monthly installments as per criteria. Eskan Bank acts as the subsidy administrator on behalf of the Government with the main role of liaising between the commercial banks and the Government for all issues related to the monthly subsidy payments throughout the tenure of the mortgage. Eskan Bank secured the participation of four banks for this scheme, namely Ahli United Bank, Kuwait Finance House Bahrain, Al-Salam Bank and Bahrain Islamic Bank.

The Bank has continued to provide full support to Ministry of Housing for successful implementation of the Mortgage Guarantee System, The Mortgage Guarantee System aims to create a sustainable and affordable housing finance system for Bahraini citizens, encompassing both the primary and secondary financial markets.

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The Bank in its own capacity has also worked on new initiatives that involve working with private sector land owners through joint ventures to develop social and affordable housing units, Built Operate Transfer (BOT) program to involve private sector in the development of the Bank's land plots that are not suitable for social housing as well as developed a program to be launched in 2014 to promote citizens' acceptance of vertical developments and apartment living.

I am pleased to report that Eskan Bank has posted sound financial results for 2013 on the back of strong mortgage loan disbursements and liquidity management. Total net income for the year 2013 is BD 8.0M compared to BD 8.3 million in 2012.Total equity has reached BD 210 million with a growth of 3.1% from 2012 and a return on equity of 3.8%. Operating expenses are being maintained at approximately the same level of previous year at BD 4.9 million due to the success of cost-containment activities and resultantly the cost-to-income ratio improving from 37% in 2012 to 33% in 2013. On a prudent basis the Bank maintains a 1% general loan loss provision for the top up commercial loans in addition to the specific provision computed in compliance with regulatory requirements. Moreover, an amount of BD 1.6 million has been written off during the year mainly comprising of the initial costs of design and technical studies incurred in previous years for a commercial project that has been cancelled during the year.

The Bank's total balance sheet strengthened to BD 576 million at the end of 2013 compared with BD 533 million at the end of the previous year. The capital adequacy ratio remained strong at 111% while liquidity continued to be healthy with liquid assets representing 18% of the total assets.

Eskan Bank continues to be the largest mortgage lender in the Kingdom of Bahrain, and in 2013 we have made record disbursements of BD 54.7 million to our social loan customers serving 4,115 Bahraini families. At the end of the year, total loans and advances stood at BD 400 million with an increase of 12.5% over 2012.

Throughout the year, we continued to fulfill our unique social and community role to contribute to the betterment of society and improve the quality of life for Bahraini citizens. In this respect, the Bank has reached completion stage for four community complexes and has also initiated work on three more projects in the last quarter of 2013. These community complexes provide business and employment opportunities for local entrepreneurs and small enterprises and also complement and support Ministry of Housing projects with convenient neighborhood amenities.

Through our subsidiaries, associates and strategic investments, we continued to support the micro-financing for people who do not qualify for commercial banking loans and to increase the availability of social and affordable housing units through a strategic stake in Ebdaa Bank and Naseej.

During the year, we took steps to further reinforce the Bank's institutional capability. We strengthened our corporate governance and risk management framework, and implemented a number of new initiatives to enhance our human capital, IT infrastructure and quality management, through which to improve the Bank's operational effectiveness and efficiency. We also continued to meet the changing needs and growing expectations of our customers with the development and introduction of new Shari'a-compliant products and services.

We look forward to 2014 with renewed optimism and confidence. Our successful strategic, financial and operational achievements of 2013 have further strengthened the Bank's ability to continue its unique contribution to the social and economic development of the Kingdom of Bahrain. Providing the opportunity of home ownership to more Bahraini citizens – which remains our enduring primary role – will contribute to greater social stability and prosperity in the nation.

On behalf of the Board of Directors, I convey my gratitude to His Majesty King Hamad Bin Isa Al Khalifa, the King of the Kingdom of Bahrain; to His Royal Highness Prince Khalifa Bin Salman Al Khalifa, the Prime Minister; and to His Royal Highness Prince Salman Bin Hamad Al Khalifa, the Crown Prince and Deputy Supreme Commander; for their wise leadership and visionary reform program.

I also take this opportunity to thank our shareholder, the Government of Bahrain, for its confidence and financial support; and to acknowledge the cooperation, professional advice and guidance received from the Government's ministries and official bodies. These include the Ministry of Finance, the Ministry of Housing, the Ministry of Industry and Commerce, the Ministry of Municipalities and Urban Planning, the Ministry of Works, the Electricity & Water Authority, the Economic Development Board, the Ministry of Justice, Directorate of Land Registration and Nationalisation, and the Tender Board.

Finally, I would like to express my sincere appreciation to our customers for their loyalty and trust; to our business partners for their support and encouragement; and to our management and staff for their commitment and dedication.

H.E. Basim Bin Yacob Al Hamer
Chairman

EY
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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ESKAN BANK B.S.C. (c)

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Eskan Bank B.S.C. (c) ("the Bank") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

The Bank's Board of Directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ESKAN BANK B.S.C. (c) (continued)

Report on other regulatory requirements

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 1), we report that:

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

b) the financial information contained in the Report of the Board of Directors is consistent with the financial statements.

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2013 that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests.

Ernst + Young

24 February 2014
Manama, Kingdom of Bahrain

Eskan Bank B.S.C. (c)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	2013 BD	2012 BD
ASSETS			
Cash and bank balances	5	**105,617,569**	106,356,873
Investments	6	**4,756,950**	3,541,096
Loans	7	**400,201,986**	355,750,177
Investment in associates	8	**9,135,895**	8,939,478
Investment properties	9	**41,760,348**	39,007,771
Development properties	10	**8,350,698**	11,694,915
Other assets	11	**6,368,933**	7,697,232
Disposal group	22	**-**	435,690
TOTAL ASSETS		**576,192,379**	533,423,232
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from financial and other institutions		**49,000,000**	51,332,518
Government accounts	12	**232,779,235**	192,422,632
Term loans	13	**65,500,000**	65,500,000
Other liabilities	14	**18,562,318**	19,924,105
Disposal group	22	**-**	144,570
TOTAL LIABILITIES		**365,841,553**	329,323,825
EQUITY			
Share capital	15	**108,300,000**	108,300,000
Contribution by shareholder		**18,523,651**	20,291,984
Statutory reserve		**54,461,896**	54,461,896
Retained earnings		**29,065,279**	21,045,527
TOTAL EQUITY		**210,350,826**	204,099,407
TOTAL LIABILITIES AND EQUITY		**576,192,379**	533,423,232

Basim Bin Yacob Al Hamer
Minister of Housing
Chairman of Eskan Bank

Dr. Khalid Abdulla
General Manager

The attached notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Notes	2013 BD	2012 BD
Management charges		**12,138,167**	10,738,355
Interest income	16	**2,831,748**	2,924,496
Income from investment properties	17	**375,654**	360,554
Net share of loss of associates	8	**(287,729)**	(614,282)
Other income	18	**2,094,149**	2,584,012
TOTAL INCOME		**17,151,989**	15,993,135
Staff costs		**(3,813,313)**	(3,429,745)
Interest expense		**(2,298,114)**	(2,467,686)
Other expenses	19	**(1,057,438)**	(1,542,968)
Impairment provision on loans	7	**(325,355)**	(82,383)
Write off / impairment provision on properties	20	**(1,638,017)**	(142,000)
TOTAL EXPENSES		**(9,132,237)**	(7,664,782)
PROFIT FOR THE YEAR		**8,019,752**	8,328,353
Other comprehensive income		**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**8,019,752**	8,328,353

Basim Bin Yacob Al Hamer
Minister of Housing
Chairman of Eskan Bank

Dr. Khalid Abdulla
General Manager

The attached notes 1 to 30 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Share capital *BD*	*Contribution by shareholder* *BD*	*Statutory reserve* *BD*	*Retained earnings* *BD*	*Total equity* *BD*
At 1 January 2013	108,300,000	20,291,984	54,461,896	21,045,527	204,099,407
Transfer of land (note 9)	-	680,876	-	-	680,876
Transfer to the Shareholder (note 22)	-	(2,449,209)	-	-	(2,449,209)
Total comprehensive income	-		-	8,019,752	8,019,752
At 31 December 2013	**108,300,000**	**18,523,651**	**54,461,896**	**29,065,279**	**210,350,826**
At 1 January 2012	108,300,000	20,228,918	54,461,896	12,717,174	195,707,988
Transfer of land (note 9)	-	63,066	-	-	63,066
Total comprehensive income	-	-	-	8,328,353	8,328,353
At 31 December 2012	108,300,000	20,291,984	54,461,896	21,045,527	204,099,407

The attached notes 1 to 30 form part of these consolidated financial statements.

Eskan Bank B.S.C. (c)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Notes	*2013* *BD*	*2012* *BD*
OPERATING ACTIVITIES			
Profit for the year		**8,019,752**	8,328,353
Adjustments for:			
Net share of loss of associates	8	**287,729**	614,282
Impairment provision on loans	7	**325,355**	82,383
Depreciation		**353,270**	422,969
Development properties written off		**1,638,017**	-
Investment properties impairment provision	9	**-**	142,000
Operating profit before working capital changes:		**10,624,123**	9,589,987
Increase in placements with banks		**(7,227,668)**	(6,483,767)
Increase in loans		**(44,777,164)**	(42,560,824)
Increase in development properties		**(559,995)**	(402,137)
Increase in other assets		**(163,758)**	(19,174)
(Decrease) / increase in deposits from financial and other institutions		**(4,505,742)**	12,315,672
(Decrease) / increase in other liabilities		**(1,335,055)**	6,918,552
Net cash flows used in operating activities		**(47,945,259)**	(20,641,691)
INVESTING ACTIVITIES			
Purchase of equipment		**(393,451)**	(144,457)
Sale of equipment		**-**	430,464
Net cash flows (used in) / from investing activities		**(393,451)**	286,007
FINANCING ACTIVITIES			
Repayment of term loans		**-**	(22,666,667)
Proceeds from term loans		**-**	16,666,667
Net movement in Government accounts		**40,356,603**	36,831,446
Net cash flows from financing activities		**40,356,603**	30,831,446
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		**(7,982,107)**	10,475,762
Cash and cash equivalents at 1 January	5	**99,888,241**	89,412,479
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	5	**91,906,134**	99,888,241
Cash and cash equivalents comprise:			
Cash and cash equivalents	5	**91,906,134**	99,873,106
Disposal group - cash and cash equivalents	22	**-**	15,135
		91,906,134	99,888,241
Non-cash activities			
Investment in associate by transfer of receivables	8	**1,700,000**	3,300,000
Transfer to the Shareholder	22	**2,449,209**	-
Investment properties (land contribution by the shareholder)	9	**680,876**	63,066

The attached notes 1 to 30 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

Incorporation
Eskan Bank B.S.C. (c) ("the Bank") is a closed joint stock company registered and incorporated by Amiri Decree No. 4 of 1979. The Bank operates under a restricted Commercial Banking License issued by the Central Bank of Bahrain ("the CBB"). The Bank is affiliated to the concerned Minister of Housing and its shares are fully owned by the Government of Bahrain in accordance with the Articles of Association, whose provisions shall be deemed as Law according to the establishment law of the Bank.

Activities
The Bank's principal activities include administering housing loans to Bahrain nationals as directed by the Ministry of Housing ("MOH"), developing construction projects within the Kingdom of Bahrain and acting as a collection agent for rent and mortgage repayments on behalf of the MOH. Further, the Bank also acts as an administrator for the MOH in respect of housing facilities and certain property related activities. As an administrator, it enters into various transactions in the ordinary course of business related to housing loans, rents and mortgage repayments and property administration. The Bank receives funds from the Ministry of Finance ("MOF") based on annual budgetary allocations for housing loans. The Bank also records certain transactions based on instructions from the MOH and the MOF and decisions taken by the Government of the Kingdom of Bahrain. The Bank's registered office is at Almoayyed Tower, Seef district, Manama, Kingdom of Bahrain.

The consolidated financial statements were approved by the Board of Directors on 24 February 2014.

2 BASIS OF PREPARATION

Statement of compliance
The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and are in conformity with the Bahrain Commercial Companies Law and the CBB and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and the relevant directives.

Accounting convention
The consolidated financial statements have been prepared under the historical cost convention as modified by the remeasurement at fair value of available for sale investments.

The consolidated financial statements are presented in Bahraini Dinars (BD), this being the functional currency of the Group.

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

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

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

2 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interests;
- Derecognises the cumulative translation differences recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in the statement of income; and
- Reclassifies the parent's share of components previously recognised in OCI to the statement of income or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

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

Subsidiary	***Ownership for 2013***	*Ownership for 2012*	***Year of incorporation / acquisition***	***Country of incorporation / acquisition***
Eskan RMBS Company B.S.C.(c) ('RMBS') RMBS's principal activities are to issue Asset Backed private debt securities for the purpose of securitisation of housing loans.	**100%**	100%	2007	Kingdom of Bahrain
Eskan Properties Company B.S.C.(c) ('EPC') EPC's principal activities are managing certain investment properties.	**100%**	100%	2007	Kingdom of Bahrain
Smart Building Materials (SPC) Smart Building Materials (SPC) principal activities are to create the entire value chain to manufacture cost-effective, environmentally efficient homes for the less advantaged.	**100%**	100%	2009	Kingdom of Bahrain

2 BASIS OF PREPARATION (continued)

3 ACCOUNTING POLICIES

3.1 Summary of significant accounting policies

The significant accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year, except for the adoption of the new standards and interpretations effective as of 1 January 2013.

New standards, interpretations and amendments adopted by the Group
These consolidated financial statements have been prepared using accounting policies, which are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2012, except for the adoption of new standards and interpretations effective as of 1 January 2013.

IAS 1 *Presentation of Items of Other Comprehensive Income - Amendments to* IAS 1
The amendments to IAS 1 introduce grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affected presentation only and had no impact on the Group's financial position or performance.

IAS 1 *Clarification of the requirement for comparative information (Amendment)*
The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional voluntarily comparative information does not need to be presented in a complete set of financial statements.

An opening statement of financial position (known as the 'third balance sheet') must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes. The amendment affected presentation only and had no impact on the Group's financial position or performance.

IFRS 7 *Financial Instruments: Disclosures Offsetting Financial Assets and Financial Liabilities - Amendments to* IFRS 7
The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Group does not set off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Group.

3 ACCOUNTING POLICIES (continued)

3.1 Summary of significant accounting policies (continued)

New standards, interpretations and amendments adopted by the Group (continued)

IFRS 10 *Consolidated Financial Statements and* IAS 27 *Separate Financial Statements*
IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation - Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including:

(a) an investor has power over an investee;
(b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and
(c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

IFRS 10 had no impact on the consolidation of investments held by the Group.

IFRS 11 *Joint Arrangements and* IAS 31 *Interests in Joint Ventures*
IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method. The adoption of IFRS 11 had no impact on the accounting treatment of investments currently held by the Group.

IFRS 12 *Disclosure of Interests in Other Entities*
IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. Additional disclosures are provided by the Group in the individual notes to the consolidated financial statements.

IFRS 13 *Fair Value Measurement*
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

Cash and cash equivalents
Cash and cash equivalents include cash on hand, balances held with the CBB and placements with financial institutions with original maturities of less than 90 days. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

Placements with financial institutions and others
Placements with financial institutions and others are financial assets which are mainly money market placements with fixed or determinable payments and placements with financial institutions and others with fixed maturities that are not quoted in an active market. Money market placements are not entered into with the intention of immediate or short-term resale. Placements with financial institutions and others are stated at amortised cost less provision for impairment, if any.

3 ACCOUNTING POLICIES (continued)

3.1 Summary of significant accounting policies (continued)

Loans
Loans are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans comprise of social housing loans and commercial housing loans. The Group recognises loans on the date on which they are originated.

Social housing loans represent loans disbursed to Bahraini nationals for the purpose of buying, constructing and repairing houses, based on directives from the MOH. Commercial housing loans represent loans disbursed to Bahraini nationals in the ordinary course of business.

Loans are stated at amortised cost, less provision for impairment, if any and in the case of social housing loans, subsidies and reductions granted by the Government.

Investments
All Investments are recognised initially at fair value, including directly attributable transaction costs, except in the case of investments recorded at fair value through profit or loss, where transaction costs are expensed in the consolidated statement of comprehensive income.

Following the initial recognition, investments are remeasured using the following policies:

Investments carried at fair value through profit or loss
Investments are classified as “carried at fair value through profit or loss” if they are designated on the date of acquisition (i.e. initial recognition) as carried at fair value through profit or loss.

Investments classified as “carried at fair value through profit or loss” are subsequently remeasured at fair value. The unrealised gains and losses arising from the remeasurement to fair value are included in the consolidated statement of comprehensive income as "Net fair value loss on investments carried at fair value through profit or loss".

Available for sale investments
Investments are classified as “available for sale” if they are not classified as carried at fair value through profit or loss and mainly comprise of investments in unquoted equity securities.

After initial recognition, investments which are classified as available for sale are remeasured at fair value. Fair value changes are reported as a separate component of equity (other comprehensive income) until the investment is derecognised or the investment is determined to be impaired, at which time the cumulative change in fair value is included in the consolidated statement of comprehensive income for the year. The losses arising from impairment of such investments are recognised in the consolidated statement of comprehensive income and are excluded from the consolidated statement of changes in equity (other comprehensive income).

Government accounts
Transactions with the MOF and the MOH are recorded by the Group as government accounts. Government accounts are non interest bearing and are payable on demand.

Transactions are recorded at the fair value of the consideration received, less amounts repaid or adjustments made as per the instructions of MOF or MOH.

Deposits from financial and other institutions and term loans
These financial liabilities are carried at amortised cost, less amounts repaid.

3 ACCOUNTING POLICIES (continued)

3.1 Summary of significant accounting policies (continued)

Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 valuation: Directly observable quotes for the same instrument (market prices).
- Level 2 valuation: Directly observable proxies for the same instrument accessible at valuation date (mark-to-model with market data).
- Level 3 valuation: Derived proxies (interpolation of proxies) for similar instruments that have not been observed (mark-to-model with deduced proxies).

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial instruments with no active market or where fair value cannot be reliably determined are stated at cost less provision for any impairment.

De-recognition of financial instruments

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

3 ACCOUNTING POLICIES (continued)

3.1 Summary of significant accounting policies (continued)

De-recognition of financial instruments (continued)

Financial liabilities
A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires. The difference between the carrying value of the original financial liability and the consideration paid is recognised in consolidated statement of comprehensive income.

Impairment of financial assets
An assessment is made at the date of each consolidated statement of financial position date to determine whether there is objective evidence that a financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss is recognised for changes in its carrying amount as follows:

Impairment of financial assets held at amortised cost
A financial asset is considered impaired when there is an objective evidence of credit-related impairment as a result of one or more loss event(s) that occurred after the initial recognition of the asset and those loss events have an impact on the estimated future cash flows of the financial asset or group of financial assets and can be reliably estimated.

A specific provision for credit losses, due to impairment of a loan or any other financial asset held at amortised cost, is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the interest rate at the inception of the credit facility.

The Group considers evidence of impairment for financial assets at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

The carrying amount of the asset is adjusted through the use of a provision for impairment account and the amount of the adjustment is included in the consolidated statement of comprehensive income.

Financial assets are written off after all restructuring and collection activities have taken place and the possibility of further recovery is considered to be remote. Subsequent recoveries are included in other income. Provisions for impairment are released and transferred to the consolidated statement of comprehensive income where a subsequent increase in the recoverable amount is related objectively to an event occurring after the provision for impairment was established.

Available for sale investments
In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of comprehensive income – is removed from equity and recognised in the consolidated statement of comprehensive income. Impairment losses on equity investments are not reversed through the consolidated statement of comprehensive income; increases in their fair value after impairment are recognised directly in the consolidated statement of changes in equity.

3 ACCOUNTING POLICIES (continued)

3.1 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)
The Group assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount and impairment losses are recognised in the consolidated statement of comprehensive income.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed in the consolidated statement of comprehensive income only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed the recoverable amount nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

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

Recognition of income and expense

Income recognition
Revenue is recognised to the extent that it is possible that the economic benefits will flow to the Group and the revenue can be reliably measured. Income earned by the Group is recognised on the following basis:

Management charges
Management charges on social loans is recognised using the effective yield method subsequent to the grace period of six months.

Interest income
Interest income on commercial loans is recognised using the effective yield method, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

Rental income
Rental income from investment properties is recognised on a straight line basis over the term of the lease.

Other income
Other income is recognised when the services are rendered by the Group.

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

3 ACCOUNTING POLICIES (continued)

3.1 Summary of significant accounting policies (continued)

Employees' end of service benefits
Provision is made for amounts payable under employment contracts applicable to non-Bahraini employees' accumulated periods of service at the consolidated statement of financial position date. Bahraini employees are covered under the General Organization for Social Insurance ("GOSI") scheme and the contributions are determined as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

Amortised cost measurement
The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment for financial assets.

Investments in associates
An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment in an associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of the net assets of the associate. Losses in excess of the cost of the investment in an associate are recognised when the Group has incurred obligations on its behalf. Goodwill relating to an associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. The consolidated statement of comprehensive income 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 comprehensive income. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The Group's share of profit or loss of an associate is shown on the face of the consolidated statement of comprehensive income. This is the profit or loss attributable to equity holders of the associate and, therefore, is profit after tax and non-controlling interests in the subsidiaries of the associate.

Distributions received from an associate reduce the carrying amount of investment.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

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

Upon loss of significant influence over the associate, the Group measures and recognises any remaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the remaining investment and proceeds from disposal is recognised in the consolidated statement of comprehensive income.

3 ACCOUNTING POLICIES (continued)

3.1 Summary of significant accounting policies (continued)

Development properties

Development properties consist of land being developed for sale in the ordinary course of business and costs incurred in bringing such land to its saleable condition. Development properties are stated at the lower of cost and net realisable value.

Investment properties

Investment properties are properties held for the purpose of development for rental or capital appreciation or for both. Investment properties are stated at cost, including transaction costs, less accumulated depreciation and any impairment losses. Depreciation is calculated using the straight-line method at annual rates. No depreciation is charged on freehold land. Expenditure subsequent to initial recognition is capitalised only when it increases future economic benefits embodied in the properties. All other expenditure is recognised in the consolidated statement of comprehensive income as an expense when incurred.

Investment properties are derecognised when either they have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of comprehensive income in the period of derecognition.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Contingent liabilities and contingent assets

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

Contingent assets are not recognised in the consolidated financial statements, but are disclosed when an inflow of economic benefits is probable.

Statutory Reserve

In accordance with the requirements of the Bahrain Commercial Companies Law and the Central Bank of Bahrain regulations, 10% of the net profit for the year is transferred to statutory reserve. The Group may resolve to discontinue such annual transfers when the reserve totals 50% of the issued share capital. The reserve is not distributable, but may be utilised as security for the purpose of a distribution in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

Trade date accounting

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

Disposal group

A disposal group classified as held for sale is measured at the lower of their carrying amount and fair value less costs to sell. A disposal group is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

3 ACCOUNTING POLICIES (continued)

3.1 Summary of significant accounting policies (continued)

3.2 Prospective changes in accounting policies

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards (where applicable) when they become effective:

IFRS 9 *Financial Instruments*

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of the Group's financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under IFRS 10.

IAS 32 *Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32*

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

IFRIC Interpretation 21 *Levies* (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Group does not expect that IFRIC 21 will have material financial impact in future financial statements.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of assets, liabilities, revenue, expenses and the disclosure of contingent liabilities as of the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Judgements
In the process of applying the Group's accounting policies, management has made the following judgements apart from those involving estimates and assumptions, which have the most significant effect on the amounts recognised in the consolidated financial statements.

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

Classification of investments
Management decides on acquisition of an investment whether it should be classified as fair value through profit or loss or available-for-sale.

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

Impairment losses on loans
The Group reviews its individually significant commercial loans at each consolidated statement of financial position date to assess whether an impairment loss should be recorded in the consolidated statement of comprehensive income. In particular, management judgement is required when determining the impairment loss. In estimating the future cash flows, the Group makes judgements about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Impairment of available-for-sale investments
The Group reviews its debt securities classified as available-for-sale investments at each consolidated statement of financial position date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans.

The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

5 CASH AND BANK BALANCES

	2013 *BD*	*2012* *BD*
Cash and bank balances		
Cash	**138,479**	149,708
Balances with banks	**1,077,372**	1,042,391
Balances with the Central Bank of Bahrain	**247,612**	982,532
	1,463,463	2,174,631
Short term placements (with an original maturity of 90 days or less)		
Placements with banks and other institutions	**18,001,208**	26,510,384
Placements with the Central Bank of Bahrain	**72,441,463**	71,188,091
	90,442,671	97,698,475
Total cash and cash equivalents	**91,906,134**	99,873,106
Placements (with an original maturity of more than 90 days)		
Placements with banks and other institutions	**-**	3,500,000
Placements with the Central Bank of Bahrain	**13,711,435**	2,983,767
	13,711,435	6,483,767
Total cash and bank balances	**105,617,569**	106,356,873

6 INVESTMENTS

	2013	*2012*
Unquoted	*BD*	*BD*
Available for sale		
At 1 January	**3,541,096**	3,541,096
Additions (note 8.1)	**1,215,854**	-
At 31 December	**4,756,950**	3,541,096

7 LOANS

	2013 *BD*	*2012* *BD*
(i) Social loans		
Loans (net of reductions and waivers written off)	**403,601,670**	355,526,111
Less: Provisions for 50% subsidy under Amiri Decree No. 18/1977 (d (v))	**(29,737,666)**	(27,387,842)
	373,864,004	328,138,269
(ii) Commercial loans		
Gross Loans	**27,226,277**	28,174,848
Less: Provision for impairment	**(888,295)**	(562,940)
	26,337,982	27,611,908
Total loans	**400,201,986**	355,750,177

Loans stated at a carrying amount of BD 42 million (2012: BD 46 million) are secured as guarantee against the RMBS bonds issued (note 13).

7 LOANS (continued)

a) Age analysis of past due but not impaired loans

	2013				
	Up to 30 days BD	*31 to 60 days BD*	*61 to 90 days BD*	*Above 90 days BD*	*Total BD*
Social loans	**128,336**	**14,127,128**	**6,964,541**	**26,488,364**	**47,708,369**
Commercial loans	**3,175,859**	**439,992**	**128,756**	**-**	**3,744,607**
	3,304,195	**14,567,120**	**7,093,297**	**26,488,364**	**51,452,976**

	2012				
	Up to 30 days BD	*31 to 60 days BD*	*61 to 90 days BD*	*Above 90 days BD*	*Total BD*
Social loans	-	13,340,873	8,777,978	23,422,573	45,541,424
Commercial loans	3,742,893	380,093	120,030	-	4,243,016
	3,742,893	13,720,966	8,898,008	23,422,573	49,784,440

None of the above past due loans are considered to be impaired and the credit risk for social loans does not reside with the Group.

b) Age analysis of impaired loans

	2013			
	3-6 Months BD	*6-12 Months BD*	*1-3 Years BD*	*Total BD*
Commercial loans	**309,458**	**426,369**	**830,988**	**1,566,815**

	2012			
	3-6 Months BD	*6-12 Months BD*	*1-3 Years BD*	*Total BD*
Commercial loans	327,900	246,400	548,670	1,122,970

c) Impairment provision for commercial loans

	2013			
	Opening balance BD	*Charge for the year BD*	*Write-backs BD*	*Closing balance BD*
General Provision				
Commercial loans	**270,519**	**-**	**(4,479)**	**266,040**
Specific Provision				
Commercial loans	**292,421**	**359,367**	**(29,533)**	**622,255**
At 31 December	**562,940**	**359,367**	**(34,012)**	888,295

7 LOANS (continued)

c) Impairment provision for commercial loans (continued)

	2012			
	Opening balance	*Charge for the year*	*Write-backs*	*Closing balance*
	BD	*BD*	*BD*	*BD*
General Provision				
Commercial loans	277,830	-	(7,311)	270,519
Specific Provision				
Commercial loans	202,727	205,656	(115,962)	292,421
At 31 December	480,557	205,656	(123,273)	562,940

The cost of social loan subsidies, reductions and waivers are charged to the government accounts.

d) Social loans

Social loans are stated after writing off the following reductions / waivers:

(i) Under a Cabinet decision issued in April 1992, a reduction of 25% ("1992 Reduction") was granted on monthly installments with effect from 1 May 1992, and subsequently restricted to social loans granted prior to 31 December 1998.

(ii) On 16 December 2000, an additional reduction of 25% ("2000 Reduction") was granted on monthly installments for social loans that were outstanding as of 15 December 2000.

In implementing the 2002 Reduction, referred to in (iii) below, the 2000 Reduction was also recalculated in 2002 to apply the reduction only to installments that were due after 15 December 2000 and not to overdue installments.

(iii) On 15 February 2002, His Majesty, King Hamad Bin Isa Bin Salman Al Khalifa, announced a waiver of 50% ("2002 Reduction") of the social loans granted.

Management also waived all resultant balances of BD 1,000 and below, as of 15 February 2002 arising from the above reductions and the subsidy mentioned in (v) below. Management have assumed that the 2002 Reduction included borrowers whose loans had been approved on or before 15 February 2002, but not disbursed.

(iv) On 16 December 2006, His Majesty, King Hamad Bin Isa Bin Salman Al Khalifa, announced a waiver of 50% ("2006 Reduction") of the social loans granted.

(v) The provision of this subsidy which was made in earlier years, represents a waiver of 50% of monthly installments relating to eligible loans covered by Amiri Decree No. 18/1977. The waivers / reductions mentioned in (iv) above have also been applied to the eligible loans.

(vi) On 26 February 2011, His Majesty, King Hamad Bin Isa Bin Salman Al Khalifa, announced a waiver of 25% ("2011 Reduction") on installments of social loans and a 25% reduction on outstanding balances of mortgages where the Group acts as a collection agent.

8 INVESTMENT IN ASSOCIATES

	2013	*2012*
	BD	*BD*
At 1 January	**8,939,478**	6,253,760
Acquisitions	**1,700,000**	3,300,000
Transfer to available for sale investments (note 8.1)	**(1,215,854)**	-
Share of losses	**(287,729)**	(614,282)
At 31 December	**9,135,895**	8,939,478

The principal associates of the Group are:

Name	***Country of Incorporation***	*Carrying Value*	
		2013	*2012*
		BD	*BD*
Bahrain Property Musharaka Trust Fund	Kingdom of Bahrain	**8,894,630**	7,325,334
Southern Area Development Company	Kingdom of Bahrain	**-**	1,319,267
Ebdaa Bank	Kingdom of Bahrain	**241,265**	294,877
		9,135,895	8,939,478

Name	***Nature of activities***	*Ownership for*	
		2013	*2012*
Bahrain Property Musharaka Trust Fund	Development of two real-estate projects in the Kingdom of Bahrain.	42.92%	42.92%
Southern Area Development Company (note 8.1)	Developing the Hawar island and surrounding area into a major tourist attraction.	17.25%	28.13%
Ebdaa Bank	Providing micro-financing to low-to-middle income Bahrainis.	20.00%	20.00%

Note 8.1

On 29 December 2013 the Group's equity share in Southern Area Development Company (SADC) was reduced from 28.13% to 17.25% due to an increase in capital by another shareholder. As a result, the Group's representation on the Board of Directors' was reduced from 2 out of 8 to 1 out of 6. Accordingly, the investment has been reclassified from "investment in associates" to "available for sale investments".

	2013	*2012*
	(unaudited)	*(unaudited)*
	BD	*BD*
Summarised financial information of associates		
Total assets	**25,010,357**	31,039,073
Total liabilities	**2,013,258**	2,041,921
Total revenues	**355,847**	483,928
Total net loss	**(575,608)**	(888,064)

The Group has no share of any contingent liabilities or capital commitments, as at 31 December 2013 and 2012 related to its associates.

9 INVESTMENT PROPERTIES

	2013 BD	2012 BD
Opening balance at beginning of the year	**39,007,771**	38,857,706
Transferred from development properties	**2,266,195**	829,544
Additions during the year (note 9.1)	**680,876**	63,066
Depreciation charge for the year	**(167,762)**	(165,831)
Transferred to development properties	**-**	(434,714)
Others	**(26,732)**	-
	41,760,348	39,149,771
Provision for impairment	**-**	(142,000)
At 31 December	**41,760,348**	39,007,771

Note 9.1
This represents a capital contribution from the Government of the Kingdom of Bahrain. The land was recognised at its fair value on the date of transfer as determined by independent external real estate valuators.

Investment properties comprise the following:

	2013 BD	2012 BD
Land at Bander Al-Seef	**28,584,288**	28,584,288
Land at Sanabis	**2,528,374**	262,179
Land at Jaw	**1,938,783**	1,938,783
Land at Saar	**1,903,251**	1,903,251
Land at Hamad town	**1,597,727**	1,331,803
Land at Busayteen	**628,000**	628,000
Land at Salmabad	**414,952**	-
Land at Isa town	**67,160**	67,160
Land at Muharraq	**23,519**	23,519
Shops (accumulated depreciation 647,821 (2012 BD 480,059))	**4,216,294**	4,410,788
	41,902,348	39,149,771
Impairment allowance	**(142,000)**	(142,000)
	41,760,348	39,007,771

The fair value of investment properties, based on independent market valuations, as at 31 December 2013 was BD 278,884,243 (2012: BD 267,721,855). During the year, land with a fair value of BD 680,876 (2012: BD 63,066) was transferred to the Bank by the Government and accordingly has been treated as additional contribution by a shareholder.

The valuations were performed by accredited independent valuers with recognised and relevant professional qualifications and with recent experience in the location and category of the investment properties being valued.

The fair value of completed investment properties has been determined on a market value basis. In arriving at their estimates of market values, the valuers have used their market knowledge and professional judgement and have not only relied on historic transaction comparables.

10 DEVELOPMENT PROPERTIES

	2013	*2012*
	BD	*BD*
Opening balance at beginning of the year	**11,694,915**	11,687,608
Transferred from investment properties	**-**	434,714
Additions during the year	**559,995**	402,137
Transferred to investment properties	**(2,266,195)**	(829,544)
	9,988,715	11,694,915
Write off	**(1,638,017)**	-
At 31 December	**8,350,698**	11,694,915

11 OTHER ASSETS

	2013	*2012*
	BD	*BD*
Compensation for transfer of land (note 11.1)	**4,713,666**	4,713,666
Management fee and interest receivable	**648,193**	547,249
Equipment and other assets (net book value)	**544,440**	336,497
Receivables (note 11.2)	**239,790**	1,954,715
Prepayments and advances	**128,783**	53,478
Staff loans	**94,061**	91,627
	6,368,933	7,697,232

Note 11.1
This represents compensation to be received for the transfer of land owned and held by the Bank to the Ministry of Finance under Law number (39) for the year 2009 that pertains to acquisition of ownership of real estate properties for the public benefit.

Note 11.2
Includes BD 172,452 (2012: BD 1,899,969) receivable from Bahrain Property Musharaka Trust Fund. The prior year balance mainly represents Eskan Bank's committed capital which was invested during the year (note 8).

12 GOVERNMENT ACCOUNTS

	2013	*2012*
	BD	*BD*
Due to Ministry of Finance	**284,595,117**	252,428,222
Due from Ministry of Housing	**(51,815,882)**	(60,005,590)
	232,779,235	192,422,632

The Bank's transactions with the MOH and MOF have been recorded in a single account "Government Accounts" and are non-interest bearing. All cash transfers provided by the MOF to the Bank are credited to this account. These funds are used for financing housing programs as per Government policy. The Bank acts as collection agent for various transactions.

These accounts are mainly affected by the following:

a) Collections, which are mainly monthly budgetary support received from the MOF for disbursement of new social housing loans, reimbursements of project payments processed by Eskan Bank to Contractors, collections relating to MOH houses and rentals from MOH flats;

b) Reduction decrees issued by the Government from time to time;

c) Write off and waivers, death benefit write offs; and

12 GOVERNMENT ACCOUNTS (continued)

d) Any other payments / transactions undertaken by the Bank on behalf of MOH / MOF in relation to housing projects.

13 TERM LOANS

	2013 *BD*	*2012* *BD*
Syndicated bank term loan	**50,000,000**	50,000,000
RMBS bonds	**15,500,000**	15,500,000
At 31 December	**65,500,000**	65,500,000

The syndicated bank term loan bears interest repayable monthly at offer rate determined by the syndicate plus a margin of 2.25% (2012: 2.25%). The interest cost is reimbursed by the MOH. The syndicated bank term loan, repayable by June 2018, is supported by the Government of Bahrain as per the Bank's Articles of Association.

The RMBS bonds bear interest repayable biannually at BIBOR plus a margin of 1.01% (2012: 1.33%). The RMBS bonds, repayable by October 2017, are secured against certain social loans issued by the Bank (note 7).

	2013 *BD*	*2012* *BD*
Term loans maturing in less than 1 year	**6,500,000**	-
Term loans maturing in more than 1 year	**59,000,000**	65,500,000
	65,500,000	65,500,000

14 OTHER LIABILITIES

	2013 *BD*	*2012* *BD*
Unearned income for 50% subsidy under Amiri Decree (note 7)	**11,057,241**	7,139,569
Current accounts (note 14.1)	**5,024,304**	10,099,044
Accrued expenses	**897,689**	1,315,690
Employee savings scheme	**455,845**	475,478
Accrued interest payable on term loans	**308,783**	256,045
Employee benefits	**142,705**	173,804
Contractor retentions	**29,071**	-
Other liabilities	**646,680**	464,475
	18,562,318	19,924,105

Note 14.1
These mainly include BD 1.713 million (2012: BD 7.565 million) from Bahrain Property Musharaka Trust.

15 SHARE CAPITAL

	Number of shares	***2013 BD***
31 December 2013		
Authorised ordinary share capital of BD 100 each	**4,000,000**	**400,000,000**
Issued and fully paid up ordinary share capital of BD 100 each	**1,083,000**	**108,300,000**

15 SHARE CAPITAL (continued)

31 December 2012	*Number of shares*	*2012 BD*
Authorised ordinary share capital of BD 100 each	4,000,000	400,000,000
Issued and fully paid up ordinary share capital of BD 100 each	1,083,000	108,300,000

16 INTEREST INCOME

	2013 BD	*2012 BD*
Interest income on commercial loans	**2,202,180**	2,346,530
Interest income on placements with financial and other institutions	**629,568**	577,966
	2,831,748	2,924,496

17 INCOME FROM INVESTMENT PROPERTIES

	2013 BD	*2012 BD*
Rental income - net	**375,654**	360,554

18 OTHER INCOME

	2013 BD	*2012 BD*
Interest on term loans reimbursed by the Government of Bahrain	**1,555,502**	1,561,042
Other income (note 18.1)	**538,647**	1,022,970
	2,094,149	2,584,012

Note 18.1
This mainly includes income of BD 33,653 (2012: BD 566,347) from Government grant of BD 600,000 received during 2012 for Southern Tourism Company, a company which provides subsidised tourism services. The subsidiary was transferred to Mumtalakat on 25 April 2013 (note 21).

19 OTHER EXPENSES

	2013 BD	*2012 BD*
Depreciation	**353,270**	422,969
Premises	**226,337**	221,497
Transportation and communication	**77,911**	101,294
Legal and professional	**149,647**	194,374
Computer maintenance	**137,504**	180,016
Marketing cost	**24,567**	45,478
Electricity	**41,488**	48,543
Others	**46,714**	328,797
	1,057,438	1,542,968

20 WRITE OFF / IMPAIRMENT PROVISION ON PROPERTIES

	2013 *BD*	*2012* *BD*
Development properties written off (note 20.1)	**(1,638,017)**	-
Investment properties impairment provision	**-**	(142,000)
	(1,638,017)	(142,000)

Note 20.1
This amount represents write off of the initial costs of design and technical studies incurred in previous years for a project that has been cancelled during the year.

21 COMMITMENTS AND CONTINGENCIES

	2013 *BD*	*2012* *BD*
Housing loan commitments approved by MOH (note 21.1)	**98,697,958**	96,994,264
Commercial Loan commitments	**320,552**	399,226
Capital commitments	**242,431**	387,000
Lease commitments not later than one year	**88,815**	204,949
Lease commitments later than one year but not later than five years	**12,800**	98,415
Lease commitments later than five years	**54,400**	57,600
	99,416,956	98,141,454

The Group has filed cases against certain ex-employees on the grounds of misconduct. If the Group is successful in proving its case, it will result in a receipt of BD 322,988 (2012: BD 322,988).

Note 21.1
The Ministry of Housing provides funds annually to the Bank for disbursement of social housing loans along with a list of approved beneficiaries. Social loans that remain undisbursed at the end of the year are disclosed as a commitment.

22 DISPOSAL GROUP - SOUTHERN TOURISM COMPANY

During 2012, MOF (the "Shareholder") issued a letter dated 4 December 2012, instructing transfer of the Bank's ownership of its subsidiary Southern Tourism Company to Mumtalakat Holding Company.

Upon satisfaction of the relevant regulatory requirements, the Bank transferred its ownership effective 25 April 2013. As a result of the transfer, net assets amounting to BD 2,449,209 were charged against contribution by the Shareholder in the consolidated statement of changes in equity.

23 RELATED PARTY TRANSACTIONS

Related parties represent shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of the transactions relating to these related parties are approved by management. The amounts due to and from related parties are settled in the normal course of business.

The Group's transactions with related parties comprise of transactions with the MOF and the MOH and transactions with associates in the ordinary course of business. Balances with Government and investment in an associate are disclosed on the face of the consolidated statement of financial position and consolidated statement of comprehensive income and the notes therein.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel of the Group comprise the General Manager, Chief Business Officer, Chief Investment Officer, Chief Financial Officer, Chief Risk Officer and other senior management. The key management personnel compensation is as follows:

23 RELATED PARTY TRANSACTIONS (continued)

	2013 ***BD***	*2012* *BD*
Short term employee benefits	**693,135**	776,734
Long term employee benefits	**42,889**	32,537
	736,024	**809,271**

24 CLASSIFICATION OF FINANCIAL INSTRUMENTS

Set out below is an overview of financial instruments, other than cash and cash equivalents, held by the Group:

At 31 December 2013	***Available-for-sale*** ***BD***	***Amortised cost/ Loans and receivables*** ***BD***	***Total*** ***BD***
FINANCIAL ASSETS			
Investments	**4,756,950**	**-**	**4,756,950**
Loans	**-**	**400,201,986**	**400,201,986**
Other assets	**-**	**988,571**	**988,571**
	4,756,950	**401,190,557**	**405,947,507**

	Amortised cost ***BD***	***Total*** ***BD***
FINANCIAL LIABILITIES		
Deposits from financial and other institutions	**49,000,000**	**49,000,000**
Government accounts	**232,779,235**	**232,779,235**
Term loans	**65,500,000**	**65,500,000**
Other liabilities	**17,963,768**	**17,963,768**
	365,243,003	**365,243,003**

At 31 December 2012	*Available-for-sale* *BD*	*Amortised cost/ Loans and receivables* *BD*	*Total* *BD*
FINANCIAL ASSETS			
Investments	3,541,096	-	3,541,096
Loans	-	355,750,177	355,750,177
Other assets	-	2,594,851	2,594,851
	3,541,096	358,345,028	361,886,124

24 CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

	Amortised cost BD	*Total BD*
FINANCIAL LIABILITIES		
Deposits from financial and other institutions	51,332,518	51,332,518
Government accounts	192,422,632	192,422,632
Term loans	65,500,000	65,500,000
Other liabilities	12,135,254	12,135,254
	321,390,404	321,390,404

25 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

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

At 31 December 2013	***Level 1 BD***	***Level 2 BD***	***Level 3 BD***	***Total BD***
Investments designated as available for sale	**-**	**4,756,950**	**-**	**4,756,950**
	-	**4,756,950**	**-**	**4,756,950**

At 31 December 2012	*Level 1 BD*	*Level 2 BD*	*Level 3 BD*	*Total BD*
Investments designated as available for sale	-	3,541,096	-	3,541,096
	-	3,541,096	-	3,541,096

Transfers between level 1, level 2 and level 3

None of the financial assets were transferred from level 1 to level 2 or level 1 and level 2 to level 3 during the year ended 31 December 2013.

The fair values of other financial instruments on the consolidated statement of financial position are not significantly different from their carrying values.

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

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

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

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

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

26 RISK MANAGEMENT

Overview

Risk is inherent in the Group's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each business unit is accountable for the risk exposures relating to their responsibilities. The Group is exposed to credit risk, liquidity risk and market risk. It is also subject to various operating risks.

Risk management framework

Board of Directors

The Board of Directors is responsible for the overall risk management approach and ensuring that an effective risk management framework is in place. The Board of Directors approves and periodically reviews the risk management policies and strategies.

Management Risk Committee

The responsibility of the Management Risk Committee is to review and manage the credit and operational risks of the Group and to recommend on matters brought to it for consideration, including credit proposals or approvals.

Risk Management Department

The key element of the Group's risk management philosophy is for the Risk Management Department ('RMD') to provide independent monitoring and control while working closely with the business units which ultimately own the risks. The RMD is overseen by the Chief Risk Officer.

The RMD, Internal Audit and Compliance Departments, provide independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors.

The RMD submits a quarterly Risk Review report to the Board Audit Committee. The Risk Review report describes the potential risk factors and comments as to how risk factors are being addressed by the Group.

Audit Committee

The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing the quality and integrity of financial reporting and risk management, the audit thereof, the soundness of the internal controls of the Group, the measurement system of risk assessment relating to the Group's capital.

Internal Audit

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

Treasury

Group Treasury is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

Risk Measurement

The Group uses the standardised approach to measure its credit risk and market risk and the Basic Indicator approach for operational risk. In addition, the Group also applies various stress testing methodologies to assess its credit, liquidity, interest rate and market risk.

Risk Mitigation

The Board has put in place various limits and ratios to manage and monitor the risks in the Group. The Group uses suitable strategies to ensure the risk is maintained within the risk appetite levels as laid down by the Board.

26 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's commercial loans and placements with financial institutions and receivables.

i) Management of credit risk

Credit risk is actively managed and rigorously monitored in accordance with well-defined credit policies and procedures.

Housing loans under Ministry's Housing Loan Program

The decision to grant the loan is determined by the Ministry of Housing and communicated to the Group to make disbursements to the borrowers. There is no credit risk to the Group arising out of these loans. Losses, if any, arising from the impairment of such loans can be claimed from the Government. Consequently these loans attract zero risk weight. The Group monitors the sanctioned housing loans regularly and non performing loans are aggressively pursued by the Group and are written-off based on ministerial order. The housing loans under the Ministry's Housing Loan Program as at 31 December 2013 is BD 373,864,004 (31 December 2012: BD 328,138,269).

Other loans

Housing loans extended on a commercial basis to individuals are under a retail lending program approved by the Board of Directors with specific credit criteria being required to be met. Prior to the approval of a credit proposal, a detailed credit risk assessment is carried out to ensure that the loan proposal meets certain pre-approved credit criteria.

ii) Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the consolidated statement of financial position.

	Gross maximum exposure 2013	*Gross maximum exposure 2012*
Balances and placements with financial institutions	**105,479,090**	106,207,165
Loans - commercial loans	**26,337,982**	27,611,908
Other receivables	**988,571**	2,594,851
	132,805,643	136,413,924

The credit risk of social loans does not reside with the Group.

There were no renegotiated loans during either the year ended 31 December 2013 or 31 December 2012.

Risk concentration of the maximum exposure to credit risk

The maximum credit exposure to any client, or counterparty, or group of closely related counterparties as of 31 December 2013 was BD 86,400,510 (31 December 2012: BD 75,154,390).

iii) Collateral

The Group holds collateral against loans in the form of mortgages on residential property and guarantees. The amount and type of collateral is dependent upon the nature of the loan. Collateral is not usually held against placements.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The Group did not take possession of any collateral as a result of a default during either the year ended 31 December 2013 or 31 December 2012.

26 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

iv) Credit quality per class of financial assets

The Group has laid down an internal rating framework for classifying its credit exposures. The following is an analysis of credit quality by class of financial assets:

	Neither past due nor impaired	***Past due but not impaired***	***Individually impaired***	***31 December 2013***
Balances and placements with financial institutions	**105,479,090**	**-**	**-**	**105,479,090**
Loans - Commercial loans	**21,648,815**	**3,744,607**	**944,560**	**26,337,982**
Other receivables	**988,571**	**-**	**-**	**988,571**
	128,116,476	**3,744,607**	**944,560**	**132,805,643**

	Neither past due nor impaired	*Past due but not impaired*	*Individually impaired*	*31 December 2012*
Balances and placements with financial institutions	106,207,165	-	-	106,207,165
Loans - commercial loans	22,538,343	4,243,016	830,549	27,611,908
Other receivables	2,594,851	-	-	2,594,851
	131,340,359	4,243,016	830,549	136,413,924

v) Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar economic activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Group's assets and liabilities are concentrated in the Kingdom of Bahrain.

b) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to adverse changes in market variables such as interest rates, foreign exchange rates, equity prices. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

i) Management of market risks

The Group does not assume trading positions on its assets and liabilities, and hence the entire consolidated statement of financial position is a non-trading portfolio.

ii) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of the financial instruments. The Group's assets and liabilities that are exposed to interest rate risk include balances and placements with financial institutions, loans, deposits from financial and other institutions and term loans. Interest rate risk is managed principally through monitoring interest rate gaps.

26 FINANCIAL RISK MANAGEMENT (continued)

b) Market risk (continued)

ii) Interest rate risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant. The effect of decreases in interest rates is expected to be equal and opposite to the effect of the increases shown.

	31 December 2013 BD	*Changes in basis points (+/-)*	*Effect on net profit (+/-)*
Assets			
Balances and placements with financial institutions	**105,175,839**	100	**1,051,758**
Loans - commercial loans	**26,337,982**	100	**263,380**
Liabilities			
Deposits from financial and other institutions	**49,000,000**	100	**(490,000)**
Term loans	**15,500,000**	100	**(155,000)**
Total			**670,138**

	31 December 2012 BD	*Changes in basis points (+/-)*	*Effect on net profit (+/-)*
Assets			
Balances and placements with financial institutions	105,185,439	100	1,051,854
Loans - commercial loans	27,611,908	100	276,119
Liabilities			
Deposits from financial and other institutions	51,332,518	100	(513,325)
Term loans	15,500,000	100	(155,000)
Total			659,648

iii) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to adverse changes in foreign exchange rates. Since the Group's assets and liabilities are denominated in the local currency and United States Dollars which is pegged to the Bahraini Dinar, the Group does not have any foreign exchange risk.

iv) Equity price risk

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

The effect on equity and income (as a result of a change in the fair value of equity instruments at 31 December 2013) due to a reasonably possible change (i.e. +/-15%) in the value of individual investments, with all other variables held constant, is BD 713,543 (2012: BD 531,164) on equity and none on income since the Bank does not have any investment at fair value through profit or loss as at 31 December 2013 and 2012. The effect of decrease in the value of individual investments is expected to be equal and opposite to the effect of an increase.

26 FINANCIAL RISK MANAGEMENT (continued)

c) Liquidity Risk

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

The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Liquidity risk is managed by maintaining cash and cash equivalents and Government accounts at a high level to meet any future commitments.

Analysis of liabilities

The table below summarises the maturity profile of the Group's financial liabilities as at 31 December 2013 and 31 December 2012 based on contractual undiscounted repayment obligations.

	Less than 3 Months	*3 to 12 Months*	*Over 1 Year*	*Total*
At 31 December 2013				
Deposits from financial and other institutions	**45,015,617**	**4,029,333**	**-**	**49,044,950**
Term loans	**296,528**	**8,167,413**	**63,579,949**	**72,043,890**
Total	**45,312,145**	**12,196,746**	**63,579,949**	**121,088,840**

	Less than 3 Months	*3 to 12 Months*	*Over 1 Year*	*Total*
At 31 December 2012				
Deposits from financial and other institutions	51,357,587	-	-	51,357,587
Term loans	331,563	1,633,654	71,326,230	73,291,447
Total	51,689,150	1,633,654	71,326,230	124,649,034

d) Operational risk

Operational risk is the risk of loss arising from systems and control failures, fraud and human errors, which can result in financial and reputation loss, and legal and regulatory consequences. The Group manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance. In addition the Group trains the staff on a regular basis. The Group has undertaken an operational risk assessment in all divisions as part of internal risk assessment process as a part of its implementation of the Basle II Capital Accord.

27 CAPITAL ADEQUACY

Capital management

The primary objectives of the Group's capital management are to ensure that the Group complies with regulatory capital requirements.

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

27 CAPITAL ADEQUACY (continued)

The Group's capital adequacy ratio, calculated in accordance with the capital adequacy guidelines issued by the CBB, is as follows:

	2013 ***BD***	*2012* *BD*
Total eligible capital	**210,490,095**	203,918,317
Total regulatory capital (A)	**210,490,095**	203,918,317
Total Risk-weighted exposure (B)	**189,185,626**	192,250,166
Capital adequacy ratio (A/B)	**111.26%**	106.07%
Minimum requirement	**12.00%**	12.00%

Tier 1 capital comprises of ordinary share capital, contribution by a shareholder, statutory reserve and retained earnings brought forward. Certain adjustments are made to IFRS based results and reserves, as prescribed by the CBB.

Tier 2 capital, which includes qualifying subordinated liabilities and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale.

28 MATURITY PROFILE OF ASSETS AND LIABILITIES

Maturities of assets and liabilities have been determined on the basis of the remaining period, at the consolidated statement of financial position date, to the expected maturity date. The maturity profile of the assets and liabilities was as follows:

At 31 December 2013	***Less than 12 months BD***	***Over 12 Months BD***	***Total BD***
Assets			
Cash and cash equivalents	105,617,569	-	**105,617,569**
Investments	-	4,756,950	**4,756,950**
Loans	16,412,844	383,789,142	**400,201,986**
Investment in associates	-	9,135,895	**9,135,895**
Investment properties	-	41,760,348	**41,760,348**
Development properties	-	8,350,698	**8,350,698**
Other assets	5,743,855	625,078	**6,368,933**
	127,774,268	**448,418,111**	**576,192,379**
Liabilities			
Deposits from financial and other institutions	49,000,000	-	**49,000,000**
Government accounts	-	232,779,235	**232,779,235**
Term loans	6,500,000	59,000,000	**65,500,000**
Other liabilities	7,568,856	10,993,462	**18,562,318**
	63,068,856	**302,772,697**	**365,841,553**
Net liquidity surplus	**64,705,412**	**145,645,414**	**210,350,826**

At 31 December 2012	*Less than 12 months BD*	*Over 12 Months BD*	*Total BD*
Assets			
Cash and cash equivalents	106,356,873	-	106,356,873
Investments	-	3,541,096	3,541,096
Loans	14,472,300	341,277,877	355,750,177
Investment in associates	-	8,939,478	8,939,478
Investment properties	-	39,007,771	39,007,771
Development properties	-	11,694,915	11,694,915
Other assets	7,301,629	395,603	7,697,232
Disposal group	435,690	-	435,690
	128,566,492	404,856,740	533,423,232
Liabilities			
Deposits from financial and other institutions	51,332,518	-	51,332,518
Government accounts	-	192,422,632	192,422,632
Term loans	-	65,500,000	65,500,000
Other liabilities	13,034,640	6,889,465	19,924,105
Disposal group	144,570	-	144,570
	64,511,728	264,812,097	329,323,825
Net liquidity surplus	64,054,764	140,044,643	204,099,407

29 FUTURE FUNDING REQUIREMENTS

The Group's continued operations are dependent upon the continued financial support of the MOF, and the Government of the Kingdom of Bahrain.

30 ADDITIONAL SUPPLEMENTARY INFORMATION - ISLAMIC BANKING (UNAUDITED)

Islamic products
The Islamic banking activities of the group are conducted in accordance with Islamic Sharia'a principles, as approved by the Sharia'a Supervisory Board. The financial statements extracts relating to these activities are prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), IFRS and Central Bank of Bahrain regulations, as applicable. The principal accounting policies are set out below:

Ijara Muntahia Bittamleek and Ijara income receivables
Assets acquired for leasing (Ijara) are stated at cost, less accumulated depreciation. Depreciation is provided on the straight-line method over the period of the lease or useful life whichever is lower.

Ijara income receivables represent outstanding rentals at the end of the year less any provision for doubtful amount.

Wakala
An agreement whereby one party provides a certain sum of money to an agent who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in the case of default, negligence or violation of any of the terms and conditions of the Wakala.

Investments - sukuks (Debt-type instruments at amortised cost)
Debt-type instruments which are managed on a contractual yield basis and are not held for trading and has not been designated at fair value through statement of income are classified as debt-type instruments at amortised cost. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such investment is recognised in the consolidated statement of income, when the investment is de-recognised or impaired.

Commodity Murabaha
These are sales transaction agreements for commodities stated net of deferred profits and provision for impairment. The Group considers the promise made in the murabaha to the purchase orderer as obligatory.

Revenue recognition
Revenue is recognised on the above Islamic products as follows:

Ijara income is recognised on a time apportioned basis over the Ijara term and is stated net of depreciation.

Estimated income from Wakala is recognised on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

Income from investments is recognised when earned.

30 ADDITIONAL SUPPLEMENTARY INFORMATION - ISLAMIC DISCLOSURES (UNAUDITED) (continued)

The Islamic Banking assets in compliance with Islamic Sharia principals are presented below:

	2013	*2012*
	BD	*BD*
	(unaudited)	*(unaudited)*
Ijara muntahia bittamleek - net	**135,502,668**	91,657,189
Ijara income receivables	**149,346**	106,959
Wakala placements	**5,500,000**	6,000,000
Wakala income receivable	**964**	1,850
Investments - sukuks	**28,416,896**	9,643,872
Income receivable on investments	**48,329**	4,460
	169,618,204	107,414,330

The Islamic Banking liabilities in compliance with Islamic Sharia principals are presented below:

	2013	*2012*
	BD	*BD*
	(unaudited)	*(unaudited)*
Wakala takings	**23,500,000**	13,032,518
Wakala Profit payable	**6,633**	4,043
Commodity Murabaha	**11,000,000**	-
Commodity Murabaha profit payable	**5,084**	-
	34,511,717	13,036,561

Income and expenses recognised on Islamic banking operations are presented below:

	2013	*2012*
	BD	*BD*
	(unaudited)	*(unaudited)*
Income from Ijara Muntahia Bittamleek - net	**3,606,837**	2,268,605
Income from wakala & investments	**209,965**	97,512
Less: profit paid on Wakala	**(120,266)**	(80,918)
	3,696,536	2,285,199