His Royal Highness
Prince Khalifa bin Salman
Al Khalifa
The Prime Minister of the
Kingdom of Bahrain

His Majesty
King Hamad bin Isa
Al Khalifa
The King of the
Kingdom of Bahrain

His Royal Highness
Prince Salman bin Hamad
Al Khalifa
The Crown Prince,
Deputy Supreme Commander
& First Deputy Prime Minister

Forts - Their symbolic role in governance, from defense to the court of law, from warehouses for precious assets to capital of administrations, they have been consistently delivering on expectations.

CONTENTS

Our Vision

To become a regional force in the Islamic financial services industry by providing differentiated Shari'a compliant products to focused segments.

Our Mission

- Become a "one-stop-shop" for Islamic financial services.
- Create a strong onshore presence in select countries.
- Develop a premier brand image as an Islamic financial shaper.
- Achieve high returns for stakeholders commensurate with the risks undertaken

Dynamic - Diversified - Differentiated

Corporate Overview

Headquartered in the Kingdom of Bahrain, Al Salam Bank-Bahrain (B.S.C.) is a dynamic, diversified and differentiated Islamic bank.

Key factors that contribute to the Bank's distinct market differentiation include:

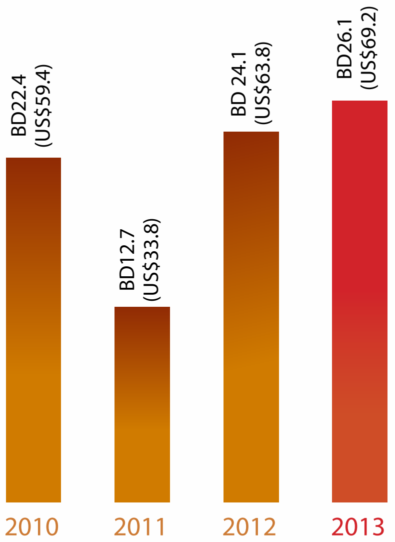
Strong paid-up capital base;
Pre-eminent founding shareholders;
High-caliber management team;
State-of-the-Art IT infrastructure;
Universal business model covering deposits, financing and investment services;
Innovative, tailor-made Shari'a-compliant solutions;
Firm commitment to corporate and social responsibility;

Incorporated on 19 January 2006 in the Kingdom of Bahrain and commenced commercial operations on 17 April 2006, the Bank operates under Shari'a principles in accordance with regulatory requirements for Islamic banks set by the Central Bank of Bahrain.

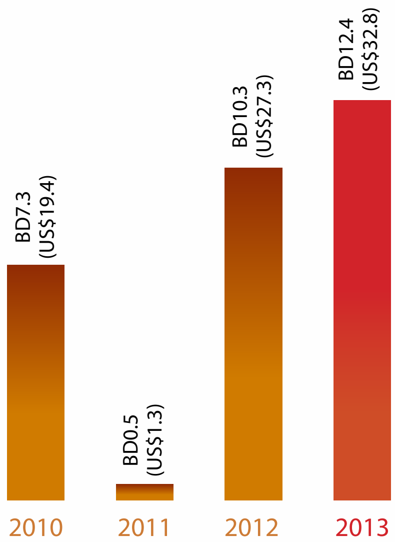
Al Salam Bank-Bahrain was listed on the Bahrain Bourse on 27 April 2006, and subsequently on the Dubai Financial Marketon 26 March 2008. The Bank's high-caliber management team comprises highly qualified and internationally-experienced professionals with proven investment expertise in key areas of banking, finance and related fields; all supported by a world-class Information Technology (IT) infrastructure and the latest 'smart' working environment. In 2009, the Bank acquired a significant majority stake in Bahraini Saudi Bank BSC. Established with a paid-up capital of BD120 million, the Group's total equity has crossed BD 200 million (US$530 million)with total assets crossing the US$2 billion mark.

Al Salam Bank-Bahrain is committed to adopting internationally recognized standards and best practices in Corporate Governance and operates with highest levels of integrity, transparency and trust. The Bank is committed to its role as a concerned corporate citizen, actively seeking ways to contribute and add value to the social and economic well-being of the local communities in which it invests and operates.

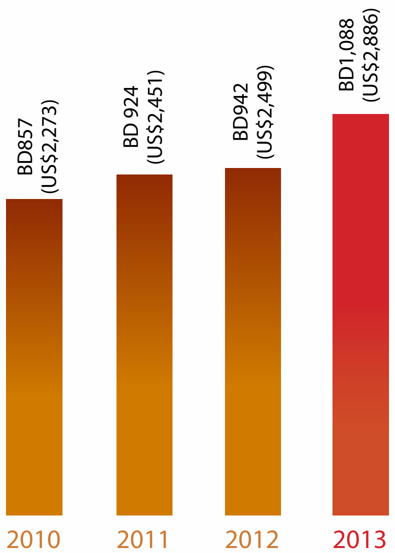
Annual Highlights



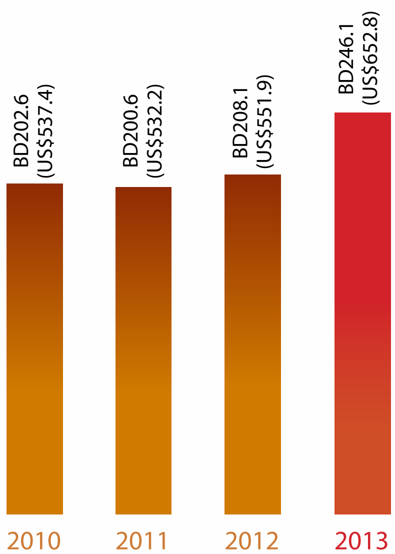
Total Operating Income (million)



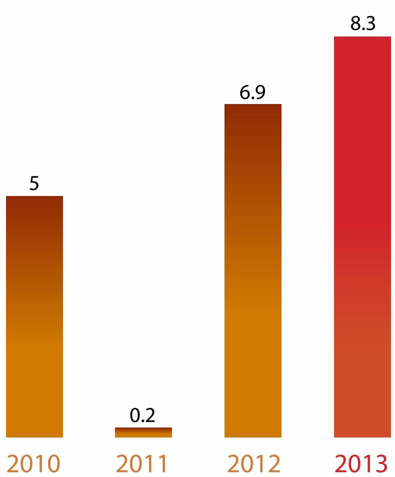
Net Profit (million)



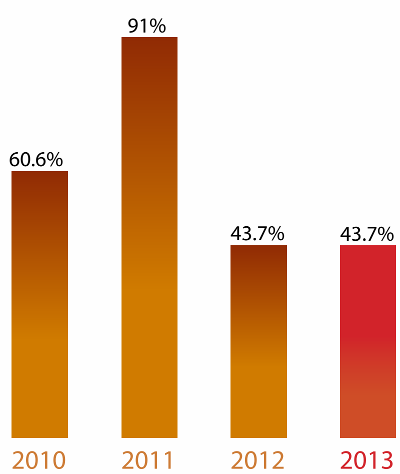
Total Assets (million)



Total Equity (million)



Earnings Per Share



Cost to Income Ratio

Bahrain Fort

This fort was at the centre of the Dilmun civilization. Located on the northern shore of the main island on artificial mound, it covers an area as big as 16,723 square meters. Since 2300 B.C up to the eighteenth century the Bahrain Fort was the trace of seven different civilizations that occupied Bahrain. The precious archaeological place is registered as UNESCO World Heritage Site in 2005. Excavations revealed residential, public, commercial, religious and military structures as part of its existence. A rich and perfect mix of what we at Al Salam strive to achieve in our offerings to our partners - being open- minded and flexible in our approach.

H.H. Shaikha Hessa bint Khalifa bin Hamad Al Khalifa

Chairperson

Independent and non-executive
Director since: 18 April 2009
Term started: 20 March 2012

An active member of the royal family of the Kingdom of Bahrain, H.H. Shaikha Hessa gained her Bachelor's degree in Management (1998), and her Master degree in Social Policy and Planning (2002) both from the London School of Economics and Political Science. Gained a MSc Development Finance 2010 from University of London. She joined the Supreme Council for Women in 2001 as a member of the Social Committee. Since 2004 she has been a Permanent Member of the Council's Board. In 2005, she founded "INJAZ Bahrain" which is an international organization to inspire and prepare young Bahrainis to succeed in a global economy and is presently its Executive Director. With her experience and active role in enterprise education and developing skills of young women, she has been invited as speaker and panelist at various occasions including the UN, and the World Economic Forum.

Mr. Hamad Tarek Alhomaizi

Vice-Chairman

Independent and non-executive
Director since: 18 April 2009
Term started: 20 March 2012

Mr. Hamad Alhomaizi is a businessman with experience in a number of areas including direct investments, funds, real estate and start-up businesses. He has worked in various capacities in a number of companies and is a founding board member in companies including Zaleej Real Estate Company (Kuwait), Ishraq Real Estate Company (Bahrain / UAE) and AlShaab Holding Company (Kuwait). He is also a board member with Global Investment House (Kuwait). He has a BS in Computer Science and Business Administration from The George Washington University.

Mr. Hussein Mohammed Al Meeza

Director

Independent and non-executive
Director Since: 20 March 2012
Term started: 20 March 2012

Hussein Mohammed Al Meeza is considered one of the renowned personalities in the Islamic banking sectors and Islamic finance and insurance. Al Meeza's outstanding career success was crowned in December 2006 when the International Conference of Islamic Bankers chose him as the 2006 Best Islamic Banking Personality. Having graduated from the Beirut Arab University in 1975, Al Meeza started his professional career at the Dubai Islamic Bank (DIB) where he spent 27 years during which he played a pioneering role in enhancing and developing the bank's services. His landmark achievement was the establishment of the Al Salam Banks in Sudan, Bahrain and Algeria. Al Meeza is currently Vice Chairman and Chairman of the Executive Committee of Al Salam Bank- Algeria, Board member of the General Council of Islamic Banks and Financial Institutions, Chairman of the founding committee of Islamic Insurance and Re-Insurance Companies, Vice Chairman of Emirates Cooperative Society – Dubai. He is also a Board Member of Emirates Society for Insurance. He was a founder member of Emaar properties, Amlak finance, Emaar Industries & Investments, Emaar Financial services, Dubai Islamic Insurance & Reinsurance Company (AMAN). Al Meeza occupied the positions of the CEO and Managing Director of Dubai Islamic Insurance and Reinsurance Company (AMAN), Vice Chairman and Chairman of the Executive Committee of Al Salam Bank-Sudan, Chairman of LMC Bahrain, Chairman of the executive committee of Islamic Trading company in Bahrain, Board member and chairman of the Executive committee in Amlak Finance – Dubai and chairman of Emaar financial services – Dubai.

Mr. Habib Ahmed Kassim

Director

Independent and non-executive
Director Since: 17 April 2006
Term started: 20 March 2012

Mr. Habib Ahmed Kassim is the Chairman of Almahd Investment Company, Bahrain Ferro Alloys, Bahrain Electricity Supply & Transmission Company, Capital Growth Management and Quality Wire Products Company. He is also the Chairman of Almahd Day Boarding School. Mr. Habib Ahmed Kassim was Minister of Commerce and Agriculture, Kingdom of Bahrain from 1976 to 1995, and Member of the GCC Consultative Council for the Supreme Council from 1997-2007.

Mr. Salman Saleh Al Mahmeed

Director

Independent and non-executive
Director since: 15 February 2010
Term started: 20 March 2012

Mr. Salman Al Mahmeed is the Acting Chief Executive Officer of Bahrain Airport Services, the Deputy Chairman of Dar Albilad, the Managing Director and Owner's Representative of Global Hotels, Global Express and Movenpick Hotel in Bahrain. He was a Board Member of the Bahraini Saudi Bank as well as being a member of its Investment, Executive and Strategic Options Committees. He was also the Investment Director of Magna Holdings. Mr. Al Mahmeed holds an MBA in Business Administration, Master in Hotel Management and BSc. Degree and he is currently a Board member of Al Salam Bank and Chairman of the Audit Committee.

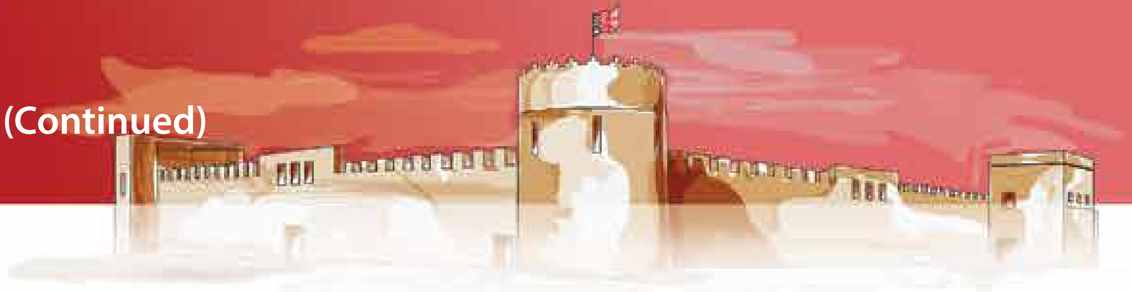
Mr. Essam bin Abdulkadir Al Muhaidib

Director

Independent and non-executive
Director Since: 17 April 2006
Term started: 20 March 2012

Mr. Essam Al Muhaidib is CEO of Al Muhaidib Group. He is also Board Member in several organizations having interests in Banking, FMCG & Retail, Building Material & Construction, Industrial, Food, Real Estate, Power & Water. Savola Group, ACWA Power, Nestle Waters, Azizya Panda United Co, Herfy Foods Services Co, Emmar Middle East, Rafal Real Estate, Al Oula Real Estate Development, Amwal Al Khaleej, Bloom Invest Saudi Arabia Saudi Tabreed Co, Al Latfia Trading & Contracting Co, Bawan Co, are few to name. Moreover, he is also a member in the governance council of selected charitable, non-profitable & educational organizations such as King Fahad University of Petroleum & Minerals Endowment Fund, Saudi Food Bank, Patients committee of eastern province, Benevolence society in eastern province as well as Husn Al Jawar charitable society in the kingdom of Bahrain. In addition, he is also a member of the Eastern Province Governance Council in Saudi Arabia.

Board of Directors (Continued)



Mr. Fahad Sami Al Ebrahim

Director

Independent and non-executive
Director since: 18 April 2009
Term started: 20 March 2012

Mr. Fahad Sami Al Ebrahim Received his Bachelors of Arts in Journalism and Communication Studies 2000 from the University of Oregon-Eugene, Oregon, USA. He also has an MBA degree from the Maastricht School of Management in 2008 and he has successfully completed the 10th session of the "General Management Program" at Harvard Business School in 2011 .

He has over 12 years of professional experience. Mr. Al Ebrahim heads the International Wealth Management Group of Global Investment House, Kuwait as Senior Vice President, where he had played a major role in increasing assets under management and had been an active participant to establish one of the leading wealth management groups in the region.

He was mandated in early 2010 as Acting CEO of Global Investment House – Saudi for the first half of the year were he was able to downstream the operation in the Kingdom and position the company in the Saudi market and played a major role in increasing AUM and revenue of the Saudi operations.

Mr. Al-Ebrahim began his career with Global in the Marketing Department. Later on, he pursued Business Development positions in the Investment Funds Department focused on Alternative Investments including Hedge Funds, Real Estate Funds and Private Equity. Prior to joining Global, Mr. Al-Ebrahim worked in a semi-government institution for approximately two years. In addition, he is a member of numerous boards of directors in the financial and real estate arenas. His board memberships include Al-Mazaya Holding Company, Kuwait as Vice Chairman; First Securities Brokerage Company S.A.K., Kuwait; Investment House, Qatar and Global Investment House – Saudi, and Investment Committee member in Macro Fund.

Mr. Mohammed Omeir Bin Yussef Al Mehairi

Director

Independent and non-executive
Director since: 20 March 2012
Term started: 20 March 2012

Mr. Mohammed Omeir Bin Yussef holds M.Sc. from University of Cairo and B.Sc. in Political Science & Business Administration from U.A.E. University, Al Ain. He is currently the Vice Chairman & Managing Director, Omeir Bin Youssef Group, Chairman of Al Salam Bank-Sudan, Chairman of Al Salam Bank-Algeria, Chairman of Dubai Islamic Insurance and Re-Insurance Company (AMAN), the Chief Executive Officer of Bin Omeir Holding Group. He is also the CEO of United Investment Group and the CEO of Emirates National Group.

H. E. Mohamed Ali Rashid Alabbar

Director

Independent and non-executive
Director since: 14 March 2013
Term started: 14 March 2013

H.E. Mohamed Alabbar is the founding member and Chairman of Emaar Properties PJSC, the Dubai-based global property developer. He is also the founder and Chairman of Africa Middle East Resources (AMER), a private company operating to unlock the value of natural resource opportunities in Africa and link them with large consumer markets in Asia. He chairs RSH, the leading Singapore-based pan-Asian marketer, distributor and retailer of international fashion and lifestyle brands. The Chairman of Dubai Events Council, Mr. Alabbar is a Board Member of Noor Investment Group, an affiliate of Dubai Group, focused on Shari'a compliant financial services. A graduate in Finance and Business Administration from Seattle University in the United States, Mr. Alabbar works closely with regional NGOs, and is especially committed to the cause of educational reform and social housing. A keen sportsman, he is Chairman of the UAE Golf Association.

Mr. Adnan Abdulla Al Bassam

Director

Independent and non-executive
Director since: 20 March 2012
Term started: 20 March 2012

Mr. Adnan Al Bassam is a Certified Public Accountant (CPA) and holds B.S. in Business Administration with specialization in Accounting from Oregon State Board of Accountancy. His years of experience in the financial and investment sector go back to 1994. Currently he holds the positions of Vice Chairman and Managing Director of Al Bassam Investment Company W.L.L., Board member in each of Jordan Islamic Bank, Al Baraka Bank - Sudan, Esterad Investment Company B.S.C., Al Salam Bank - Algeria, Vice Chairman of Muharraq Mall Company W.L.L. Prior to joining the Board Adnan worked for Messrs Ernst & Young and Bahrain Islamic Bank in various capacities.

Mr. Yousif Abdulla Taqi

Director and Chief Executive Officer

Executive and non-independent
Director Since: 05 May 2008
Term started: 20 March 2012

A Certified Public Accountant (CPA), Mr. Taqi has been active in the banking and financial services industry since 1983. During his career, Mr. Taqi worked in leading positions for a number of institutions in the Kingdom of Bahrain. Prior to joining Al Salam Bank-Bahrain, he was Deputy General Manager of Kuwait Finance House (Bahrain), where he was responsible for establishing Kuwait Finance House Malaysia. Prior to this, Mr. Taqi spent 20 years with Ernst & Young, during which time he provided professional services for many regional and international financial institutions. During his career with Ernst & Young, Mr. Taqi was promoted to Partner, responsible for providing auditing and consultancy services to the Islamic financial firms. He is currently the Chairman of Manara Developments Company B.S.C. (c), Amar Holding Company B.S.C. (c), affiliates of ASBB, and also a board member of the Housing Bank (Bahrain), Aluminium Bahrain (ALBA) and Tadhamon Capital.

Fatwa and Shari'a Supervisory Board

Dr. Hussain Hamid Hassan

Chairman

Dr Hassan holds a Ph.D. from the Faculty of Shari'a, Al Azhar University, Cairo, Egypt; and a Masters in Comparative Jurisprudence and Diploma in Comparative Law (both of which are the equivalent of a Ph.D.) from the International Institute of Comparative Law, University of New York, USA. He also holds a Masters in Comparative Juries, and Diplomas in Shari'a and Private Law, from the University of Cairo; and an LL B in Shari'a from Al Azhar University. He is the Chairman and member of the Shari'a Supervisory Board in many of the Islamic Financial Institutions. In addition, Dr. Hassan is Chairman of the Assembly of Muslim Jurists, Washington, USA; a member of the European Islamic Board for Research & Consultation, Dublin, Ireland; and an Expert at the Union of Islamic Banks, Jeddah, Kingdom of Saudi Arabia.

Dr. Ali Mohuddin Al'Qurra Daghi

Member

Dr. Al'Qurra Daghi holds a Ph.D. in Shari'a and Law, and a Masters in Shari'a and Comparative Fiqh, from Al Azhar University, Cairo, Egypt. He also holds a BSc. in Islamic Shari'a from Baghdad University, Iraq; a certificate of traditional Islamic Studies under the guidance of eminent scholars in Iraq; and is a graduate of the Islamic Institute in Iraq. He is currently Professor of Jurisprudence in the faculty of Shari'a law and Islamic Studies at the University of Qatar. He sits on the Boards of Shari'a Supervisory Boards for several banks and financial institutions. Dr. Al'Qurra Daghi is also a member of the Islamic Fiqh Academy, the Organisation of Islamic Conference, the European Muslim Council for Efta and Researches, the International Union of Muslim Scholars, and the Academic Advisory Committee of the Islamic Studies Centre, Oxford University, UK. He also has published several research papers tackling various types of Islamic Finance, Islamic Fiqh, Zakah and Islamic Economy.

Shaikh Adnan Abdulla Al Qattan

Member

Shaikh Adnan Al-Qattan holds Masters degree in the Quran and Hadith from the University of Um Al-Qura, Makka, Kingdom of Saudi Arabia; and Bachelor's degree in Islamic Shari'a from the Islamic University, Madeena, Saudi Arabia. Shaikh Al Qattan is also a Judge in the Shari'a Supreme Court, Ministry of Justice – Kingdom of Bahrain. Shaikh Al Qattan is a Member of Shari'a Supervisory Boards for several Islamic banks and he is also Chairman of Al Sanabil Orphans Protection Society, Chairman of the Board of Trustees of the Royal Charity Establishment under the Royal Court - Kingdom of Bahrain, and President of the Kingdom of Bahrain Hajj Mission. In addition, he is a Friday sermon orator at Al-Fatih Grand Mosque. Shaikh Al Qattan contributed to drafting the Personal Status Law for the Ministry of Justice and is a regular participant in Islamic committees, courses, seminars and conferences.

Dr. Mohamed Abdulhakim Zoeir

Member & Secretary to the Board

Dr. Zoeir holds Ph.D. in Islamic Economy; Masters degree in Islamic Shari'a (Economy); Bachelor's degree in Management Sciences; and a Higher Diploma in Islamic Studies. He is Member of the Fatwa Board in a number of Islamic financial institutions and has 18 years experience with Egypt Central Bank. Dr. Zoeir was also the Head of Shari'a compliance in Dubai Islamic Bank.

Dr. Mohammed Burhan Arbouna

Member

Dr. Mohammed Burhan Arbouna holds a Ph.D. in laws with specialization in Islamic banking and finance from International Islamic University Malaysia, and Masters in Comparative Laws. He also holds BA degree in Shari'a and Higher Diploma in Education from Islamic University, Medina. He is an expert in Islamic banking and finance since 1997. Before joining Al Salam Bank-Bahrain, Dr. Arbouna was the Shari'a Head and Shari'a Board member in the Seera Investment Bank BSC Bahrain. Prior to that, he worked as the Head of Shari'a department in the Kuwait Finance House-Bahrain. Also, Dr. Arbouna worked as Sharia researcher and consultant for the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) – Bahrain. Dr. Arbouna lectures on Islamic banking and finance and gives consultancy on orientation and professional programs for a number of professional and educational institutions. Dr. Arbouna is a member of Islamic Money Market Framework (IMMF) steering committee initiated by Central Bank of Bahrain for management of liquidity among Islamic banks.

They have silently defined a period in time, being a revered heritage of the nation.

The Directors of Al Salam Bank-Bahrain BSC ("**the Bank**") have the pleasure in submitting their report to the shareholders accompanied by the consolidated financial statements for the year ended 31 December 2013.

The recently ended financial year offered a very good indication of global economic recovery. Although, Asia and Australasia regions gave indications of slowed down, the Eurozone lead by the United Kingdom appears to be coming out the debt crisis and registering economic recovery with the US showing prospects of imminent recovery. The US is forecast to grow relatively quickly in the near term on account of improvement in unemployment, the housing and reduced trade deficit on the back of a QE tapering.

Regionally, Saudi Arabia's non-oil sector continues to grow at a healthy pace, sustained by government stimulus as well as rapid credit growth. Similarly, the outlook for the UAE economy is positive with accelerated growth supported by stability in oil prices, brisk trade and tourism, as well as persistent efforts to curb spending. Regional growth fundamentals, including current account surplus, fiscal balance, and large foreign exchange reserves, remain at healthy levels. There are similar signs in the local economy, although relatively modest, the economic activity is starting to gather pace lead by housing/real estate recovery. We remain hopeful that 2014 will see more of such activities in Bahrain.

The Bank has taken positive steps for consolidating its market position in Bahrain through inorganic growth towards achieving our vision to become a regional force in Islamic financial services industry. Driven by this vision, and strong belief that consolidation is key for Bahraini banks in order to remain competitive in the aftermath of the recent financial crisis, your Bank had concluded a business combination with BMI Bank BSC (c), a local commercial bank based in Bahrain. The business combination has now reached the final stages of execution with your support and guidance to the Board of Directors and senior management.

Although our business environment remained challenging throughout 2013, the Bank has achieved a substantial growth of 15% in total assets from BD 942.2 million (US$2.5 billion) as of 31 December 2012 to BD1,088.2 million (US$2.9 billion) as of 31 December 2013.

As a result of the continuous efforts made to focus on core-banking initiatives, retail, corporate and commercial banking activities saw a marked improvement. This had resulted in a growth in financing portfolio by 19.5% to BD391.5 million in 2013. During the year, Bahrain's real estate sector witnessed a dramatic recovery consequent to the Government's renewed support and commitment to resolving the residual social housing needs. The Bank took advantage of this environment to exit real estate in excess of BD47 million while complementing the retail banking arm in terms of additional housing finance opportunities.

Customer deposits increased from BD624.1 million to BD680.7 million for the same period reflecting a 9% increase over 2012. Such an increase in customer deposits is a reflection of market confidence and trust in your Bank.

The gross operating income, before one-off items, rose by 44.5% from BD18.1 million in 2012 to a record BD26.1 million in 2013. The continued emphasis on core banking activities has resulted in increase in income from these activities during 2013. The net profit of BD12.4 million, a 20% increase as compared to 2012, is after taking into consideration asset provisions of BD3.2 million on account of write down of investments and additional provisions for financing. Consequent to prudent measures adopted by the management, the operating costs remained at 2012 level.

During the year, the Bank's venture in alternative energy sector for production of biodiesel in Hong Kong reached completion with its inauguration in October 2013. The biodiesel plant is capable of producing 100,000 tonnes of biodiesel using multiple feedstock technology including grease trap waste and used cooking oil and will be compliant with European standard requirements for biodiesel. The biodiesel produced will offset 3.6% of annual carbon dioxide emissions of Hong Kong.

The Bank's continued to source investment transactions which generate a running yield to its investors in 2013. During 2013, the Bank successfully consummated several investments, including an investment in the education services sector in the Kingdom of Saudi Arabia ("KSA").

The year 2013 also saw investment in two state of the art logistics properties in Australia. The properties are leased to a subsidiary of one of the largest listed industrial group in Australia with a market capitalization of over A$1 billion.

The Bank acquired significant stake in a luxury residential redevelopment in Mayfair, London.

The Bank also made an investment in a mid-rise residential development of 142 residential units including villas and apartments in a prime district in Jeddah, KSA.

In line with its commitment to provide timely exit to its investors, the Bank successfully exited its stake in Canada Square, a prime commercial real estate property in Canary Wharf, London in 2013 at a multiple of 1.48x.

Your Bank continued to be a net lender to the system with a net lending position of BD97.5 million as of 31 December 2013 while holding a large portfolio of the Central Bank of Bahrain Sukuk which are eligible for re-purchase. The Bank continues to maintain a comfortable liquidity position with a healthy liquidity ratio of 14% as of 31 December 2013, net of due to banks and interbank deposits and excluding Sukuk issued by the Central Bank of Bahrain (CBB).

The Bank's capital adequacy ratio remains strong at 21.4% as of 31 December 2013 (2012: 20.9%), while the minimum requirement is 12%.

Although signs of improvement in the market have begun to appear, the Directors are mindful of potential challenges that may be faced by the Bank due to rising interest rates. The Directors and management are committed to maximize Bank's capabilities in order to build a stronger financial institution and deliver improved results in 2014 from its core business.

Your Bank has produced stronger financial results for the fiscal year 2013 with a net profit of BD 12.4 million in comparison with BD 10.3 million reported for 2012, an increase of 20%. The gross operating income increased by 8.5% to BD 26.1 million (2012: BD24.1 million) while the operating expenses were BD 11.4 million (2012: BD 11.5 million). Earnings per share (EPS) for 2013 amounted to 8.3 fils (2012: 6.9 fils).

Retained earnings and appropriation of net income:

	BD'000
Balance at beginning of the year	39,583
Net profit for the year – 2013	12,372
Transfer to statutory reserve	(1,237)
Transfer	39
Proposed dividends	(7,485)
Balance at end of the year	**43,272**

Directors' and senior management interest:

As required by the Central Bank of Bahrain rule book set out below are the interests of directors and senior managers in the shares of Al Salam Bank-Bahrain B.S.C. and the distribution of the shareholdings as of 31 December 2013.

	31/12/2013
Directors' shares	156,168,210
Senior managers' shares	7,255,121
	163,423,331

Directors' remuneration for 2013 amounted to BD364,948.

Percentage of shares held	No. of shares	No. of Shareholders	% of total Outstanding shares
Less than 1%	840,247,914	23,181	56.13
1% up to less than 5%	485,782,116	16	32.45
Over 5%	171,033,800	1	11.42
Total	1,497,063,830	23,198	100.00

Shareholders holding over 5%:	Nationality	Holding
Gimbal Holding Company S.P.C.	Bahrain	11.42%

The directors would like to express their thanks and appreciation to HM King Hamad bin Isa Al Khalifa, HRH the Prime Minister Prince Khalifa bin Salman Al Khalifa and HRH the Crown Prince, the First Deputy Prime Minister and Deputy Supreme Commander Prince Salman bin Hamad Al Khalifa, the Ministry of Finance, the Ministry of Industry and Commerce, the Central Bank of Bahrain, the Bahrain Bourse, correspondents, customers, shareholders and employees of the Bank for their support and collective contribution since the establishment of the Bank and we look forward to their continued support in the fiscal year 2014.

30 January 2014

Manama, Kingdom of Bahrain

Shaikha Hessa bint Khalifa bin Hamad Al Khalifa
Chairperson

Al Salam Bank –Bahrain recorded a strong overall performance in 2013. The current fiscal year saw the Bank achieve a steady growth in its balance sheet size as well as income derived from core banking activities. In order to consolidate our market position, we have taken bold steps to create the fourth largest financial institution in the Kingdom. In line with the vision of the leadership and the regulators, we have reached the final stages of completing a business combination with BMI Bank, a commercial bank based in Bahrain. The combined bank with its larger underwriting capacity is expected to emerge as a stronger player in the regional market place.

As a result of focusing on our core business of providing financing facilities through corporate, private and retail banking businesses, I am pleased to report that we have achieved a net profit of BD12.4 million (2012: BD10.3 million) for fiscal year 2013, a 20% increase over the previous year. Income from core banking activities rose by 21% over the same period of last year. Total assets grew from BD942.2million (US$2.5 billion) to BD1,088.2 million (US$2.9 billion) recording a 15.5% growth (2012: 2%) over the last year. The impressive growth in total assets was largely due to the growth in new financing contracts as well as participation in carefully selected investment opportunities.

Cost control initiatives implemented during the height of the global financial crisis is still in place and is reflected in the level of our operating costs. The Bank has successfully maintained the same level of operating costs as the last fiscal year.

Expanding the retail banking business continued to be a top priority and a number of initiatives were launched during the year to increase our suite of retail products and improve our level of customer service. Customer deposits grew by BD56.6 million to BD680.7 million during fiscal year 2013 (2012: BD624.1 million). As part of the retail banking drive for continuous improvement, a new platinum credit card aimed to meet the needs of high net worth customers, a 24/7 credit card fraud monitoring system and a range of Takaful products were introduced and were well received by our customer base.

During the year, our investment teams successfully concluded seven deals and deployed in excess of BD50 million. ASBB continued to stay focused on income producing assets and diversified income streams. The Bank's portfolio comprises of investments across various industries including real estate, aviation, alternate energy, education services, manufacturing, retail and hospitality across multiple geographic locations. Income from investment activities for the fiscal year 2013 amounted to BD5.4 million, compared to BD7.9 million in 2012.

New investments in 2013 include an investment in the education sector in the Kingdom of Saudi Arabia (KSA), a joint venture in a mid-rise residential development project in KSA, an acquisition of two logistics properties in Australia and entered into a partnership in an upscale residential redevelopment in Mayfair, London.

I'm pleased to highlight that we have successfully commissioned the biodiesel plant in Hong Kong during the year which is capable of producing 100,000 tonnes of European standard biodiesel per annum using state of the art multiple feedstock technology.

Two investments were successfully exited during the year, one where the Bank provided an innovative Shari'a compliant mezzanine financing for 5 Canada Square in Canary Wharf in the heart of the financial district of London and the second being sale of a sea front luxury real estate development in the Penang Island of Malaysia.

Bank's ongoing investment in Burj Al Safwa and Burj Al Jewar, two hospitality towers in the Holy City of Mecca, continue to perform well and provide regular cash flows to investors. Our investments in the aviation sector comprising two Boeing 777-300ERs and one Boeing 777-200ER leased to Emirates Airlines and Malaysian Airlines respectively are providing attractive cash-on-cash yield to investors. Mezzanine financing provided to acquire an upscale retail property let to eight reputable luxury retailers in the heart of Cannes in France during the last fiscal year, continues to generate attractive cash coupon to investors.

We continue to maintain a conservative approach to banking practices and rely on our core competencies in lending activities. We adopt prudent risk management practices in granting new financing facilities and acquiring new investments.

The Bank continues to maintain a healthy Capital Adequacy Ratio of 21.4% (2012: 20.9%) as of the end of the fiscal year against a mandatory Central Bank of Bahrain requirement of 12% and is expected to remain at healthy levels with the impending introduction of Basel III guidelines. We maintained a comfortable liquidity position of 14% (2012:13%) and continue to be a net lender to the inter-bank market.

With continued guidance and support from the Board, Management is confident that the Bank is ready to move into the next phase of growth through our business combination with BMI Bank. Our ability to mobilize the larger capital base, a broader talent pool, extended presence in the region and access to a wider customer base will be used as a platform for this phase of growth.

As always, I would like to take this opportunity to express my deep appreciation of the Al Salam Bank-Bahrain team. Your teamwork and commitment to the success of the Bank are crucial to achieving our goals. I am thankful to the Board of Directors and the Central Bank of Bahrain for their unwavering support and guidance and to our shareholders and customers for their continued trust, loyalty and support. I would also like to express my sincere appreciation to the Government of the Kingdom of Bahrain and its astute leadership.

Yousif Abdulla Taqi
Director & CEO

Operating Environment

On the back of encouraging monetary policies in most of the developed economies, and strong economic performance led by the US and Eurozone, there are clear signs of economic recovery across the globe. The developed markets are already seen to be discussing possible interest rate hikes on the back of QE tapering in the US. However, it should not be ignored that there is still some amount of sluggishness seen in Asia led by slowdown in China.

Guarded optimism also prevailed in the GCC markets, with most regional economies enjoying a solid growth with real GDP at 3.7% and non-oil GDP growth close to 6%, led by accelerated growth in the Kingdom of Saudi Arabia. This strong growth registered in non-oil sectors and expansionary fiscal and monetary policies together with effort to curb spending seen in the UAE has also seen to be boosting the regional economic recovery. Regional growth prospects remain strong as steady oil prices have continued to support current account surpluses and large foreign currency reserves.

Business Environment

Year 2013 saw the economic activity in the Kingdom of Bahrain gathering some pace on the back of real estate activities and increased government spending. However, continued political instability experienced in the Kingdom is holding back the steady growth otherwise expected by the business community. The Government's continued effort to improve non-oil business activities and increase reliance on a diversified economy has supported the increased job creation. The Kingdom recorded a GDP growth of 5.4% during the year up from 3.4% in 2012.

Financial Performance

In the back drop of global economic recovery and the positive signs of the economic activity in the Kingdom, ASBB has achieved substantial growth in 2013. Total assets of the Bank grew by 15.5% (2012: 2.0%) to BD1,088.2 million (2012: BD942.2 million) over the last fiscal year. Financing portfolio grew by BD64 million (2012: BD56.3 million) to BD391.5 million (2012: BD327.5 million). The investment portfolio recorded a growth of BD61.3 million (2012: decrease of BD11.5 million) to BD 275.6 million (2012: BD214.3 million) during the fiscal year. Customer deposits increased by BD56.6 million to BD 680.7 million in 2013 from BD 624.1 million in 2012, reflecting a 9.1% growth (2012: 4.4%). Substantial growth recorded in both financing and customer deposits is a reflection of the market confidence placed in the Bank.

The operating income recoded a substantial growth of 8.3% to BD 26.1 million in 2013 from BD 24.1 million in 2012, attributed to the growth in income from core banking activities, comprising corporate, commercial and retail banking businesses.

Income from financing contracts and Sukuk grew by 20.8% (2012: 22.1%) which is a testimony to the Bank's effort to establish its footprint as a formidable Islamic banking force in the market. As a result of the effective cost management measures undertaken by the Bank since the global economic crisis, the operating expenses were maintained at the same levels as 2012 and 2011. Additional provisions were taken against non-performing financing contracts and investment portfolio amounting to a net of BD 3.2 million (2012: BD 3.1 million). The Bank recorded an impressive net profit of BD 12.4 million for the fiscal year 2013 (2012: BD 10.3 million).

Capital Adequacy

The Bank continues to enjoy strong financial solvency and abundance of liquidity. In accordance with the Basel II capital adequacy guidelines, capital adequacy continued to reflect a healthy ratio of 21.4% (2012: 20.9%) as of the end of the fiscal year against a mandatory Central Bank of Bahrain requirement of 12%.

Asset Quality

The Bank maintains a conservative approach in selecting new assets for financing and investments. As a result more than 88.3% (2012: 88.1%) of the financing asset portfolio has been classified under the "satisfactory" category while an amount of BD14.3 million (2012: BD12.7 million) has been set aside as provisions for classified facilities, although such assets are covered by adequate collateral. Such provision has been made in line with the bank's conservative risk management policy.

BANKING ACTIVITIES

Corporate Banking

The Bank's dedicated Corporate Banking team continued to serve its strong relationships, both locally and internationally established business partners while continuously looking to expand the client base. The team worked tirelessly to ensure the Bank's corporate relationships continue to receive the support they required to take advantage of the revived economic activities in their respective markets. In addition to meeting financing needs of our customers, the team has also successfully lead arranged syndicated facilities where the financing need exceeds our underwriting capacity. The Corporate Banking team booked more than BD63 million assets during the year.

The Bank continued to collaborate with Tamkeen in order to provide support to private sector businesses in the Kingdom of Bahrain in line with the Government initiative to encourage entrepreneurship among the business community. The team uses Tamkeen program to support the SME business segment in order to provide Shari'a compliant facilities to the private sector businesses.

Retail Banking

Our customer centric retail business philosophy is the driving force behind the continuous effort to enhance offering of Shari'a compliant retail products and growing range of convenient banking services. Aligned with our mission to provide customers with better products, greater service through a secured environment, a number of retail banking launches took place in 2013. One such significant launch was "mobile". Leveraging on cutting edge technology, the mobile banking service provides customers with what is in effect a virtual branch. The mobile banking application allows customers to view account balances, account statements, view financing and deposit details, as well as pay utility bills, add beneficiaries and carry out internal, local and international fund transfers at the push of a button. During the year, the Bank entered into a partnership with a leading regional Takaful provider to offer tailor-made Takaful solutions to safeguard our customers' financial interest. As such customers are now offered competitive and affordable Takaful products to the bouquet of product and service offerings. Such products include motor Takaful (Siyarati), home Takaful (Baiti), travel Takaful (Travel Safe) and personal accident Takaful (Personal Accident Cover).

A new 24/7 card protection service was introduced during the year to enhance the security offered to our credit card customers.

Together with product and service enhancements, the retail banking team continued to improve the level of customer service provided throughout the branch network. A number of in-house workshops were conducted to focus on providing the right tools to customer service representatives. Areas such as customer service skills; attitude and product knowledge was the key focus of these workshops.

Private Banking

The primary objective of the Private Banking team is to provide a dedicated customized products and services to the high net worth customers of the Bank. The products offered are tailored to their investment appetite taking into consideration their risk profiles. These investment opportunities range from development and income producing real estate, equities listed on recognized stock exchanges and opportunities to invest in private equity transactions with value creation in mind. A significant portion of the investments sourced by the Bank's investment team is offered to such investors who seek alternative investment opportunities while minimizing market risk through diversification.

Investments

The Bank continues to maintain a careful approach to new investment selection, with investment protection remaining a major consideration in the investment strategy in order to address the downside risk and preserve investment valuation. All potential opportunities are subjected to rigorous internal review, independent due diligence and analysis prior to presentation to the Bank's Investment Committee.

In line with the Bank's strategy to provide opportunities that produce regular income and continuous cash flows to investors, the investment team continued to seek opportunities that diversify the income stream through investments across a range of industries including, but not limited to, real estate, aviation, biofuel, education, retail and hospitality.

During the year, the Bank's venture in the alternative energy sector was inaugurated. The biodiesel plant is capable of producing 100,000 tonnes of European standard biodiesel using multiple feedstock technology including grease trap waste and used cooking oil. This is the first of its kind to be established in Hong Kong. Availability of a range of feedstock and the close proximity to mainland China is expected to play a key role in producing biodiesel at competitive prices.

Furthermore, the Bank successfully consummated several investments in 2013, including an investment in the education sector in the Kingdom of Saudi Arabia (KSA). The education sector in KSA is expected grow rapidly underpinned by the favorable demographic profile and focus to provide more employment to Saudi nationals. The Bank invested in a company that provides foundation-year courses to students in undergraduate programs in major public universities in KSA and provides training programs to government entities, and private and public companies. The company employs more than 1,500 employees.

The Bank also participated in acquiring two state of the art logistics properties in Australia. The properties, located in Queensland and Victoria, are on long leases to a subsidiary of a large cap diversified industrial group in Australia with a market capitalization of A$1 billion, listed on the Australian Stock Exchange.

London's Mayfair district continues to attract many international high net worth property buyers. In order to take advantage of this market opportunity, the Bank acquired significant stake in a luxury residential redevelopment in Mayfair. The project is expected to be completed in Q4 2014.

The Bank also made an investment in a mid-rise residential development project consisting of 142 residential units including villas and apartments in a prime location in Jeddah, KSA.

In line with our commitment to provide timely exits to its investors, the Bank successfully exited its £38 million Shari'a compliant mezzanine facility extended to the refinancing of 5 Canada Square, a landmark commercial Property located in the heart of Canary Wharf, the financial district of London. The successful exit of this transaction demonstrates ASBB's ability to provide its clients with differentiated investment opportunities with attractive terms that are structured to take advantage of market conditions.

The Bank also successfully completed and sold Martinique Villas By-the-Sea, a joint venture comprising seventy three villas worth an estimated gross development value of RM260.6 million (US$86 million), in one of Malaysia's Penang Island›s largest seafront residential developments. Successful completion of the project was a result of a tripartite venture involving Al Salam Bank-Bahrain, Eastern & Oriental Bhd (E&O) and CIMB-Mapletree Management Sdn Bhd (CIMB-Mapletree),

The Bank's investments in the hospitality sector, comprising leasehold interest in Burj Al Safwa and Burj Al Jewar residential and commercial towers in the Holy City of Mecca, continue to perform well with positive cash flows and enjoying sustained occupancy rates throughout the year.

The Bank's investments in the aviation sector continue to provide attractive cash-on-cash yield to its investors. The Bank has entered into three long-term operating leases including two Boeing 777-300ERs with Emirates Airlines in 2012 and a Boeing 777-200ER with Malaysian Airlines in 2007. The average remaining lease period on the portfolio is in excess of 8 years.

Information Technology

Throughout 2013 the Information Technology team supported the Bank's business strategy through the maintenance and upgrade of the Bank's IT infrastructure. The team continued to leverage cutting edge technology to enhance the customer experience, while providing international standards of customer security and ensuring compliance with regulatory as well as internal control requirements.

Corporate Governance and Risk Management

During the year, significant initiatives were undertaken to improve the knowledge and practice of Corporate Governance within the Bank. Compliance with the Central Bank of Bahrain guidelines and other regulatory guidelines is a fundamental element of the Bank's operating environment.

Know Your Customer

The Bank complies with Financial Crimes Module of Central Bank of Bahrain's rulebook. The module contains Bahrain's current anti-money laundering legislation, developed under the directives of the Financial Action Task Force, which is the international organization responsible for developing global anti-money laundering policies.

The Bank places significant emphasis in understanding its customers and their financial activities. The Bank has implemented world-class systems to support the monitoring activities. Proper due diligence is conducted to ensure that financial activities of its customers are performed in accordance with the guidelines issued by the regulatory authorities.

Human Capital

Superior human capital is a key element in the successful implementation of our business strategy, achievement of the Bank's objectives and the realisation of our corporate vision. In 2013 the Bank continued to invest heavily in the development of its staff and a number of initiatives to develop the skills and competencies of the Bank's staff were implemented. An executive leadership program comprising interactive workshops was held during the year for the Bank's management. The workshops focused on areas to enhance management and leadership skills and addressed areas such as motivation, productivity, effective communication, stress and energy management and team building.

The annual summer trainee initiative continues to be a great success. Championed by the HR department, the Bank hosted 25 graduates from various universities across the Kingdom for two-months during summer. The program provided graduates with an invaluable on-the-job experience designed to bridge the gap between academia and employment, preparing graduates to become competent members of the Kingdom's workforce. The program included workshops, as well as graduate placements in various departments throughout the Bank. The program was highly acclaimed by the participating graduates who gained an insight into the world of Islamic Banking as well as learning first hand how different departments within a Bank function.

ASBB is a strong believer of local talent and continues to attract, nurture and develop young Bahrainis. As of 31 December 2013, Bank employees comprised of 88.5% (88.1% in 2012) Bahraini employees out of a total of 191 (201 in 2012) across Bahrain and Singapore offices.

Arad Fort

A typical islamic fort built in the 15th century A.D. Surrounded by a trench, which would once have been filled with water, the square shaped fortress acted as a shield, being compact and defensive on Muharraq's seashores. Along the years, it has protected the island from any breaches by foreigner ships. At Al Salam we take inspiration with the characteristics of this wonder which shields and protects – our portfolios are designed to assure and build confidence with our partners, as we help them grow with us.

CORPORATE GOVERNANCE COMPLIANCE

The Bank aspires to the highest standards of ethical conduct: doing what it says; reporting results with accuracy and transparency and maintaining full compliance with the laws, rules and regulations that govern the Bank's business. Since 2010 when the new Corporate Governance Code was introduced by the Central Bank of Bahrain, the Bank has been implementing several measures to enhance its compliance with the corporate governance rules. A separate section on the status of compliance with the corporate governance rules and High Level Controls Module is included in this report.

SHAREHOLDERS

Major Shareholders as on 31 December 2013

	Name	Country of origin	No. of shares	% Holding
1	Gimbal Holding Company S.P.C	BAH	171,033,800	11.42
2	Mohammed bin Ahmed bin Mohammed Al Qassimi	UAE	62,980,897	4.21
3	Leader Capital (L.L.C).	UAE	57,976,149	3.87
4	Alrushid Investments L.L.C.	UAE	52,500,000	3.51
5	Mariam Ahmed Abdullah Abdool Al Khamiri	UAE	52,049,565	3.48
6	Independent Enterprises & Co. Representation	UAE	44,101,670	2.95
7	Al Asuban Company	UAE	26,250,000	1.75
8	HRH Prince Mohammed bin Fahad bin Abdulaziz	KSA	21,708,750	1.45
9	Al Salam Bank - Sudan	SDN	21,000,000	1.4
10	Global Express Company W.L.L	BAH	19,762,561	1.32
11	Noim Properties Ltd	UK	18,375,000	1.23
12	Mohammed Omeir Yussef	UAE	18,100,000	1.21
13	Emaar Properties PJSC	UAE	15,750,000	1.05
14	Social Insurance Org.(Pension)-Civil	BAH	15,381,635	1.03

Shareholding – 31 December 2013

Category	No. of shares	No. of shareholders	% of outstanding shares
Less than 1%	840,247,914	23,181	56.13
1% to less than 5%	485,782,116	16	32.45
5% to less than 10%	-	-	-
10% to less than 20%	171,033,800	1	11.42
20% up to less than 50%	-	-	-
50% and above	-	-	-
Total	**1,497,063,830**	**23,198**	**100.00**

The outstanding ordinary share ownership of the Bank is distributed as follows:

Nationality	No. of shares	Ownership percentage
Bahraini		
Government	26,557,556	1.77%
Institutions	308,595,269	20.61%
ASBB treasury Stock	7,705,906	0.51%
Individuals	158,593,602	10.6%
GCC		
Government	5,179,864	0.35%
Institutions	291,338,979	19.46%
Individuals	577,350,270	38.57%
Other		
Institutions	48,561,001	3.24%
Individuals	73,181,383	4.89%
Total	**1,497,063,830**	**100.00%**

BOARD OF DIRECTORS

The Board of Directors shall provide central leadership to the Bank, establish its objectives and develop the strategies that direct the ongoing activities of the Bank to achieve these objectives. Directors shall determine the future of the Bank through the protection of its assets and reputation. They will consider how their decisions relate to "stakeholders" and the regulatory framework. Directors shall apply skill and care in exercising their duties to the Bank and are subject to fiduciary duties. Directors shall be accountable to the shareholders of the Bank for the Bank's performance and can be removed from office by them.

The primary responsibility of the Board is to provide effective governance over the Bank's affairs for the benefit of its shareholders, and to balance the interests of its diverse constituencies including its customers, correspondents, employees, suppliers and local community. In all actions taken by the Board, the directors are expected to exercise their business judgment in what they reasonably believe to be in the best interests of the Bank. In discharging that obligation, directors may rely on the honesty and professional integrity of the Bank's senior executives and external advisors and auditors.

Changes during the year

His Excellency Mr. Mohamed Ali Rashid Alabbar has joined the Board of Directors on 18 March 2013 being the first substitute member after Mr. Salem Rashed Saeed Al Mohannadi stepped down from the Board on 15 October 2012.

Board Composition

The Board consists of members of high-level professional skills and expertise. Furthermore, in compliance with the corporate governance requirements, the Board Committees consist of Members with adequate professional background and experience. The Board periodically reviews its composition and the contribution of Directors and Committees.

The appointment of Directors is subject to prior screening by Remuneration and Nomination Committee and approval by the Shareholders and the Central Bank of Bahrain. The classification of "executive", "non-executive" and "independent non-executive" directors is as per definitions Stipulated by the Central Bank of Bahrain.

Mandate of the Board of Directors and Directors' Roles and Responsibilities

The principal role of the Board of Directors (the Board), is to oversee the implementation of the Bank's strategic initiatives and its functioning within the agreed framework, in accordance with relevant statutory and regulatory structures. The Board is also responsible for the consolidated financial statements of the Group. The Board ensures the adequacy of financial and operational systems and internal control, as well as the implementation of corporate ethics and the code of conduct. The Board has delegated responsibility for overall management of the Bank to the Chief Executive Officer.

The Board reserves a formal schedule of matters for its decision to ensure that the direction and control of the Bank rests with the Board. This includes strategic planning, performance reviews, material acquisition and disposal of assets, capital expenditure, authority levels, appointment of auditors and review of the financial statements, financing and borrowing activities including annual operating plan and budget, ensuring regulatory compliance and reviewing the adequacy and integrity of internal controls. All policies pertaining to the Bank's operations and functioning are to be approved by the Board.

Each Director holds the position for three years, after which he must present himself to the Annual General Meeting of shareholders for re-appointment. The majority of ASBB Directors (including the Chairperson and/or Deputy Chairman) are required to attend the Board meetings in order to ensure a quorum.

Board Elections System

Article 26 of the Bank's Articles of Association provides the following:

1. The Bank shall be administered by a Board of Directors consisting of not more than fourteen members and not less than five members. The Board's term shall be three years which may be renewed.
2. Each shareholder owning 10% or more of the capital may appoint whoever represents him on the Board to the same percentage of the number of the Board members. His right to vote shall be forfeited for the percentage he has exercised to appoint his representative. If a percentage is left after exercising his right to nominate, he may use such percentage to vote.
3. Other members of the Board shall be elected by the General Assembly by secret ballot.

The Board of Directors shall elect, by secret ballot, a Chairman and one or more Vice Chairman every three years. The Vice Chairman shall act for the Chairman during his absence or if there is any barrier preventing him.

Article 29 of the Article of Association covered the "Termination of Membership in the Board of Directors". It provided the following:

A Director shall lose his office on the Board in the event that he:

a. Fails to attend four consecutive meetings of the Board in one year without an acceptable excuse, and the Board of Directors decides to terminate his membership;

b. Resigns his office by virtue of a written request;

c. Forfeits any of the provisions set forth in Article 26 of the Articles of Association;

d. Is elected or appointed contrary to the provisions of the Law; and

e. Has abused his membership by performing acts that may constitute a competition with the Company or caused actual harm to the Company.

Independence of Directors

An independent director is a director whom the Board has specifically determined, has no material relationship which could affect his independence of judgment, taking into account all known facts. The Directors have disclosed their independence by signing the Directors Annual Declaration whereby they have declared that during 2013 that they have met all the conditions stipulated under Appendix A of the Corporate Governance Code.

In 2013, the members of the Board were:

Independent Non-Executive Directors

1. H.H. Shaikha Hessa bint Khalifa bin Hamad Al Khalifa – Chairperson
2. Mr. Hamad Tarek Alhomaizi – Vice Chairman
3. Mr. Hussein Mohammed Al Meeza
4. Mr. Habib Ahmed Kassim
5. Mr. Essam bin Abdulkadir Al Muhaidib
6. Mr. Salman Saleh Al Mahmeed
7. Mr. Fahad Sami Al Ebrahim
8. Mr. Mohammed Omeir Yussef
9. H. E. Mohamed Ali Rashid Alabbar
10. Mr. Adnan Abdulla Al Bassam

Executive Directors

1. Mr. Yousif Abdulla Taqi

All current Directors were elected for a three-year term on 20 March 2012, except Mr. Alabbar who joined the Board of Directors on 18 March 2013 being the first substitute member after Mr. Salem Rashed Saeed Al Mohannadi stepped down from the Board on 15 October 2012.

Induction and Orientation for New Directors

In March 2012, when the new Board was elected, all Board members were requested to attend a comprehensive course in relation to the implementation of the new Corporate Governance Code (with the Bank bearing the expenses of such training). The new directors have also been provided with a binder containing, Board charter, Bank's code of ethics and policies and other documents.

Evaluation of Board Performance

Members of the Board of Directors have been requested to assess their self-performance, how the Board of Directors' operate, evaluate the performance of each committee in light of the purposes and responsibilities delegated to it, their attendance and their involvement in the decision making process. Below is a summary of the evaluation results:

- The directors self-assessment results were either above expectation or satisfactory in most areas, including directors' skills and experience, understanding of the Bank's business and Board operations.
- Board members have identified certain objectives moving forward such as enhancing the organic growth of the Bank, building a strong succession plan, emphasize on diversified revenue stream, sourcing quality investments in addition to the focusing on the strategic plans of the Bank.
- The performance results of the Chairperson, Committee chairs and the performance of different Board committees were mostly above expectation.
- Committee chairs and members have identified different objectives moving forward; including but not limited to:
    1. Guide Management to accomplish the Board's objectives and adhere to policies and long term goals.
    2. Avoiding troublesome potential investments.
    3. Assist Management in focusing on profitable investments.
    4. Resolving long outstanding and legacy matters

Remuneration of Directors

Remuneration of the Directors as provided by Article 36 of the Articles of Association states the following:

"The General Assembly shall specify the remuneration of the members of the Board of Directors. However, such remunerations must not exceed in total 10% of the net profits after deducting statutory reserve and the distribution of dividends of not less than 5% of the paid capital among the shareholders. The General Assembly may decide to pay annual bonuses to the Chairman and members of the Board of Directors in the years when the Company does not make profits or in the years when it does not distribute profits to the shareholders, subject to the approval of the Minister of Industry and Commerce."

"The Board, based upon the recommendation of the Remuneration and Nomination Committee and subject to the laws and regulations, determines the form and amount of director compensation subject to final approval of the shareholders' at the Annual General Assembly meeting. The Remuneration and Nomination Committee shall conduct an annual review of directors' compensation."

Per the Directors' Appointment Agreement, the structure and level for the compensation for the Board of Directors consist of the following:

1. Annual remuneration subject to the annual financial performance of the Bank and as per the statutory limitation of the law.
2. The total amount payable to each Board member with respect to Board and Committee meetings attendance shall be taken into consideration when determining each member's annual remuneration.
3. The remuneration of the Board of Directors will be approved by the shareholders at the Annual General Assembly.

In addition to the above, Directors who are employees of the Bank shall not receive any compensation for their services as directors. Directors who are not employees of the Bank may not enter into any consulting arrangements with the Bank without the prior approval of the Board. Directors who serve on the Audit Committee shall not directly or indirectly provide or receive compensation for providing accounting, consulting, legal, investment banking or financial advisory services to the Bank.

The Board Charter

The Board has adopted a Charter which provides the authority and practices for governance of the Bank. The Charter was approved by the Board in 2012 and includes general information on the composition of the Board of Directors', classification of Directors', Board related Committees, Board of Directors' roles and responsibilities, Board of Directors' code of conduct, Board remuneration and evaluation process, insider dealing, conflict of interest and other Board related information.

Conflict of Interest

The Bank has a documented procedure for dealing with situations involving "conflict of interest" of Directors. In the event of Board or its Committees considering any issues involving "conflict of interest" of Directors, the decisions are taken by the full Board/Committees.

The concerned Director abstains from the discussion/ voting process. These events are recorded in Board/Committees proceedings. The Directors are required to inform the entire Board of (potential) conflicts of interest in their activities with, and commitments to, other organisations as they arise and abstain from voting on the matter. This disclosure includes all material facts in the case of a contract or transaction involving the Director.

Code of Conduct

The Board has an approved Code of Conduct for ASBB Directors. The Board has also approved a Code of Ethics for the Executive Management and staff that include "whistle-blowing" procedures. The responsibility for monitoring these codes lies with the Board of Directors. The Directors' "Code of Conduct" is published on the Bank's website. The directors' adherence to this Code of Conduct is periodically reviewed.

Board meetings and attendances

The Board of Directors meets at the summons of its Chairperson or her Deputy (in event of his absence or disability) or if requested to do so by at least two Directors. According to the Bahrain Commercial Companies Law and the Bank's Articles of Association the Board meets at least four times a year. A meeting of the Board of Directors shall be valid if attended by half of the members in person. During 2013, four Board meetings were held at the Bank's premises as follows:

Quarterly Board Meetings 2013 - Minimum Four Meetings Per Annum

Members	30 January	29 April	13 June	31 October
H.H. Shaikha Hessa bint Khalifa Al Khalifa	✔	✔	✔	✔
Mr. Hamad Tarek Alhomaizi	✔	✔	✔	-
Mr. Hussein Mohammed Al Meeza	✔	✔	✔	✔
Mr. Habib Ahmed Kassim	✔	✔	✔	✔
Mr. Essam bin Abdulkadir Al Muhaidib	✔	✔	✔	✔
Mr. Salman Saleh Al Mahmeed	✔	✔	✔	✔
Mr. Fahad Sami Al Ebrahim	✔	✔	✔	✔
Mr. Mohammed Omeir Yussef	-	✔	-	-
Mr. Adnan Abdulla Al Bassam	✔	✔	✔	✔
H.E. Mohamed Ali Alabbar	N/A	✔	✔	✔
Mr. Yousif Abdulla Taqi	✔	✔	✔	✔

Directors' interests

The number of shares held by Directors as at 31 December 2013 is as follows:

Members	No. of Shares
H.H. Shaikha Hessa bint Khalifa Al-Khalifa	100,000
Mr. Hamad Tarek Al Homaizi	100,000
Mr. Hussain Mohammed Al Meeza	462,819
Mr. Habib Ahmed Qassim	3,202,489
Mr. Essam Bin Abdulkadir Al Muhaideb	100,000
Mr. Salman Saleh Al Mahmeed	100,000
Mr. Fahad Sami Al Ebrahim	100,000
Mr. Mohammed Omeir Yussef	18,100,000
Mr. Mohamed Ali Rashid Alabbar	100,000
Mr. Adnan Abdulla Al Bassam	100,000
Mr. Yousif Abdulla Taqi	100,000

There were no trading activities in the shareholdings of directors during the year except for the acquisition of 1,100,000 shares by Mr. Habib Ahmed Kassim and sale of 22,694,981 shares by Mr. Mohammed Omeir Yussef.

Related entities

The following shareholders are related to Mr. Habib Kassim:

- Al Mahd Investment Company owns 959,742 shares

The following shareholder is related to Mr. Essam Al Muhaideb:

- Al Muhaideb Holding Company owns 4,314,522 shares

The following shareholder is related to Mr. Yousif Taqi:

- Capital Service House owns 420,000 shares

The following shareholder is related to Mr. Hussein Al Meeza:

- Top Enterprise owns 1,475,000 shares

The following shareholder is related to Mr. Mohamed Ali Rashid Alabbar:

- Leader Capital (L.L.C) owns 57,976,149 shares
- Al Rushed Investments (W.L.L.) owns 52,500,000 shares

Approval process for related parties' transactions:

The Bank has a due process for dealing with transactions involving related parties. Any such transaction will require the approval of the Board of Directors. The nature and extent of transactions with related parties are disclosed in the consolidated financial statements.

Material Transactions that require Board Approval

While any transaction above BD 5 million and up to BD 10 million requires the approval of the Executive Committee of the Board of Directors, any transaction above BD 10 million requires the approval of the Board of Directors of the Bank. In addition, when acquiring 20% of a company Board approval is required regardless of the amount.

Senior Managers' Shares ownership Two-year comparison as on 31 December

	2012	2013
Staff Name	**No. of Shares**	
Abdulkarim Mohammed Turki	77,448	168
Ali Habib Qassim	2,489	2,489
Khalid Mustafa Jalili	42,000	43,000
Dr. Mohammed Burhan Arbouna	336	336
Essa Abdulla Bohijji	96,495	96,495
Hafedh Abdulrahman Ebrahim Buali	157,500	-
Harish Venkatakrishnan	52,500	52,500
Janaka Mendis	30,000	-
Khalid Ahmed Al Ashar	52,500	-

Material contracts and financing involving Directors:

A financing facility has been provided to Mr. Mohammed Omeir Yussef. The details of the facility are as follows:

- Principal amount of financing : USD 12,734,440
- Nature of facility : Lease Agreement
- Purpose of financing : Purchase a Cessna aircraft
- Profit rate : (Libor + 2.35% p.a)
- Security : Aircraft
- Principal outstanding : USD 5,258,797

A financing facility has been provided to Mahmood Thiam (Guaranteed by H.E. Mohamed Alabbar). The details of the facility are as follows:

- Principal amount of financing : USD2 million
- Nature of facility : Commodity Murabaha
- Purpose of financing : Bridge financing for immediate personal and business obligations
- Profit rate : 8% p.a.
- Security : Guarantee from H.E. Mohamed Alabbar
- Principal outstanding : USD2 million

A financing facility has been provided to Zaleej Real Estate (Partly owned by Hamad Tarek Alhomaizi). The details of the facility are as follows:

- Principal amount of financing : AED10 million
- Nature of facility : Lease Agreement
- Purpose of financing : Sale and Leaseback
- Profit rate : 6.0% p.a.
- Security : Building in Sharjah
- Principal outstanding : BD997,479

Directorships held by Directors on other boards

The High Level Controls Module provides that no director should hold more than three directorships in Bahrain public companies. All members of the Board of Directors meet this requirement.

Board committees

The Board level committees are formed, and the Board of Directors appoints their members, at the beginning of each Board term. They are considered the high level link between the Board and the Executive Management. The objective of these committees is to assist the Board in supervising the operations of the Bank. The Committee reviews issues that are submitted by the management to the Board and makes recommendations to the Board for their final review.

Below are certain issues of concern to report relating to the work of certain Board Committees during the year 2013, summary of the dates of Committee meetings held, Directors' attendance and a summary of the main responsibilities of each Committee.

The full texts for the Terms of Reference for Board Committees (Executive Committee, Audit Committee, and Remuneration and Nomination Committees) are published on the Bank's website.

Executive Committee

Quarterly Committee meetings 2013 -Minimum four meetings per annum.

Five Committee meetings were held during 2013 as follows:

Members	21 January	21 April	9 June	7 October	9 December
Mr. Hussein Mohammed Al Meeza (Chair)	✔	✔	✔	✔	✔
Mr. Hamad Tarek Alhomaizi	✔	✔	✔	✔	✔
Mr. Adnan Abdulla Al Bassam	✔	✔	✔	✔	✔
Mr. Essam bin Abdulkadir Al Muhaidib	-	✔	✔	✔	✔
Mr. Yousif Abdulla Taqi	✔	✔	✔	✔	✔

Summary of responsibilities: Deputizing the Board on matters pending decisions between Board meetings, considering and reviewing management's operational reports and regulatory and strategic developments, reviewing and approving credit and market risk proposals in excess of the authority limits of the relevant committees, reviewing management's recovery procedures for problem loans and requirements for provisioning.

Audit Committee

Quarterly Committee meetings in 2013 - Minimum four meetings per annum.

Four Committee meetings were held during 2013 as follows:

Members	29 January	28 April	12 June	30 October
Mr. Salman Saleh Al Mahmeed (Chair)	✔	✔	✔	✔
Mr. Fahad Sami Al Ebrahim	✔	✔	✔	✔
Mr. Mohamed Ali Rashid Alabbar	N/A	N/A	-	✔
Mr. AbdulRahman Al Sayed (Committee Expert – Non-Voting)	✔	✔	✔	✔

Summary of responsibilities: Reviews the internal audit program and internal control system, considers major findings of internal audit review, investigations and management's response, ensures coordination among internal and External Auditors, monitors trading activities of key persons and ensures prohibition of the abuse of inside information and disclosure requirements.

Note: Mr Alabbar joined the Audit Committee as a member on 6 May 2013.

Remuneration and Nomination Committee

Quarterly Committee meetings in 2013 - Minimum two meetings per annum.

Four meetings were convened during 2013

Members	30 January	29 April	12 June	8 December
Mr. Habib Ahmed Kassim (Chair)	✔	✔	✔	✔
Mr. Fahad Sami Al Ebrahim	✔	✔	✔	-
Mr. Adnan Abdulla Al Bassam	N/A	✔	✔	✔

Summary of responsibilities: Make specific recommendations to the Board of Directors' on both remuneration policy and individual remuneration packages for the Chief Executive Officer and other senior managers. Evaluate senior management's performance in light of the Bank's corporate goals. Make recommendations to the Board from time to time as to the changes the committee believes to be desirable to the size of the Board or any committee of the Board.

Note: Adnan Al Bassam joined the Remuneration and Nomination Committee as a member on 30 January 2013 replacing Mr. Salem Rashed Saeed Al Mohannadi who had stepped down from the Board on 15 October 2012.

Corporate Governance Committee

Committee meetings in 2013 - Minimum one meeting per annum.

One meeting was convened during 2013

Members	15 April
H.H. Shaikha Hessa bint Khalifa Al Khalifa (Chair)	✔
Mr. Adnan Abdulla Al Bassam	✔
Dr. Mohammed Burhan Arbouna	✔

Summary of responsibilities: Oversees and monitors the implementation of the governance policy framework. Reviews on an annual basis the Bank's compliance with the respective Corporate Governance rules and regulations as well as the Board's and subcommittees' charters. Reviews on an annual basis the Shari'a Supervisory Board's compliance with its approved charter.

SHARI'A SUPERVISORY BOARD

Al Salam Bank-Bahrain is guided by a Shari'a Supervisory Board consisting of five distinguished scholars. The Board reviews the Bank's activities to ensure that all products and investment transactions comply fully with the rules and principles of Islamic Shari'a.

The Board meets at least 4 times a year. Its members are remunerated by annual retainer fee and sitting fees per meeting attended, with travel expenses reimbursed as appropriate. Its members are not paid any performance-related remuneration.

EXECUTIVE MANAGEMENT

The Board delegates the authority for management of the Bank to the Chief Executive Officer. The CEO and Executive Management are responsible for implementation of decisions and strategies approved by the Board of Directors and the Shari'a Fatwa and Supervisory Board.

MANAGEMENT COMMITTEES

The Chief Executive Officer is supported by a number of management committees each having a specific mandate to give focus to areas of business, risk and strategy. The various committees and their roles and responsibilities are:

Committee	Roles and responsibilities
Credit/Risk Committee	Recommending the risk policy and framework to the Board. Its Primary role is the selection and implementation of risk management systems, portfolio monitoring, stress testing, risk reporting to Board, Board Committees, Regulators and Executive Management. In addition to these responsibilities, individual credit transaction approval and monitoring is an integral part of the responsibilities.
Asset Liability Committee	This Committee's primary responsibility is to review the trading and liquidity policy for the overall management of the balance sheet and its associated risks.
Investment Committee	The role of the Committee is to review and approve all transactions related to corporate and real estate investments and monitoring their performance on an ongoing basis. In addition, the Committee is responsible to oversee the performance of the fund managers and recommend exit strategies to maximize return to its investors.
Technology Steering Committee	TSC oversees the information technology function of the Bank. It recommends the annual IT budget and plans, drawn up in accordance with the approved strategy for the Bank, to the CEO for submission to the Board of Directors for their approval. It supervises the implementation of the approved IT annual plan within set deadlines and budgetary allocations.

EXECUTIVE MANAGEMENT COMPENSATION

The performance bonus of Executive Management is recommended by the Remuneration and Nomination Committee and approved by the Board. The performance bonus of senior management is recommended by the Chief Executive Officer for review and endorsed by the Remuneration and Nomination Committee subject to Board approval.

COMPLIANCE

The Bank has in place comprehensive policies and procedures to ensure full compliance with the relevant rules and regulations of the Central Bank of Bahrain and the Bahrain Bourse, the Dubai Financial Market, the Emirates Securities & Commodities Authority, including anti-money laundering, prudential and insider trading reporting. The Bank is in compliance with High Level Control Module issued by the Central Bank of Bahrain.

REMUNERATION AND APPOINTMENT OF THE EXTERNAL AUDITORS

During the Annual General Ordinary Meeting held on 20 February 2013, the shareholders approved the appointment of Ernst & Young as external auditors for the year ending 31 December 2013 and authorized the Board of Directors to determine their remuneration.

INTERNAL CONTROL

Internal control is an active process that is continually operating at all levels within the Bank. The Bank has established an appropriate culture to facilitate an effective internal control process and for monitoring its effectiveness on a periodic basis. Every employee of the Bank participate in the internal control process and contribute effectively by identifying risk at an earlier stage and implementing mitigating controls at optimum cost. Residual risk is properly communicated to the senior management and corrective actions are taken.

KEY PERSONS POLICY

The Bank has established a Key Persons' Policy to ensure that Key Persons are aware of the legal and administrative requirements regarding holding and trading of the Bank's shares, with the primary objective of preventing abuse of inside information. Key Persons are defined to include the Directors, Executive Management, designated employees and any person or firm connected to the identified Key Persons. The ownership of the Key Persons' Policy is entrusted to the Board's Audit Committee.

The Key Persons' Policy is posted on the Bank's website.

COMMUNICATION POLICY

The Bank recognizes that active communication with different stakeholders and the general public is an integral part of good business and administration. In order to reach its overall goals for communication, the Bank follows a set of guiding principles such as efficiency, transparency, clarity and cultural awareness.

The Bank uses modern communication technologies in a timely manner to convey messages to its target groups. The Bank shall reply without unnecessary delay, to information requests by the media and the public. The Bank strives in its communication to be as transparent and open as possible while taking into account bank confidentiality. This contributes to maintaining a high level of accountability. The Bank also pro-actively develops contacts with its target groups and identifies topics of possible mutual interest. The Bank reinforces clarity by adhering to a well-defined visual identity in its external communications.

The Bank's formal communication material is provided in both Arabic and English languages. The Bank maintains a Legal Policy published on its website: www.alsalambahrain.com that includes terms and conditions on the use of information published on the site.

The annual reports and quarterly financial statements, Board Charter and Corporate Governance report are published on the Bank's website. Shareholders have easy access to various types of forms including proxies used for the Annual General Meeting. In addition, forms are also available online to file complaints or make inquiries which are duly dealt with. The Bank regularly communicates with its staff through internal communications to provide updates of the Bank's various activities.

Consumer/ Investor Awareness Programmes and Tools

To fulfil its goals for external communications, promoting its products and communicating with its stakeholders, ASBB employs a variety of communications tools. The most important of them are listed below.

Customers	seminars, bilateral contacts, website, newsletter, media campaigns, corporate presentations, speeches, publications, brochures, leaflets, Radio and TV advertising, banners, unipols, SMS etc.
Investors	publications, road shows (mostly bilateral contacts), Internet, media, investor presentations, wire services, brochures, leaflets, advertising etc.
Regulatory & Governmental authorities	institutional contacts, seminars, visits, bilateral contacts, Internet, newsletter, media, publications (in particular the Annual Report), brochures, leaflets, etc.
Media Communications	press releases, interviews, speeches, background seminars, etc.
General public Communications	media, other key target groups as multipliers

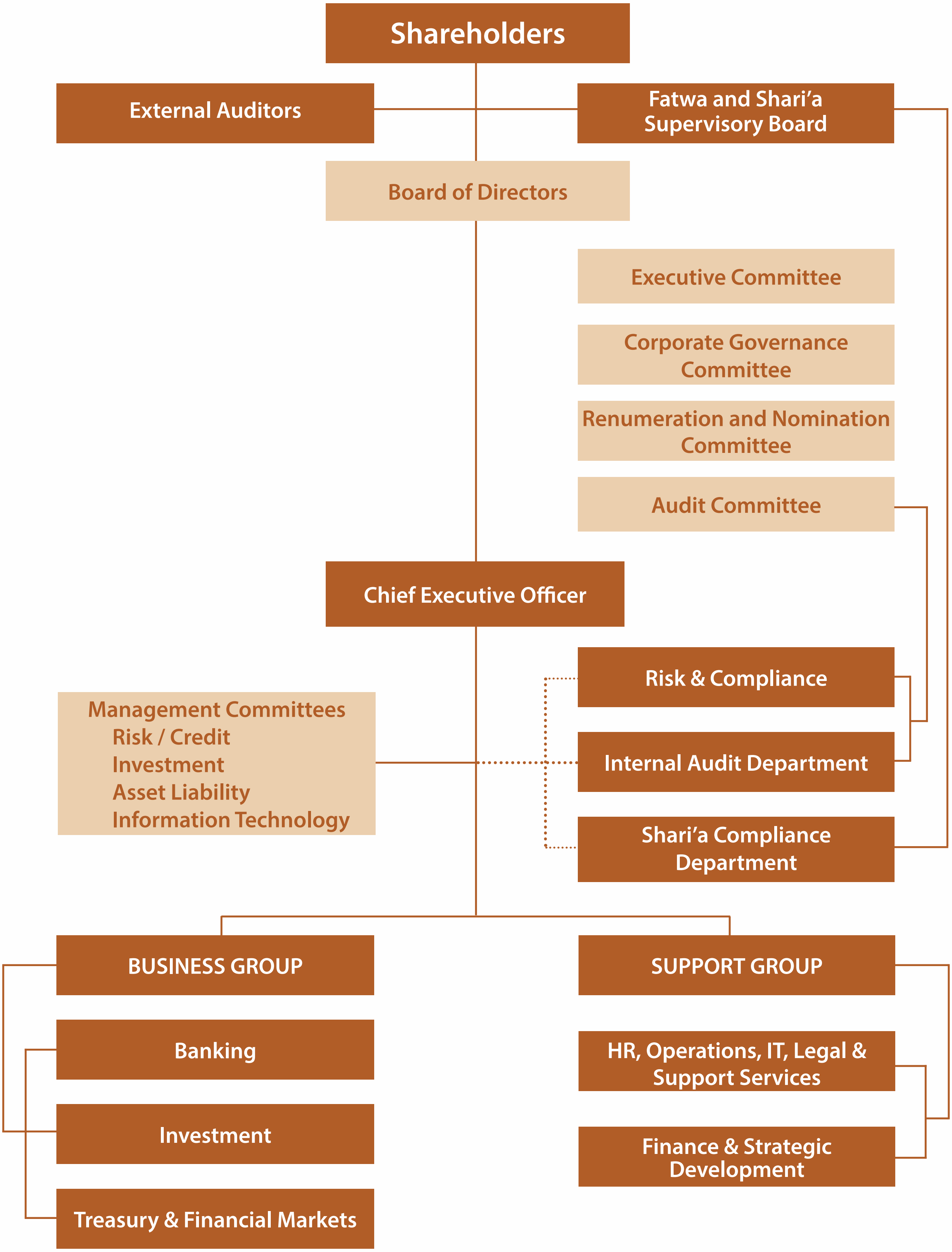
WHISTLE BLOWING POLICY

The Bank has a whistle blowing policy with designated officials to whom the employee can approach. The policy provides adequate protection to employees for any reports in good faith. The Board's Audit Committee oversees the implementation of this policy.

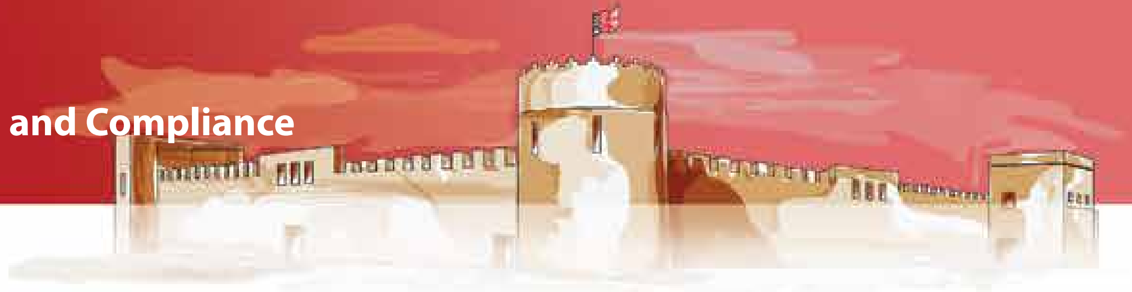
The directors have adopted the following code of conduct in respect of their behaviour:

- To act with honesty, integrity and in good faith, with due diligence and care, in the best interest of the Bank and its stakeholders;
- To act only within the scope of their responsibilities;
- To have a proper understanding of the affairs of the Bank and to devote sufficient time to their responsibilities;
- To keep confidential Board discussions and deliberations;
- Not to make improper use of information gained through the position as a director;
- Not to take undue advantage of the position of director;
- To ensure his/her personal financial affairs will never cause reputational loss to the Bank;
- To maintain sufficient/detailed knowledge of the Bank's business and performance to make informed decisions;
- To be independent in judgment and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions of the Board;
- Not to agree to the Bank incurring an obligation unless he/she believes at the time, on reasonable grounds, that the Bank will be able to discharge the obligations when it is required to do so;
- Not to agree to the business of the Bank being carried out, or cause or allow the business to be carried out, in a manner likely to create a substantial risk of serious loss to the Bank's creditors;
- To treat fairly and with respect all of the Bank's employees and customers with whom they interact;
- Not enter into competition with the Bank;
- Not demand or accept substantial gifts from the Bank for himself/herself or his/her associates;
- Not take advantage of business opportunities to which the Bank is entitled for himself/herself or his/her associates;
- Report to the Board any potential conflict of interest, and
- Absent themselves from any discussions or decision-making that involves a subject in which they are incapable of providing objective advice or which involves a subject of proposed conflict of interest.

Organization Structure



There were no changes made to the management structure during the year.



At Al Salam Bank-Bahrain we appreciate the fact that we are in the business of taking risks and our success is largely dependent on how efficiently we identify, measure, control and manage these risks. Hence, we view risk management as a core competency from a strategic point of view and the Basel II Accord as a catalyst to the successful implementation of the pillars of risk management.

The fundamental principle underlying our risk management framework is ensuring that accepted risks are within Board approved risk appetite and the returns are commensurate with the risks taken. The objective is creating shareholder value through protecting the Group against unforeseen losses, ensuring maximization of earnings potential and opportunities vis-à-vis the Group's risk appetite and ensuring earnings stability.

With this in mind, the Bank's establishment plan gave priority to the development of an effective and practical risk management framework and independent risk management and compliance function in line with best risk management practice locally and internationally, the requirements of the Central Bank of Bahrain and the Basel II Accord.

Risk Management Framework

The risk management framework defines the risk culture of Al Salam Bank–Bahrain and sets the tone throughout the Group to practice the right risk behavior consistently to ensure that there is always a balance between business profits and risk appetite.

The risk management framework achieves this through the definition of the Group's key risk management principles covering credit, market, operational, strategic and reputation risks, the role and responsibilities of the Board, Risk Management group and Senior Management towards risk management, the risk assessment methodology based on likelihood and consequences, the major risk policies, procedures and risk limits, the risk management information systems and reports, the internal control framework and the Group's approach to capital management.

The effectiveness of the risk management framework is independently assessed and reviewed through internal audits, external audits and Central Bank of Bahrain supervision. In addition, business and support groups carry out periodic control risk self assessments.

As a result, the risk management framework creates an alignment between business and risk management objectives.

Capital Management

The cornerstone of risk management framework is the optimization of risk-reward relationship against the capital available through a focused and well monitored capital management process involving Risk Management, Finance and Business groups.

Corporate Governance

The risk management framework is supported by an efficient Corporate Governance Framework discussed on pages 32 to 46.

Risks Ownership

The implementation of the risk management framework Group-wide is the responsibility of the Risk Management & Compliance Departments. Ownership of the various risks across the Group lies with the business and support Heads and it is their responsibility to ensure that these risks are managed in accordance with the risk management framework. Risk Management assists business and support heads in identifying concerns and risks, identifying risk owners, evaluating risks as to likelihood and consequences, assessing options for mitigating the risks, prioritizing risk management efforts, developing risk management plans, authorizing implementation of risk management plans and tracking risk management efforts.

The Bank has the following Policies, Procedures and Limits relating to the Risk Management Framework:

Credit Risk Management	Market Risk Management	Operational Risk Management	Capital Management	Compliance & Anti-Money Laundering
• Exposures and limits Monitoring	• Positioning and Limits Monitoring	• Control Self Assessments	• Basel II Compliance	• Compliance Monitoring
• Portfolio Management	• Risk Measurement Methodology	• Key Risk Indicators Monitoring	• Risk Adjusted Pricing	• Anti-Money Laundering Control
• Timely Reporting to Risk Committee	• Timely Reporting to ALCO	• Risk & Loss Events Database	• Reporting to Board Executive Committee	• Training and Awareness
• Internal Rating Methodology		• IT Security Managements	• Scenario Analysis	• AML System Controls
• Periodic Stress Testing and Scenario Analysis		• Business Continuity Planning		
		• Outsourcing Risk Management		

Compliance & Anti-Money Laundering Department

The Bank has established an independent and dedicated unit to coordinate the implementation of compliance and Anti-Money Laundering and Anti-Terrorist Financing program. The program covers policies and procedures for managing compliance with regulations, anti-money laundering, disclosure standards on material and sensitive information and insider trading. In line with its commitment to combat money laundering and terrorist financing, Al Salam Bank - Bahrain through it's Anti-Money Laundering policies ensures that adequate preventive and detective internal controls and systems operate effectively. The policies govern the guidelines and procedures for client acceptance, maintenance and monitoring in line with the Central Bank of Bahrain and International standards such as FATF recommendations and Basel Committee papers.

All inward and outward electronic transfers are screened against identified sanction lists issued by certain regulatory bodies including the UN Security Council Sanctions Committees and US Department of the Treasury - OFAC, in addition to those designated by the Central Bank of Bahrain.

The compliance program also ensures that all applicable Central Bank of Bahrain regulations are complied with and/ or non-compliance is detected and addressed in a timely manner. The program includes compliance with regulations set by Ministry of Industry & Commerce and Bahrain Bourse.

The Bank has initiated steps to comply with Foreign Account Tax Compliance Act (FATCA) requirements as and when required by the regulators.

Corporate Social Responsibility

The Bank is committed to fulfilling its obligations as a good corporate citizen in the communities in which it operates. We endeavor to support the Bahrain Government in its efforts to enhance the quality of life of the people of the Kingdom of Bahrain.

ASBB underscore this commitment to our community by supporting initiatives that add value to the Island's housing, education and health infrastructure, as well as encouraging future economic growth and prosperity through supporting entrepreneurship and the development of our youth.

During the year, charitable donations were made to medical facilities and other charities that care for the less fortunate and supported cultural initiatives in order to preserve the traditions of the Kingdom for generations.

The Shari'a and Supervisory Board Report for Al Salam Bank-Bahrain presented to the AGM for the financial year 2013

The Shari'a Fatwa and Supervisory Board ("the Board") has reviewed the Bank's transactions during the year, as well as the Financial Position, Income, Cash Flows and Changes in Equity statements. The Board met with the Bank's management and submitted its annual report as follows:

First:

1- The Board has supervised the Banks' activities and transactions during the year, and carried out its role by advising the various departments to adhere to the Shari'a principles and the Board's legal opinions in respect to those activities and transactions. The Board held, for this purpose, several meetings with the Banks' management. The Board hereby confirms the Bank's management keenness to adhere to the Shari'a principles and the Board's legal opinions.

2- The Board has studied the transactions presented to it during the year, and approved the contracts and documents relating to those transactions. The Board responded to questions and queries and issued appropriate decisions and legal opinions relevant to the transactions. The decisions and legal opinions were circulated to the pertinent departments for execution.

Second:

The Board has reviewed samples of contracts and agreements that were presented and requested the Management to adhere to them.

Third: Financial Statements:

The Board has reviewed the financial statements and notes and made its observations on them.

In line with the available information and disclosures that are presented by the banks' management, the financial statement reviewed by the Board represents the Banks' assets, liabilities, revenues, equity, customers' accounts and operational expenses. The accuracy of the information and data provided are the responsibility of the Banks' management.

The Board believes that the consolidated balance sheet, profit and loss account and the distribution of profits to depositors and shareholders had been prepared in conformity with the Islamic Shari'a.

Fourth: Zakah:

Since the articles of association of the Bank did not require the Bank to pay Zakah on behalf of the Shareholders, the Board has calculated the Zakah due on shareholders in order to inform them, and which should be disclosed in the notes to the financial statements.

Fifth: Prohibited Income:

The Sharia Board has set aside the Sharia non-compliant income and directed it to the Charity Account.

The Board hereby emphasizes that management has the primary responsibility to comply with the Rules and Principles of Shari'a in all activities and transactions of the Bank. The Board confirms that the executed transactions that are submitted by management of the Bank for the Board's review during the year were generally in compliance with Rules and Principles of Shari'a. The management has shown utmost interest and willingness to fully comply with the recommendations of the Board

Board Members

Dr. Hussein Hamed Hassan
Chairman

Dr. Ali Al Qura Daghi
Board Member

Shaikh Adnan Al Qattan
Board Member

Dr. Mohammed Zoeir
Board Member

Dr. Mohammed Arbouna
Board Member

Standing the test of time!

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C.R. No. 6700

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

Report on the consolidated financial statements

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

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

Opinion

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

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

Other Matters

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

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

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

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2013 that might have had a material adverse effect on the business of the Bank or on its consolidated financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests. The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank.

Ernst & Young

30 January 2014
Manama, Kingdom of Bahrain

Consolidated Statement of Financial Position
Year Ended 31 December 2013

	Note	31 December 2013 BD '000	31 December 2012 BD '000
ASSETS			
Cash and balances with banks and Central Bank of Bahrain	4	**86,097**	66,843
Central Bank of Bahrain Sukuk		**102,937**	117,612
Murabaha and Wakala receivables from banks	5	**118,227**	103,290
Corporate Sukuk	6	**91,106**	74,993
Murabaha financing	7	**147,616**	127,537
Mudaraba financing	7	**114,084**	99,572
Ijarah Muntahia Bittamleek	9	**110,631**	82,954
Musharaka		**19,145**	17,467
Non-trading investments	10	**125,923**	204,202
Investment properties	11	**77,736**	2,500
Development properties	12	**63,399**	-
Investment in an associate	13	**8,537**	7,573
Other assets	14	**22,814**	37,675
TOTAL ASSETS		**1,088,252**	942,218
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
LIABILITIES			
Murabaha and Wakala payables to banks		**106,796**	90,852
Wakala payables to non-banks		**584,365**	521,929
Customers' current accounts		**70,532**	83,921
Term financing	15	**23,637**	-
Other liabilities	16	**30,979**	19,175
TOTAL LIABILITIES		**816,309**	715,877
EQUITY OF INVESTMENT ACCOUNTHOLDERS	17	**25,846**	18,276
OWNERS' EQUITY			
Share capital	18	**149,706**	149,706
Treasury stock		**(492)**	(492)
Reserves and retained earnings		**78,580**	51,366
Proposed appropriations	18	**7,485**	7,485
Total equity attributable to shareholders of the Bank		**235,279**	208,065
Non-controlling interest		**10,818**	-
TOTAL OWNERS' EQUITY		**246,097**	208,065
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		**1,088,252**	942,218

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

Shaikha Hessa bint Khalifa Al Khalifa
Chairperson of the Board

Yousif Taqi
Director & CEO

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

Consolidated Income Statement
Year Ended 31 December 2013

	Note	31 December 2013 BD '000	31 December 2012 BD '000
OPERATING INCOME			
Income from financing contracts	20	**26,132**	20,545
Income from Sukuk		**9,448**	8,899
Gains on sale of investments and Sukuk		**3,833**	10,876
Income from FVTPL investments		**2,424**	635
Fair value changes on FVTPL investments		**(1,398)**	(7,021)
Net gain from available-for-sale investments	13	**-**	2,088
Dividend income		**570**	1,275
Foreign exchange gains		**793**	644
Fees, commission and other income - net	21	**2,305**	7,104
		44,107	45,045
Profit on Murabaha and Wakala payables to banks		**(682)**	(599)
Profit on Wakala payables to non-banks		**(17,190)**	(20,228)
Profit relating to equity of investment accountholders	17	**(148)**	(166)
Total operating income		**26,087**	24,052
OPERATING EXPENSES			
Staff costs		**6,469**	6,350
Premises and equipment cost		**1,147**	1,179
Depreciation		**280**	394
Other operating expenses		**3,505**	3,541
Total operating expenses		**11,401**	11,464
PROFIT BEFORE PROVISIONS AND RESULTS OF AN ASSOCIATE		**14,686**	12,588
Provision for impairment - net	8	**(3,208)**	(3,058)
Share of profit from an associate	13	**894**	778
NET PROFIT FOR THE YEAR		**12,372**	10,308
Attributable to:			
Shareholders of the Bank		**12,372**	10,272
Non-controlling interest		**-**	36
		12,372	10,308
WEIGHTED AVERAGE NUMBER OF SHARES (in '000)		**1,491,372**	1,491,372
BASIC AND DILUTED EARNINGS PER SHARE (FILS)		**8.3**	6.9

Shaikha Hessa bint Khalifa Al Khalifa
Chairperson of the Board

Yousif Taqi
Director & CEO

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

Consolidated Statement of Financial Position
Year Ended 31 December 2013

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

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

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
Year ended 31 December 2013

Attributable to Shareholders of the Bank

Amounts in BD'000

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

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

1 INCORPORATION AND PRINCIPAL ACTIVITIES

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

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

The Group has control over the following entities:

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

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

2 ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

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

2.1.a Statement of compliance

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

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

2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Classification of investments

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

2 ACCOUNTING POLICIES (continued)

2.2 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

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

Collective impairment provisions on financial contracts

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

Impairment losses on financial contracts

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

Impairment of available-for-sale equity investments

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

Valuation of unquoted private equity and real estate investments

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

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

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

Going concern

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

Basis of consolidation

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

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

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

2.3 SIGNIFICANT ACCOUNTING POLICIES

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

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

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

2.3.2 Summary of significant accounting policies

a) Financial contracts

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

b) Corporate Sukuk

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

c) Murabaha receivables

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

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

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

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.2 Summary of significant accounting policies (continued)

d) Mudaraba financing

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

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

e) Ijarah Muntahia Bittamleek

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

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

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

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

f) Musharaka

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

Musharaka is stated at amortised cost, less any impairment.

g) Non-trading investments

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

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

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

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.2 Summary of significant accounting policies (continued)

g) Non-trading investments (continued)

Investments available-for-sale

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

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

Investments carried at fair value through profit or loss

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

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

h) Investments in associates

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

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

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

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

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

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

i) Investment properties

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

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.2 Summary of significant accounting policies (continued)

j) Development properties

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

k) Premises and equipment

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

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

l) Subsidiaries acquired with a view to sell

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

m) Business combinations and goodwill

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

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

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

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

n) Impairment and uncollectability of financial assets

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

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.2 Summary of significant accounting policies (continued)

n) Impairment and uncollectability of financial assets (continued)

Impairment is determined as follows:

(i) for assets carried at amortised cost, impairment is based on estimated cash flows based on the original effective profit rate;

(ii) for assets carried at fair value, impairment is the difference between cost and fair value; and

(iii) for assets carried at cost, impairment is based on present value of anticipated cash flows based on the current market rate of return for a similar financial asset.

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

o) Offsetting

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

p) Provisions

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

q) Employees' end of service benefits

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

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

r) Revenue recognition

Murabaha receivables

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

Corporate Sukuk

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

Mudaraba

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

Dividends

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

Ijarah Muntahia Bittamleek

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

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.2 Summary of significant accounting policies (continued)

r) Revenue recognition (continued)

Musharaka

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

Fees and commission income

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

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

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

s) Fair value of financial assets

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

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

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

t) Foreign currencies

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

u) Trade and settlement date accounting

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

v) Derecognition of financial assets

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

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

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.2 Summary of significant accounting policies (continued)

w) Derecognition of financial liabilities

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

x) Fiduciary assets

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

y) Dividends on ordinary shares

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

z) Equity of investment account holders

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

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

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

aa) Zakah

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

ab) Cash and cash equivalents

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

ac) Wakala payables

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

ad) Jointly financed and self financed

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

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

ae) Investment risk reserve

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

af) Earnings prohibited by Shari'a

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

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.2 Summary of significant accounting policies (continued)

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

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

3 CLASSIFICATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS

	31 December 2013			
	At fair value through profit or loss	Available for sale	At amortised cost /others	Total
	BD'000	BD'000	BD'000	BD'000
ASSETS				
Cash and balances with banks and the CBB	-	-	86,097	86,097
CBB Sukuk	-	-	102,937	102,937
Murabaha and Wakala receivables from banks	-	-	118,227	118,227
Corporate Sukuk	-	-	91,106	91,106
Murabaha and Mudaraba financing	-	-	261,700	261,700
Ijarah Muntahia Bittamleek	-	-	110,631	110,631
Musharaka	-	-	19,145	19,145
Non-trading investments	112,205	13,718	-	125,923
Investment properties	-	-	77,736	77,736
Development properties	-	-	63,399	63,399
Investment in an associate	-	-	8,537	8,537
Other assets	-	2,656	20,158	22,814
	112,205	16,374	959,673	1,088,252

	At fair value through profit or loss	Available for sale	At amortised cost /others	Total
	BD'000	BD'000	BD'000	BD'000
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS				
Murabaha and Wakala payables to banks	-	-	106,796	106,796
Wakala from non-banks	-	-	584,365	584,365
Customers' current accounts	-	-	70,532	70,532
Term financing	-	-	23,637	23,637
Other liabilities	-	-	30,979	30,979
Equity of investment accountholders	-	-	25,846	25,846
	-	-	842,155	842,155

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

	31 December 2012			
	At fair value through profit or loss	Available for sale	At amortised cost /others	Total
	BD'000	BD'000	BD'000	BD'000
ASSETS				
Cash and balances with Banks and the CBB	-	-	66,843	66,843
CBB Sukuk	-	-	117,612	117,612
Murabaha and wakala receivables from banks	-	-	103,290	103,290
Corporate Sukuk	-	-	74,993	74,993
Murabaha and Mudaraba financing	-	-	227,109	227,109
Ijarah Muntahia Bittamleek	-	-	82,954	82,954
Musharaka	-	-	17,467	17,467
Non-trading investments	193,168	11,034	-	204,202
Investment properties	-	-	2,500	2,500
Investment in an associate	-	-	7,573	7,573
Other assets	-	3,056	34,619	37,675
	193,168	14,090	734,960	942,218

	At fair value through profit or loss	Available for sale	At amortised cost /others	Total
	BD'000	BD'000	BD'000	BD'000
LIABILITIES AND EQUITY OF INVESTMENT ACCOUNTHOLDERS				
Murabaha and Wakala payables to banks	-	-	90,852	90,852
Wakala from non-banks	-	-	521,929	521,929
Customers' current accounts	-	-	83,921	83,921
Other liabilities	-	-	19,175	19,175
Equity of investment accountholders	-	-	18,276	18,276
	-	-	734,153	734,153

4 CASH AND BALANCES WITH BANKS AND THE CBB

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

5 MURABAHA AND WAKALA RECEIVABLES FROM BANKS

	2013	2012
	BD'000	BD'000
GCC	112,949	98,012
Europe	5,278	5,278
	118,227	103,290

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

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

6 CORPORATE SUKUK

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

7 MURABAHA AND MUDARABA FINANCING

7.a Murabaha Financing

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

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

7.b Mudaraba Financing

	2013	2012
	BD'000	BD'000
Murabaha financing - gross	114,084	99,572
Less: Provision	-	-
Murabaha financing - net	114,084	99,572

8 MOVEMENTS IN PROVISIONS

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

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

9 IJARAH MUNTAHIA BITTAMLEEK

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

	2013	2012
	BD'000	BD'000
Movements in Ijarah Muntahia Bittamleek assets are as follows:		
At 1 January	**82,954**	66,477
Additions during the year	**35,719**	24,194
Ijarah assets depreciation	**(8,018)**	(7,695)
Provision	**(24)**	(22)
At 31 December	**110,631**	82,954

	2013	2012
	BD'000	BD'000
The future minimum lease receivable in aggregate are as follows:		
Due within one year	**13,837**	18,213
Due in one to five years	**55,831**	56,851
Due after five years	**40,963**	7,890
	110,631	82,954

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

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

10 NON-TRADING INVESTMENTS

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

Fair value hierarchy

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

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

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

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

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

	31 December 2013			
	Level 1	***Level 2***	***Level 3***	***Total***
	BD'000	***BD'000***	***BD'000***	***BD'000***
Financial assets at fair value through profit or loss	**9,058**	**-**	**103,147**	**112,205**
Available-for-sale financial assets	**6,455**	**-**	**7,263**	**13,718**
	15,513	**-**	**110,410**	**125,923**

	31 December 2012			
	Level 1	*Level 2*	*Level 3*	*Total*
	BD'000	*BD'000*	*BD'000*	*BD'000*
Financial assets at fair value through profit or loss	9,736	445	182,987	193,168
Available-for-sale financial assets	11,034	-	-	11,034
	20,770	445	182,987	204,202

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

11 INVESTMENT PROPERTIES

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

	2013	2012
	BD'000	BD'000
Buildings	33,975	-
Lands	43,761	2,500
	77,736	2,500

12 DEVELOPMENT PROPERTIES

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

13 INVESTMENT IN AN ASSOCIATE

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

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

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

14 OTHER ASSETS

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

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

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

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

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

15 TERM FINANCING

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

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

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

16 OTHER LIABILITIES

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

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

17 EQUITY OF INVESTMENT ACCOUNTHOLDERS

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

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

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

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

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

18 OWNERS' EQUITY

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

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

18.2 Proposed appropriations

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

19 STATUTORY RESERVE

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

20 INCOME FROM FINANCING CONTRACTS

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

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

21 FEES, COMMISSION AND OTHER INCOME - NET

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

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

22 TOTAL COMPREHENSIVE INCOME

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

23 RELATED PARTY TRANSACTIONS

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

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

	2013			
	Associates and joint ventures	**Directors and related entities**	**Senior management**	**Total**
	BD'000	**BD'000**	**BD'000**	**BD'000**
Assets:				
Murabaha financing	**30,190**	**27**	**38**	**30,255**
Mudaraba financing	**14,310**	**80**	**-**	**14,390**
Ijarah Muntahia Bittamleek	**-**	**1,983**	**227**	**2,210**
Musharaka financing	**1,405**	**-**	**-**	**1,405**
Other assets	**1,346**	**27**	**7**	**1,380**
Liabilities and equity of investment accountholders:				
Wakala payables to non-banks	**2,222**	**1,564**	**547**	**4,333**
Customers' current accounts	**2,202**	**1,075**	**25**	**3,302**
Equity of investment accountholders	**-**	**716**	**106**	**822**
Other liabilities	**322**	**443**	**2**	**767**
Contingent liabilities	**1,647**	**-**	**-**	**1,647**

	2012			
	Associates and joint ventures	Directors and related entities	Senior management	Total
	BD'000	BD'000	BD'000	BD'000
Assets:				
Murabaha financing	30,198	13	70	30,281
Mudaraba financing	14,214	100	-	14,314
Ijarah Muntahia Bittamleek	-	2,310	-	2,310
Musharaka financing	2,061	-	-	2,061
Other assets	822	4	-	826
Liabilities and equity of investment accountholders:				
Wakala payables to non-banks	2,459	926	230	3,615
Customers' current accounts	5,145	154	10	5,309
Equity of investment accountholders	1,866	110	10	1,986
Other liabilities	-	325	-	325
Commitments	9,425	-	-	9,425
Contingent liabilities	4,273	-	-	4,273

23 RELATED PARTY TRANSACTIONS (continued)

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

	2013			
	Associates and joint ventures	Directors and related entities	Senior management	Total
	BD'000	**BD'000**	**BD'000**	**BD'000**
Income:				
Income from financing contracts	**4,702**	**269**	**3**	**4,974**
Expenses:				
Profit on Wakala payables to non-banks	**60**	**44**	**14**	**118**
Share of profits on equity of investment account holders	**-**	**1**	**-**	**1**

	2012			
	Associates and joint ventures	Directors and related entities	Senior management	Total
	BD'000	BD'000	BD'000	BD'000
Income:				
Income from financing contracts	2,311	7	8	2,326
Expenses:				
Profit on Wakala payables to non-banks	66	33	5	104
Share of profits on equity of investment account holders	2	1	-	3

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

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

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

24 CONTINGENT LIABILITIES AND COMMITMENTS

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

24 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

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

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

Operating lease commitment - Bank as lessee

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

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

25 RISK MANAGEMENT

25.1 Introduction

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

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

Risk management structure

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

Board of Directors

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

Executive Committee

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

Shari'a Supervisory Board

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

Credit/ Risk Committee

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

Asset and Liability Committee

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

25 RISK MANAGEMENT (continued)

25.1 Introduction (continued)

Board Audit Committee

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

Internal Audit

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

Risk measurement and reporting systems

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

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

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

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

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

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

25 RISK MANAGEMENT (continued)

25.2 Credit risk

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

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

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

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

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

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

Type of credit risk

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

Murabaha financing

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

25 RISK MANAGEMENT (continued)

25.2 Credit risk (continued)

Type of credit risk (continued)

Ijarah Muntahia Bittamleek

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

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

	31 December 2013				
	Neither past due nor impaired			Past due or individually impaired	Total
	'A' Rated	'B' Rated	Unrated		
	BD'000	BD'000	BD'000	BD'000	BD'000
Balances with banks	**6,182**	**199**	**1,039**	**-**	**7,420**
Murabaha and Wakala receivables from banks	**38,114**	**36,114**	**43,999**	**-**	**118,227**
	44,296	**36,313**	**45,038**	**-**	**125,647**

	31 December 2012				
	Neither past due nor impaired			Past due or individually impaired	Total
	'A' Rated	'B' Rated	Unrated		
	BD'000	BD'000	BD'000	BD'000	BD'000
Balances with Banks	6,486	144	4,236	-	10,866
Murabaha and Wakala receivables from banks	30,670	33,135	39,485	-	103,290
	37,156	33,279	43,721	-	114,156

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

25 RISK MANAGEMENT (continued)

25.2 CREDIT RISK (continued)

Type of credit risk (continued)

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

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

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

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

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

25 RISK MANAGEMENT (continued)

25.2 CREDIT RISK (continued)

Type of credit risk (continued)

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

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

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

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

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

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

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

25.3 Legal risk and claims

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

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

26 CONCENTRATIONS

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

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

	31 December 2013			31 December 2012		
	Assets	Liabilities, equity of investment account holders and owners' equity	Contingent liabilities and Commitments	Assets	Liabilities, equity of investment account holders and owners' equity	Contingent liabilities and Commitments
	BD'000	BD'000	BD'000	BD'000	BD'000	BD'000
Geographic region						
GCC	**932,131**	**822,694**	**20,660**	829,357	713,695	25,379
Arab World	**8,582**	**126**	**-**	7,610	124	-
Europe	**47,098**	**4,123**	**-**	38,135	14,242	-
Asia	**97,318**	**15,133**	**1,647**	63,134	6,083	15,089
North America	**3,123**	**12**	**-**	3,556	9	-
Others	**-**	**67**	**-**	426	-	-
	1,088,252	**842,155**	**22,307**	942,218	734,153	40,468
Owners' equity	**-**	**246,097**	**-**	-	208,065	-
	1,088,252	**1,088,252**	**22,307**	942,218	942,218	40,468
Industry sector						
Trading and manufacturing	**73,735**	**28,465**	**5,264**	58,398	44,242	17,255
Banks and financial institutions	**187,791**	**131,086**	**55**	182,737	114,831	-
Real estate	**347,882**	**114,614**	**8,623**	257,335	86,932	8,679
Aviation	**25,520**	**9,680**	**-**	13,125	-	-
Individuals	**95,963**	**418,189**	**1,287**	72,813	361,700	1,829
Government and public sector	**280,697**	**43,855**	**-**	265,716	51,778	-
Others	**76,664**	**96,266**	**7,078**	92,094	74,670	12,705
	1,088,252	**842,155**	**22,307**	942,218	734,153	40,468
Owners' Equity	**-**	**246,097**	**-**	-	208,065	-
	1,088,252	**1,088,252**	**22,307**	942,218	942,218	40,468

27 MARKET RISK

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

27.1 Equity price risk

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

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

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

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

27 MARKET RISK (continued)

27.2 Profit return risk

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

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

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

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

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

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

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

27 MARKET RISK (continued)

27.3 Currency risk

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

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

	2013	*2012*
	BD'000	*BD'000*
US dollars	**4,763**	-
Saudi riyals	**34,419**	39,918

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

2013

	Change in rate	**Effect on net profit**	**Change in rate**	**Effect on net profit**
	%	**BD'000**	**%**	**BD'000**
US dollars to Bahraini dinars	**1**	**48**	**(1)**	**(48)**
Saudi riyals to Bahraini dinars	**1**	**344**	**(1)**	**(344)**

2012

	Change in rate	*Effect on net profit*	*Change in rate*	*Effect on net profit*
	%	*BD'000*	*%*	*BD'000*
US dollars to Bahraini dinars	1	-	(1)	-
Saudi riyals to Bahraini dinars	1	399	(1)	(399)

28 LIQUIDITY RISK

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

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

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

28 LIQUIDITY RISK (continued)

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

28 LIQUIDITY RISK (continued)

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

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

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

29 SEGMENT INFORMATION

Primary segment information

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

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

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

Segment information is disclosed as follows:

	31 December 2013				
	Banking	**Treasury**	**Investments**	**Capital**	**Total**
	BD'000	**BD'000**	**BD'000**	**BD'000**	**BD'000**
Operating income	**15,059**	**6,633**	**1,031**	**3,364**	**26,087**
Segment result	**9,591**	**5,825**	**(1,957)**	**(1,087)**	**12,372**
Other information					
Segment assets	**381,307**	**397,309**	**208,039**	**101,597**	**1,088,252**
Segment liabilities, and equity	**688,122**	**107,237**	**48,872**	**244,021**	**1,088,252**

	31 December 2012				
	Banking	Treasury	Investments	Capital	Total
	BD'000	BD'000	BD'000	BD'000	BD'000
Operating income	7,035	11,437	(2,418)	7,008	23,062
Segment result	826	10,627	(3,852)	2,707	10,308
Other information					
Segment assets	348,043	361,628	171,287	61,260	942,218
Segment liabilities, and equity	629,981	90,966	2,547	218,724	942,218

29 SEGMENT INFORMATION (continued)

Secondary segment information

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

30 FIDUCIARY ASSETS

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

31 SHARI'A SUPERVISORY BOARD

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

32 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

33 EARNINGS AND EXPENSES PROHIBITED BY SHARI'A

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

34 SOCIAL RESPONSIBILITY

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

35 ZAKAH

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

36 CAPITAL ADEQUACY

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

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

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