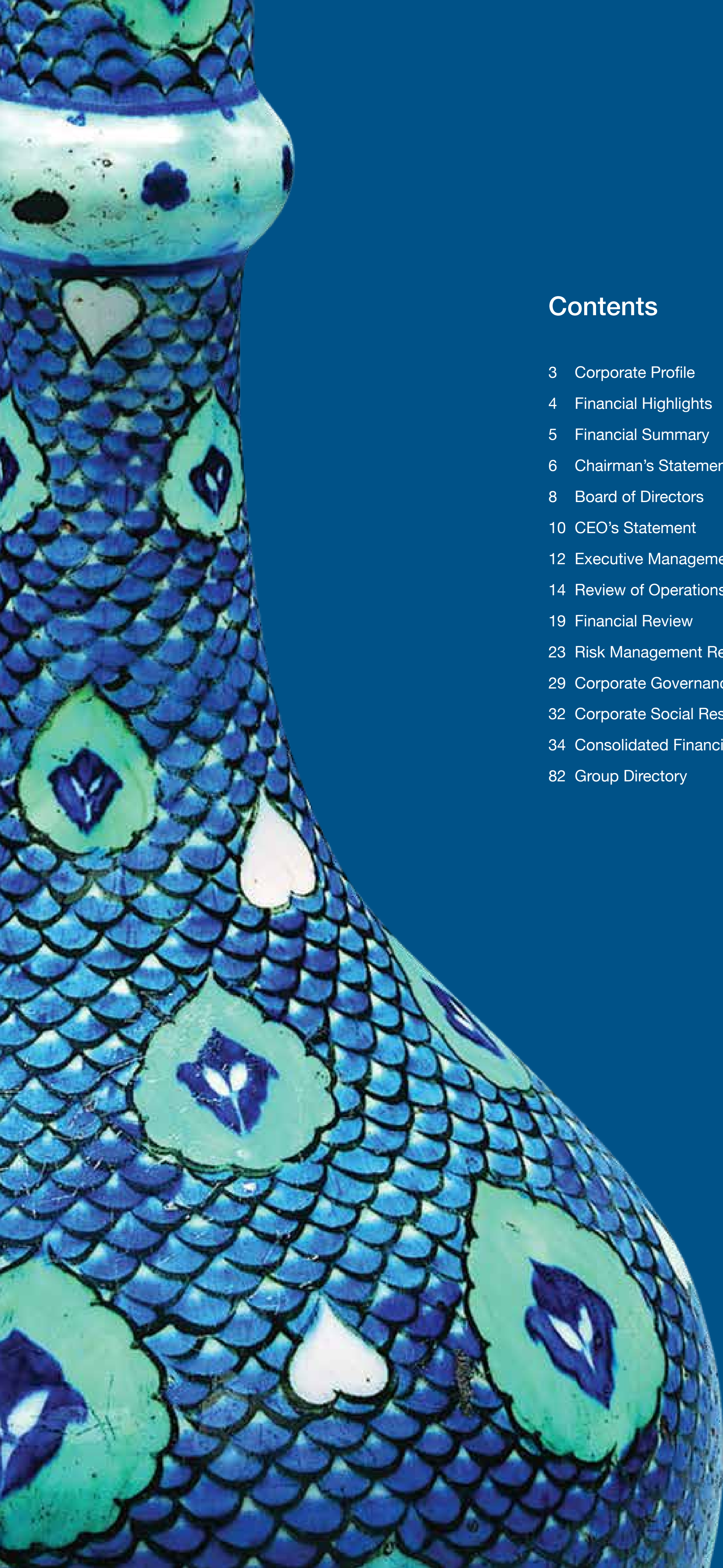
بنك الخليج المتحد ش.م.ب.

United Gulf Bank B.S.C.

A member of the KIPCO Group

Annual Report 2013



Contents

The Dar al-Athar al-Islamiyyah is one of Kuwait's leading cultural organisations and home to the al-Sabah Islamic art collection – acknowledged as one of the world's finest collections of Islamic art. The collection consists of over 30,000 priceless objects, including manuscripts, scientific instruments, carpets, fabrics, jewellery, ceramics, ivory, metalwork and glass, dating from the seventh century CE from countries such as Spain, India, China and Iran.

This year, the annual reports of KIPCO Group companies each feature a different key ceramic artefact from the al-Sabah collection. The images used within the reports reflect KIPCO's commitment to protecting and promoting Kuwait's heritage, while helping to build the nation's future.

The item pictured is a ceramic bottle produced in about 1545 CE. The item is characterised by black, blue and turquoise colours. The fish scale pattern acts as a ground to the floating cartouches that enclose small tulips. The image is reproduced with the kind permission of the Dar al-Athar al-Islamiyyah.

The image of this ceramic bottle from around 1545 CE is reproduced with the kind permission of the Dar al-Athar al-Islamiyyah.

H. M. King Hamad Bin Isa Al Khalifa

King of the Kingdom of Bahrain

H. H. Sheikh Sabah Al Ahmad Al Jaber Al-Sabah

Amir of the State of Kuwait

United Gulf Bank

United Gulf Bank B.S.C (UGB, the Bank) is a leading asset management, merchant and investment banking group, with operations spanning the Middle East and North Africa (MENA) region. From its home base in the Kingdom of Bahrain, and through its regional network of subsidiaries and affiliates, the Bank engages primarily in asset and fund management, merchant banking, private equity, and corporate finance. Other financial business activities include commercial banking, proprietary investments, treasury, brokerage, and savings and pensions. Through its non-financial associate companies, the Bank holds substantial investments in the real estate, industrial and communications sectors. Established in 1980, UGB operates under a conventional wholesale banking licence from the Central Bank of Bahrain, and is listed on the Bahrain Bourse. Over the past 33 years, the Bank has established a reputation for financial strength, sound governance, prudent management and depth of expertise. At the end of 2013, UGB reported total assets under management of US$ 9.7 billion.

UGB's financial subsidiaries, associates and joint-venture include: KIPCO Asset Management Company (KAMCO), Burgan Bank, FIMBank p.l.c., Syria Gulf Bank, Manafae Investment Company, North Africa Holding Company, United Gulf Financial Services - North Africa, Al Sharq Financial Brokerage Company, and Takaud Savings & Pensions Company. Non-financial associates include United Capital Transport Company and United Real Estate Company.

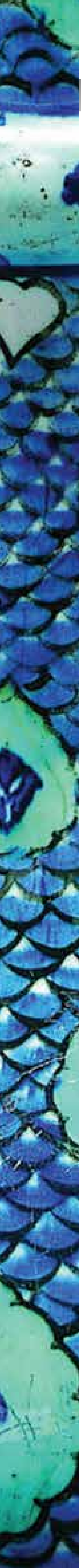
A member of the KIPCO Group

The KIPCO Group is one of the biggest holding companies in the Middle East and North Africa, with consolidated assets of US$ 30.5 billion as at 31 December 2013. KIPCO has significant ownership interests in over 60 companies operating across 24 countries. The Group's main business sectors are financial services, media, real estate and manufacturing. Through its core companies, subsidiaries and affiliates, KIPCO also has interests in the education and medical sectors.

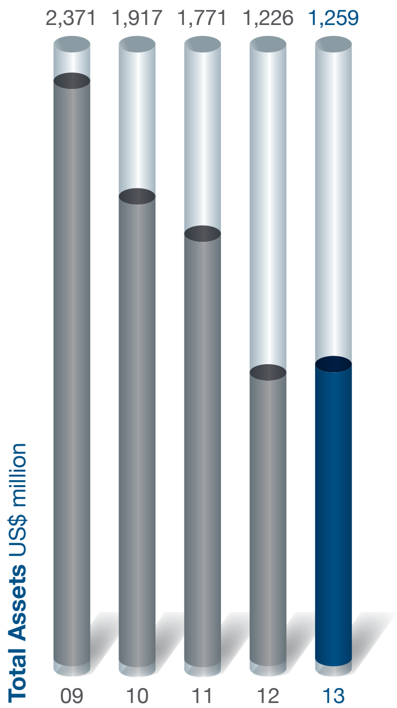
Major Subsidiaries and Affiliates

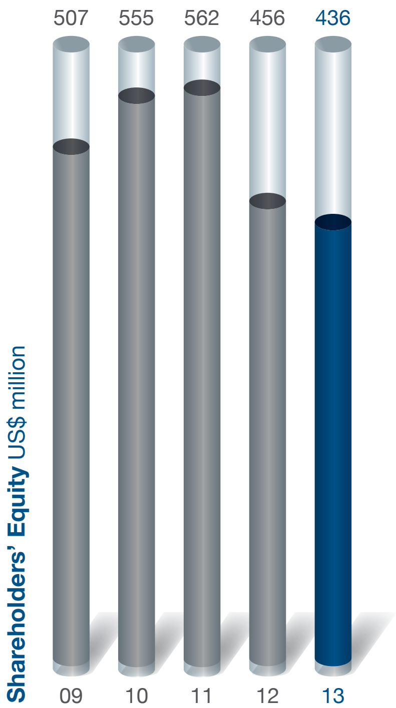
P.O. Box 5964, Diplomatic Area
UGB Tower, Manama, Kingdom of Bahrain
Tel: +973 17 533 233, Fax: +973 17 533 137
info@ugbbah.com
www.ugbbah.com

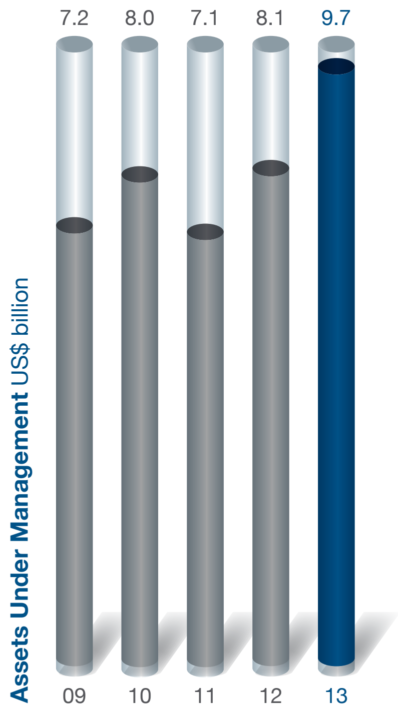
Licensed as a conventional wholesale bank by the Central Bank of Bahrain

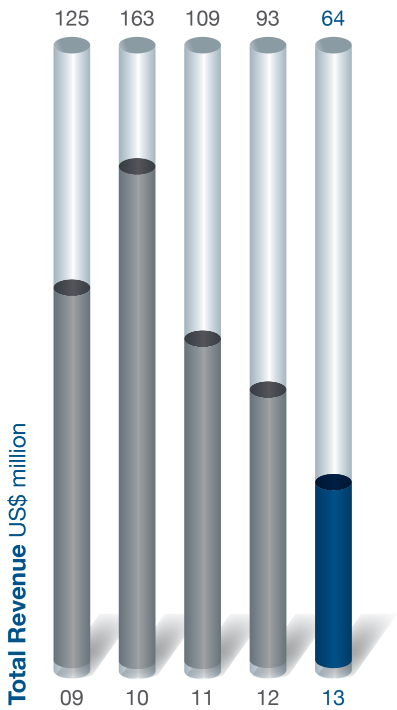


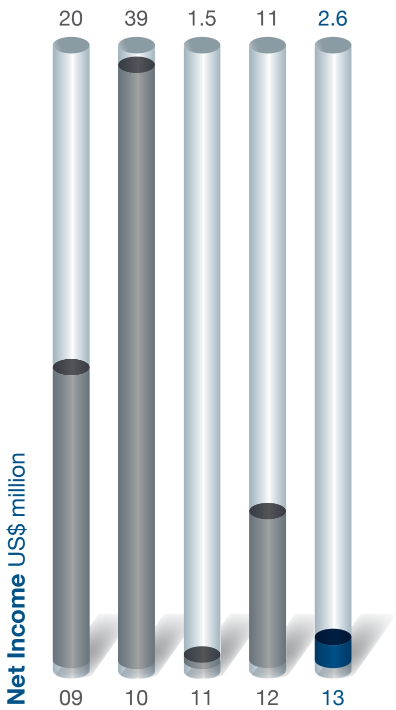
Financial Highlights

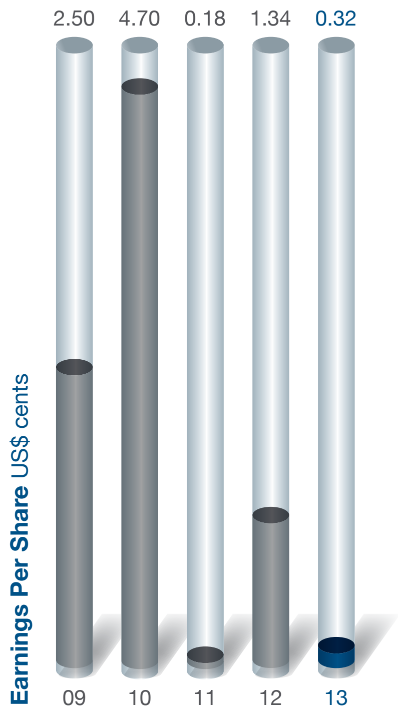












US$ 9.7billion

Assets under Management

17.5%

Capital Adequacy Ratio

	2013	2012	2011	2010	2009
US$ million					
Total Income	64.3	93	108.5	163.2	125
Investment Income	20	28.9	53.6	108.5	94
Operating Income	33	48.7	55	114	73
Shareholders' Equity	436.3	456.2	561.8	554.6	507
Total Assets	1,258.6	1,225.6	1,771	1,917	2,371
Net Income	2.6	11	1.5	38.7	20
%					
Return on Average Equity	0.52	2.17	0.26	7.28	3.3
Return on Average Assets	0.17	0.74	0.08	1.80	0.7
Operating Expense/ Operating Income	72.4	58.5	61.2	42.6	55.3
Average Equity to Average Assets	35.9	34.0	30.3	24.8	23.1
US$					
Book Value per share	0.535	0.556	0.682	0.675	0.619
Earnings per share - US cents	0.32	1.34	0.18	4.7	2.5
Cash dividend per share	-	-	-	-	0.125
Stock dividend per share	-	0.118	-	-	-

Comparatives Averages balances (based on quarterly averages)

US$ million					
Assets	1,258.1	1,454.3	1,801.2	1,980.7	2,421.3
Liabilities	784.6	889.9	1,194.6	1,396.3	1,814.1
Minority Interest	22.8	27.6	44.0	50.0	92.9
Shareholders' Equity	450.7	536.8	562.6	534.3	514.4
	1,258.1	1,454.3	1,801.2	1,980.7	2,421.3
Guarantees and Letters of Credit	39.4	70.3	55.9	36.8	45.5
Commitments	8.1	39.2	118.1	91.5	104.5
Assets Under Management (US$ billion)	9.7	7.8	7.3	7.6	7.6

Chairman's Statement

On behalf of the Board of Directors, I have the privilege to present the annual report and consolidated financial statements of United Gulf Bank (UGB) for the period ended 31 December 2013. I am pleased to report that UGB continued to maintain profitability, and finalised a major deal that will complement the Group's geographical footprint in other areas of the world.

As the financial results for 2013 illustrate, the Bank was successful in maintaining profitability for the twenty-third successive year; improving the overall debt maturity profile; and substantially reducing operating expenses. Total income before interest and other expenses for the year amounted to US$ 64.3 million compared with US$ 93.0 million in 2012. Net profit attributable to shareholders of the parent company was US$ 2.6 million versus US$ 11 million in 2012, with basic earnings per share of 0.32 cents against 1.34 cents for the previous year.

At the end of 2013, total assets stood at US$ 1.26 billion compared with US$ 1.23 billion at the end of the previous year; while total equity was US$ 459 million compared to US$ 478.2 million at the end of 2012. The Bank retained a strong balance sheet with a consolidated capital adequacy ratio of 17.5% and a high level of liquidity. Total liquid assets of US$ 188.9 million represented 15% of the balance sheet at the end of 2013.

Total expenses reduced by 16% to US$ 23.9 million compared with US$ 28.5 million at the end of 2012. The contributions from the Bank's associated companies in 2013 amounted to US$ 19.4 million compared with US$ 37.1 million the previous year; while total assets under management increased to US$ 9.7 billion from US$ 8.0 billion at the end of 2012.

In a deal with significant strategic and business implications conducted in 2013, UGB and Burgan Bank successfully finalised a 30.2% acquisition of FIMBank p.l.c., a prominent Malta-based international trade finance specialist. Completion of the second phase in early 2014 has resulted in the Group having a majority shareholding of over 80%. This development will widen the scope of banking activities by UGB and the KIPCO Group, and also complement the Group's geographical footprint in other areas of the world.

UGB continued to strengthen its corporate governance and risk management framework during the year, taking active steps to comply with the requirements of regulatory bodies in jurisdictions where the Bank operates. In January 2013, UGB finalised its voluntary delisting from the Kuwait Stock Exchange. The Bank also continued to implement its corporate social responsibility programme, providing financial and practical support for the local community, while maintaining its contribution to the development of the banking and financial services sector.

During 2013, there were a number of changes to the composition of the Board of Directors and its Committees. It is with regret that the Board accepted the resignation of Sheikh Hamad Sabah Al Ahmad Al Sabah as Vice Chairman of the Board. Sheikh Hamad has been a Director for the past 20 years and has played a key role in the Bank's success. In turn, I welcome Mr Faisal Hamad Al-Ayyar as the new Vice Chairman, who was also a major contributor to the success of the Bank over the years. Mr. Al Ayyar has been a Board member since 1990, and served as Chairman between 1997 and 2009.

At the AGM held in March 2013, Mr Mohammad Haroon was elected to the Board of Directors as a Non Executive Director. He has been appointed as Chairman of the Board Audit Committee, while Mr Mubarak Mohammed Al Maskati, an independent Director, has been appointed as the Chairman of the Nominating and Remuneration Committee. UGB's Board of Directors effective January 2014, contains four independent Directors who comprise 50% of the Board.

In July 2013, the Central Bank of Bahrain confirmed the appointment of Mr Rabih Soukarieh as the Chief Executive Officer of UGB. Mr Soukarieh has more than 20 years' experience in investment and corporate banking, and has held a number of senior positions within the Bank and the KIPCO Group over the past 10 years.

In 2013, UGB posted its 23rd year of successive profitability and 30th year of positive performance, reinforcing its track record as a leading asset management, merchant and investment banking group in the MENA region.

Looking ahead, we remain cautiously optimistic about the outlook for UGB in 2014, as we continue to reap the full benefits of the difficult decisions we have taken during the past three years. While we do not expect next year to be any less challenging for the regional banking industry, we have renewed confidence in the ability of our management team to implement the Bank's strategic and business objectives in a consistent, prudent, and cost-conscious manner. We remain focused on improving profitability and enhancing the return to our shareholders.

On behalf of the Board of Directors, I would like to acknowledge the longstanding support and encouragement that we receive from the Government of the Kingdom of Bahrain; the Central Bank of Bahrain; the Bahrain Bourse and the regulatory and supervisory authorities in the various jurisdictions where UGB operates. I express my sincere thanks for the financial support and confidence of our shareholders; the trust and loyalty of our clients; and the positive collaboration of our business partners. Finally, I would like to pay tribute to the professionalism and dedication of the Bank's management and staff, and their positive contribution during another challenging year.

Masaud M J Hayat
Chairman of the Board

Board of Directors

Masaud M. J. Hayat

Chairman

Chairman of the Executive Committee and Member of the Nominating and Remuneration Committee

Chief Executive Officer, Banking Sector, Kuwait Projects Company (Holding) - Kuwait.
Chairman, Syria Gulf Bank - Syria.
Chairman and Chairman of the Executive Committee, Tunis International Bank - Tunisia.
Vice Chairman and Chairman of the Executive Committee, Gulf Bank Algeria - Algeria.
Vice Chairman, Bank of Bagdad - Iraq.
Vice Chairman, FIMBank p.l.c. - Malta.
Vice Chairman and Chairman of the Executive Committee, North Africa Holding Company - Kuwait.
Vice Chairman, Royal Capital PJSC - UAE.
Board Member, Burgan Bank - Kuwait
Board Member, Jordan Kuwait Bank - Jordan.
Board Member, KIPCO Asset Management Company - Kuwait.
Degree with major in Economics, Kuwait University; High Diploma in Banking Studies, Institute of Banking Studies, Kuwait.

Faisal Hamad M. Al Ayyar

Vice Chairman

Member of the Executive Committee and Member of the Board Audit Committee

Vice Chairman, Kuwait Projects Company (Holding) - Kuwait.
Chairman, Panther Media Group - Dubai, UAE.
Vice Chairman, Gulf Insurance Group - Kuwait.
Vice Chairman, United Gulf Bank - Bahrain.
Vice Chairman, Jordan Kuwait Bank - Jordan.
Vice Chairman, Burgan Bank Turkey - Turkey.
Vice Chairman, Mashare'a Al-Khair Est. - Kuwait.
Board Member, Saudia Dairy & Foodstuff Co. - Saudi Arabia.
Board Member, Gulf Egypt for Hotels & Tourism Co - Egypt.
Trustee, the American University of Kuwait - Kuwait.
Honorary Chairman, Kuwait Association for Learning Differences - Kuwait.
Award winner, Kuwait Financial Forum 2009, for contributions to the Kuwait investment sector and success in global financial markets.
Award winner, Tunis Arab Economic Forum 2007.
Recipient Lifetime Achievement Award, Beirut Arab Economic Forum 2007.
Recipient of the Arab Bankers Association of North America (ABANA) Achievement Award in 2005.
Graduated as a fighter pilot with the Kuwait Air Force in the USA.

Samer Khanachet

Executive Director

Member of the Executive Committee and Member of the Nominating & Remuneration Committee

Group Chief Operating Officer, Kuwait Projects Company (Holding) - Kuwait.
Chairman, Takaud Savings & Pensions Company - Bahrain.
Board Member, Burgan Bank - Kuwait.
Board Member, United Real Estate Company - Kuwait.
Board Member, United Gulf Investment Ltd. - Cayman Islands.
Trustee, the American University of Kuwait - Kuwait.
Member, the Corporation Development Committee and the Educational Council of the Massachusetts Institute of Technology - USA.
Past President of the Arab Bankers Association of North America - New York, NY, USA.
MBA, Harvard Business School, Boston, MA, USA; BSc, Chemical Engineering and BSc, Management Science, Massachusetts Institute of Technology, USA.

Sheikh Abdullah Nasser Sabah Al Ahmad Al Sabah

Executive Director

Board Member, Kuwait Projects Company (Holding) - Kuwait.
Chairman, KIPCO Asset Management Company - Kuwait.
Vice-Chairman, Al Daiya United Real Estate Company - Kuwait.
Graduate of the Royal Military Academy, Sandhurst, United Kingdom; BSc, Business Administration, New York Institute of Technology, USA.

Mubarak Mohammed Al-Maskati

Independent Director

Member of the Board Audit Committee and Chairman of the Nominating & Remuneration Committee

Chairman, Royal Aviation Company - Kuwait.
Former Board Member, Kuwait Projects Company (Holding), and Kuwait Aviation Services Company - Kuwait
BSc, Political Studies and Economics, University of Pennsylvania, USA.

Faick Al Saleh

Independent Director

Member of the Nominating & Remuneration Committee

General Manager, Abdulaziz Mubarak Al Hassawi Group of Companies - Saudi Arabia.
Vice Chairman, Saudia Dairy & Foodstuff Company - Saudi Arabia.
Founder and Owner, Diyar Al Salhiyya - Saudi Arabia.
BA, Business Administration, Kuwait University, Kuwait.

Bader Al Awadi

Independent Director

Member of the Board Audit Committee and Member of the Nominating & Remuneration Committee

Board Member, Manar Interholdings SL - Spain.
Founder & Board Member, MADFA Real Estate Development Company - Saudi Arabia.
BSc, Industrial Engineering, University of Miami; Completed the General Manager Program of the Harvard Business School, Boston, MA, USA.

Mohammed Haroon

Non Executive Director

Chairman of the Board Audit Committee and Member of the Executive Committee

Previously held various executive positions with UGB including Acting Chief Executive, Deputy Chief Executive, and Advisor to the Board of Directors.
BSc (Hons), Peshawar University, Pakistan; Diploma in Banking.

Chief Executive's Report

In yet another challenging but eventful year, I am pleased to report that UGB posted a successful overall performance, maintaining its track record of profitability and business growth.

During the year we continued to implement our strategy of realigning UGB's business model, and strengthening our focus on the Bank's core capabilities. While our financial results for 2013 were unfortunately not in line with expectations due to the under-performance of one particular associate, we met our objectives in a number of key areas. These include improving the Bank's debt maturity ratio, substantially reducing expenses, and increasing the share of recurring income as a percentage of overall revenues.

In addition, I am pleased to announce that our flagship financial subsidiary – KIPCO Asset Management Company (KAMCO) – returned to profitability, as a result of its successful programme of strategic realignment and organisational restructuring. The Bank's leading non-financial subsidiary, United Real Estate Company (URC), posted another profitable year, and continued to make a substantial contribution to UGB. URC's growing real estate portfolio comprises commercial complexes, hotels and resorts, residential buildings, high-rise office buildings, and mixed-use developments. In Kuwait, these include KIPCO Tower, Marina Mall, and Marina Hotel. URC is currently developing Abdali Mall in Jordan; Salalah Gardens Mall, Salalah Mall Residences, and Junoot in Oman; and Raouche View in Lebanon.

The Bank's joint-venture associate company – Takaud Savings & Pensions Company – which is the first regional financial institution in the region to specialise in offering savings and private pension products, completed its first full year of operations in 2013, and introduced new products for individual and institutional clients. Due to the lack of a real savings culture in the region, Takaud is placing particular focus on educating the market to raise awareness of the benefits of long-term financial planning.

A major new business development in 2013 involved the successful acquisition by UGB and Burgan Bank of a 30.2% stake in FIMBank p.l.c., a publicly-listed Malta-based international trade finance specialist. Additional shares acquisition was completed in early 2014, providing the Group with a majority shareholding. FIMBank p.l.c. has successfully made its mark on the international factoring sector by offering a complete portfolio of factoring services, and actively pursuing a strategy of establishing factoring joint ventures with prominent institutions in selected emerging markets. FIMBank p.l.c. owns the UK-registered London Forfaiting Company, together with factoring joint-ventures in Russia, Romania, Brazil, India, Dubai, Egypt, and Lebanon. This strategically-significant deal will widen the scope of banking activities by UGB and the KIPCO Group, and complement our geographical footprint.

As an investment bank firmly focused on the MENA region, we are cautiously optimistic for UGB's prospects in 2014, with the likelihood of an easing of socio-political turmoil and an acceleration in the implementation of reforms. At the end of 2013, there were hopes for greater political stability in Egypt; an end to the stalemate in Tunisia; a potential resolution to the civil war in Syria; and an easing of international tensions with Iran. The IMF is forecasting aggregate regional GDP growth which contracted in 2013, to rise to 2.8 per cent next year; and firming to 3.3 per cent in 2015 and 3.6 per cent in 2016, which is well below the region's potential.

Looking to the GCC, the IMF has increased its forecast economic growth from 3.8 per cent to 4.4 per cent for 2014, compared with 3.7 per cent growth in 2013. This is based on a rise in oil production, and the non-oil sector benefiting from the implementation of large infrastructure projects. The underlying macroeconomic fundamentals of the GCC remain strong, and the medium-term economic outlook continues to be positive.

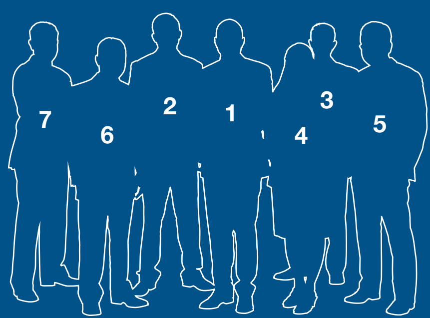
For UGB, it will be 'business as usual' in 2014, as we steadfastly continue to implement our strategy to create a regional platform of long-term growth for our shareholders and investors.

For UGB, it will be 'business as usual' in 2014, as we steadfastly continue to implement our strategy to create a regional platform of long-term growth for our shareholders and investors. Supported by our unique heritage and tradition of financial strength, good governance, prudent management and depth of expertise, we will continue to leverage our long experience and deep market knowledge to ensure the Bank's continued growth and development.

In conclusion, I would like to thank the Board of Directors for its trust, and look forward to its continued support and guidance. I also thank the Bank's management and staff for their positive attitude and hard work during the year.

Rabih Soukarieh
Chief Executive Officer

Executive Management



1. Rabih Soukarieh
2. Hussain A. Lalani
3. Mohammed Alqumaish
4. Deepa Chandrasekhar
5. Syed Rehan Ashraf
6. Ameer Ali Bu Hussayen
7. Yasser Al Saad

1. Rabih Soukarieh CFA

Chief Executive Officer

Mr. Soukarieh's career extends over twenty years and spans multiple industries. He has held a number of executive positions within the Bank and its subsidiaries intermittently over the past ten years. Between 2004 and 2007, he served as the Group Chief Financial Officer of Wataniya Telecom. Mr. Soukarieh's past board tenures include: Wataniya Telecom Algeria (2007-2011), where he also served as Chairman of the Board Audit Committee and Member of the Board Executive Committee; Asia Cell Telecommunications Company (2003-2007), where he served on the Board Executive Committee; and Kuwait Energy Company (2010-2011). He is currently a Director and Member of the Executive Committee of Tunis International Bank, Tunisia; Gulf Bank Algeria, Algeria; FIMBank p.l.c., Malta; Bank of Baghdad, Iraq; Syria Gulf Bank, Syria; and North Africa Holdings Company, Kuwait. He is also a Member of the Board of Directors of Virgin Mobile Middle East Company, and International Innovative Technologies, among other companies. Mr. Soukarieh is a Chartered Financial Analyst. He holds an MBA from Northeastern University, Boston, USA; and a BSc in Finance from Indiana University, Bloomington, USA.

2. Hussain A. Lalani FCA CISA

Assistant General Manager, Chief Financial Officer

Mr Lalani joined UGB in 2001. He has more than 17 years of experience in Public Accounting and Financial Control. He was previously employed by Ernst & Young, Bahrain; and PriceWaterhouseCoopers, Pakistan. He is a Board Member and Board Audit Committee Member of Takaud Savings & Pensions Company, Bahrain. A Chartered Accountant and a Certified Information Systems Auditor, Mr Lalani holds a Bachelor of Commerce (BCom) degree from the University of Karachi, Pakistan.

3. Mohammed Alqumaish CIA CISA

Senior Vice President, Corporate Secretary and Head of Internal Audit & Quality Assurance

Mr Alqumaish joined UGB in September 2001. He has more than 17 years of commercial and investment banking experience in Internal Auditing, Risk Assessment, Compliance, Corporate Governance and Quality Assurance Services. He previously worked with Ahli United Bank and Shamil Bank in Bahrain. Mr Alqumaish is a Board Member of Tunis International Bank, Tunisia. He is a Member of the Board Audit Committees of KIPCO Asset Management Company (KAMCO), Kuwait; Tunis International Bank, Tunisia; Gulf Bank Algeria, Algeria; and Syria Gulf Bank, Syria. A Certified Internal Auditor (CIA) and Certified Information Systems Auditor (CISA), Mr Alqumaish holds an MBA from the University of Strathclyde Business School, UK.

4. Deepa Chandrasekhar CAMS CFE MICA MCSI

Senior Vice President, Chief Compliance Officer

Mrs Chandrasekhar joined UGB in 2008. She has over 25 years' experience in the areas of Risk Management, Treasury, Operations, Internal Audit and Compliance. She started her career with Citibank as a foreign exchange dealer, and since then has worked extensively in the Middle East – in Bahrain, Lebanon and the UAE. She was previously Head of Risk at RAKBANK, UAE. Mrs Chandrasekhar holds a MBA degree from the University of Alberta, Canada; as well as the professional certifications of CAMS, CFE, MICA and MCSI. Mrs Chandrasekhar is a member of the Steering Committee of the Professional Risk Managers International Association (PRMIA), Bahrain Chapter; and the Advisory Council of the Chartered Institute of Securities and Investment (CISI), Bahrain Chapter. She is a speaker at professional forums and has published several financial articles.

5. Syed Rehan Ashraf ACA

Senior Vice President, Head of Credit & Risk Management

Mr Ashraf joined UGB in 2005. He has more than 18 years of experience in the areas of Credit, Risk Management, Advisory, Compliance and Assurance Services – with Islamic and conventional banks, and the big four audit firms. He previously worked with Shamil Bank, Bahrain; Deloitte &Touche, Pakistan; Faysal Bank, Pakistan; and PriceWaterhouseCoopers, Pakistan. A Chartered Accountant (ACA) from the Institute of Chartered Accountants of Pakistan, he also holds an MBA from DePaul University of Chicago, USA.

6. Ameer Ali Bu Hussayen

Vice President, Head of Operations

Mr. Bu Hussayen joined UGB in 1991. He has 33 years of experience in the field of Operations, and has been the Money Laundering Reporting Officer (MLRO) of UGB since 2003. Prior to joining UGB, he worked with BBK, Bahrain; and Barclays Bank, Bahrain. Mr. Bu Hussayen has attended several professional courses run by the Bahrain Institute of Banking and Finance.

7. Yasser Al Saad

Vice President, Head of Treasury

Mr. Al Saad re-joined UGB in July 2013. He has 10 years of experience in Treasury, and was previously Head of Money Market with BBK - Kuwait. Prior to joining BBK, he worked in UGB's Treasury and Operations Departments from 2004 to 2011. Mr. Al Saad holds a MBA degree from the New York Institute of Technology, and was awarded the ACI Dealing Certificate in 2013.

Review of Operations

Strategy and Business Overview

UGB's strategic objective is to create the MENA region's premier asset management, merchant banking and investment bank. The Bank seeks to be the preferred gateway to the region for its clients and global partners through the delivery of both conventional and Islamic services backed by world-class standards of support, infrastructure and processes. UGB works with strategic partners to create opportunities that position the Bank as a leading financial institution for the region.

Asset Management and Investment Banking

Asset Management

Asset and fund management activities – covering local, regional and international markets – embrace discretionary and non-discretionary portfolio management; securities trading; portfolio structuring and asset allocation advice; mutual funds; investments and structuring; and alternative / structured investments.

Investment Banking

Conventional and Islamic investment banking activities cover equity and debt underwriting, private placements, capital restructuring, and mergers and acquisitions.

Private Equity

Private equity activity focuses on key growth or demand sectors such as telecoms, media, technology and energy.

Corporate Banking

Corporate banking advisory services include IPO and private placement advisory and execution, business valuation, financial feasibility studies, project finance, and due diligence.

Other Business Activities

Commercial Banking

UGB works closely with its associate, Burgan Bank, to manage commercial banking assets in various countries.

Savings and Pensions

UGB is the first financial institution in the MENA region to provide a range of personal pensions and savings products through Takaud Savings and Pensions Company, a standalone, specialised 50-50 joint venture with KIPCO.

Brokerage

UGB provides financial brokerage services for overseas clients who wish to trade on shares listed on the Bahrain Bourse. The Bank also provides clients with access to the Kuwait Stock Exchange through its associate, Al Sharq Financial Brokerage Company.

Either directly or through its subsidiaries, associate companies and joint venture, UGB engages primarily in asset and fund management, investment banking, private equity, and corporate finance. Other business activities include commercial banking, proprietary investments, savings and pensions, brokerage and treasury.

Key Business Developments in 2013

Financial Highlights

- UGB's assets under management stood at US$ 9.7 billion at the end of 2013 compared with US$ 8.1 billion at the end of 2012.
- The private equity portfolio was reduced through divestments totalling US$ 22.5 million.
- The contributions from associated companies in 2013 totalled US$ 19.4 million compared with US$ 37.1 million in 2012.
- Key contributors were Burgan Bank with US$ 12.3 million and United Real Estate Company with US$ 8.3 million.
- KAMCO recorded a net profit of US$ 11 million in 2013 compared with a net loss of US$ 41.9 million in 2012.

New Initiatives

- By way of a voluntary bid that concluded in January 2014, UGB increased its direct stake to 60.54% in FIMBank p.l.c., a Malta-based international trade finance specialist.
- Following its formal launch, Takaud Savings & Pensions Company – the first financial institution of its kind in the MENA region – introduced the first in a range of products for individual and institutional clients.

UGB Subsidiaries and Associates

بنك الخليج المتحد ش.م.ب.

United Gulf Bank B.S.C.

Commercial Banking

- 18% — Burgan Bank S.A.K. — Commercial Bank, Kuwait
- 30% — FIMBank p.l.c.* — Commercial Bank, Malta
- 31% — Syria Gulf Bank S.A. — Commercial Bank, Syria

Savings & Pensions

- 50% — Takaud Savings and Pensions B.S.C. (c) — Pensions Company, Bahrain

Brokerage

- 19% — Al Sharq Brokerage Company K.S.C. (c) — Brokerage House, Kuwait

Asset Management & Investment Banking

- 86% — Kipco Asset Management Company K.S.C. (c) — Asset Management, Kuwait
- 42% — North Africa Holding Company K.S.C. (c) — Investment Company, Kuwait
- 85% — United Gulf Financial Services - North Africa — Asset Management, Tunisia
- 33% — Manafae Investment Company K.S.C. (c) — Investment Company, Kuwait

Non Financial Operating Companies

- 22% — United Real Estate Company S.A.K. — Real Estate, Kuwait
- 40% — United Capital Transport Company — Transport Company, Kuwait

* By way of a voluntary bid that concluded in January 2014, UGB increased its direct stake to 60.54%

Asset Management & Investment Banking

KIPCO Asset Management Company (KAMCO)

UGB Consolidated Subsidiary based in Kuwait

Established in 1998, KAMCO is a leading asset management and financial institution in Kuwait. Its three principal business lines are asset management, financial services, and investment advisory research services, which are offered to a diverse local, regional and international client base. As a result of its continued programme of strategic realignment, organisational restructuring and cost reduction, KAMCO returned to profitability after two years. A concerted focus on core operations yielded a considerable increase in operational profits in 2013; and the continued restructuring efforts resulted in a reduction in debt to US$ 103.2 million (KD 29 million) in 2013, a decrease of 27% compared to 2012. AUM registered a significant 21% growth in 2013, which stood at US$ 10.3 billion (KD 2.9 billion) against US$ 8.6 billion (KD 2.4 billion) in 2012. UGB owns 86% of KAMCO, which is listed on the Kuwait Stock Exchange.

United Gulf Financial Services Company North Africa (UGFS-NA)

UGB Consolidated Subsidiary based in Tunisia

UGFS-NA was established in November 2008 as an asset management entity, and commenced operations officially in 2009. The Company is regulated by the Conseil du Marché Financier (CMF). UGFS-NA is primarily involved in three main activities: Portfolio Management services (PMS), Fund services and Corporate Finance services. The Company was active in all three areas of operations during the year.

In terms of Fund services, UGFS-NA has launched seven funds to date, and manages total AUM of US$ 44.5 million (TND 72.6 million). In 2013, acting as fund manager, the Company established the US$ 30.5 million (TND 50 million) Shari'ah-compliant private equity fund – the Theemar Investment Fund, on behalf of the Islamic Development Fund and the CDC Sovereign Tunisian Fund. Following the request of Al Baraka Bank (affiliate of Al Baraka Group) and a local insurance company, UGFS-NA launched a second Shari'ah-compliant SME fund – the Tunisian Development Fund II, in 2013.

Under its Portfolio Management and Corporate Finance services, UGFS-NA managed total AUM of US$ 3.5 million (TND 5.7 million) at the end of 2013, with a client base of 21 institutions and individuals in portfolio management services. For its Corporate Finance services, UGFS-NA successfully completed a number of equity/debt mandates, and has built a healthy pipeline of financial advisory transactions.

As at 31 December 2013, UGB's consolidated shareholding in UGFS-NA stood at 85%. Its shares are not listed.

North Africa Holding Company (NorAH)

UGB Associate Company based in Kuwait

Established in 2006, NorAH focuses on acquiring significant stakes in companies based in Morocco, Algeria, Tunisia, Libya and Egypt, which have demonstrated the ability, or have the potential, to deliver real value. The Company is regulated by the Ministry of Commerce and Industry, Kuwait. In 2013, NorAH reported a net profit of US$ 1.5 million compared with a net loss of US$ 0.4 million in 2012. At the end of the year, total assets stood at US$ 302 million (2012: US$ 282.5 million). UGB has a total consolidated interest of 42% in NorAH; its shares are not listed.

Manafae Investment Company (Manafae)

UGB Associate Company based in Kuwait

An Islamic investment company established in 2005, Manafae offers a wide range of Shari'ah-compliant products and services including asset management, investment services, extension of financing and credit, and advisory services. The Firm was one of the first to launch an Islamic mutual fund in 2007. The Manafae First Fund invests in listed and private companies incorporated primarily in Kuwait and the GCC. As at 31 December 2013, UGB's consolidated shareholding in Manafae stood at 33%. Manafae is listed on the Kuwait Stock Exchange.

Commercial Banking

Burgan Bank (BB)

UGB Associate Company based in Kuwait

Established in 1975, Burgan Bank is a subsidiary of KIPCO. Over the years it has acquired a leading role in the retail, corporate and investment banking sector in the MENA region. Its achievements in product innovation, information technology, efficiency, quality and corporate governance have been recognised by numerous awards, with several of them being either first or unique in the region. It is also the only bank in the GCC to have achieved ISO 9001:2008 accreditation. In 2013, the Bank reported a net income of US$ 71.2 million compared with US$ 197.9 million in 2012. UGB has an equity stake of 18% in Burgan Bank, which provides it with a stable and recurring revenue stream, and the opportunity to access BB's regional client base. The Bank's shares are listed on the Kuwait Stock Exchange.

Syria Gulf Bank (SGB)

UGB Associate Company based in Syria

Syria Gulf Bank was licensed in 2006 and commenced operations in June 2007. The Bank offers a range of retail and commercial banking services through a network of branches across the country. Despite the current situation in Syria, SGB is operational, with a focus on maintaining adequate capital and liquidity. UGB owns 31% of SGB, which is listed on the Damascus Securities Exchange.

FIMBank p.l.c. (FIMBank)

UGB Associate Company based in Malta

During 2013, UGB acquired a 30.25% stake in FIMBank p.l.c.. By way of a voluntary bid that concluded in January 2014, the Bank's direct stake in this Company increased to 60.54% while Burgan Bank continues to hold a 20% stake. A trade finance specialist institution incorporated in 1994, FIMBank p.l.c. has successfully made its mark on the international factoring sector by offering a complete portfolio of factoring services, and actively pursuing a strategy of establishing factoring joint ventures with prominent institutions in selected emerging markets. FIMBank p.l.c. owns the UK-registered London Forfaiting Company, together with factoring joint-ventures in Russia, Romania, Brazil, India, Dubai, Egypt and Lebanon. The deal will widen the scope of UGB's banking activities, and provide the Group with a stepping stone into Europe. FIMBank p.l.c. is listed on the Malta Stock Exchange,

Savings and Pensions

Takaud Savings & Pensions Company (Takaud)

UGB Associate based in Bahrain

Takaud Savings & Pensions Company was established in 2011 as a joint venture between the KIPCO Group and UGB. The objective of this new entity – the first of its kind in the region – is to specialise in offering savings and private pension products engineered and conceived primarily for customers in the MENA region. The overall scheme of the regional operations will involve either establishing specialised companies in different countries within the MENA region, or entering into distribution agreements. The Bahrain office will ensure market analysis, product engineering, distribution management, asset management, and funds management in terms of the definition of mandates and investment guidelines. The Company launched its End of Service Benefit offering in December 2012, its Employee Savings Plan offering in March 2013, its Individual Savings Plan in May 2013, and its Bank Distribution offering in August 2013.

Brokerage

Al Sharq Financial Brokerage Company (Al Sharq)

UGB Associate Company based in Kuwait

Established in 1985, Al Sharq has grown to become one of the largest brokerage firms in Kuwait, as measured by the number of transactions conducted on the Kuwait Stock Exchange. Al Sharq's market share is approximately 15%. UGB owns 19% of the Firm on a consolidated basis through its subsidiary KAMCO. The Company's shares are not listed.

Non-Financial Associates

United Real Estate Company (URC)

UGB Associate Company based in Kuwait

Established in 1973, URC is involved in real estate activities that include the purchase, sale, lease and rental of land and buildings. The Company handles the construction of private and public buildings and projects, and manages third party properties in Kuwait, Egypt, Lebanon and Jordan. The Company's real estate portfolio includes commercial complexes, hotels and resorts, residential buildings, high-rise office buildings, and mixed-use developments. In Kuwait, these include KIPCO Tower, Marina Mall and Marina Hotel. URC is developing Abdali Mall in Jordan; Salalah Gardens Mall, Salalah Mall Residences and Junoot in Oman; and Raouche View in Lebanon. The company recorded a net profit of US$ 39.7 million compared with a net profit of US$ 80.2 million in 2012. UGB owns a consolidated 22% stake in URC, which is listed on the Kuwait Stock Exchange.

United Capital Transport Company (UNICAP)

UGB Associate based in Kuwait

UNICAP was established in 2011 as a joint venture between UGB's subsidiary KAMCO and ANHAM, a leading contracting firm active throughout the MENA region, Central Asia and Europe. The Company is a leasing solutions provider to governments, international oil companies, and businesses involved in various construction, mining and industrial services. UNICAP offers timely, efficient and customer-focused equipment and logistical support services to a variety of clients and markets across the MENA, GCC and Central Asia regions. Customised leasing, transportation and financing solutions are provided to vendors and customers to meet their specific needs within geographically-diverse and strategically-challenging markets. UGB owns 40% of UNICAP on a consolidated basis. The Company's shares are not listed.

Review of Operations

(continued)

Shared Services

Treasury

Treasury manages UGB's liquidity and funding requirements; and also implements the Bank's hedging strategies in terms of foreign exchange and interest rate exposures. In another challenging year, UGB maintained its existing long-term counterparty relationships and added a number of new counterparties, with a resulting increase in deposits; while continuing to benefit from the support it receives from the KIPCO Group. The Bank retained a strong balance sheet with a consolidated capital adequacy ratio of 17.5%, well above the requirements of the CBB. UGB continued its policy of deleveraging the balance sheet through liquidating non-accretive assets, and using the proceeds to repay borrowings. In 2013, borrowing costs were reduced as a result of the extensive repayments made the previous year.

Operations

During the year, the Bank continued to enhance and streamline its critical back office operating processes and procedures, in order to improve efficiency and productivity. Policy and procedures manuals for Operations and Anti-Money Laundering were reviewed and updated; while AML/CFT training for staff was conducted in compliance with the regulatory requirements of the CBB. As the result of cost control measures taken at UGB and KAMCO, general and administrative expenses decreased to US$ 23.9 million in 2013, compared with US$ 28.5 million the previous year.

Information Technology

UGB continued to ensure the implementation of its business continuity plan in line with regulatory requirements during 2013. Two successful tests of the disaster recovery site were conducted, together with continuous updates to the data centre; while external penetration testing of information security systems was carried out satisfactorily. In addition, the results of a detailed business impact analysis were reviewed, and necessary corrective actions were identified and implemented.

Human Resources

The continued reduction in the Bank's headcount due to organisational restructuring, resulted in the adoption of more flexible working practices and improved teamwork in 2013; while also providing new career advancement opportunities for staff. UGB maintained its training focus on anti-money laundering, compliance and operational risk management during the year. The merit-based Mashare' Al Khair Scholarship Programme continued to assist dependants of Bank staff to obtain degrees from accredited colleges, universities and other academic institutions.

This review provides a detailed description of UGB's financial performance for the year ended 31 December 2013.

The Notes to the Consolidated Financial Statements provide additional relevant details, with some of these notes being cross-referenced here. Figures contained in the Financial Performance Summary are subject to rounding adjustments and, in certain instances, the sum of the numbers in a column or row may not conform exactly to the total figure given for that column or row.

Revenues

UGB's total revenues recorded a decrease of US$ 28.7 million in 2013 to US$ 64.3 million, compared with US$ 93 million in 2012. The decline in total revenues is attributable to a decrease in contributions from financial services-related revenues from associates due to provisions, and real estate. The following table indicates the contribution of revenues from UGB's activities and investments in various sectors. Each sector is also discussed in detail.

Total Revenues (US$ million)	2013	2012
Financial Services	9.0	29.0
Real Estate	8.3	16.1
Other Associates	2.1	(8.0)
Management fees from fiduciary activities	12.5	12.0
Credit related fees and commission	(0.6)	2.1
Advisory fees	5.1	6.7
Interest Income	6.8	6.4
Realised gain on non-trading investments	6.2	39.6
Gain/(loss) on sale of an associate	3.4	(17.5)
Trading gain/(loss)	7.2	(0.4)
Dividend	2.6	5.8
Other Income	1.7	7.2
Total	64.3	93.0

Financial Services

UGB's financial services-related revenues are derived from its investment in associates involved in asset management and investment banking, commercial banking, and brokerage. Details of these entities are included in the Review of Operations section in this annual report. In 2013, results from financial associates decreased to US$ 9 million compared to US$ 29 million in 2012. The decrease is mainly attributed to UGB's commercial banking associate Burgan Bank - Kuwait, which recorded provisions of KWD 90 million (US$ 319.2 million), and reduced losses from North Africa Holding Company.

The table below indicates the performance of UGB's financial associates:

Revenue - Financial Associates (US$ million)	2013	2012
Al Sharq Financial Brokerage Company	0.4	0.1
Burgan Bank	12.3	35.6
FIMBank p.l.c. Group	1.0	-
Kuwait Private Equities Opportunity Fund	-	(0.1)
Manafae Investment Company	(1.1)	(3.0)
North Africa Holding Company	0.4	(2.1)
Royal Capital	(0.1)	0.1
Takaud Savings & Pensions Company	(2.4)	(1.4)
Syria Gulf Bank	(1.4)	(0.3)
Total	9.0	29.0

Real Estate

UGB's real estate revenues were derived from United Real Estate Company - URC, which contributed a net profit of US$ 8.3 million in 2013 compared to US$ 16 million in 2012. It should be noted that URC reported an exceptional gain in 2012 from the sale of its stake in an investment property in Lebanon.

Revenue - Real Estate (US$ million)	2013	2012
Meena Homes Real Estate Company	0.0	0.1
United Real Estate Company	8.3	16.0
Total	8.3	16.1

Non-Financial Associates

UGB posted a profit of US$ 2.1 million compared to a loss of US$ 8.0 million from its non- financial associates in 2012. The table below indicates the performance of UGB's non-financial associates:

Revenue - Non Financial Associates (US$ million)	2013	2012
KAMCO Energy Service Fund	-	0.2
Overland Real Estate Company	-	(14.6)
United Industries Company	-	4.5
United Capital Transport Company	2.1	1.9
Total	2.1	(8.0)

The Bank's stake in United Industries Company (UIC) shares was distributed as dividend during 2012. Overland Real Estate Company and United Network Company were sold during 2012.

Management Fees from Fiduciary Activities

Management fees increased moderately to US$ 12.5 million in 2013 compared with US$ 12.0 million in 2012. UGB's assets under management rose to US$ 9.7 billion in 2013 compared with US$ 8.1 billion in 2012.

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Advisory Fees

Advisory fees were reduced to US$ 5.1 million in 2013 compared to US$ 6.7 million in 2012. Advisory fees on bond issuances were the primary contributors during 2013.

Interest Income

The main source of interest income for UGB is derived from interbank placements. Interest income in 2013 rose to US$ 6.8 million compared to US$ 6.4 million in 2012.

Realised Gains on Non-trading Investments

Realised gains on non-trading investments decreased to US$ 6.2 million in 2013 compared with US$ 39.6 million in 2012. The gains in the previous year were mainly realised from the exit of private equity investments.

Gain on Sale of Associates

Gain on sale of associates resulted primarily from the acquisition of FIMBank p.l.c..The loss of US$ 17.5 million in 2012 resulted mainly from the sale of Overland Real Estate Company.

Trading Gain/ (Loss)

Trading positions in 2013 recorded a gain of US$ 7.2 million (2012: trading loss of US$ 0.4 million). Trading gains resulted mainly from trading activities in the regional stock markets.

Dividend Income

The main contributors of dividend income were from listed and private equity investments. Dividend income decreased to US$ 2.6 million in 2013 compared with US$ 5.8 million in 2012, as a result of exits from non-core investments.

Expenses

Interest Expense

Interest expenses decreased by US$ 13.1 million (29.6%) to US$ 31.3 million as at 31 December 2013, compared to US$ 44.4 million as at 31 December 2012. The decrease is mainly due to the deleveraging of the balance sheet and re-pricing of borrowings at lower rates.

Operating Expenses

Operating expenses decreased by 16% to US$ 23.9 million in 2013 compared with US$ 28.5 million in 2012. Salaries and benefits increased to US$ 17.1 million (2012: US$ 16.1 million) whereas general and administration expenses decreased by 45.2% to US$ 6.8 million (2012: US$ 12.3 million).

The table below compares operating expenses for 2013 and 2012:

US$ million	2013	2012
Salaries and benefits	17.1	16.1
General and administrative expenses	6.8	12.3
Total	23.9	28.5

Provisions

UGB recorded impairment losses on non-trading investments of US$ 6.9 million (2012: US$ 16.5 million) in 2013. Recoveries on loans and other assets resulted in a reversal of credit provisions of US$ 1.9 million compared with US$ 3.0 million in 2012.

Net Income

UGB's net income decreased to US$ 4.2 million in 2013 compared with US$ 6.7 million in 2012.

Net Income attributable to parent

Net income attributable to parent decreased to US$ 2.6 million compared to US$ 11 million in 2012. Earnings per share similarly decreased to 0.32 US cents from 1.34 US cents in 2012.

Consolidated Balance Sheet

Consolidated Assets

UGB's consolidated assets stood at US$ 1.26 billion at the end of 2013 compared to US$ 1.23 billion at the end of 2012. A comparison of the two years is provided below:

Assets (US$ million)	2013	2012
Demand and call deposits with banks	17.7	15.7
Time deposits with banks	113.1	67.0
Investments carried at fair value through statement of income	46.6	53.3
Non-trading investments	166.3	190.8
Loans and advances	4.0	4.3
Investment properties	0.0	14.0
Other assets	29.6	24.2
Investments in associates and joint venture accounted	824.6	799.3
Property and equipment	0.7	0.6
Goodwill	56.0	56.3
Total	1,258.6	1,225.6

Demand, Call and Placements with Banks

Demand, call and placements with banks were US$ 130.8 million in 2013 compared with US$ 82.7 million in 2012. Total liquid assets – comprising cash, deposits, liquid securities and other assets, represented 15% of the balance sheet as at year-end 2013 (2012: 15%).

Trading Investments (investments carried at fair value through the statement of income)

Investments carried at fair value through the statement of income were US$ 46.6 million in 2013 compared with US$ 53.3 million in 2012. This portfolio comprises securities held for trading, and managed funds designated as held for trading. Securities held for trading increased to US$ 34 million in 2013 from US$ 28.9 million the previous year. The securities held for trading portfolio consists mainly of equities listed on the Kuwait Stock Exchange.

Managed funds designated as 'held for trading' were reduced to US$ 12.6 million in 2013 compared with US$ 24.4 million in 2012, due mainly to liquidations.

Non-Trading Investments

Non trading investments decreased to US$ 166.3 million in 2013 compared with US$ 190.8 million in 2012. The portfolio mainly comprises listed equities of US$ 11.5 million (2012: US$ 6.7 million), unlisted equities of US$ 60.4 million (2012: US$ 67.3 million), real estate managed funds of US$ 13.3 million (2012: US$ 1.9 million), other managed funds of US$ 85.6 million (2012: US$ 113.8 million), and debt securities of US$ 1.9 million (2012: US$ 1.1 million).

Major investments under the non-trading investments portfolio as at 31 December 2013 were:

Burgan Equity Fund is an open-ended fund managed by Burgan Bank, and focused mainly on investing in shares of Kuwaiti companies listed on the KSE. The fund adopts a balanced investment policy, and its objective is to earn long-term capital gains with minimum possible risk. The year-end value of this investment was US$ 47.3 million (2012: US$ 47.2 million) and represents an equity stake of 16.2% (2012:16.2%).

Global Banking Corporation (GBCORP) is an Islamic investment bank incorporated in Bahrain, with an issued and paid-up capital of US$ 250 million. GBCORP's business lines include private equity and venture capital, real estate and infrastructure development, asset management, advisory services in corporate finance and capital markets, and portfolio management services. The year-end value of this investment was US$ 16.1 million (2011: US$ 17.9 million) and represents an equity stake of 12.5% (2012: 12.5%).

MPE Energy Fund (MPE) is managed by Millennium Private Equity Limited (MPEL) with the objective of acquiring a stake in companies operating in the energy sector. At year-end 2013, UGB's investment in the fund was US$ 16 million (2012: US$ 16 million)

KAMCO Investment Fund is an open-ended fund managed by KAMCO. The fund invests in securities of companies listed on the Kuwait Stock Exchange in primary issues, government bonds, and public issues that are expected to be listed; including securities of companies listed on the exchanges in the MENA region. The year-end value of this investment was US$ 7.7 million (2012: US$ 14.5 million) and represents an equity stake of 7.7% (2012: 16%).

Loans and Advances

Loans and advances of US$ 4.0 million (2012: US$ 4.3 million) in UGB's books consist mainly of facilities extended to individuals and related parties. All loans and advances are secured, and adequate provisions have been made against possible future weakness.

Investments in Associated Companies and Joint Venture

Investments in the Bank's associated companies and joint venture accounted for under the equity method, increased to US$ 824.6 million in 2013 compared with US$ 799.3 million in 2012. During 2013, the Bank acquired a 30% equity stake in FIMBank p.l.c. with a year-end value of US$ 45.2 million.

The Bank's associated companies contributed a total profit of US$ 19.4 million in 2013, with key contributors being Burgan Bank (US$ 12.3 million) and United Real Estate Company (US$ 8.3 million).

Consolidated Liabilities

UGB's consolidated liabilities increased to US$ 799 million in 2013 compared with US$ 747.4 million in 2012, with the increase attributed to a rise in short-term borrowings.

Shareholders' Equity

As at year-end 2013, UGB's shareholders' equity stood at US$ 463.3 million (2012: US$ 456.2 million). The foreign currency translation reserve decreased to US$ 6.7 million in 2013 from US$ 12.6 million in 2012. Minority interests increased to US$ 23.3 million (2012: US$ 22 million) due to the improved profitability of KAMCO.

The following table reflects the composition of shareholders' equity and minority interests at year-end 2013 compared with year-end 2012:

Equity (US$ million)	2013	2012
Share capital	208.7	208.6
Treasury shares	(18.1)	(15.3)
Share premium	11.5	11.5
Statutory reserve	96.9	96.6
General reserve	77.2	77.1
Treasury share reserve	14.2	14.3
Fair value reserve	(17.3)	(3.6)
Foreign currency translation reserve	6.7	12.6
Retained earnings	56.5	54.4

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Equity (US$ million)	2013	2012
Capital and reserves attributable to the shareholders of the parent	436.3	456.2
Non-controlling interests in equity	23.3	22.0
Total equity	459.6	22.0

Off-balance Sheet Commitments

UGB's off-balance sheet commitments comprise guarantees, letters of credit, credit commitments, undrawn investment commitments, and bankers' acceptances; financial instruments to cover foreign exchange risks; forward purchase and sales contracts; and interest rate and currency swaps. The Bank's investments and credit-related commitments aggregated to US$ 33.1 million as at year end 2013 (2012: US$ 91.5 million). This decrease is largely due to the cessation of further commitments following the sale of some of the Bank's private equity investments, and reduced credit related commitments. The Bank does not trade derivatives, nor engages in proprietary foreign exchange trading. Further details regarding off-balance sheet commitments are provided in Note 28 to the Consolidated Financial Statements.

Capital Adequacy

UGB's capital adequacy ratio of 17.5% (2012: 23.2%) under the Basel II regulations as mandated by the CBB, is well above the minimum requirement of 12% with a buffer of an additional 0.5%. The decrease of 5% in the capital adequacy ratio was mainly due to acquisition of FIMBank p.l.c.. The following table provides an analysis of the capital adequacy position of the Bank:

US$ million	2013	2012
Capital base:		
Tier 1 captial	264.9	319.0
Total capital base (a)	264.9	319.0
Credit risk weighted exposure	1,376.9	1,217.6
Market risk weighted exposure	76.3	100.6
Operational risk weighted exposure	62.1	55.8
Total risk weighted exposre (b)	1,515.4	1,374.1
Capital adequacy (a/b * 100)	17.5%	23.2%
Minimum requirement	12.0%	12.0%

UGB's robust risk management framework provides comprehensive controls and ongoing management of major risks inherent in the Bank's business model and operational activities.

Key Developments in 2013

- Maintained the focus on deleveraging the balance sheet and strengthening liquidity in order to achieve financial efficiency across bank-wide operations.
- New Enterprise Risk Management system implementation planned, to further enhance and automate risk management practices.
- Finalised implementation of the Bank's Operational Risk Framework, supported by a fully-automated system which enables the Bank to monitor, mitigate and report its operational risk exposures in a structured and robust manner.
- Enhanced the scope of quarterly reporting to the Board and its Committees, and Management, on liquidity, operational risk and investment reviews.

Risk Philosophy

The Bank's risk philosophy is based on the following five principles:

- Sound knowledge base, experience and judgement of Senior Management and Risk Management staff, are the cornerstone of a successful risk mitigation programme.
- Vigilance, discipline and attention to detail are mandatory.
- Complete segregation of duties and reporting authorities must exist between business lines and support functions.
- Policies and procedures must be clear, properly documented, well-communicated, understood, and implemented in both letter and spirit.
- Well-established processes and systems provide the back bone of risk management practices at the Bank.

Responsibilities

The Board of Directors of UGB has the ultimate authority for setting the overall risk appetite, risk tolerance, parameters and limits, within which the Bank operates. The Board approves the Bank's overall risk profile and significant risk exposures, as well as the policies, procedures and controls that have been extensively documented.

The Board has delegated day-to-day decision making to the Executive Committee (EC) that consists of four Directors. The EC meets in between Board meetings to approve all proposals that exceed the threshold of the Investment Committee. The Investment Committee is responsible for approving or recommending approvals to the Executive Committee; and limits for individual exposures, investments, and concentrations towards banks, countries, industries, risk rating classes, or other special risk asset categories. Further information on the constitution and responsibilities of these committees is disclosed in the Bank's Corporate Governance Report.

The Risk Management Department of the Bank is staffed by a dedicated and well-qualified team of four individuals. UGB's ability to properly identify, assess, manage, measure, monitor and report risk is critical to its financial strength and profitability. A comprehensive set of risk management policies, processes, and limits are in place to provide guidelines and parameters. These are continuously updated with the objective of incorporating best practice, changes in market factors, and changes in the regulatory environment in various jurisdictions where the Bank operates.

Risk Management Philosophy

The overall risk management strategy of UGB focuses on optimising the risk-return profile of the Bank's exposures (a portfolio approach) as well as avoiding losses. The management philosophy of the Bank for managing the main types of risk is summarised below:

Risk Type	Risk Management Philosophy
Credit risk	To discipline its lending activities and ensure that credit facilities are granted on a sound basis, and that the Bank's funds are invested in a profitable manner.
Market risk	To minimise the loss of the value of financial instruments or a portfolio of financial instruments due to an adverse change in market prices or rates.
Interest Rate risk	To capture all material sources of interest rate risk, and assess the effect of interest rate changes on the income stream and equity of the Bank.

Risk Type	Risk Management Philosophy
Liquidity risk	To identify, capture, monitor and manage the various dimensions of liquidity risk with the objective of protecting asset values and income streams, such that the interests of the Bank's shareholders are safeguarded, while maximising returns to shareholders.
Operational risk	To mitigate or insure the risk of loss arising from a failure in the Bank's internal processes due to inadequate internal controls and procedures, human error, deliberate acts and/or business interruptions caused by technology, systems or external disasters beyond the Bank's control.

Types of Risk

In accordance with the Central Bank of Bahrain's guidelines and the Bank for International Settlements, UGB adopted Basel II standards effective 1 January 2008. This has been done with the view of determining capital adequacy, as well as adopting sound practices for the management of risk. The major types of risk to which UGB is primarily exposed, include credit, market, operational, liquidity and funding, interest rate, concentration, reputational and legal risks. Details on each of these are provided in the Pillar III Risk Management and Capital Adequacy Disclosures that is available on the Bank's website: www.ugbbah.com.

The following section provides a brief synopsis of the different types of risk, and the processes adopted to identify, assess and monitor them.

Credit Risk

Credit risk arises mainly from the extension of credit facilities in UGB's banking, investment and trading activities, where there is a possibility that a counterparty may fail to honour its commitments.

Credit risk is mitigated through:

- Establishing an appropriate credit risk environment;
- Operating under a sound credit and investment approval process;
- Ensuring adequate controls over the credit risk management process; and
- Maintaining appropriate credit administration, measurement and monitoring processes.

Well-documented policies and subsequent updates are approved by UGB's Board of Directors. These provide the guidelines for credit risk management. The Bank manages credit risk through its limit structure, which controls the amount of risk that it is willing to accept for individual counterparties, related parties and for geographical and industry concentrations. Exposures with respect to the adherence of these limits are monitored on a regular basis.

There is a two-tier committee structure to approve and review credit and investment risk. The Investment Committee (IC) includes the Chief Executive Officer and the Chief Financial Officer. The Head of Credit and Risk Management is a non-voting member on the Committee and acts as its secretary. Exposures beyond IC-delegated limits are approved by the Board's Executive Committee or the full Board of Directors.

The credit risk inherent in trading activities is also actively managed, and in case of exposures to counterparties, is calculated daily as the sum of mark-to-market values. In certain cases, the Bank has entered into legally enforceable netting agreements covering its money market and foreign exchange trading activities, whereby only the net amount may be settled at maturity. In areas where the Bank acts as an agent for commodity trading on behalf of certain Islamic financial institutions, the risk is managed through simultaneous spot and forward trading in commodities, through well-established financial and commodity trading institutions that have been subject to a detailed credit review. The Bank seeks to procure third-party guarantees wherever feasible to mitigate the inherent credit risk in its off-balance sheet exposures.

Continuous monitoring of the Bank's assets through various reports and reviews is critical to early and timely identification of any impairment. A monthly risk asset review report is produced by the Credit and Risk Management Department, in which all investments are assessed based on rating, industry, and geographic exposure, in addition to a number of other parameters. The purpose of this report is also to ensure compliance with external regulatory requirements and internal risk policy guidelines. Additionally, a semi-annual review of all investments is conducted for monitoring performance and highlighting any recent developments that may have occurred. A quarterly review of loans is prepared for the purpose of identifying impairments and providing an update on the status of each facility. The risk asset review report is reviewed on a monthly basis by Management, and quarterly by the Risk and Compliance Committee of the Bank.

UGB has adopted the Standardized Approach for calculating the charge for credit risk. Non-performing loans for the Group stood at nil as at 31 December 2013 (2012: nil) against which a provision of US$ 1.0 million exists (2012: US$ 1.0 million).

The Bank identifies and manages credit risk inherent in all products and activities, and ensures that such risks are assessed in depth and are well understood. These activities are then subject to adequate risk management procedures and controls, and approved by the Board of Directors before being introduced or undertaken. The Bank operates within sound, well-defined credit criteria. These criteria include a clear indication of the Bank's target market and a thorough understanding of the borrower or the counterparty, as well as the purpose and structure of the credit and its source of repayment. The Bank has established overall credit limits at the level of individual borrowers and counterparties, as well as groups of connected or comparable counterparties that are aggregated in a meaningful manner to indicate different types of exposures, both in the banking and trading book, and on and off the balance sheet. The credit limits recognise and reflect the risks associated with the near-term liquidation of positions in the event of counterparty default. Limits also factor in any unsecured exposure in a liquidation scenario.

All extensions of credit are made on an arm's-length basis. Any credit extended to companies and individuals that are outside the approved policy parameters are avoided, or are authorised on an exception basis by the appropriate authorities. A detailed review of connected party exposure is conducted on a monthly basis and reported to Central Bank of Bahrain.

Detailed information on the Bank's credit risk exposures, including geographical distribution, industry/sector allocation, details of the collaterals and other credit enhancements, and bifurcation based on internal ratings, has been provided in Note 29 (b) of the Consolidated Financial Statements.

Market Risk

Market risk is defined as the risk of losses in the value of on- or off-balance sheet financial instruments caused by a change in market prices or rates (including changes in interest rates and foreign exchange rates). UGB's policy guidelines for market risk have been vetted by the Board of Directors in accordance with the rules and guidelines provided by the Central Bank of Bahrain.

UGB has adopted the Standardized Approach for the measurement of its market risk. This involves a 'building block' methodology that aggregates charges for interest rate exposure, equities, foreign exchange, commodities and options. The Bank has entered into forward contracts and interest rate swaps for hedging purposes, and does not trade commodities or derivatives. Thus UGB's market risk capital adequacy requirements cover the securities trading book and the foreign exchange book.

The minimum capital charge for interest rate exposure is expressed as the sum of two separately calculated charges: one relating to the specific risk of each position, and the other to the interest rate risk in the portfolio (general market risk). For the general market risk capital charge, the Bank applies the maturity method with its respective rules. Information on the interest rate sensitivity in the Bank's asset and liability structure is detailed in Note 29 (c) of the Consolidated Financial Statements.

The capital charge for equities held in the Bank's trading book is also an aggregate of two separate components. One applies to 'specific risk' of holding a long or short position in an individual equity, and the other pertains to 'general market risk' of holding that position in the market as a whole. In case of foreign exchange risk, the open currency position is taken both in the banking and the trading book. The currency exposures are detailed in Note 29 (c) of the Consolidated Financial Statements. The capital charge under this approach is the arithmetical sum of the risk measures obtained from the measurement framework.

The Bank seeks to manage the market risks that it faces through diversification of exposures across dissimilar markets, industries and products. In addition to the exercise of business judgement and management experience, UGB utilises limit structures related to positions, portfolios, maturities and maximum allowable losses, to control the extent of such risk.

Operational Risk

The Bank has defined operational risk as the risk of losses arising from a failure in its internal processes due to inadequate internal controls and procedures, human error, deliberate acts and/or business interruptions caused by technology, systems or external disasters beyond the Bank's control. Internal control systems have been introduced that are based on the tenet of adequate segregation of duties. Exception and excess exposure reporting by the Credit and Risk Management Department, succession planning, business continuity planning, reliable management reporting and supervision of the Internal Audit and Quality Assurance Department and the Board Audit Committee, is also adhered to by the Bank. Anti-money laundering procedures and controls are also in place to mitigate any possible misuse of the Bank's services. These anti-money laundering procedures are reviewed by the external auditors on a yearly basis; their report is then sent to the Central Bank of Bahrain as mandated by local regulations.

In accordance with Basel II guidelines, UGB has developed a comprehensive operational risk framework, whereby all activities and processes of the Bank are analysed; and residual risks are identified, measured and reported as appropriate. The management of operational risk in the Bank is the responsibility of every employee. The operational risk framework is built around a detailed Risk Control Self Assessment (RCSA) that identifies all risks stemming from activities of each department of the Bank. The probability of occurrence and potential severity of the risks are assessed; existing controls against each probable risk event are plotted and reviewed in terms of their effectiveness; residual risks after taking into account the effectiveness of controls are documented; and action plans are developed to reduce or mitigate the residual risks. The results of the RCSA are periodically reviewed by the Risk and Compliance Committee. Heat maps are produced to alert senior management to areas that may be subject to an increased level of operational risk.

UGB uses Basel II's Basic Indicator Approach (BIA) to calculate the capital charge for operational risk. This is prescribed as 15% of the average annual gross income of the current year and the preceding two years. The detailed working for the capital charge on operational risk is provided in the Prudential Disclosures related to Basel II - Pillar III, which are posted on the Bank's website.

In 2013, UGB completed the automation its Operational Risk Framework through the implementation of a robust Operational Risk System. The system comprises four key modules: loss database, risk and control self assessment, key risk indicators, and exposure monitoring; and enables the Bank to monitor, mitigate and report its operational risk exposures on a real-time basis.

Liquidity Risk and Funding

Liquidity risk stems from the inability to procure sufficient cash flow to meet UGB's financial obligations as and when they fall due. The risk arises due to the timing differences between the maturity profile of the Bank's assets and liabilities.

In order to ensure that the Bank can meet its financial obligations as they fall due, the tenors of UGB's assets and liabilities are closely monitored across different maturity time bands. The Asset and Liability Committee evaluates the balance sheet from a structural, liquidity and sensitivity point of view. The whole process is aimed at ensuring availability of sufficient liquidity to fund the Bank's ongoing business activities, effectively managing maturity mismatches between assets and liabilities, managing market sensitivities, and ensuring the Bank's ability to fund its obligations as they fall due. Daily and weekly reports are generated, which monitor deposits by counterparties to ensure maintenance of a diversified funding base in terms of individual depositors, their ratings, geographical concentration and maturities.

A diversified funding base has evolved around the deposits raised from the interbank market, Sharia'a-compliant market deposits received from customers, and medium-term funds raised through the syndicated borrowings. Access to available but uncommitted short-term funding from the Bank's established relationships, internationally and across the MENA region, provides additional comfort. As at year-end 2013, UGB's solo liquidity ratio was 37% (2012: 37%). The Bank monitors this on a daily basis to ensure that the regulatory level of 25% is maintained at all times.

Liquidity risk is minimised by actively managing mismatches, and through diversification of assets and liabilities. The Bank uses a combination of limits to ensure that liquidity risk is managed and controlled from the asset and liability perspective:

- Maturity gap limits: assets and liabilities in the Bank's balance sheet are grouped in specific maturity time buckets. The maximum liquidity mismatch between assets and liabilities in each defined time bucket (e.g. one to seven days, eight days to one month, one to three months, three to six months, six to twelve months, one to three years, three to five years, and more than five years), is controlled by gap limits that have been set for each time bucket. The Risk Management team tracks these limits.

- Liquidity ratio limits: the Bank has limits on a set of ratios which it uses proactively for monitoring liquidity risk. These include the current ratio, liquid assets as a percentage of total assets, liquid assets as a percentage of total liabilities, and short-term liabilities as a percentage of total liabilities.

Information on the liquidity risk and maturity profile of UGB's asset and liability structure as at the end of 2013 is detailed in the Note 29 (d) of the Consolidated Financial Statements. As of this date, 17% of total assets and 78% of total liabilities were contracted to mature within one year (2012: 14% and 45% respectively). A significant portion of assets with longer-term maturities comprise readily realisable securities or listed assets with active markets.

Interest Rate Risk in the Banking Book

Interest rate risk in the banking book arises as a result of mismatches in the re-pricing or maturity of interest rate sensitive financial assets and liabilities. This is also known as re-pricing risk. Additionally, UGB is exposed to minimal basis risk which results from a change in the relationship between the yields/yield curves of long and short positions with the same maturity in different financial instruments. In effect, this means that the long and short positions no longer fully hedge each other.

UGB clearly identifies the sources of interest rate risk, and the interest rate risk-sensitive products and activities. It proactively measures and monitors the interest rate risk in the banking book. The Bank also periodically carries out stress tests to assess the effect of extreme movements in interest rates that could expose the Bank to high risks. A conscious effort is also made to match the amount of floating rate assets with floating rate liabilities in the banking book. All new products / transactions are evaluated with respect to the interest rate risk introduced by it and the identification of mitigating factors. UGB also enters into certain transactions in order to hedge exposures arising from day-to-day banking and investment activities. These hedge transactions may be instruments such as interest rate swaps (IRS) and floating rate notes (FRN), to convert a floating rate asset/liability into a fixed rate one or vice-versa. The Bank continuously monitors the effectiveness of the hedges.

Concentration Risk

Concentration of exposures in credit portfolios is an important aspect of credit risk that is monitored separately in UGB. This risk can be considered from either a micro (idiosyncratic) perspective or a macro (systemic) perspective. The first type – name concentration, relates to imperfect diversification of risk in the portfolio, either because of its small size or because of large exposures to specific individual obligors/investments. The second type – sector concentration, relates to imperfect diversification across systemic components of risk, namely industry sectoral factors.

Concentration risk is captured in UGB's framework through the use of internal and external regulations that cap the maximum exposure to any single obligor/investment. There are established limits in place that set thresholds for aggregate industry, geography, and counterparty. The actual levels of exposure are monitored against approved limits and regularly reviewed by Senior Management and the Board of Directors.

The Bank pursues a set of internal policies and limits that ascertain to a large extent, that no defined exposure limits referred to in its various policies are exceeded. If any potential exposure is deem to result in breach of regulatory and / or internal limits, the Bank obtains due approvals from the appropriate authority (Central Bank of Bahrain and / or the Bank's relevant approving authority) before executing the respective business transaction.

Legal Risk

Legal risk is defined as the loss that may arise as a result of the inability to enforce contracts and agreements entered into, the failure of these to adequately cover the risks, and liabilities the Bank may face, and their inability to protect the Bank's interests. In order to mitigate this risk, UGB uses industry standard master agreements wherever available. Expert legal advice is sought on all legal structures and arrangements to which the Bank is a party. A retainer agreement is maintained with a Bahrain law firm for the review of standard business agreements; and for special assignments documentation, the Bank involves local and international law firms. Proper execution and completion of all legal contracts is ensured prior to committing funds to the transactions. All legal documents are reviewed on a periodic basis to ensure their ongoing enforceability. These are also maintained under dual custody.

Monitoring and Reporting

The monitoring and reporting of risk is conducted on a daily basis for market and liquidity risk, on a monthly basis for credit risk, and on a quarterly basis for operational risk. The regular forums in which risk related issues are highlighted and discussed are the weekly Management meetings, the quarterly Risk and Compliance Committee meetings, and the Executive Committee meetings. The Board of Directors is also regularly apprised of pertinent risk issues including the semi-annual investment reviews and the proposed corrective action.

Basel II

UGB's Management continuously strives to meet or exceed industry compliance and regulatory standards. The introduction of the New Capital Accord and its adoption by the Central Bank of Bahrain at the beginning of January 2008, is viewed by the Board and Management as an opportunity to reassess and further improve upon UGB's risk identification, assessment, measurement, monitoring and reporting procedures, thus providing assurance to all the stakeholders on managing and controlling risks inherent in the Bank's business.

The Basel II guidelines aim at allowing qualifying banks to determine capital levels consistent with the manner in which they measure, manage and mitigate risks. The framework provides a spectrum of methodologies, from simple to advanced, for the measurement of both credit and operational risks. More advanced measurement of risks should result in regulatory and economic capital being more closely aligned.

Basel III

The Basel Committee on Banking Supervision issued its final guidelines on Basel III in December 2010.The document provides a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector, and builds on the International Convergence of Capital Measurement and Capital Standards document (Basel II) issued in 2006. Accordingly, the Central Bank of Bahrain requested all locally incorporated banks to conduct a detailed Quantitative Impact Assessment in which UGB participated. Although Basel III provides a transition period of up to 2018 for full implementation, the Bank is currently studying the probable impact on its capital, and will be proposing appropriate measures to the Board once the Central Bank of Bahrain issues its final directives with respect to Basel III implementation.

The Risk and Compliance Committee of UGB supervises the adoption of best practices in the areas of risk and compliance, and acts as the steering committee for risk and compliance initiatives, responsible for monitoring the progress and facilitating a smooth transition towards complete compliance with provisions of the New Capital Accord. During 2013, the Committee met three times and resolved important matters. UGB is carefully monitoring the changes/enhancements recommended by the Basel Committee in the Capital

Framework and its potential impact on Bank's capital adequacy ratio. UGB shall continue performing the required quantitative impact analysis, and shall keep the Board apprised to better prepare itself for the eventual adoption of the proposed enhancements.

Internal Capital Adequacy Assessment Process

The Internal Capital Adequacy Assessment Process (ICAAP) is a requirement of Pillar II norms of Basel II, and involves appropriate identification and measurement of risks; and maintenance of an appropriate level of internal capital in alignment with the Bank's overall risk profile and business plan. The objective of the Bank's ICAAP is to ensure that adequate capital is retained at all times to support the risks the Bank undertakes in the course of its business.

The Bank recognises that its earnings are the first line of defence against losses arising from business risks, and that capital is one of the tools to address such risks. Also important, are establishing and implementing documented procedures; defining and monitoring internal limits on the Bank's activities/exposures; strong risk management, compliance and internal control processes; as well as adequate provisions for credit, market and operational losses. However, since capital is vital to ensure continued solvency, the Bank's objective is to maintain sufficient capital such that a buffer above regulatory capital adequacy requirement is available to meet risks arising from fluctuations in asset values, revenue streams, business cycles, and expansion and future requirements. The Bank's ICAAP identifies risks that are material to the Bank's business and the capital that is required to be set aside for such risks.

The Bank seeks to achieve the following goals by implementing an effective capital management framework:

- Meet the regulatory capital adequacy requirement and maintain a prudent buffer;
- Generate sufficient capital to support overall business strategy;
- Integrate capital allocation decisions with the strategic and financial planning process;
- Enhance Board and senior management's ability to understand how much capital flexibility exists to support the overall business strategy;
- Enhance the Bank's understanding on capital requirements under different economic and stress scenarios; and
- Build and support the link between risks and capital, and tie performance to both of them.

Capital Sources

UGB's capital is primarily derived from common shareholders' equity and retained earnings. Other sources of capital include subordinated long-term debt.

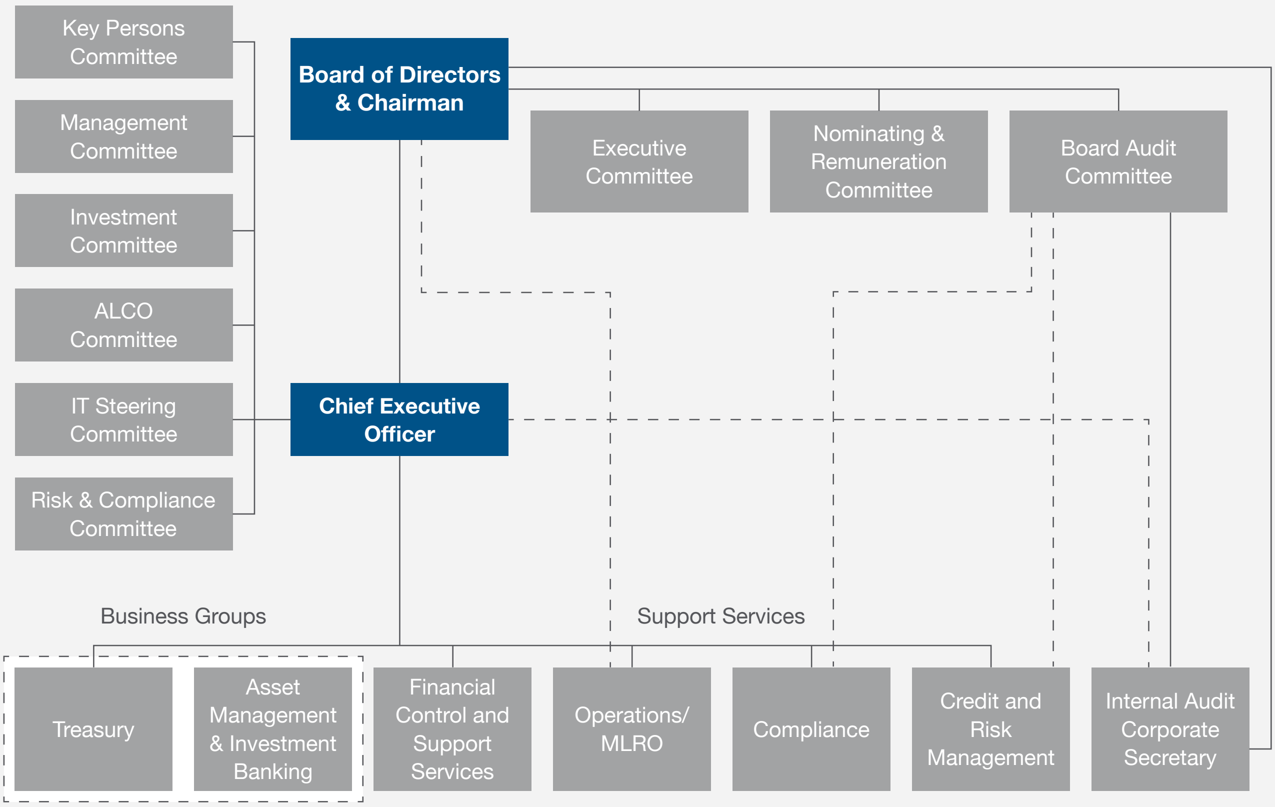
Capital Management

The Board of Directors of the Bank is responsible for ensuring that adequate levels of capital are maintained at all times. The Board also approves and oversees capital policy and processes adopted for capital management by the Bank.

> **UGB is committed to adopting the highest standards of corporate governance in line with global best practice.**

The corporate governance framework of the Bank is a reflection of its culture, policies, stakeholder relationships, and commitment to corporate values. The Board of Directors believes that sound ethical practices, transparency of operations, and timely disclosures are critical factors in enhancing shareholder value and safeguarding the interests of all stakeholders.

Governance and Organisation Structure



Key Developments in 2013

Throughout the year, UGB continued to take steps to ensure compliance with the Higher Level Controls Module of the Rulebook regulations of the Central Bank of Bahrain (CBB) and the principles of the Code of Corporate Governance of the Kingdom of Bahrain (the Code).

- During the year, there were several changes to the composition of the Board of Directors and Board Committees: Sheikh Hamad Sabah Al Ahmad Al Sabah resigned from the Board as Vice Chairman, and Mr Faisal Hamad Al-Ayyar was elected as Vice Chairman. Mr Mohammad Haroon was elected to the Board of Directors as a non-executive Director at the AGM held in March 2013. He and Mr. Mubarak Al Maskati were subsequently elected as the Chairman of the Board Audit Committee, and as the Chairman of the Nominating and Remuneration Committee, respectively. The UGB Board now includes three independent directors and one non-executive director. In January 2014, the CBB gave its approval to consider Mr. Haroon as an independent Board member; effective this date, 50% of the Board is constituted by independent directors.

- Following CBB approval, Mr Mohammed Alqumaish, Head of Internal Audit & Quality Assurance, took up his responsibilities as Corporate Secretary effective 1 January 2013.

- In July 2013, the CBB confirmed the appointment of Mr Rabih Soukarieh as Chief Executive Officer of the Bank.

Compliance

In accordance with CBB guidelines, UGB has a designated Chief Compliance Officer (CCO) with a dotted reported line to the Board Audit Committee. The CCO acts as the central coordinator for all matters relating to CBB regulatory reporting and other requirements. A framework of relevant policies and processes covering the areas of adherence to external regulations, code of conduct and conflicts of interest, are encapsulated in the Bank's Compliance Charter and Code of Conduct. These documents have been approved by the Board of Directors and help define, clarify, assert and enforce the role of governance within UGB.

In 2013, UGB's Risk Nucleus Compliance system was fully implemented and rolled out to all departments. The compliance workflow was developed in-house by the Compliance function, while engineering and database design was carried out by an external software farm, in collaboration with the Bank's IT department. This fully-automated module allows the Compliance function to track deadlines by department, and by date. It issues advance reminders, assigns responsibilities, and monitors compliance. The system generates checklists of compliance requirements on a pan-Bank basis and at a departmental level. It also acts as the repository for compliance assessment programmes undertaken in accordance with the Compliance Plan that is approved twice a year by the Board Audit Committee. A Compliance Report is presented every quarter by the CCO to members of the Board Audit Committee, and the Risk and Compliance Committee. The Compliance function is also responsible for ensuring that all ad hoc requests for information from regulatory authorities are responded to immediately, and that corrective action is taken if required.

During the year, UGB appointed external consultants to advise on the impact of the Foreign Account Tax Compliance Act (FATCA) on the Bank and entities which fall under its extended affiliate group. To ensure compliance with CBB regulations and familiarisation within the organisation, the Board of Directors appointed a Management-level FATCA Working Group. The CEO was appointed as 'Responsible Officer'; and the Chief Compliance Officer and the Head of Credit & Risk Management were appointed as 'Points of Contact'. The Bank intends to be fully compliant with FATCA regulations.

UGB shares a strong rapport with its local regulators – the Central Bank of Bahrain, the Bahrain Bourse and the Ministry of Industry & Commerce. It maintains a proactive dialogue as and when warranted. In addition, the CBB conducts a Prudential Meeting with the Senior Management of UGB once a year; this is attended by one member of the Board of Directors. This forum involves the regulators receiving an overview of the Bank's performance; business model and strategic plan; market outlook; corporate governance, compliance, risk management; and capital adequacy framework.

During the year, UGB responded to a number of Consultation Papers issued by regulators. These included close out netting; online trading incentive programmes; process for the approval for controlled persons and training; credit grading classification systems; the directive on the internal audit function in banks; sound remuneration practices for banks; write-off of exposures; and the proposed law on investment limited partnerships.

Anti-Money Laundering

UGB has a designated Money Laundering Reporting Officer (MLRO) and a Deputy MLRO (DMLRO). The Bank has implemented an anti-money laundering (AML) and counter terrorism financing (CFT) policy, and annually trains its staff to raise awareness of identifying and reporting suspicious transactions. Employees receive an overview of the Bank's AML/CFT policy and procedures, a video case study, and training slides that are also available on the Intranet. UGB follows prudent practices related to Customer Due Diligence and Beneficial Ownership using the Thomson Reuters screening tool, and Know Your Customer (KYC) principles.

In accordance with regulatory requirements, the MLRO reviews the effectiveness of the AML/CFT procedures, systems and controls at least once a year. The review covers UGB and its main subsidiaries. The Bank's anti-money laundering measures are audited annually by independent external auditors to provide a separate assurance to the Compliance Directorate of the CBB. During 2013, UGB's AML Policy and Procedures Manual was reviewed and updated.

Code of Conduct

The Board of Directors has established corporate standards for all Directors and employees. These are emphasised in the Bank's Code of Conduct which reiterates the following policies: upholding sensitive and confidential information; avoiding and disclosing (wherever applicable) conflicts of interest; personal accountability; honesty; harmonious relationships with clients, subsidiaries, affiliates and regulators; non-solicitation of gifts; transparent and accurate external communications; expected standards of professionalism, fairness, behaviour and language; and accounting, auditing and book keeping. The Board reviews the Code of Conduct once every two years – this was carried out in 2013.

The Board and Senior Management view the Code of Conduct as an integral part of the way they exercise their responsibilities and the way they conduct themselves with clients, shareholders, staff, and the wider community. Familiarisation sessions on the requirements of the Code of Conduct are conducted on an annual basis by the Chief Compliance Officer. Board members and staff submit a written affirmation that they will abide by the tenets of the Code, and disclose any personal conflicts of interest. Any incidents of non-compliance with the Code, or lack of affirmation by any member of UGB is escalated to the Board Audit Committee and the Board of Directors. The Code of Conduct is posted on the Bank's website: www.ugbbah.com.

Transparency and Disclosure

UGB is transparent and open with its regulators, shareholders, lenders and other stakeholders. The Board of Directors has approved a Disclosure and Transparency Policy which lays down the set of disclosure standards for the Bank. The objective of this policy is to facilitate understanding and compliance with the disclosure and transparency requirements for all material and non-material information with regard to the affairs of UGB. Adequate consideration is given to regulatory requirements to which the Bank is subject. The policy was also introduced to monitor the transparency adopted, and to enhance the Bank's image through accurate and timely disclosure of information.

As part of its communications strategy, UGB's website (www.ugbbah.com) is the repository of financial information together with financial statements, relevant information on the Bank, key products and services, and press releases that are issued periodically to the media. As mandated by the CBB, the detailed risk management and capital adequacy calculations that relate to Basel II have also been uploaded under 'Investor Relations'. The Bank's Corporate Governance Report is also available on its website.

Internal Audit & Quality Assurance

UGB has a functional Internal Audit Department reporting directly to the Board Audit Committee, with a dotted reporting line to the Chief Executive Officer. The Department is staffed by experienced and qualified professionals, and is governed by a detailed Board-approved Audit Charter; details of its responsibilities are documented in a Board-approved Policies & Procedures Manual. The Department has a close and direct working relationship with the Bank's Executive Management and Committees, in addition to having unrestricted access to information, records, systems and personnel within the Bank.

The Internal Audit Department delivers its services in line with a risk-based three-year strategic audit plan, which is designed to implement a systematic, disciplined audit review approach by utilising the available audit resources in the most efficient and effective manner. It examines the adequacy and effectiveness of systems and procedures within the internal controls framework – comprising Compliance, Risk Management, Financial Control and AML – and provides recommendations for enhancing their quality. On a periodic basis, the department performs follow-ups on internal control recommendations and corrective actions that have been raised, and reports their updated status to the Board Audit Committee.

The Department also oversees the implementation of sound internal control principles and practices at the level of UGB's subsidiaries and associate companies; and provides regular support to their respective Board Audit Committees and Internal Audit functions. In terms of Quality Assurance, the Department works with head office departments, and subsidiaries and associate companies, to facilitate continuous process improvements, and review new initiatives.

Note: a detailed review of the Corporate Governance Report is available on the Bank's website: www.ugbbah.com.

Corporate Social Responsibility

During 2013, the Bank continued to implement its corporate social responsibility (CSR) programme, which places special emphasis on charitable and community-based activities; education and career development opportunities for young Bahrainis; and development of the regional banking sector.

Education and career development for young Bahrainis

UGB is a firm believer in promoting education. The Bank's Scholarship Programme assists qualified UGB employees' dependants to study at accredited colleges, universities or other recognised academic institutions. The Bank also extends financial support to its staff to upgrade their academic and professional qualifications, and enhance their skills.

In addition, UGB provides education and career development opportunities for young Bahraini students through the following activities:

- The Crown Prince's International Scholarship Program (CPISP)

  UGB has been an annual Silver Sponsor of this major educational initiative since its inception in 2006. The Bank became a Friends Sponsor in 2012; this carries a five-year commitment.

- CPISP Mentoring Program

  UGB staff help to prepare and assess potential scholarship candidates in leadership skills for final selection.

- University of Bahrain / Bahrain Association of Banks Mentoring Programme

  UGB is a founding member of this programme, which provides students with summer work experience and the opportunity of placement.

- TradeQuest Investment Trading Competition

  TradeQuest is a business-education partnership that was established 16 years ago. It provides school students studying in Bahrain with an opportunity to participate in a simulated trading programme with shares listed on the New York Stock Exchange, NASDAQ and the Bahrain Bourse. UGB has supported this competition for the past 12 years. In 2013, the Bank sponsored one of the schools by working with the students and guiding them through the elements of investing and risk management.

UGB plays its role as a responsible corporate citizen by contributing to the social well-being and economic prosperity of the Kingdom of Bahrain.

Development of the regional banking sector

UGB contributes to the growth and development of the regional banking and financial services sector in a number of different ways:

- Bank support for a wide range of banking-related organisations including the Bahrain Association of Banks, Union of Arab Banks, International Institute of Finance and International Islamic Financial Market of Bahrain.
- UGB staff membership of professional institutions and associations.
- Support for the CFA Bahrain Society in promoting and maintaining the highest standards of professional excellence and integrity in the financial and investment community.

Charitable and community-based activities

Over the years, UGB has provided financial and practical support for numerous charitable, cultural, social, medical, educational, and environmental organisations and initiatives.

Independent Auditors' Report to the Shareholders of United Gulf Bank B.S.C.

Report on the consolidated financial statements

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

Board of Directors' responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

Report on other regulatory requirements

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

a) the Bank has maintained proper accounting records and the 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 1 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 financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests.

Ernst + Young

24 February 2014
Manama, Kingdom of Bahrain

Consolidated Statement of Financial Position

At 31 December 2013

	Note	2013 US$ 000	2012 US$ 000
ASSETS			
Demand and call deposits with banks		17,747	15,682
Placements with banks		113,063	67,030
Investments carried at fair value through statement of income	5	46,629	53,296
Non-trading investments	6	166,267	190,838
Loans and receivables	7	3,958	4,286
Other assets	8	29,630	24,181
Investments in associates and joint ventures	9	824,557	799,314
Investment properties	10	14	14,020
Property and equipment		690	627
Goodwill	11	56,008	56,303
TOTAL ASSETS		1,258,563	1,225,577
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks and other financial institutions		258,548	175,369
Deposits from customers		23,802	64,520
Loans payable	12	386,325	382,389
Subordinated debt	13	100,000	100,000
Other liabilities	14	30,326	25,117
TOTAL LIABILITIES		799,001	747,395
EQUITY			
Share capital	15	208,651	208,644
Treasury shares	15	(18,131)	(15,340)
Share premium	15	11,459	11,459
Statutory reserve	15	96,882	96,623
General reserve	15	77,367	77,108
Treasury shares reserve	15	14,248	14,308
Fair value reserve	16	(17,313)	(3,562)
Foreign currency translation reserve	15	6,686	12,586
Retained earnings		56,451	54,382
CAPITAL AND RESERVES ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT		436,300	456,208
Non-controlling interests in equity		23,262	21,974
TOTAL EQUITY		459,562	478,182
TOTAL LIABILITIES AND EQUITY		1,258,563	1,225,577

Masaud Hayat Chairman	**Faisal Al Ayyar** Vice Chairman	**Rabih Soukarieh** Chief Executive Officer

The attached explanatory notes 1 to 32 form part of these consolidated financial statements.

Consolidated Statement of Income

For the year ended 31 December 2013

	Note	2013 US$ 000	2012 US$ 000
Investment income - net	17	19,990	28,909
Interest income	18	6,758	6,401
		26,748	35,310
Fees and commissions	19	17,084	20,716
Foreign currency translation gains (losses) - net		1,037	(52)
Share of results of associates and joint ventures - net	20	19,385	37,071
Total income		64,254	93,045
Interest expense	21	(31,246)	(44,386)
Operating income before expenses and provisions		33,008	48,659
Salaries and benefits		(17,135)	(16,135)
General and administrative expenses		(6,762)	(12,342)
Operating income before provisions		9,111	20,182
Impairment loss on investments	6,9	(6,863)	(16,522)
Write-back of provisions for doubtful loans and other assets - net	7,8	1,906	3,042
NET PROFIT FOR THE YEAR		4,154	6,702
Profit (loss) attributable to:			
- shareholders of the parent		2,587	11,030
- non-controlling interests		1,567	(4,328)
		4,154	6,702
Earnings per share			
Basic and diluted earnings per share (US cents)	22	0.32	1.34

Masaud Hayat
Chairman

Faisal Al Ayyar
Vice Chairman

Rabih Soukarieh
Chief Executive Officer

The attached explanatory notes 1 to 32 form part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013

	2013 US$ 000	2012 US$ 000
NET PROFIT	4,154	6,702
Other comprehensive (loss) income to be reclassified to profit or loss in subsequent years:		
Foreign currency translation reserve	(6,023)	(27,918)
Fair value reserve	3,720	11,925
Transfer to consolidated statement of income upon disposal / impairment	(2,950)	(7,648)
Share of other comprehensive (loss) income of associates and joint ventures - net	(14,639)	3,605
Cash flow hedges	280	2,341
Other comprehensive loss to be reclassified to profit or loss in subsequent years	(19,612)	(17,695)
TOTAL COMPREHENSIVE LOSS	(15,458)	(10,993)
Total comprehensive (loss) income attributable to:		
- shareholders of the parent	(17,064)	(6,548)
- non-controlling interests	1,606	(4,445)
	(15,458)	(10,993)

The attached explanatory notes 1 to 32 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Note	2013 US$ 000	2012 US$ 000
OPERATING ACTIVITIES			
Net profit including profit (loss) attributable to non-controlling interests		4,154	6,702
Adjustments for non-cash items:			
Depreciation		357	449
Share of results of associates and joint ventures - net	20	(19,385)	(37,071)
Loss on sale of associated companies	17	-	17,471
Impairment loss on investments		6,863	16,522
Write-back of provisions for doubtful loans and other assets - net		(1,906)	(3,042)
Interest income		(6,758)	(6,401)
Interest expense		31,246	44,386
Dividend income		(2,568)	(5,820)
Other non-cash items		295	479
Change in fair value of investment properties	10	-	700
(Gain) loss on investments carried at fair value through statement of income	17	(7,177)	410
Loss (gain) on sale of investment properties	17	1,274	(7,333)
Operating profit before working capital changes		6,395	27,452
Changes in operating assets and liabilities:			
Investments carried at fair value through statement of income		13,844	19,477
Non-trading investments		20,087	231,692
Loans and receivables		2,234	26,698
Other assets		(5,263)	15,523
Due to banks and other financial institutions		83,179	(36,426)
Deposits from customers		(40,718)	(15,829)
Other liabilities		5,286	(15,246)
Interest received		6,852	6,528
Interest paid		(30,923)	(47,794)
Dividends received	17	2,568	5,820
Donations		(200)	(50)
Directors' remuneration		(200)	(200)
Net cash from operating activities		63,141	217,645
INVESTING ACTIVITIES			
Investments in associates and joint ventures - net		(22,268)	130,356
Investment properties - net		12,732	8,667
Property and equipment - net		(420)	(130)
Net cash (used in) from investing activities		(9,956)	138,893
FINANCING ACTIVITIES			
Loans raised (repaid) - net		3,936	(348,796)
Purchase of treasury shares		(2,905)	(2,615)
Proceeds from sale of treasury shares		54	-
Proceeds from issue of shares		7	4
Net cash from (used in) financing activities		1,092	(351,407)
Foreign currency translation adjustments		(5,900)	(27,548)
Movement in non-controlling interests		(279)	(15,010)
NET CHANGE IN CASH AND CASH EQUIVALENTS		48,098	(37,427)
Cash and cash equivalents at 1 January		82,393	119,820
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	24	130,491	82,393

The attached explanatory notes 1 to 32 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	Attributable to shareholders of the parent											
	Share capital US$ 000	Treasury shares US$ 000	Share premium US$ 000	Statutory reserve US$ 000	General reserve US$ 000	Treasury share reserve US$ 000	Fair value reserve US$ 000	Foreign currency translation reserve US$ 000	Retained earnings US$ 000	Total before non-controlling interests US$ 000	Non-controlling interests US$ 000	Total equity US$ 000
Balance at 1 January 2013	208,644	(15,340)	11,459	96,623	77,108	14,308	(3,562)	12,586	54,382	456,208	21,974	478,182
Profit for the year	-	-	-	-	-	-	-	-	2,587	2,587	1,567	4,154
Other comprehensive (loss) income	-	-	-	-	-	-	(13,751)	(5,900)	-	(19,651)	39	(19,612)
Total comprehensive (loss) income for the year	-	-	-	-	-	-	(13,751)	(5,900)	2,587	(17,064)	1,606	(15,458)
Shares issued	7	-	-	-	-	-	-	-	-	7	-	7
Purchase of treasury shares	-	(2,905)	-	-	-	-	-	-	-	(2,905)	-	(2,905)
Sale of treasury shares	-	114	-	-	-	(60)	-	-	-	54	-	54
Transfers during the year	-	-	-	259	259	-	-	-	(518)	-	-	-
Other movements in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(318)	(318)
Balance at 31 December 2013	208,651	(18,131)	11,459	96,882	77,367	14,248	(17,313)	6,686	56,451	436,300	23,262	459,562
Balance at 1 January 2012	208,640	(12,725)	11,459	95,518	76,003	14,308	(13,532)	40,134	142,037	561,842	41,312	603,154
Profit (loss) for the year	-	-	-	-	-	-	-	-	11,030	11,030	(4,328)	6,702
Other comprehensive income (loss)	-	-	-	-	-	-	9,970	(27,548)	-	(17,578)	(117)	(17,695)
Total comprehensive income (loss) for the year	-	-	-	-	-	-	9,970	(27,548)	11,030	(6,548)	(4,445)	(10,993)
Shares issued	4	-	-	-	-	-	-	-	-	4	-	4
Purchase of treasury shares	-	(2,615)	-	-	-	-	-	-	-	(2,615)	-	(2,615)
Dividend (note 15)	-	-	-	-	-	-	-	-	(96,475)	(96,475)	-	(96,475)
Dividends of subsidiaries	-	-	-	-	-	-	-	-	-	-	(19,265)	(19,265)
Transfers during the year	-	-	-	1,105	1,105	-	-	-	(2,210)	-	-	-
Other movements in non-controlling interests	-	-	-	-	-	-	-	-	-	-	4,372	4,372
Balance at 31 December 2012	208,644	(15,340)	11,459	96,623	77,108	14,308	(3,562)	12,586	54,382	456,208	21,974	478,182

The attached explanatory notes 1 to 32 form part of these consolidated financial statements,

Notes to the Consolidated Financial Statements

At 31 December 2013

1 INCORPORATION AND PRINCIPAL ACTIVITIES

Incorporation

United Gulf Bank B.S.C. [the Bank] is a joint stock company incorporated in the Kingdom of Bahrain in 1980, under Commercial Registration number 10550 and listed on the Bahrain Bourse. The address of the Bank's registered office is UGB Tower, Diplomatic Area, P.O. Box 5964, Manama, Kingdom of Bahrain.

The Bank operates in the Kingdom of Bahrain under a Wholesale Banking License issued by the Central Bank of Bahrain [the CBB].

Activities

The principal activities of the Bank and its subsidiaries [the Group] comprise asset management, investment banking and commercial banking. Investment banking includes asset portfolio management, corporate finance, advisory, investment in quoted and private equity funds, real estate, capital markets, international banking and treasury functions. Commercial banking includes extending loans and other credit facilities, accepting deposits and current accounts from corporate and institutional customers.

The Bank's parent and ultimate holding company is Kuwait Projects Company (Holding) K.S.C. (closed) [KIPCO], a company incorporated in the State of Kuwait and listed on the Kuwait Stock Exchange. As at 31 December 2013 KIPCO owned 96.83% of the Bank's outstanding shares (31 December 2012: 96.23%).

These consolidated financial statements were authorised for issue by the Board of Directors on 24 February 2014.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the relevant provisions of the Central Bank of Bahrain and Financial Institutions Law and the Bahrain Commercial Companies Law, and the CBB Rulebook (Volume 1 and applicable provisions of Volume 6), relevant CBB directives and regulations and associated resolutions, rules and procedures of the Bahrain Bourse.

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention as modified by the remeasurement at fair value of investments carried at fair value through statement of income, non-trading investments, investment properties and derivative financial instruments.

Presentation and functional currency

The consolidated financial statements have been presented in US Dollars (US$) being the functional currency of the Group and are rounded to the nearest US$ thousands except when otherwise indicated.

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRSs effective as of 1 January 2013:

- IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements;
- IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures; and
- IAS 1 Clarification of the requirement for comparative information– (Amendment).

The adoption of the above new standards and amendments did not have any material impact on the Group's financial position, performance or disclosures.

The Group also adopted the following new standards effective as of 1 January 2013, which had the following effects:

IFRS 12 Disclosure of Involvement with Other Entities
IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights. IFRS 12 disclosures are provided in Note 9.

IFRS 13 Fair Value measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

IFRS 13 Fair Value measurement (continued)
As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 30.

IAS 1 Presentation of Items of Other Comprehensive Income - Amendments to IAS 1
The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that will be reclassified ('recycled') to the consolidated statement of income at a future point in time (e.g., net loss or gain on available-for-sale financial assets) have to be presented separately from items that will not be reclassified (e.g., revaluation of land and buildings). The amendments affect presentation only and have no impact on the Group's financial position or performance.

Significant accounting policies are set out below:

Principles of consolidation

The consolidated financial statements include the financial statements of the Bank and its subsidiaries [the Group]. Subsidiaries are those entities controlled by the Bank, other than in a fiduciary capacity. The reporting dates of the subsidiaries and the Bank are identical and the subsidiaries' accounting policies conform to those used by the Bank for like transactions and events in similar circumstances.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Principles of consolidation (continued)

The principal subsidiaries of the Bank are as follows:

		Effective ownership as at		
Name of the subsidiary	Country of incorporation	31 December 2013	31 December 2012	Year of incorporation
Held directly				
KIPCO Asset Management Company [KAMCO]	Kuwait	86%	86%	1998
Hatoon Real Estate Company	Kuwait	98%	98%	2008
Syria Gulf Investment Company	Syria	99%	99%	2007
United Gulf Financial Services Company-North Africa	Tunisia	85%	85%	2008
Held through KAMCO				
Al-Nuzoul Holding Company K.S.C. (Closed)	Kuwait	99%	60%	2005
Al-Janah Holding Company K.S.C. (Closed)	Kuwait	99%	60%	2005
KAMCO Real Estate Company S.P.C.	Bahrain	100%	100%	2005
Al Zad Real Estate W.L.L.	Kuwait	100%	100%	2007
Al Dhiyafa United Real Estate Company W.L.L.	Kuwait	100%	100%	2007
First North Africa Real Estate Co. W.L.L.	Kuwait	99%	100%	2007
Al Raya Real Estate Projects Company W.L.L.	Kuwait	100%	100%	2007
Orange Real Estate Co. W.L.L.	Kuwait	100%	100%	2005
Al Rawabi International Real Estate Co. W.L.L.	Kuwait	96%	96%	2009
First Homes Real Estate Co. W.L.L.	Kuwait	99%	99%	2009
Kamco GCC Opportunistic Fund	Kuwait	100%	-	2013
Kuwait Private Equity Opportunity Fund	Kuwait	66%	66%	2004

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated statement of income. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in the consolidated statement of income or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Investments in associates and joint ventures

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

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

The Group's investments in its associates and joint ventures are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of income reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's consolidated OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

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

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investments in its associates and joint ventures. At each reporting date, the Group determines whether there is objective evidence that an investment in an associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as 'Share of results of associates and joint ventures' in the consolidated statement of income.

Upon loss of significant influence over an associate or joint control over a joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of income.

Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's share of the fair value of the net identifiable assets of the acquired subsidiary, associate or joint venture at the date of the acquisition. Goodwill arising on the acquisition of an associate or a joint venture is included in the carrying amount of the respective associate or joint venture and, therefore, is not separately tested for impairment. Goodwill arising on the acquisition of a subsidiary is recognised as a separate asset in the consolidated statement of financial position.

Goodwill acquired in a business combination is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in the consolidated statement of income.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill of subsidiaries is allocated to cash-generating units and is tested annually for impairment. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. The recoverable amount of a cash-generating unit is the higher of the cash-generating unit's fair value less costs to sell, and its value in use. Any impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a part of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Fair value measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

The Group measures financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 30.

For financial instruments traded in an active market, fair value is determined by reference to quoted market bid prices for assets and quoted market offer prices for liabilities, without deduction for transaction costs. The fair value of investments in managed funds or similar investment vehicles, where available, are based on last published bid price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For financial instruments where there is no active market, fair value is determined using appropriate valuation techniques. Such techniques may include the following:

- brokers' quotes
- recent arm's length market transactions
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics
- option pricing models
- other valuation methods (Note 30)

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount payable on demand.

The fair value of forward foreign exchange contracts is determined using forward exchange rates at the statement of financial position date with the resulting value discounted back to present value.

The fair value of interest rate swaps is determined by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Investments carried at fair value through statement of income

Investments classified as carried at fair value through the statement of income comprise of two categories 'investments held for trading' and 'investments designated at fair value through statement of income'.

An investment is classified as 'held for trading' if it is acquired or incurred principally for the purpose of selling in the near term or if on initial recognition is part of a portfolio of identifiable financial investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivatives which are not used as hedge are also categorised as held for trading.

Investments designated at fair value through statement of income are investments that are not classified as held for trading but are managed, and their performance is evaluated on a fair value basis in accordance with the Group's investment strategy.

These investments are initially recognised at fair value. Transaction costs are immediately expensed in the consolidated statement of income. Subsequent to initial recognition, investments designated at fair value through statement of income are remeasured at fair value and gains and losses arising from such remeasurement are included in the consolidated statement of income.

Non-trading investments

These are classified as follows:

- Held to maturity
- Available-for-sale

Held to maturity

Investments with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold these investments to maturity. These investments are initially recognised at fair value, including directly attributable transaction costs.

After initial recognition investments held to maturity are carried at amortised cost using the effective interest rate method. Any gain or loss on such investments is recognised in the consolidated statement of income when the investment is derecognised or impaired. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'interest income' in the consolidated statement of income. The losses, if any, arising from impairment of such investments are recognised in the consolidated statement of income.

Investments available-for-sale

Investments available-for-sale are those non-derivative financial assets that are designated as available-for-sale or are not classified as investment at fair value through statement of income, investments held to maturity or loans and receivables.

These investments are initially recognised at fair value, including directly attributable transaction costs.

After initial recognition, available-for-sale investments are measured at fair value with gains and losses being recognised in the consolidated statement of comprehensive income until the investment is derecognised or determined to be impaired at which time the cumulative gains or losses previously reported in the consolidated statement of comprehensive income are recognised in the consolidated statement of income. Investments whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

Dividends are included in 'dividend income'. Interest income on available-for-sale investments is recorded in 'interest income' in the consolidated statement of income, using the effective interest yield method.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets originated or acquired by the Group with fixed or determinable payments.

Loans and receivables are recognised when cash is advanced to borrowers. They are derecognised when either borrower repays their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred.

Loans and receivables are initially measured at cost, being the fair value of the consideration given.

Following initial recognition, loans and receivables are stated at cost less any amount written off and specific and collective provisions for impairment.

Derivatives and hedge accounting

The Group makes use of derivative instruments to manage exposure to foreign currency risk and interest rate risk. In order to manage a particular risk, the Group applies hedge accounting to transactions which meet the specified criteria. The Group enters into derivative instruments, mainly forward foreign exchange contracts, interest rate and forward currency swaps in the foreign exchange markets.

Derivatives are initially recognised and subsequently measured at fair value with transaction costs taken directly to the consolidated statement of income. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative. Derivatives with positive fair values (unrealised gains) are included in other assets and derivatives with negative fair values (unrealised losses) are included in other liabilities in the consolidated statement of financial position.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the consolidated statement of income, except for the effective portion of cash flow hedges, which is recognised in OCI and later reclassified to the consolidated statement of income when the hedge item affects the consolidated statement of income.

At the inception of the hedging relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, objectives and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also, at the inception of the hedging relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. Hedges are formally assessed at the end of each quarter. A hedge is regarded as highly effective if the changes in the fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%.

For the purpose of hedge accounting, hedges are classified into three categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; (b) cash flow hedges which hedge exposure to variability in cash flows of a recognised asset or liability or a forecasted transaction; and (c) hedge of net investment in a foreign operation.

Fair value hedges

In relation to fair value hedges, that qualify for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value, as well as related changes in fair value of the item being hedged, are recognised immediately in the consolidated statement of income. At 31 December 2013 or 31 December 2012, there were no hedges classified as fair value hedges.

Cash flow hedges

In relation to cash flow hedges the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised directly in the fair value reserve in the consolidated statement of comprehensive income. The gain or loss relating to the ineffective portion is recognised in the consolidated statement of income.

When the hedged cash flow affects the consolidated statement of income, the gain or loss on the hedging instrument is recycled in the corresponding income or expense line of the consolidated statement of income. When the hedging instrument expires or is sold, terminated or exercised or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at the time remains in equity and is recognised when the hedged forecast transaction is ultimately recognised in the consolidated statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated statement of income.

Hedge of net investments in foreign operations

Hedges of a net investment in a foreign operation are accounted for in a way similar to cash flow hedges. On the disposal of the foreign operation, the cumulative value of any such gains or losses recognised in equity through other comprehensive income is transferred to the consolidated statement of income.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivatives and hedge accounting (continued)

For hedges which do not qualify for hedge accounting and held for trading derivatives, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the consolidated statement of income for the year.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. For discontinued fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For discontinued cash flow hedges or hedges of net investments in foreign operations, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the consolidated statement of income.

Investment properties

All properties held for rental or for capital appreciation purposes, or both, are classified as investment properties. Where a property is partially occupied by the Group and the portions could be sold separately, the Group accounts for the portions separately either as an investment property or property and equipment, as appropriate. If the portions cannot be sold separately, the property is classified as an investment property only if an insignificant portion is held for own use.

The Group applies the fair value model of accounting for investment properties. All investment properties are initially recorded at cost, including acquisition expenses associated with the property.

Subsequent to initial recognition, all investment properties are remeasured at fair value and changes in fair value are recognised in the consolidated statement of income. The Group engages independent valuation specialists to determine the fair value of investment properties.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the statement of financial position and any gain or loss resulting from disposal is included in the consolidated statement of income.

Depreciation is computed on a straight-line basis over estimated useful lives of 3 to 20 years on all property and equipment other than freehold land which is deemed to have an indefinite life. Expenditure for maintenance and repairs is expensed as incurred.

Financial liabilities

Financial liabilities comprise of due to banks and other financial institutions, deposits from customers, loans, bonds and subordinated debt and other liabilities. These are stated at amortised cost. Transaction costs are amortised over the period of the debt using the effective yield method. Deposits from customers include deposits from both external customers and other group companies.

Treasury shares and treasury share reserve

Treasury shares are own equity instruments of the Bank which are reacquired by the Bank or any of its subsidiaries. These are stated at cost and deducted from equity. Any gain or loss arising on reissuance of treasury shares is taken directly to treasury share reserve in the consolidated statement of changes in equity.

Cash and cash equivalents

Cash and cash equivalents include cash, demand and call deposits, highly liquid investments that are readily convertible into cash and placements (excluding escrow balances) with original maturities up to ninety days from the date of acquisition.

Fiduciary assets

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

Dividends on ordinary shares

The Bank recognises a liability to make cash or non-cash distributions to its equity holders when the distribution is authorised and the distribution is no longer at the discretion of the Bank. A distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognised directly in equity.

Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the consolidated statement of income.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends on ordinary shares (continued)

Dividends for the year that are approved after the statement of financial position date are disclosed as an event after the statement of financial position date.

Taxes

There is no tax on corporate income in the Kingdom of Bahrain. Taxation on foreign operations is provided in accordance with the fiscal regulations of the respective countries in which the Group operates.

Derecognition

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

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

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

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Offsetting

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

Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the settlement date, i.e. the date the asset is delivered to the counterparty.

Employees benefits

The Group provides for end of service benefits to all its employees. Entitlement to these benefits is usually based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. National employees of the Bank are also covered by the Social Insurance Organisation scheme and the Bank's obligations are limited to the amount contributed to the scheme.

The Group operates an equity-settled, share-based Employee Stock Option Plan (ESOP or the plan). Under the terms of the plan, share options are granted to permanent employees, which are exercisable in a future period. The fair value of the options is recognised as an expense over the vesting period with a corresponding credit to equity. The fair value of the options is determined using the Black-Scholes option pricing model.

The proceeds received are credited to share capital (nominal value) and share premium when the options are exercised.

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 reliably measurable.

Impairment of financial assets

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, an impairment loss, is recognised in the consolidated statement of income.

Financial assets carried at amortised cost

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

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

In addition to a specific provision for credit losses, a provision for collective impairment is made on a portfolio basis for credit losses where there is an objective evidence that unidentified losses exist at the reporting date. These are based on any deterioration in the risk rating (i.e. downward migration of risk ratings) of the financial asset since it was originally granted. This provision is estimated based on various factors including credit ratings allocated to a borrower or group of borrowers, the current economic conditions, the experience the Group has had in dealing with a borrower or group of borrowers and available historical default information.

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

Investments available-for-sale

For available-for-sale financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

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

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the consolidated statement of income for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less costs to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffer impairment are reviewed for possible reversal of the impairment at each reporting date.

Foreign currencies

The consolidated financial statements have been presented in US Dollars being the functional and presentational currency of the Bank. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of transaction.

Translation of foreign currency transactions and balances

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Exchange differences arising on the retranslation of monetary items, are included in consolidated statement of income for the year. Non-monetary items measured at fair value in a foreign currency are retranslated using the exchange rates at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary investments carried at fair value through the statement of income are included in the consolidated statement of income for the year. Exchange differences arising on the retranslation of available for sale equity investments, other than those which are carried at cost, are recognised directly in a fair value reserve in the consolidated statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Translation of financial statements of foreign operations

Assets (including goodwill) and liabilities of foreign operations are translated at the exchange rates prevailing at the statement of financial position date. Income and expense items are translated at average exchange rates for the relevant period. All resulting exchange differences are taken directly to a foreign currency translation reserve in equity through other comprehensive income.

On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the consolidated statement of income.

Recognition of income and expenses

Interest income and related fees are recognised using the effective yield method, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Recognition of interest income is suspended when the related financial asset becomes impaired. Notional interest is recognised on impaired financial assets based on the rate used to discount future cash flows to their net present value.

Commission income and other fees are recognised when earned.

Rental income on investment properties is recognised on a straight line basis.

Dividend income is recognised when the Group’s right to receive the dividend is established.

Contingent liabilities and contingent assets

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

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

Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Chief Executive Officer of the Bank as its chief operating decision-maker.

All transactions between business segments are conducted on an arm´s length basis, with intra-segment revenue and expenses being eliminated at Group level. Income and expenses directly associated with each segment are included in determining business segment performance.

Significant assumptions, accounting judgements and estimates

In the process of applying the Group’s accounting policies, management has made the following assumptions, judgements and estimates in determining the amounts recognised in the consolidated financial statements:

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant assumptions, accounting judgements and estimates (continued)

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

Classification of investments
Management decides on acquisition of an investment whether it should be classified as carried at fair value through statement of income, held to maturity or available-for-sale.

The Group classifies investments as held for trading if they are acquired primarily for the purpose of making short term profit. Classification of investments designated as fair value through statement of income depends on how management monitors the performance of these investments.

For those deemed to be held to maturity, management ensures that the requirements of IAS 39 are met and in particular the Group has the intention and ability to hold these to maturity.

All other investments are classified as available-for-sale.

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

Impairment of investments
The Group treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires considerable judgment.

Impairment of goodwill
The Group determines whether goodwill is impaired at each reporting date. This requires an estimation of the value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment losses on loans and receivables
The Group reviews its loans and receivables on a quarterly basis to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgment 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.

Collective impairment provisions on loans and receivables
In addition to specific provisions against individually significant loans and receivables, the Group also makes a collective impairment provision against loans and receivables, which although not specifically identified against a loan, have a greater risk of default than when originally granted. This collective provision is based on any deterioration in the internal grade of the loan since it was granted. The amount of the provision is based on the historical loss pattern for loans within each grade and is adjusted to reflect current economic changes.

These internal gradings take into consideration factors such as any deterioration in country risk, industry, technological obsolescence as well as identified structural weaknesses or deterioration in cash flows.

Fair value of financial instruments
Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including discounted cash flow models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

3 PROSPECTIVE CHANGES IN ACCOUNTING POLICIES

New standards and interpretations issued but not yet effective

The following new standards and amendments have been issued by the IASB but are not yet mandatory for the year ended 31 December 2013:

- IAS 39 Novation of derivatives and continuation of hedge accounting - Amendments to IAS 39: effective for annual periods commencing 1 January 2014.
- IFRS 9 Financial Instruments - Hedge accounting. A recent amendment removed the mandatory effective date of 1 January 2015 for IFRS 9. A new mandatory date for IFRS 9 will be determined by the IASB when IFRS 9 is closer to completion.
- Investment Entities - (Amendments to IFRS 10, IFRS 12 and IAS 27): effective for annual periods commencing 1 January 2014.
- IAS 32 Offsetting financial assets and financial liabilities - Amendments to IAS 32: effective for annual periods commencing 1 January 2014.

Management is considering the implications of these standards and amendments, their impact on the Group's financial position and results and the timing of their adoption by the Group.

4 FINANCIAL ASSETS AND LIABILITIES

The table below summarises the accounting classification of the Group's financial assets and financial liabilities:

31 December 2013	Held for trading US$ 000	Designated at fair value through statement of income US$ 000	Available-for-sale US$ 000	Amortised cost / Loans and receivables US$ 000	Total US$ 000
Demand and call deposits with banks	-	-	-	17,747	17,747
Placements with banks	-	-	-	113,063	113,063
Investments carried at fair value through statement of income	34,016	12,613	-	-	46,629
Non-trading investments	-	-	166,267	-	166,267
Loans and receivables	-	-	-	3,958	3,958
Other assets	-	-	-	27,845	27,845
Total financial assets	34,016	12,613	166,267	162,613	375,509
Due to banks and other financial institutions	-	-	-	258,548	258,548
Deposits from customers	-	-	-	23,802	23,802
Loans payable	-	-	-	386,325	386,325
Subordinated debt	-	-	-	100,000	100,000
Other liabilities	-	-	-	30,326	30,326
Total financial liabilities	-	-	-	799,001	799,001

31 December 2012	Held for trading US$ 000	Designated at fair value through statement of income US$ 000	Available-for-sale US$ 000	Amortised cost / Loans and receivables US$ 000	Total US$ 000
Demand and call deposits with banks	-	-	-	15,682	15,682
Placements with banks	-	-	-	67,030	67,030
Investments carried at fair value through statement of income	28,951	24,345	-	-	53,296
Non-trading investments	-	-	190,838	-	190,838
Loans and receivables	-	-	-	4,286	4,286
Other assets	-	-	-	21,506	21,506
Total financial assets	28,951	24,345	190,838	108,504	352,638

4 FINANCIAL ASSETS AND LIABILITIES (continued)

31 December 2012	Held for trading US$ 000	Designated at fair value through statement of income US$ 000	Available-for-sale US$ 000	Amortised cost / Loans and receivables US$ 000	Total US$ 000
Due to banks and other financial institutions	-	-	-	175,369	175,369
Deposits from customers	-	-	-	64,520	64,520
Loans payable	-	-	-	382,389	382,389
Subordinated debt	-	-	-	100,000	100,000
Other liabilities	-	-	-	25,117	25,117
Total financial liabilities	-	-	-	747,395	747,395

5 INVESTMENTS CARRIED AT FAIR VALUE THROUGH STATEMENT OF INCOME

	2013 US$ 000	2012 US$ 000
Investments held for trading		
Quoted equities	34,016	28,951
Investments designated at fair value through statement of income		
Managed funds	12,613	24,345
	46,629	53,296

Managed funds primarily represent funds invested through unlisted companies and limited partnership interests. The fund managers have created these legal structures for tax efficiency and to meet other investors' requirements. The underlying investments in these funds are primarily in quoted debt and equity instruments in Kuwait and other international markets.

6 NON-TRADING INVESTMENTS

Non-trading investments comprise of available-for-sale investments as follows:

	2013 US$ 000	2012 US$ 000
Quoted		
Equities	11,458	6,729
Unquoted		
Equities	53,972	67,283
Real estate managed funds	13,337	1,876
Other managed funds	85,588	113,839
Debt securities	1,912	1,111
Total unquoted	154,809	184,109
Total non-trading investments	166,267	190,838

Included under non-trading investments are unquoted available-for-sale investments, primarily representing nominal equity stakes up to 13% (31 December 2012: 13%) in various geographically and sectorally dispersed companies, amounting to US$ 30,026 thousand (31 December 2012: US$ 56,055 thousand) for which fair value cannot be determined with sufficient accuracy, as future cash flows are not determinable. Accordingly, these investments are carried at cost less provisions for impairment.

6 NON-TRADING INVESTMENTS (continued)

The movement in provision for non-trading investments was as follows:

	2013 US$ 000	2012 US$ 000
At 1 January	37,822	65,974
Charge for the year (note 16)	5,003	16,522
Written off	(3,203)	(13,022)
Reversed upon disposal	(510)	(31,652)
Net movement during the year	1,290	(28,152)
At 31 December	39,112	37,822
Gross amount of individually impaired investments	125,648	94,445

7 LOANS AND RECEIVABLES

	2013 US$ 000	2012 US$ 000
Commercial loans	3,082	3,260
Staff loans	1,882	2,034
	4,964	5,294
Less: Provision for impairment	(1,006)	(1,008)
	3,958	4,286

The movements in the provision for impairment are as follows:

	2013 US$ 000	2012 US$ 000
At 1 January	1,008	2,729
Written back during the year	-	(1,707)
Other adjustments	(2)	(14)
At 31 December	1,006	1,008

Provision for impairment represents collective impairment provision on commercial loans.

8 OTHER ASSETS

	2013 US$ 000	2012 US$ 000
Due from customers	9,366	15,037
Accounts receivable	18,356	5,060
Prepayments	1,785	3,874
Interest receivable	123	210
	29,630	24,181

Due from customers and accounts receivable are stated net of provision of US$ 5,724 thousand (31 December 2012: US$ 7,704 thousand). Provisions of US$ 1,906 thousand were written back during the year ended 31 December 2013 (31 December 2012: net provision of US$ 1,335 thousand).

9 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

		Activity	Carrying value 2013 US$ 000	Ownership % 2013	Carrying value 2012 US$ 000	Ownership % 2012
a)	Burgan Bank S.A.K.	Commercial banking	477,153	18	489,042	18
b)	United Real Estate Company	Real estate	158,751	22	164,188	21
c)	North Africa Holding Company	Investments	68,876	42	68,673	42
d)	FIMBank Group	Commercial banking	45,215	30	-	-
e)	Manafae Investment Company	Islamic investment	19,891	33	21,351	33
f)	United Capital Transport Co K.S.C.C.	Transport	15,509	40	13,427	40
g)	Al Sharq Financial Brokerage Co.	Brokerage and investment business	13,325	19	15,063	19
h)	Kuwait Education Fund	Fund	12,080	21	-	-
i)	Syria Gulf Bank	Commercial banking	6,282	31	13,077	31
j)	Takaud Savings and Pensions B.S.C. (c)	Offering of personal pension and saving products	3,782	50	3,644	50
k)	Royal Capital Company P.S.C.	Asset management and financial services	2,861	26	9,986	26
l)	Meena Homes Real Estate Company	Real estate	800	20	780	20
m)	United Real Estate Company - Syria	Real estate	32	20	60	20
n)	Millennium Private Equity Limited	Asset management	-	50	-	50
o)	KAMCO Energy Services Fund	Fund	-	-	23	40
			824,557		799,291	

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

a) Burgan Bank S.A.K. is a listed commercial bank incorporated in the State of Kuwait. The Bank directly owns an 18% (31 December 2012: 18%) equity interest in Burgan Bank. The Group has the ability to exercise significant influence on Burgan Bank through representation on the board of directors of Burgan Bank.

b) United Real Estate Company (URC), is a company listed on the Kuwait Stock Exchange. At 31 December 2013, the Bank directly owns 22% (31 December 2012: 21%) of URC. During the year, URC purchased 47,188,083 of its own shares (treasury shares) which resulted in the increase in the Group's ownership from 21% to 22%.

c) The Bank directly owns 31% (31 December 2012: 31%) of North Africa Holding Company (NAHC), a closed company incorporated in the State of Kuwait in 2006, and indirectly owns an additional 11% (31 December 2012: 11%) through its subsidiary KAMCO.

d) During the year, the Group acquired FIMBank p.l.c. (FIMBank), a company domiciled in Malta. FIMBank is involved in providing trade finance solutions to corporates, banks and individuals. The Group's effective equity interest in FIMBank as at 31 December 2013 is 30%. As a result of this acquisition, the Group recorded a gain on bargain purchase of US$ 3.4 million, included under 'Investment income' in the consolidated statement of income (Note 17). The purchase price allocation exercise is in progress as of the reporting date. Also refer to Note 32.

e) The Bank indirectly owns 33% (31 December 2012: 33%) of Manafae Investment Company through its subsidiary KAMCO.

f) United Capital Transport Company K.S.C.C. (UniCap) was incorporated in State of Kuwait in 2011. The Bank owns a 40% (31 December 2012: 40%) equity stake through its subsidiary KAMCO. UniCap is a dedicated leasing solutions provider to governments, international oil companies and varied construction, mining and industrial services businesses.

9 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

g) Al Sharq Financial Brokerage Company (Al Sharq) is a closed company incorporated in the State of Kuwait during 2005. At 31 December 2013, the Bank indirectly owns a 19% interest in the associate through its subsidiary KAMCO (31 December 2012: 19%). The Group has the ability to exercise significant influence on Al Sharq through representation on the board of directors of Al Sharq.

h) On 16 December 2013, the Bank, through its subsidiary KAMCO, acquired an additional 6.4% equity interest in Kuwait Education Fund (KEF) (previously classified as available for sale), for a cash consideration of US$ 3.6 million. Accordingly KAMCO's equity interest in KEF increased from 15% to 21%. Following the acquisition of additional equity interest, KEF became an associate of the Group. As a result, the Group has recognised a gain on previously held equity interest of US$ 3.5 million in the consolidated statement of income.

i) Syria Gulf Bank (SGB) is a commercial bank incorporated in the Syrian Arab Republic. SGB commenced commercial operations in 2007. The Bank directly owns a 31% (31 December 2012: 31%) equity stake of SGB.

j) Takaud Savings and Pensions B.S.C. (c) (Takaud) is a joint venture between the Bank and KIPCO (Parent) established in Bahrain in 2011 (with an equal 50% equity interest). Takaud's principal activities include dealing in financial instruments as principal and agent, and arranging, managing, safeguarding and advising on financial instruments. During 2013, KIPCO and the Bank injected an additional amount of US$ 2.5 million each in Takaud.

k) Royal Capital is a closed company incorporated in the United Arab Emirates in 2007. As of 31 December 2013, the Bank owns 26% in Royal Capital through its subsidiary KAMCO (31 December 2012: 26%).

l) The Bank indirectly owns 20% (31 December 2012: 20%) of Meena Homes Real Estate Company through its subsidiary KAMCO.

m) United Real Estate Company - Syria is a closed company incorporated in the Syrian Arab Republic. At 31 December 2013, the Bank directly owns 20% (31 December 2012: 20%) of its equity stake.

n) The Bank directly owns a 50% stake in Millennium Private Equity Limited (MPE). MPE is engaged in managing private equity funds. In 2010, the investment in MPE was fully impaired.

o) KAMCO Energy Service Fund ("KESF" or "the Fund") was a closed ended fund incorporated in the State of Kuwait in 2007. As of 31 December 2012, the Bank indirectly owned 40% interest in the Fund through KAMCO. In December 2012, the Fund Manager of the Fund, an associate of the Group, resolved to liquidate the Fund. The liquidation was completed during 2013.

Investments in associates include quoted associates with a carrying value of US$ 707,292 thousand (31 December 2012: US$ 687,658 thousand) with a total quoted market price of US$ 709,829 thousand at 31 December 2013 (31 December 2012: US$ 618,318 thousand). In accordance with IAS 36, 'Impairment of Assets', the group's recoverable amount of these associates (higher of fair value less costs to sell, and value in use) was in excess of their carrying values and accordingly no impairment was recognised against these investments during the year ended 31 December 2013 (2012: same). The Group also assessed the recoverable amount of its unquoted investment in associates and determined that investment in Al Sharq was impaired by US$ 1.77 million (2012: US$ 4.2 million).

9 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

Investments in material associates

The tables below illustrate the Group's investment in associates that are considered as individually material:

	Burgan Bank US$ 000	United Real Estate Company US$ 000
Summarised statement of financial position as of 31 December 2013:		
Current assets	2,379,126	116,888
Non-current assets	23,089,873	1,567,557
Current liabilities	(4,045,048)	(353,711)
Non-current liabilities	(19,217,532)	(552,148)
Equity	2,206,419	778,586
Proportion of the Group's ownership	18%	22%
Group's ownership in equity	394,508	167,863
Non-controlling interests and other adjustments	82,645	(9,112)
Carrying amount of investments	477,153	158,751
Summarised statement of financial position as of 31 December 2012:		
Current assets	13,799,996	249,151
Non-current assets	7,462,064	1,711,990
Current liabilities	(2,301,225)	(558,841)
Non-current liabilities	(16,754,403)	(507,397)
Equity	2,206,432	894,903
Proportion of the Group's ownership	18%	21%
Group's ownership in equity	394,069	183,724
Non-controlling interests and other adjustments	94,973	(19,536)
Carrying amount of investments	489,042	164,188
Summarised statement of income for the year ended 31 December 2013:		
Operating (loss) income	(73,096)	97,129
Interest income	962,463	1,094
Interest expense	(373,558)	(32,566)
Administrative expenses	(401,666)	(26,338)
Profit for the year	114,143	39,319
Other comprehensive loss for the year	(65,755)	(2,060)
Total comprehensive income for the year	48,388	37,259
Group's share of profit for the year	12,259	8,300
Summarised statement of income for the year ended 31 December 2012:		
Operating income	53,353	136,693
Interest income	679,564	1,138
Interest expense	(256,169)	(28,809)
Administrative expenses	(253,389)	(28,608)
Profit for the year	223,359	80,414
Other comprehensive income (loss) for the year	26,289	(3,795)
Total comprehensive income for the year	249,648	76,619
Group's share of profit for the year	35,602	16,003

9 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

Investments in associates and joint ventures that are individually not significant

The aggregate summarised financial information of the Group's associates and joint ventures that are not individually significant are provided below:

	2013 US$ 000	2012 US$ 000
Summarised statement of financial position as of 31 December:		
Total assets	1,989,402	956,951
Total liabilities	(1,481,283)	(517,463)
Equity	508,119	439,488
Carrying amount of investments	188,653	146,084
Summarised statement of income for the year ended 31 December:		
Revenue	96,081	115,688
Loss for the year	(11,961)	(763)
Other comprehensive loss for the year	(9,850)	(3,872)
Total comprehensive loss for the year	(21,811)	(4,635)
Group's share of loss for the year	(1,174)	(14,534)

10 INVESTMENT PROPERTIES

	2013 US$ 000	2012 US$ 000
At 1 January	14,020	16,054
Disposals	(14,006)	(1,334)
Change in fair values (note 17)	-	(700)
At 31 December	14	14,020

Investment properties comprise of buildings owned by the Group. These are stated at fair values, determined based on independent valuations performed by external professional valuers at the year end.

11 GOODWILL

	2013 US$ 000	2012 US$ 000
At 1 January	56,303	56,782
Foreign currency translation adjustments	(295)	(479)
At 31 December	56,008	56,303

The goodwill is related to KAMCO (a subsidiary) and is allocated to the asset management and investment banking operating segment, a cash generating unit (a CGU). The recoverable amount of the CGU is determined based on a value in use calculation using cash flow projections from financial budgets approved by the Group's senior management covering a five year period. The key assumptions used in the value in use calculation include a perpetuity growth rate of 3% (2012: 3%) and discount factor of 11% (2012: 11%). There was no impairment identified in 2013 or 2012 as the recoverable amount of the CGU was higher than its net book value.

The calculation of value in use for the CGU is sensitive primarily to market risk premium, growth risk rate, risk free rate and country risk premium.

12 LOANS PAYABLE

31 December 2013	Currency*	Parent US$ 000	Subsidiary US$ 000	Total US$ 000
Floating rate loans				
Maturing within one year				
Loan due on 11 May 2014	US$	140,000	-	140,000
Loan due on 20 June 2014	US$	70,000	-	70,000
Loan due on 5 September 2014	US$	30,000	-	30,000
Loan due on 23 January 2014	KWD	-	10,623	10,623
Loan due on 31 January 2014	KWD	-	23,017	23,017
Loan due on 28 February 2014	KWD	-	3,541	3,541
Loan due on 17 June 2014	KWD	-	35,411	35,411
Loan due on 31 December 2014	KWD	-	3,541	3,541
		240,000	76,133	316,133
Maturing after one year				
Loan due on 17 May 2015	US$	30,408	-	30,408
Loan due on 17 June 2015	US$	12,737	-	12,737
Loan due on 27 February 2015	US$	-	19,965	19,965
Loan due on 31 December 2016	KWD	-	7,082	7,082
		43,145	27,047	70,192
		283,145	103,180	386,325

31 December 2012	Currency*	Parent US$ 000	Subsidiary US$ 000	Total US$ 000
Floating rate loans				
Maturing within one year				
Loan due on 24 Jan 2013	KWD	-	10,679	10,679
Loan due on 17 June 2013	KWD	-	42,717	42,717
Loan due on 30 September 2013	KWD	-	21,358	21,358
		-	74,754	74,754
Maturing after one year				
Loan due on 11 May 2014	US$	140,000	-	140,000
Loan due on 20 June 2014	US$	70,000	-	70,000
Loan due on 5 September 2014	US$	30,000	-	30,000
Loan due on 17 June 2014	KWD	-	53,397	53,397
Loan due on 31 December 2014	KWD	-	7,119	7,119
Loan due on 31 December 2016	KWD	-	7,119	7,119
		240,000	67,635	307,635
		240,000	142,389	382,389

* KWD represents Kuwaiti Dinar.

13 SUBORDINATED DEBT

On 13 October 2006, the Bank issued floating rate notes amounting to US$ 100 million for a term of 10 years maturing on 12 October 2016. For the first five years the notes carried interest at the rate of 1.8% per annum above LIBOR for 3 month US dollar deposits and after its 5th anniversary on 13 October 2011 the notes now carry interest at the rate of 2.7% per annum above LIBOR for 3 month US dollar deposits.

14 OTHER LIABILITIES

	2013 US$ 000	2012 US$ 000
Staff related payables	15,082	12,286
Due to customers and other payables	6,392	5,002
Accrued expenses	4,039	3,337
Interest payable	2,743	2,365
Dividends payable	2,070	2,127
	30,326	25,117

15 EQUITY

Share capital

The Bank's authorised share capital as of 31 December 2013 comprised 1 billion shares of US$ 0.25 each (31 December 2012: 1 billion shares of US$ 0.25 each).

The issued and fully paid up share capital as of 31 December 2013 comprised 834,602,295 shares of US$ 0.25 each (31 December 2012: 834,577,658 shares of US$ 0.25 each). The increase is due to exercise of share options by employees under the Employee Share Option Plan.

Treasury shares and treasury shares reserve

At 31 December 2013, the Bank held 19,348,035 treasury shares (31 December 2012: 14,281,255 shares). These treasury shares do not carry any voting rights and are not entitled to dividends. The net gain or loss on reissuance of treasury shares is taken to treasury share reserve in the consolidated statement of changes in equity and is not available for distribution. The value of treasury shares based on the last bid price as of 31 December 2013 was US$ 12.8 million (31 December 2012: US$ 8.7 million).

Share premium

Share premium represents a non-distributable reserve arising from the exercise of the Bank's Employee Share Option Plan. The reserve is credited with the difference between the proceeds from the exercise of share options and the par value of the shares issued under the plan.

Statutory reserve

In accordance with the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the profit for the year is transferred to a statutory reserve until such time as the reserve reaches 50% of the Bank's paid-up share capital. The reserve is not available for distribution, except in circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

General reserve

The Directors have approved a transfer of 10% (31 December 2012: 10%) of the profit of the Group for the year to general reserve in accordance with the Bank's Articles of Association. The transfer is subject to shareholders' approval at the forthcoming Annual General Meeting. The general reserve is distributable subject to the approval of the Central Bank of Bahrain.

Dividend paid

In 2012, the shareholders approved an in-kind distribution of 16 shares of United Industries Company K.S.C. (Closed), an associate of the Group, for every 100 shares of the Bank. As a result, 131 million shares of UIC were issued to the shareholders of the Bank proportionate to their shareholding as of 19 December 2012. No dividend was announced or paid during the year ended 31 December 2013.

Foreign currency translation reserve

The foreign currency translation reserve represents the net foreign exchange gain (loss) arising from translating the financial statements of the Bank's foreign subsidiaries and associated companies from their functional currencies into United States Dollars.

16 FAIR VALUE RESERVE

	2013 US$ 000	2012 US$ 000
Non-trading investments		
Balance at 1 January	(3,057)	(10,686)
Transferred to consolidated statement of income upon:		
• sale of non-trading investments (note 17)	(6,241)	(39,571)
• impairment (note 6)	5,003	16,522
Net movement in unrealised fair value during the year	(12,793)	30,678
Balance at 31 December	(17,088)	(3,057)
Cash flow hedges		
Balance at 1 January	(505)	(2,846)
Net movement in the fair values during the year	280	2,341
Balance at 31 December	(225)	(505)
	(17,313)	(3,562)

17 INVESTMENT INCOME

	2013 US$ 000	2012 US$ 000
Gain on sale of available-for-sale investments	6,241	39,571
(Loss) gain on sale of investment properties	(1,274)	7,333
Dividend income	2,568	5,820
Rental income from investment properties	369	147
Loss on sale of an associate	-	(17,471)
Loss on dilution of investment in an associate	-	(5,790)
Changes in fair value of investment properties (note 10)	-	(700)
Profit (loss) on investments carried at fair value through statement of income	7,177	(410)
Gain on bargain purchase of an associate	3,399	-
Others	1,510	409
	19,990	28,909

Gain on sale of available-for-sale investments for 2012 includes a gain of US$ 3 million on the sale of securities with a carrying value of US$ 20.4 million that were carried at cost.

18 INTEREST INCOME

	2013 US$ 000	2012 US$ 000
Loans and receivables	6,247	5,573
Placements with banks	335	571
Non-trading investments	31	230
Demand and call deposits with banks	145	27
	6,758	6,401

Notes to the Consolidated Financial Statements

At 31 December 2013

19 FEES AND COMMISSIONS

	2013 US$ 000	2012 US$ 000
Management fees from fiduciary activities	12,523	11,969
Advisory fees	5,129	6,667
Credit related fees, commissions and other income	(568)	2,080
	17,084	20,716

20 SHARE OF RESULTS OF ASSOCIATES AND JOINT VENTURES - NET

	2013 US$ 000	2012 US$ 000
Burgan Bank	12,259	35,602
United Real Estate Company	8,300	16,003
United Capital Transport Company	2,071	1,858
FimBank Group	964	-
Al Sharq Financial Brokerage Co.	365	71
North Africa Holding Company	357	(2,095)
Meena Homes Real Estate Company	24	68
Royal Capital Company P.S.C.	(91)	132
Manafae Investment Company	(1,085)	(2,955)
Syria Gulf Bank	(1,416)	(303)
Takaud Savings and Pensions B.S.C. (c)	(2,363)	(1,356)
KAMCO Energy Service Fund	-	197
Kuwait Private Equity Opportunities Fund	-	(117)
Overland Real Estate Company	-	(14,559)
United Industries Company	-	4,525
	19,385	37,071

21 INTEREST EXPENSE

	2013 US$ 000	2012 US$ 000
Loans payable	22,407	34,621
Due to banks and other financial institutions	3,188	3,391
Subordinated debt	2,994	3,120
Deposits from customers	2,657	3,254
	31,246	44,386

22 EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to the equity shareholders of the Bank by the weighted average number of shares outstanding during the year as follows:

	2013 US$ 000	2012 US$ 000
Profit attributable to equity shareholders of the Bank	2,587	11,030
Weighted average number of shares outstanding during the year (in thousands)	815,254	820,671
Basic earnings per share (US cents)	0.32	1.34

22 EARNINGS PER SHARE (continued)

Diluted

Diluted earnings per share is calculated by dividing the income attributable to the equity shareholders of the Bank, adjusted for the effect of conversion of employees' share options, by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all employees' share options. The Bank has outstanding share options, issued under the Employee Stock Options Plan, which have a dilutive effect on earnings.

	2013 US$ 000	2012 US$ 000
Profit attributable to equity shareholders of the Bank	2,587	11,030
Weighted average number of shares outstanding during the year (in thousands)	815,254	820,671
Effect of dilutive potential ordinary shares:		
Share options (in thousands)	-	393
	815,254	821,064
Diluted earnings per share (US cents)	0.32	1.34

23 FUNDS UNDER MANAGEMENT

At 31 December 2013, the Group holds assets amounting to US$ 9,728 million (31 December 2012: US$ 8,112 million) under its management on behalf of third parties. As these are third party funds managed in a fiduciary capacity, without risk or recourse to the Group, these are not included in assets in the consolidated statement of financial position.

24 CASH AND CASH EQUIVALENTS

	2013 US$ 000	2012 US$ 000
Demand and call deposits with banks	17,747	15,682
Placements with original maturities of ninety days or less	112,744	66,711
	130,491	82,393

25 SEGMENTAL INFORMATION

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Chief Executive Officer, who is responsible for allocating resources to the reportable segments and assessing their performance. All operating segments reported by the Group meet the definition of a reportable segment under IFRS 8.

For management purposes, the Group is organised into business units based on the nature of their operations and services. The Group has two reportable operating segments being 'asset management and investment banking' and 'commercial banking'.

Asset management and investment banking	Undertaking asset portfolio management, corporate finance, advisory, investments in quoted and private equity/funds, real estate, capital markets, international banking and treasury activities.
Commercial banking	Loans and other credit facilities, deposit and current accounts from corporate and institutional customers.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Transactions between segments are generally recorded at estimated market rates.

25 SEGMENTAL INFORMATION (continued)

Segmental information relating to the Group's operations for the year ended 31 December 2013 was as follows:

Statement of income	Asset management and investment banking US$ 000	Commercial banking US$ 000	Total US$ 000
Income from external customers	44,869	-	44,869
Share of results of associates and joint ventures	7,578	11,807	19,385
Total income	52,447	11,807	64,254
Operating income before provisions	9,111	-	9,111
Impairment loss on investments	(6,863)	-	(6,863)
Write-back of provisions for doubtful loans and other assets - net	1,906	-	1,906
Profit for the year	4,154	-	4,154
Profit attributable to equity shareholders of the parent			2,587
Profit attributable to non-controlling interests			1,567
			4,154
Statement of financial position			
Investments in associates and joint ventures	295,907	528,650	824,557
Segment assets	729,913	528,650	1,258,563
Segment liabilities	799,001	-	799,001

Segmental information for the year ended 31 December 2012 was as follows:

Statement of income	Asset management and investment banking US$ 000	Commercial banking US$ 000	Total US$ 000
Income from external customers	55,974	-	55,974
Share of results of associates and joint ventures	1,772	35,299	37,071
Total income	57,746	35,299	93,045
Operating income before provisions	20,182	-	20,182
Impairment loss on investments	(16,522)	-	(16,522)
Write-back of provision for doubtful loans and other assets - net	3,042	-	3,042
Profit for the year	6,702	-	6,702
Profit attributable to equity shareholders of the parent			11,030
Loss attributable to non-controlling interests			(4,328)
			6,702
Statement of financial position			
Investments in associates and joint ventures	297,195	502,119	799,314
Segment assets	723,458	502,119	1,225,577
Segment liabilities	747,395	-	747,395

Geographical segments

The Group operates in four geographic markets: Domestic region (G.C.C.*), Middle East and North Africa (MENA), Europe and North America. The following table shows the distribution of the Group's total income and non-current assets by geographical segment, allocated based on the location of the customers and assets for the years ended 31 December 2013 and 2012:

25 SEGMENTAL INFORMATION (continued)

Geographical segments (continued)

31 December 2013	G.C.C. US$ 000	MENA US$ 000	Europe US$ 000	North America US$ 000	Total US$ 000
Total income	52,743	115	9,544	1,852	64,254
Non-current assets	985,958	6,936	45,275	4,626	1,042,795
31 December 2012					
Total income	70,834	84	5,815	16,312	93,045
Non-current assets	1,023,878	16,697	2,698	11,717	1,054,990

* The Gulf Co-operation Council (G.C.C.) countries are Kingdom of Bahrain, State of Kuwait, Kingdom of Saudi Arabia, State of Qatar, the United Arab Emirates and the Sultanate of Oman.

26 RELATED PARTY TRANSACTIONS

Related parties represent the parent, associates and joint ventures, directors and key management personnel and entities which are controlled, jointly controlled or significantly influenced by any of the above mentioned parties.

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

	2013			
	Parent US$ 000	Associates and joint ventures US$ 000	Other related parties US$ 000	Total US$ 000
Gain on investments carried at fair value through statement of income, net	-	95	521	616
Gain on sale of non-trading investments	-	263	1,147	1,410
Fees and commissions	2,896	1,751	5,941	10,588
Dividend income	6	31	72	109
Interest income	-	53	664	717
Loss on sale of investment properties	-	(1,274)	-	(1,274)
Interest expense	(2,870)	(10,119)	(2,168)	(15,157)
Others	6	106	(913)	(801)
Sales transactions				
Investments carried at fair value through statement of income	-	8,194	-	8,194
Non-trading investments	-	18,743	-	18,743
Investment properties	-	12,732	-	12,732
Purchase transactions				
Non-trading investments	-	-	5,392	5,392

26 RELATED PARTY TRANSACTIONS (continued)

	2012			
	Parent US$ 000	Associates and joint ventures US$ 000	Other related parties US$ 000	Total US$ 000
Loss on investments carried at fair value through statement of income, net	-	(177)	(4)	(181)
Gain on sale of non-trading investments	-	22,608	2,847	25,455
(Loss) gain on sale of associates	(19,017)	1,550	(17)	(17,484)
Fees and commissions	4,857	271	8,346	13,474
Dividend income	119	44	-	163
Interest income	-	65	708	773
Gain on sale of investment properties	-	-	7,333	7,333
Interest expense	(2,917)	(15,590)	(2,149)	(20,656)
Others	25	46	(74)	(3)
Sales transactions				
Investments carried at fair value through statement of income	-	10,928	-	10,928
Non-trading investments	-	203,053	33,890	236,943
Investments in associated companies	34,981	17,878	5,653	58,512
Investment in properties	-	-	8,667	8,667
Purchase transactions				
Non-trading investments	-	-	8,370	8,370

The year-end balances in respect of related parties included in the consolidated financial statements are as follows:

	2013			
	Parent US$ 000	Associates and joint ventures US$ 000	Other related parties US$ 000	Total US$ 000
Demand and call deposits with banks	-	3,670	284	3,954
Placements with banks	-	50,000	15,420	65,420
Investments, carried at fair value through statement of income	-	321	1,273	1,594
Investments, carried at fair value through statement of income, in funds managed by related party	-	-	9,962	9,962
Non-trading investments	-	-	17,897	17,897
Loans and receivables	-	2,703	1,661	4,364
Other assets	302	8,023	4,165	12,490
Due to banks and other financial institutions	-	(68,642)	(115,109)	(183,751)
Deposits from customers	(197)	(3,072)	(15,931)	(19,200)
Loans payable	-	(267,061)	-	(267,061)
Other liabilities	(10)	(560)	(3,059)	(3,629)
Off statement of financial position items:				
Letters of guarantee	-	29,037	-	29,037
Funds managed or advised by the Group (including funds under management)	-	-	54,954	54,954

26 RELATED PARTY TRANSACTIONS (continued)

	2012			
	Parent US$ 000	Associates and joint ventures US$ 000	Other related parties US$ 000	Total US$ 000
Demand and call deposits with banks	-	7,796	255	8,051
Placements with banks	-	25,000	9,022	34,022
Investments, carried at fair value through statement of income	1,867	1,717	753	4,337
Investments, carried at fair value through statement of income, in funds managed by related party	-	-	11,075	11,075
Non-trading investments	-	-	6,630	6,630
Loans and receivables	-	2,718	1,902	4,620
Other assets	758	6,871	13,984	21,613
Due to banks and other financial institutions	-	(98,875)	(20,105)	(118,980)
Deposits from customers	(514)	(5,391)	(49,232)	(55,137)
Loans payable	-	(261,113)	-	(261,113)
Other liabilities	-	(2,494)	(2,240)	(4,734)
Off statement of financial position items:				
Letters of credit	-	-	14,602	14,602
Letters of guarantee	-	18,510	46,399	64,909
Funds managed or advised by the Group (including funds under management)	-	-	62,226	62,226

Compensation of key management personnel was as follows:

	2013 US$ 000	2012 US$ 000
Short term employee benefits	4,553	6,030

27 COMMITMENTS AND CONTINGENCIES

Credit-related commitments

Credit-related commitments include commitments to extend credit, standby letters of credit, guarantees and acceptances which are designed to meet the requirements of the Group's customers.

Letters of credit, guarantees (including standby letters of credit) and acceptances commit the Group to make payments on behalf of customers if certain conditions are met under the terms of the contract.

The Group has the following credit and investment related commitments:

	2013 US$ 000	2012 US$ 000
Credit related		
Letters of credit	-	14,602
Letters of guarantee	29,037	64,909
	29,037	79,511
Investment related *	4,038	11,947
	33,075	91,458

* Investment related commitments represent commitments for capital calls of fund structures. These commitments can be called during the investment period of the fund which is normally 1 to 5 years.

28 DERIVATIVES

In the ordinary course of business the Group enters into various types of transactions that involve derivative financial instruments.

31 December 2013	Positive fair value US$ 000	Negative fair value US$ 000	Notional amount Total US$ 000	Notional amounts by term to maturity: Within 3 months US$ 000	3 - 12 months US$ 000	1 - 5 years US$ 000
Derivatives held for trading *						
Forward foreign exchange contracts	1	(580)	454,462	454,462	-	-
Derivatives used as hedge of net investments in foreign operations						
Forward foreign exchange contracts	50	(527)	551,215	551,215	-	-
Cross currency swaps	2,562	-	746,489	-	605,046	141,443
Derivatives used as cash flow hedges						
Interest rate swap	-	(225)	175,000	-	75,000	100,000
31 December 2012						
Derivatives held for trading *						
Forward foreign exchange contracts	3,397	(3,164)	341,448	341,448	-	-
Derivatives used as hedge of net investments in foreign operations						
Forward foreign exchange contracts	21	(1,022)	714,521	643,507	71,014	-
Cross currency swaps	494	(1,099)	749,518	142,879	-	606,639
Derivatives used as cash flow hedges						
Interest rate swap	-	(505)	175,000	-	-	175,000

* The Group uses foreign currency denominated borrowings and forward currency contracts to manage some of its transaction exposures. These currency forward contracts are not designated as cash flow, fair value or net investment in foreign operations hedges and are entered into for periods consistent with currency transaction exposures.

Forward foreign exchange contracts are contractual agreements to either buy or sell a specified currency, at a specific price and date in the future, and are customised contracts transacted in the over-the-counter market.

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency.

Hedge of net investments in foreign operations

The Bank has designated certain forward foreign exchange contracts and cross currency swaps to hedge against changes in the value of investments in associated companies for an amount of US$ 649 million (KWD 183 million) [2012: US$ 732.9 million (KWD 205.9 million)]. Gains or losses on the retranslation of these forward foreign exchange contracts are transferred to equity through other comprehensive income to offset any gains or losses on the translation of the net investments in associates.

Cash flow hedges

The Group is exposed to variability in interest cash flows on liabilities which bear interest at a variable rate. The Group uses interest rate swaps as cash flow hedges of these interest rate risks. A schedule indicating as at 31 December, the periods when the net cash flows are expected to occur and when they are expected to affect the consolidated statement of income is as follows:

	2013		2012	
	Within 1 year US$ 000	1-5 years US$ 000	Within 1 year US$ 000	1-5 years US$ 000
Net cash outflows (Liabilities)	101	871	398	634
Statement of income	(97)	(128)	-	(505)

29 RISK MANAGEMENT

a) 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 considered critical to the Group's continuing profitability.

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.

The major risks to which the Group is exposed while conducting its business and operations, and the means and organisational structure it employs to manage them strategically for building shareholder value, are outlined below.

Risk management structure

Each subsidiary within the Group is responsible for managing its own risks and has its own Board Committees, including Audit and Executive Committees in addition to other management committees such as Credit/ Investment Committee and (in the case of major subsidiaries) Asset and Liability Committees (ALCO), or equivalent, with responsibilities generally the same as the Bank's committees.

The Board's role is to approve investment strategies of the Bank. However, it has delegated authority for the day-to-day decision making to the Executive Committee so that risk can be effectively managed within the Bank.

The Board of Directors has delegated the Executive Management of the Bank to the Chief Executive Officer (who is not a Director) and has appointed several Board Committees to work with him and to form and define policies and approve procedures for all of the Bank's activities.

The Executive Management of the Bank is headed by the Chief Executive Officer who is broadly responsible for the day to day conduct of the Bank's business in line with the Board's approved policies and procedures and complements and facilitates the Board in meeting its responsibility towards all stakeholders. He is assisted by the six members of the Bank's management team, each of whom is responsible for his or her respective department. Several management committees have been formed which are chaired by the Chief Executive Officer.

Executive Committee
The Executive Committee comprises of four directors including the Chairman, Vice Chairman and two other directors. Board meetings are held through circulation to approve all proposals not within the Investment Committee's risk authority, as well as to act on all matters within the Board's remit.

Investment Committee
The Investment Committee is mainly responsible for approving or recommending approval to the Executive Committee limits for individual exposures, investments and concentrations towards banks, countries, industries, risk rating classes, or other special risk asset categories. In addition, the Committee also monitors the overall risk profile of the Bank and recommends provision levels to the Executive Committee. The Investment Committee is constituted by a majority motion passed in the Executive Committee. Currently the Committee consists of four members.

Audit Committee
The Audit Committee is appointed by the Board and consists of four members who are Directors, including three independant Directors. The Audit Committee assists the Board in carrying out its responsibilities with respect to assessing (a) the quality and integrity of financial reporting, (b) the audit thereof, (c) the soundness of the internal controls of the Bank, (d) the risk assessment of the Bank's activities, and (e) the methods for monitoring compliance with laws, regulations and supervisory and internal policies.

Risk and Compliance Committee
The Risk and Compliance Committee is responsible for the monitoring and assessment of risks facing the Bank, the review of compliance with internal and external guidelines, the review and recommendation of provisioning requirements, the assessment of the impact on the Bank from new regulatory requirements, and review of Investment Committee decisions. The Committee comprises of six senior executives of the Bank including the Chief Executive Officer. Additionally, the Head of Internal Audit and Quality Assurance participates in the Committee meetings in the capacity of an observer.

Asset and Liability Committee
The Asset and Liability Committee establishes policies and objectives for the asset and liability management of the Bank's statement of 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 Bank's financial position both from interest 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. The Committee comprises of six senior executives of the Bank including the Chief Executive Officer.

29 RISK MANAGEMENT (continued)

a) Introduction (continued)

Risk management structure (continued)

Management Committee
The Management Committee acts as the steering committee of the Bank as well as a management forum to discuss any relevant issues. It meets on a weekly basis and consists of the Chief Executive Officer and all Department Heads as well as Internal Audit and Quality Assurance. It also serves to follow up on a weekly basis on the daily conduct of the Bank's business activities. The Committee is headed by the Chief Executive Officer.

Key Persons Committee
The Key Persons Committee comprises three members of senior management. The Committee is mainly responsible for the supervision of adequacy of compliance with the Central Bank of Bahrain and Bahrain Bourse guidelines on key persons trading (insider trading).

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

Nominating and Remuneration Committee
The Nominating and Remuneration Committee (NRC) assists the Board in assessing the skills set of Board members and is responsible to oversee the preparation of appropriate nomination documents and notifications proposing candidates for directorships. It reviews the independence of directors on an annual basis, supervises the preparation of induction materials and orientation sessions, makes recommendations to the Board regarding the management structure and ensures that there is a succession plan in place. The NRC comprises of three members, all of whom are independent.

The NRC also recommends/ reviews the remuneration policies for the Board of directors and senior management and submits recommendations for shareholders' approval.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currency transactions.

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Group.

Where warranted, the Group enters into legally enforceable netting arrangements covering its money market and foreign exchange trading activities whereby the only net amounts may be settled at maturity. With regard to the credit risk in the off statement of financial statement exposures, third party guarantees are obtained wherever possible as a risk mitigation measure.

Concentration risk

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 geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on country and counterparty limits and maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Robust limit structures put in place by the Board ensures effective monitoring and control of concentration risk and any limit breaches are immediately rectified and reported to the Board.

b) Credit risk

Credit risk arises from the extension of credit facilities in the Group's banking and trading activities as well as in investment activities where there is a possibility that a counterparty may fail to honour its commitment whenever an investment may fail.

Credit risk is mitigated through:

(i) Establishing an appropriate credit risk environment;
(ii) Operating under a sound credit and investment approval process;
(iii) Maintaining appropriate credit administration, measurement and monitoring processes; and
(iv) Ensuring adequate controls over the credit risk management process.

29 RISK MANAGEMENT (continued)

b) Credit risk (continued)

The Group has well defined policies approved at the individual board level. These provide carefully documented guidelines for credit risk management. There is a two tier committee structure to approve and review credit and investment risk. The Investment Committee (IC) comprises of the Chief Executive Officer, Head of Treasury and the Chief Financial Officer. The Head of Credit and Risk Management acts as a non-voting member to the Committee. Exposures beyond IC limits are approved by the Board's Executive Committee or by the full Board.

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

The table below shows the Group's maximum exposure to credit risk for the components of on and off statement of financial position exposure. The maximum exposure shown is gross before the effect of mitigation through the use of master netting and collateral arrangements, but after any provision for impairment.

	2013 US$ 000	2012 US$ 000
Demand and call deposits with banks	17,747	15,682
Placements with banks	113,063	67,030
Non-trading investments	1,912	1,111
Loans and receivables	3,958	4,286
Other assets	26,339	16,402
Letters of credit	-	14,602
Letters of guarantee	29,037	64,909
Derivative financial assets	1,506	3,905
	193,562	187,927

Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any single client or counterparty as of 31 December 2013 was US$ 47 million (31 December 2012: US$ 61 million) before taking account of collateral or other credit enhancements.

An analysis of the Group's financial assets by geographical region, before taking into account collateral held or other credit enhancements, is as follows:

	G.C.C. US$ 000	Middle East and North Africa US$ 000	Europe US$ 000	North America US$ 000	Others US$ 000	Total US$ 000
Demand and call deposits with banks	15,146	149	443	1,965	44	17,747
Placements with banks	97,643	15,420	-	-	-	113,063
Non-trading investments	1,912	-	-	-	-	1,912
Loans and receivables	1,256	2,702	-	-	-	3,958
Other assets	22,574	3,752	-	13	-	26,339
Letters of guarantee	29,037	-	-	-	-	29,037
Derivative financial assets	580	-	926	-	-	1,506
31 December 2013	168,148	22,023	1,369	1,978	44	193,562
Demand and call deposits with banks	14,519	244	404	345	170	15,682
Placements with banks	58,008	9,022	-	-	-	67,030
Non-trading investments	1,111	-	-	-	-	1,111
Loans and receivables	1,569	2,717	-	-	-	4,286
Other assets	12,476	3,925	-	-	1	16,402
Letters of credit	14,602	-	-	-	-	14,602
Letters of guarantee	64,909	-	-	-	-	64,909
Derivative financial assets	957	-	2,948	-	-	3,905
31 December 2012	168,151	15,908	3,352	345	171	187,927

29 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Risk concentrations of the maximum exposure to credit risk (continued)

An industry sector analysis of the Group's financial assets, before taking into account collateral held or other credit enhancements, is as follows:

At 31 December 2013	Banks and other financial institutions US$ 000	Construction and real estate US$ 000	Individuals US$ 000	Others US$ 000	Total US$ 000
Demand and call deposits with banks	17,747	-	-	-	17,747
Placements with banks	113,063	-	-	-	113,063
Non-trading investments	1,416	496	-	-	1,912
Loans and receivables	-	1,703	2,255	-	3,958
Other assets	2,208	4,145	2	19,984	26,339
Letters of guarantee	29,037	-	-	-	29,037
Derivative financial assets	1,506	-	-	-	1,506
	164,977	6,344	2,257	19,984	193,562
At 31 December 2012					
Demand and call deposits with banks	15,682	-	-	-	15,682
Placements with banks	67,030	-	-	-	67,030
Non-trading investments	1,111	-	-	-	1,111
Loans and receivables	-	2,718	1,270	298	4,286
Other assets	1,032	128	23	15,219	16,402
Letters of credit	-	-	-	14,602	14,602
Letters of guarantee	18,511	-	-	46,398	64,909
Derivative financial assets	3,905	-	-	-	3,905
	107,271	2,846	1,293	76,517	187,927

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained for commercial lending include charges over real estate properties, inventory, trade receivables, trading securities and bank guarantees.

The Group also obtains guarantees from parent companies for loans to their subsidiaries.

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

An industry sector analysis of the Group's gross loans and advances, before and after taking into account collateral held or other credit enhancements, is as follows:

	Gross maximum exposure 2013 US$ 000	Net maximum exposure 2013 US$ 000	Gross maximum exposure 2012 US$ 000	Net maximum exposure 2012 US$ 000
Commercial loans	6,203	6,203	3,260	2,718
Staff loans	2,255	-	2,034	-
	8,458	6,203	5,294	2,718

29 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Credit risk exposure for each credit rating

	Investment grade US$ 000	Non-investment grade US$ 000	Unrated US$ 000	Total US$ 000
At 31 December 2013				
Demand and call deposits with banks	17,380	318	49	17,747
Placements with banks	97,643	-	15,420	113,063
Non-trading investments	-	-	1,912	1,912
Loans and receivables	-	-	3,958	3,958
Other assets	131	-	26,208	26,339
Letters of guarantee	708	-	28,329	29,037
Derivative financial assets	1,506	-	-	1,506
	117,368	318	75,876	193,562
At 31 December 2012				
Demand and call deposits with banks	15,283	312	87	15,682
Placements with banks	63,007	-	4,023	67,030
Non-trading investments	-	-	1,111	1,111
Loans and receivables	-	-	4,286	4,286
Other assets	25	-	16,377	16,402
Letters of credit	-	-	14,602	14,602
Letters of guarantee	712	-	64,197	64,909
Derivative financial assets	3,905	-	-	3,905
	82,932	312	104,683	187,927

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risk and the comparison of credit exposures across all business lines, geographic regions and products. All externally rated credit risk exposures are rated by the relevant External Credit Assessment Institutions ("ECAIs").

Additionally, the internal risk ratings of the Group's externally unrated credit risk exposures which are largely subjective, are tailored to the various categories and are derived in accordance with the internal rating policy and practices. The attributable internal risk ratings are assessed and updated on a regular basis.

The table above reflects the risk ratings of the credit risk exposures rated by the relevant ECAIs. All of the externally unrated credit risk exposures have been classified under "Unrated" category.

Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. The Group had no renegotiated loans as of 31 December 2013 or 31 December 2012.

29 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Offsetting financial assets and financial liabilities

The disclosures set out in the table below include financial assets and financial liabilities that are offset in the Group's statement of financial position:

	Loans and advances US$ 000	Customer deposits US$ 000
31 December 2013		
Gross amounts of recognised financial asset (liability)	70,000	(70,177)
Gross amounts offset in the consolidated statement of financial position	(70,000)	70,000
Net amount of financial liability presented in the consolidated statement of financial position	-	(177)
31 December 2012		
Gross amounts of recognised financial asset (liability)	175,000	(175,514)
Gross amounts offset in the consolidated statement of financial position	(175,000)	175,000
Net amount of financial liability presented in the consolidated statement of financial position	-	(514)

c) Market risk

Market risk is defined as the risk of losses in the value of on-or-off statement of financial position financial instruments caused by a change in market prices or rates, (including changes in interest rates and foreign exchange rates). The Group's policy guidelines for market risk have been vetted by the Board of Directors in compliance with the rules and guidelines provided by the Central Bank of Bahrain. The Central Bank of Bahrain guidelines introduced a risk measurement framework whereby all locally incorporated banks in Bahrain are required to measure and apply capital charges in respect of their market risk in addition to capital requirements for credit risk and operational risk.

The market risk subject to capital charge normally arises from changes in value due to market forces in the following exposures:

- Interest rate instruments and securities in the trading book; and
- Foreign exchange throughout the banking book.

The Group has entered into interest rate swaps and forward foreign exchange contracts for hedging purposes and does not actively trade in derivatives.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's consolidated statement of income based on the consolidated statement of financial position as of 31 December:

Currency	Increase in basis points 2013	Sensitivity of net interest income 2013 US$ 000	Increase in basis points 2012	Sensitivity of net interest income 2012 US$ 000
Kuwaiti Dinar	+ 25	(335)	+ 25	(582)
United States Dollar	+ 25	(756)	+ 25	(544)
Euro	+ 25	(24)	+ 25	1
Pound Sterling	+ 25	-	+ 25	1
Others	+ 25	(29)	+ 25	(36)

29 RISK MANAGEMENT (continued)

c) Market risk (continued)

Interest rate risk (continued)

The decrease in the basis points will have an opposite impact on the net interest income.

The sensitivity of the consolidated statement of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2013, including the effect of hedging instruments.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group considers the United States Dollar as its functional currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

The table below indicates the effect on profit before tax for the positions as at statement of financial position date as a result of change in the currency rate with all other variables held constant.

Currency	Change in currency rate in % 2013	Effect on profit before tax 2013 US$ 000	Effect on equity 2013 US$ 000	Change in currency rate in % 2012	Effect on profit before tax 2012 US$ 000	Effect on equity 2012 US$ 000
Kuwaiti Dinar	+2	(14,418)	1,971	+2	(16,325)	2,163
	-2	14,418	(1,971)	-2	16,325	(2,163)
Euro	+2	(195)	-	+2	-	-
	-2	195	-	-2	-	-

Equity price risk

Equity price risk arises from the change in fair values of equity investments. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

The geographical distribution of the Group's equity investments is as follows:

Geographical distribution

At 31 December 2013	Middle East/ North Africa US$ 000	Europe US$ 000	North America US$ 000	Total US$ 000
Investments carried at fair value through statement of income				
Quoted equities	27,396	-	6,620	34,016
Managed funds	11,755	791	67	12,613
	39,151	791	6,687	46,629
Non-trading investments				
Quoted equities	11,458	-	-	11,458
Unquoted equities	50,130	1	3,841	53,972
Managed funds	99,994	58	785	100,837
	161,582	59	4,626	166,267
Total	200,733	850	11,313	212,896

29 RISK MANAGEMENT (continued)

c) Market risk (continued)

Equity price risk (continued)

At 31 December 2012	Middle East/ North Africa US$ 000	Europe US$ 000	North America US$ 000	Total US$ 000
Investments carried at fair value through statement of income				
Quoted equities	21,721	-	7,230	28,951
Managed funds	17,944	5,221	1,180	24,345
	39,665	5,221	8,410	53,296
Non-trading investments				
Quoted equities	6,729	-	-	6,729
Unquoted equities	61,493	1	5,789	67,283
Managed funds	107,091	2,697	5,927	115,715
	175,313	2,698	11,716	189,727
Total	214,978	7,919	20,126	243,023

Any change in equity price index or the net asset values of the above financial instruments will have a direct impact on income or equity. The majority of the equities in the Middle East/North Africa region are quoted on the Kuwait Stock Exchange.

For unquoted investments carried at cost the impact of the changes in the equity prices will only be reflected in the consolidated statement of income when the investment is sold or deemed to be impaired.

[Equity price sensitivity note to be included] - required by IFRS 7- appendix B [B27]

d) Liquidity risk

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2013 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

At 31 December 2013	On demand US$ 000	1 - 6 months US$ 000	6 - 12 months US$ 000	1 - 5 years US$ 000	5-10 years US$ 000	Total US$ 000
Financial liabilities						
Due to banks and other financial institutions	145,603	13,056	103,300	-	-	261,959
Deposits from customers	17,882	4,257	1,698	-	-	23,837
Loans payable	33,750	251,383	34,177	74,506	-	393,816
Subordinated debt	-	-	-	108,200	-	108,200
Other liabilities	21,862	-	-	8,464	-	30,326
Total non-derivative undiscounted financial liabilities	219,097	268,696	139,175	191,170	-	818,138

29 RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

At 31 December 2013	1 - 6 months US$ 000	6 - 12 months US$ 000	1 - 5 years US$ 000	Total US$ 000
Derivatives				
Net cash outflows on interest rate swaps	-	97	128	225
Gross settled foreign currency derivatives	1,005,677	605,046	141,443	1,752,166
Off-statement of financial position items				
Letters of credit	-	-	-	-
Letters of guarantee	-	29,037	-	29,037

At 31 December 2012	On demand US$ 000	1 - 6 months US$ 000	6 - 12 months US$ 000	1 - 5 years US$ 000	5-10 years US$ 000	Total US$ 000
Financial liabilities						
Due to banks and other financial institutions	134,030	41,565	-	-	-	175,595
Deposits from customers	40,741	22,288	1,681	-	-	64,710
Loans payable	10,714	43,651	22,037	327,681	-	404,083
Subordinated debt	-	-	-	111,511		111,511
Other liabilities	17,988	-	-	7,129	-	25,117
Total non-derivative undiscounted financial liabilities	203,473	107,504	23,718	446,321	-	781,016

	1 - 6 months US$ 000	6 - 12 months US$ 000	1 - 5 years US$ 000	Total US$ 000
Derivatives				
Net cash outflows on interest rate swaps	-	-	505	505
Gross settled foreign currency derivatives	1,127,835	71,014	606,638	1,805,487
Off statement of financial position items				
Letters of credit	-	14,602	-	14,602
Letters of guarantee	-	64,909	-	64,909

The Group expects that not all of contingent items or commitments will be drawn before expiry of the commitments.

In order to ensure that the Group can meet its financial obligations as they fall due, there is a close monitoring of its assets / liabilities position. Besides other functions, the Asset-Liability Committee evaluates the statement of financial position both from a liquidity and an interest rate sensitivity point of view. The whole process is aimed at ensuring sufficient liquidity to fund its ongoing business activities and to meet its obligations as they fall due. A diversified funding base has evolved in deposits raised from the interbank market, deposits received from customers and medium term funds raised through syndicated and commodity based murabaha transactions. These, together with the strength of its equity and the asset quality, ensure that funds are made available on competitive rates.

29 RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

The maturity analysis of assets and liabilities analysed according to when they are expected to be recovered or settled are as follows:

At 31 December 2013	Less than 12 months US$ 000	Over 12 months US$ 000	Total US$ 000
Demand and call deposits with banks	17,747	-	17,747
Placements with banks	112,744	319	113,063
Investments carried at fair value through statement of income	46,629	-	46,629
Non-trading investments	7,781	158,486	166,267
Loans and receivables	1,237	2,721	3,958
Other assets	29,630	-	29,630
Investments in associates and joint ventures	-	824,557	824,557
Investment properties	-	14	14
Property and equipment	-	690	690
Goodwill	-	56,008	56,008
Total assets	215,768	1,042,795	1,258,563
Due to banks and other financial institutions	258,548	-	258,548
Deposits from customers	23,802	-	23,802
Loans payable	316,133	70,192	386,325
Subordinated debt	-	100,000	100,000
Other liabilities	21,533	8,793	30,326
Total liabilities	620,016	178,985	799,001
Net	(404,248)	863,810	459,562

At 31 December 2012	Less than 12 months US$ 000	Over 12 months US$ 000	Total US$ 000
Demand and call deposits with banks	15,682	-	15,682
Placements with banks	66,711	319	67,030
Investments carried at fair value through statement of income	53,296	-	53,296
Non-trading investments	6,729	184,109	190,838
Loans and receivables	3,988	298	4,286
Other assets	24,181	-	24,181
Investments in associates and joint venture	-	799,314	799,314
Investment properties	-	14,020	14,020
Property and equipment	-	627	627
Goodwill	-	56,303	56,303
Total assets	170,587	1,054,990	1,225,577
Due to banks and other financial institutions	175,369	-	175,369
Deposits from customers	64,520	-	64,520
Loans payable	74,754	307,635	382,389
Subordinated debt	-	100,000	100,000
Other liabilities	17,988	7,129	25,117
Total liabilities	332,631	414,764	747,395
Net	(162,044)	640,226	478,182

29 RISK MANAGEMENT (continued)

e) Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. When controls fail to perform operational risk can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group has established a board approved framework for operational risk management which comprehensively outlines operational risk appetite for the Bank and provides operational risk management procedures. The Framework is supported by a dedicated operational risk system covering Loss Data Collection, Risk and Control Self Assessment and Key Indicator modules which have been rolled out in the Bank. While, the Group cannot expect to eliminate all operational risks, but through dedicated operational risk framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

30 FAIR VALUE MEASUREMENT

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arm’s length transaction.

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

The fair values of the funds that are listed on active markets are determined by reference to their quoted bid prices. The fair values of unlisted funds are based on net asset values which are determined by the fund manager using the quoted market prices of the underlying assets, if available, or other acceptable methods such as a recent price paid by another investor or the market value of a comparable company.

The Group uses the hierarchy for determining and disclosing the fair value of financial instruments as disclosed in Note 2.

Management has assessed that financial assets comprising of demand and call deposits with banks, placements with banks, and loans and receivables maturing within one year, and financial liabilities comprising of on-demand customer deposits, amounts due to banks and loans payable falling due within one year approximate their carrying values largely due to the short term maturities of these instruments. Non-trading investments carried at cost are disclosed in Note 6.

The following table provides the fair value measurement hierarchy of the Group’s assets and liabilities.

Quantitative disclosures fair value measurement hierarchy for assets as at 31 December 2013:

	Fair value measurement using			
	Level 1 US$ 000	Level 2 US$ 000	Level 3 US$ 000	Total US$ 000
Assets measured at fair value				
Investments carried at fair value through statement of income				
Quoted equities	34,016	-	-	34,016
Managed funds	9,961	2,652	-	12,613
Non-trading investments				
Equities - quoted	11,458	-	-	11,458
Equities - unquoted	-	25,700	520	26,220
Real estate managed funds - unquoted	-	13,337	-	13,337
Other managed funds	47,302	26,324	11,600	85,226
Debt securities - unquoted	-	-	1,912	1,912
Derivatives				
Held for trading	-	454,462	-	454,462
Used as hedge of net investments in foreign operations	-	551,215	-	551,215
Used as cash flow hedges	-	746,489	-	746,489

30 FAIR VALUE MEASUREMENT (continued)

	Fair value measurement using			
	Level 1 US$ 000	Level 2 US$ 000	Level 3 US$ 000	Total US$ 000
Assets for which fair values are disclosed				
Placements with banks	-	319	-	319
Loans and receivables	-	2,721	-	2,721
Liabilities for which fair values are disclosed				
Loans payable	-	70,192	-	70,192
Subordinated debt	88,000	-	-	88,000

Quantitative disclosures fair value measurement hierarchy for assets as at 31 December 2012:

	Fair value measuremet using			
	Level 1 US$ 000	Level 2 US$ 000	Level 3 US$ 000	Total US$ 000
Assets measured at fair value				
Investments carried at fair value through statement of income				
Quoted equities	28,952	-	-	28,952
Managed funds	13,901	10,444	-	24,345
Non-trading investments				
Equities - quoted	6,729	-	-	6,729
Equities - unquoted	-	-	-	-
Real estate managed funds - unquoted	-	924	-	924
Other managed funds	63,779	29,161	18,748	111,688
Debt securities - unquoted	-	-	1,111	1,111
Derivatives				
Held for trading	-	341,448	-	341,448
Used as hedge of net investments in foreign operations	-	714,521	-	714,521
Used as cash flow hedges	-	749,518	-	749,518
Assets for which fair values are disclosed				
Placements with banks	-	319	-	319
Loans and receivables	-	298	-	298
Liabilities for which fair values are disclosed				
Loans payable	-	307,635	-	307,635
Subordinated debt	71,818	-	-	71,818

Transfers between Level 1, Level 2 and Level 3

During the year ended 31 December 2013 there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into or out of Level 3 fair value measurement.

30 FAIR VALUE MEASUREMENT (continued)

Reconciliation of fair value measurement of non-trading investments in level 3 of the fair value hierarchy:

	Equities US$ 000	Other managed funds US$ 000	Debt securities US$ 000	Total US$ 000
As at 1 January 2013	-	18,748	1,111	19,859
Recognised in statement of income	(6)	1,447	2	1,443
Net purchases, sales and transfers and settlements	478	(13,541)	799	(12,264)
Remeasurement recognised in OCI	48	4,946	-	4,994
As at 31 December 2013	520	11,600	1,912	14,032

31 CAPITAL ADEQUACY

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") as adopted by the Central Bank of Bahrain.

Capital management

The primary objectives of the Group's capital management are to ensure that the Group complies with capital requirements of the Central Bank of Bahrain and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, or issue equity securities. No changes were made in the capital management objectives, policies and processes from previous years.

The risk asset ratio calculated in accordance with the capital adequacy guidelines issued by the Central Bank of Bahrain, for the Group is as follows:

	2013 US$ 000	2012 US$ 000
Capital base:		
Tier 1 capital	264,916	319,010
Tier 2 capital	-	-
Total capital base (a)	264,916	319,010
Credit risk weighted exposure	1,376,941	1,217,612
Market risk weighted exposure	76,353	100,613
Operational risk weighted exposure	62,164	55,850
Total risk weighted exposure (b)	1,515,458	1,374,075
Capital adequacy (a/b * 100)	17.48%	23.22%
Minimum requirement	12.0%	12.0%

Regulatory capital consists of Tier 1 capital, which comprises share capital, share premium, statutory reserve, general reserve, treasury share reserve, foreign currency reserve, retained earnings and non-controlling interests less goodwill. The other component of regulatory capital is Tier 2 capital, which includes subordinated long term debt and fair value reserves.

32 EVENTS AFTER THE REPORTING PERIOD

On 27 January 2014, the Bank purchased 54,411,528 shares of FIMBank, an associate of the Group, for a cash consideration of US$ 51.69 million, by way of a voluntary bid for shares of FIMBank. As a result, the Group's interest in FIMBank has increased from 30% as of 31 December 2013 to 61%. Following the acquisition of additional equity interest, FIMBank has become a subsidiary of the Group and will be consolidated from the date of obtaining control.

Group Directory

UGB is the asset management, merchant and investment banking subsidiary of the KIPCO Group. Its proprietary investments include assets in commercial banking, real estate, private equity, and quoted securities. As of 31 December 2013, assets under management totalled US$ 9.7 billion (31 December 2012: US$ 8.1 billion).

UGB's core subsidiaries, associates and joint venture include: Burgan Bank, KIPCO Asset Management Company (KAMCO), North Africa Holding Company, United Gulf Financial Services - North Africa, Takaud Savings & Pensions Company, United Capital Transport Company and United Real Estate Company.

UGB and its subsidiary KAMCO have a proven track record of successfully completing more than 60 investment banking transactions for its clients since 2001 with an aggregate value of over US$ 8.1 billion including corporate finance, advisory, new issue placement and underwriting, corporate restructuring, bond issuance and merger and acquisition.

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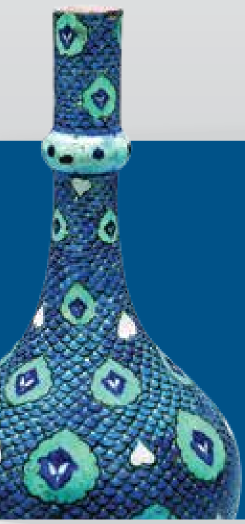

Major Subsidiaries and Affiliates

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