United Gulf Bank B.S.C.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2013

Building a better working world

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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.

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

Report on other regulatory requirements

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

a) the Bank has maintained proper accounting records and the 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

United Gulf Bank B.S.C.

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

United Gulf Bank B.S.C.

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 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 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 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

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:

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

New and amended standards and interpretations (continued)

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. 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Principles of consolidation (continued)
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.

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

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)
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.

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)
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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-trading investments (continued)

Investments available-for-sale (continued)
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.

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%.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivatives and hedge accounting (continued)
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.

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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. 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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

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.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant assumptions, accounting judgements and estimates (continued)

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
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	2012
	US$ 000	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	2012
	US$ 000	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.

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

	2013	2012
	US$ 000	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:

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

9 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

			Carrying value 2013 US$ 000	***Ownership % 2013***	*Carrying value 2012 US$ 000*	*Ownership % 2012*
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.

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.

9 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

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**

9 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

Investments in material associates (continued)

	Burgan Bank US$ 000	*United Real Estate Company US$ 000*
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

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	*2012*
	US$ 000	*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

		Parent	*Subsidiary*	*Total*
31 December 2013	*Currency**	*US$ 000*	*US$ 000*	*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				
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	*2012*
	US$ 000	*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

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

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.

22 EARNINGS PER SHARE (continued)

	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**

25 SEGMENTAL INFORMATION (continued)

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:

	G.C.C. US$ 000	*MENA US$ 000*	*Europe US$ 000*	*North America US$ 000*	*Total US$ 000*
31 December 2013					
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

	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

26 RELATED PARTY TRANSACTIONS (continued)

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**

	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

26 RELATED PARTY TRANSACTIONS (continued)

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.

			Notional amounts by term to maturity			
31 December 2013	*Positive fair value US$ 000*	*Negative fair value US$ 000*	*Notional amount Total US$ 000*	*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.

28 DERIVATIVES (continued)

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.

29 RISK MANAGEMENT (continued)

a) Introduction (continued)

Risk management structure (continued)

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.

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.

29 RISK MANAGEMENT (continued)

a) Introduction (continued)

Nominating and Remunerations 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.

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.

29 RISK MANAGEMENT (continued)

b) Credit risk (continued)

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	*2012*
	US$ 000	*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.	*Middle East and North Africa*	*Europe*	*North America*	*Others*	*Total*
	US$ 000	*US$ 000*	*US$ 000*	*US$ 000*	*US$ 000*	*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.

29 RISK MANAGEMENT (continued)

b) Credit risk (continued)

Collateral and other credit enhancements (continued)

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

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.

29 RISK MANAGEMENT (continued)

b) Credit risk (continued)

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.

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 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.

29 RISK MANAGEMENT (continued)

c) Market risk (continued)

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)

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	-	-

29 RISK MANAGEMENT (continued)

c) Market risk (continued)

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**

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.

29 RISK MANAGEMENT (continued)

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

	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

29 RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

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.

29 RISK MANAGEMENT (continued)

d) Liquidity risk (continued)

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.

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**

29 RISK MANAGEMENT (Continued)

d) Liquidity risk (continued)

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

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 measuremet using			
	Level 1	*Level 2*	*Level 3*	*Total*
	US$ 000	*US$ 000*	*US$ 000*	*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**
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**

30 FAIR VALUE MEASUREMENT (continued)

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

	Fair value measuremet using			
	Level 1	*Level 2*	*Level 3*	*Total*
	US$ 000	*US$ 000*	*US$ 000*	*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.

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

	Equities	***Other managed funds***	***Debt securities***	***Total***
	US$ 000	***US$ 000***	***US$ 000***	***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	*2012*
	US$ 000	*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.