Investors Bank B.S.C. (c)

UNIFIED SHARI'A SUPERVISORY BOARD REPORT, REPORT OF THE BOARD OF DIRECTORS, INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2013

EY

Building a better working world

INVESTORS Bank B.S.C. (C)

بنك المستثمرون

Licensed as an Islamic Wholesale Bank by the CBB

In the Name of Allah, The Beneficent, The Merciful

SHARI'A BOARD'S REPORT

To the Shareholders of Investors Bank

Assalam Alaikum Wa Rahmat Allah Wa Baraketuh

In compliance with the letter of appointment, we are required to submit the following report: We have reviewed the principles and the contracts relating to the transactions and applications introduced by the Investors Bank during the period ended 31/12/2013.

We have also conducted our review to form an opinion as to whether the Bank has complied with Shari'a Rules and principles and also with the specific fatwas, rulings and guidelines issued by us.

The Bank's management is responsible for ensuring that the Bank conducts its business in accordance with Islamic Shari'a Rules and Principles. It is our responsibility to form an independent opinion, based on our review of the operations of the Bank, and to report to you.

We conducted our review which included examining. on a test basis of each type of transaction, the relevant documentation and procedures adopted by the Bank.

We planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Bank has not violated Islamic Shari'a Rules and Principles.

In our opinion:

(1) the contracts, transactions and dealings entered into by the Bank during the year ended 31/12/2013 that we have reviewed are in compliance with the Islamic Shari'a Rules and Principles;

(2) the allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by us in accordance with Islamic Shari'a Rules and Principles;

(3) the calculation of Zakah is in compliance with Islamic Shari'a Rules and principles

We beg Allah the Almighty to grant us all the success and straight-forwardness.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh.

8th Dhul-Qa'da, 1435 Hijri corresponding to 3rd September 2014.

SHARI'A BOARD

Shaikh Dr. Abdul Sattar A.Karim Abu Ghuddah
Chairman of the Board

Shaikh Dr. Ali Mohieddin Al Quradaghi
Member

Shaikh Nedham Mohammed Saleh Yaqoobi
Member

Building a better
working world

Ernst & Young
P.O. Box 140
14th Floor, South Tower
Bahrain World Trade Center
Manama
Kingdom of Bahrain

Tel: +973 1753 5455
Fax: +973 1753 5405
manama@bh.ey.com
ey.com/mena
C.R. No. 6700

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

We have audited the accompanying statement of financial position of Investors Bank B.S.C. (c) (the "Bank") as of 31 December 2013, and the related statements of income, cash flows, changes in owners' equity, changes in off-balance sheet equity of investment accountholders and sources and uses of charity fund for the year then ended. These financial statements and the Bank's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Bank's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2013, the results of its operations, its cash flows, changes in owners' equity, changes in off-balance sheet equity of investment accountholders and sources and uses of charity fund for the year then ended in accordance with Financial Accounting Standards issued by AAOIFI.

EY
Building a better working world

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

Emphasis of matter

Without qualifying our opinion, we draw attention to note 2 to the financial statements. The Bank incurred a loss of US$ 4,893,127 during the year ended 31 December 2013, and as of that date the Bank's accumulated losses exceeded a substantial part of its share capital. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Bank's ability to continue as a going concern. However, these financial statements have been prepared on a going concern basis as the shareholders are confident that the Bank will generate sufficient cash flows to meet its obligations as they fall due.

Other Matters

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

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

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

Except for the matters disclosed in note 1, we are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives 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. The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank.

Ernst + Young

2 September 2014
Manama, Kingdom of Bahrain

REPORT OF THE BOARD OF DIRECTORS
for the year ended 31 December 2013 US dollars

In the name of Allah, the Beneficent, the Merciful, Prayers and Peace upon the Last Apostle and Messenger, Our Prophet Muhammad.

Dear Shareholders
The Directors have pleasure to submit their report, together with the financial statements of Investors Bank B.S.C. (c) ("the Bank") for the year ended 31 December 2013.

Principal Activities
The Bank was established in the Kingdom of Bahrain as an exempt company on 26 October 1997 and operates under an Islamic Wholesale Bank license granted by the Central Bank of Bahrain (the "CBB"). The Bank commenced commercial operations on 15 June 1998. The legal status of the Bank was changed to a closed Bahraini joint stock company on 3 July 2005.

The Bank focuses on generating liquidity through renting its buildings, exiting from certain investments and reducing its expenses. The bank has appointed a consultancy firm to assist the Bank with developing a three years business plan to support the continuation of the Bank and its mission.

The principal activities of the Bank include investment banking and financial activities, investment transactions, participating in equity investments in projects in conformity with the Islamic Shari'a.

Financial Position and Results
The detailed financial position of the Bank at 31 December 2013 and the results for the year then ended are set out in the accompanying financial statements.

Financial highlights	**2013**	2012
Total assets	**32,828,808**	**33,404,618**
Total owner's equity	**22,350,004**	**25,808,158**
Net loss for the year	**(4,893,127)**	**(6,025,193)**

Movement in accumulated losses	**2013**	2012
Balance at 1 January	**(62,130,918)**	**(56,105,725)**
Net loss for the year	**(4,893,127)**	**(6,025,193)**
Balance at 31 December	**(67,024,045)**	**(62,130,918)**

Dividends
The Board of Directors has not made any appropriations for dividends for the year ended 31 December 2013 (2012: nil).

ص.ب: ١١٨١٨ ، المنامة ، مملكة البحرين ، هاتف : ١٧٥٦٥٧٧٧ (+٩٧٣) ، فاكس : ١٧٥٨٣٧٥٥ (+٩٧٣) ، س.ت: ٣٩٦٤٦
P.O.Box: 11818, Manama, Kingdom of Bahrain, Tel: (+973) 17565777, Fax: (+973) 17583755, C.R. No. 39646
Email: info@investorsb.com - Website: www.investorsb.com

Board of Directors

The preceding Board of Directors of the Bank were:

Name	Title	Independent/ Non Independent	Termination Date
Mr. Ghassan Fahad Al Sultan	Chairman	Non Independent	28 November 2013
Mr. Isa Abdulla Al Mannai	Vice Chairman	Non Independent	5 February 2014
Mr. Ahmed Shabeeb Al Dhaheri	Member	Non Independent	29 September 2013
Mr. Reyadh Abdulwahab Al Sharaf	Member	Non Independent	28 November 2013
Mr. Mersal Saad Al Majedi	Member	Independent	27 June 2013
Mr. Ebrahim Abdullah Al Shaikh	Member	Independent	5 February 2014
Mr. Jamal Hassan Naqi	Member	Independent	5 February 2014

The following are the Current directors of the Bank:

Name	Title	Independent/ Non Independent	Appointment Date
Mr. Ameer Abdulrahaman Al Mansour	Chairman	Independent	19 June 2014
Mr. Falah Hajraf K Al Hajraf	Vice Chairman	Non Independent	19 May 2014
Sheikh Yousif Abdulla Al-Sabah	Member	Non Independent	19 May 2014
Mr. Majed Yousef Ahmed Al-Ali	Member	Non Independent	19 May 2014
Mr. Abdulla Mohammad Al Rifaie	Member	Non Independent	19 May 2014
Dr. Jamshir Mohammed Nasimi	Member	Independent	19 June 2014
Mr. AbdulNaser Ahmed Mohamed	Member	Independent	19 June 2014

Auditors

Ernst & Young have expressed their willingness to continue in office and a resolution proposing their appointment, as auditors of the Bank for the year ending 31 December 2014; will be submitted to the Annual General Meeting.

Thanks

We wish to express our gratitude and appreciation to His Majesty King Hamad Bin Isa Al Khalifa, The King of the Kingdom of Bahrain, to His Royal Highness Prince Khalifa Bin Salman Al Khalifa, the Prime Minister and His Royal Highness Prince Salman Bin Hamad Al Khalifa, the Crown Prince and Deputy Supreme Commander, to Government of the Kingdom of Bahrain, the Minister of Industry and Commerce, the Central Bank of Bahrain, the Bahrain Bourse for their vision, guidance and continuous support and for the establishment of a distinguished Islamic Banking Centre in the Kingdom. Gratitude is also extended to the Sharia'a Supervisory Board for their support and valuable guidance, to our investors and to our members of staff, executives and employees.

Ameer Abdulrahman Al Mansour
Chairman

Dr. Jamshir Nasimi
Director

2 September 2014

Investors Bank B.S.C.(c)

STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	2013 US$	Restated* 2012 US$
ASSETS			
Cash and balances with banks	4	**768,919**	993,440
Due from a financial institution	5	**2,656,499**	-
Investments	6	**6,006,438**	7,253,314
Deferred payment sale receivables	21	**3,680,203**	3,680,203
Investment in real estate	7	**18,255,772**	20,020,180
Other assets	8	**1,375,853**	1,403,831
Fixed assets	10	**85,124**	53,650
TOTAL ASSETS		**32,828,808**	33,404,618
LIABILITIES AND OWNERS' EQUITY			
Liabilities			
Due to a financial institution	21	**3,670,202**	3,670,202
Murabaha payable	22	**3,229,064**	3,229,064
Provision against lease commitment	15	**2,885,300**	-
Other liabilities	9	**694,238**	697,194
Total liabilities		**10,478,804**	7,596,460
Owners' equity			
Share capital	11	**80,000,000**	80,000,000
Statutory reserve	11	**7,409,515**	7,409,515
Investments fair value reserve	11	**1,964,534**	529,561
Accumulated losses		**(67,024,045)**	(62,130,918)
Total owners' equity		**22,350,004**	25,808,158
TOTAL LIABILITIES AND OWNERS' EQUITY		**32,828,808**	33,404,618
OFF-BALANCE SHEET ITEMS:			
EQUITY OF INVESTMENT ACCOUNTHOLDERS		**-**	16,440,667

*Restatement as described in note 25

Ameer Abdulrahman Al Mansour
Chairman

Dr. Jamshir Nasimi
Director

The attached notes 1 to 25 form part of these financial statements

STATEMENT OF INCOME

For the year ended 31 December 2013

	Notes	2013 US$	Restated 2012 US$
Rental income from investment in real estate		**1,517,984**	1,411,753
Gain on disposal of investments at fair value through equity		**293,845**	-
Fair value loss on investments at fair value through statement of income, net		**(1,601,027)**	(4,921)
Other income, net	12	**500,303**	135,087
Operating income		**711,105**	1,541,919
EXPENSES			
Staff cost		**822,619**	898,764
Administrative and general expenses	13	**934,964**	560,903
Depreciation		**440,132**	786,369
Operating expenses		**2,197,715**	2,246,036
Net loss before provision and impairment		**(1,486,610)**	(704,117)
Provision against lease commitment	15	**(2,885,300)**	-
Impairment	14	**(521,217)**	(5,321,076)
NET LOSS FOR THE YEAR		**(4,893,127)**	(6,025,193)

Ameer Abdulrahman Al Mansour
Chairman

Dr. Jamshir Nasimi
Director

The attached notes 1 to 25 form part of these financial statements

STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Notes	2013 US$	Restated 2012 US$
OPERATING ACTIVITIES			
Net loss for the year		**(4,893,127)**	(6,025,193)
Adjustments for non-cash items:			
Depreciation		**440,132**	786,369
Provision against lease commitment	15	**2,885,300**	-
Impairment	14	**521,217**	5,321,076
Gain on disposal of investments at fair value through equity		**(293,845)**	-
Fair value loss on investments at fair value through statement of income		**1,601,027**	4,921
Gain on disposal of investment in real estate	12	**(456,126)**	(164,850)
Loss on disposal of fixed assets	12	**-**	57,560
Operating loss before changes in operating assets and liabilities:		**(195,422)**	(20,117)
Working capital adjustments:			
Other assets*		**(38,442)**	(17,957)
Other liabilities		**14,816**	57,019
Payments to charities		**(17,772)**	-
Net cash (used in) from operating activities		**(236,820)**	18,945
INVESTING ACTIVITIES			
Proceeds from disposal of investments at fair value through equity		**919,870**	130,000
Proceeds from disposal of investment in real estate		**1,802,588**	793,737
Purchase of fixed assets	10	**(53,660)**	(156,695)
Proceeds from disposal of fixed assets		**-**	48,541
Net cash from investing activities		**2,668,798**	815,583
NET INCREASE IN CASH AND CASH EQUIVALENTS		**2,431,978**	834,528
Cash and cash equivalents at 1 January		**993,440**	158,912
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**3,425,418**	993,440
Cash and cash equivalents comprise:			
Cash and balances with banks	4	**768,919**	993,440
Due from a financial institution with original maturity of ninety days or less	5	**2,656,499**	-
		3,425,418	993,440
Non-cash activity			
*Proceeds from disposal of investment at fair value through equity	8	**420,000**	-

STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2013

	Share capital US$	*Statutory reserve US$*	*Investments fair value reserve US$*	*Accumulated losses US$*	*Total US$*
Balance at 1 January 2013 (restated)	80,000,000	7,409,515	529,561	(62,130,918)	25,808,158
Net loss for the year	-	-	-	(4,893,127)	(4,893,127)
Other comprehensive gain: fair value gain on investments at fair value through equity	-	-	1,446,415	-	1,446,415
Net amount transferred to statement of income on disposal of investment at fair vaule through equity	-	-	(11,442)	-	(11,442)
Balance as at 31 December 2013	**80,000,000**	**7,409,515**	**1,964,534**	**(67,024,045)**	**22,350,004**
Balance at 1 January 2012	80,000,000	7,409,515	3,679,690	(56,105,725)	34,983,480
Net loss for the year	-	-	-	(6,025,193)	(6,025,193)
Other comprehensive loss: fair value loss on investments at fair value through equity	-	-	(3,150,129)	-	(3,150,129)
Balance as at 31 December 2012 (restated)	80,000,000	7,409,515	529,561	(62,130,918)	25,808,158

The attached notes 1 to 25 form part of these financial statements

STATEMENT OF CHANGES IN OFF-BALANCE SHEET EQUITY OF INVESTMENT ACCOUNTHOLDERS

For the year ended 31 December 2013

	Balance at 1 January 2013			***Movements during the year***		***Balance at 31 December 2013***		
	No. of units (000)	***Average value per share US$***	***Total US$***	***Investment/ (withdrawal) US$***	***Revaluations US$***	***No. of units (000)***	***Average value per share US$***	***Total US$***
Murabaha with Lotus Air Ltd	-	-	317,689	-	(317,689)	-	-	-
Investments in International Investment Group K.S.C.C. (note 2 below)	12,887	0.44	5,670,202	-	(5,670,202)	12,887	-	-
Portfolio managed by the Bank (Gulf Monetary Group shares)	142,059	0.073	10,452,776	-	(10,452,776)	142,059	-	-
			16,440,667	-	**(16,440,667)**			-

	Balance at 1 January 2012			*Movements during the year*		*Balance at 31 December 2012*		
	No. of units (000)	*Average value per share US$*	*Total US$*	*Investment/ (withdrawal) US$*	*Revaluations US$*	*No. of units (000)*	*Average value per share US$*	*Total US$*
Murabaha with Lotus Air Ltd	-	-	317,689	-	-	-	-	317,689
Investments in International Investment Group K.S.C.C. (note 2 below)	12,887	0.44	5,670,202	-	-	12,887	0.44	5,670,202
Portfolio managed by the Bank (Gulf Monetary Group shares)	142,059	0.074	10,558,259	-	(105,483)	142,059	0.073	10,452,776
			16,546,150	-	(105,483)			16,440,667

1 Off -balance sheet investment accounts represent amounts received from and transactions entered on behalf of related parties.

2 On the instructions of an off-balance sheet investment account holder, a related party, the Bank has entered into a deferred payment purchase agreement with a financial institution to acquire shares of International Investment Group K.S.C.C ('IIG'). The Bank then entered into a deferred payment sale agreement with the off-balance sheet investment account holder for sale of these shares. However, due to a legal dispute with the financial institution, the Bank could not effect the transfer of IIG shares to the off-balance sheet investment account holder (note 21).

3 During the year, the Board of Directors has written down the value of investments of off-balance sheet investment account holders to nil, based on the performance of these investments and the lack of information available to support the carrying value of these investments.

STATEMENT OF SOURCES AND USES OF CHARITY FUND

For the year ended 31 December 2013

	2013	*2012*
	US$	*US$*
Undistributed charity fund at 1 January	**35,285**	35,285
Payments made during the year	**(17,772)**	-
Undistributed charity fund at 31 December	**17,513**	35,285

1 INCORPORATION AND ACTIVITIES

Investors Bank B.S.C. (c) [the "Bank"] was established in the Kingdom of Bahrain as an exempt company on 26 October 1997 and operates under an investment banking license [Wholesale Bank (Islamic principles)] granted by the Central Bank of Bahrain [the "CBB"]. The Bank commenced commercial operations on 15 June 1998. The legal status of the Bank was changed to a closed Bahraini joint stock company on 3 July 2005. The postal address of the registered office of the Bank is Seef Star Building, Seef District, P.O. Box 11818, Manama, Kingdom of Bahrain.

The Bank's activities are regulated by the CBB and supervised by a Shari'a Supervisory Board whose role is defined in the Bank's Memorandum and Articles of Association.

The principal activities of the Bank include investment banking and financial activities, investment transactions, participating in equity investments in projects that conform with the Islamic Shari'a. The Bank may, in particular, carry on the following business activities:

(a) Providing investment account facilities;
(b) Accepting restricted or unrestricted investment funds commingling the same with those of the Bank and investing them in accordance with the Shari'a;
(c) Managing third party funds as an agent for a fixed fee or as a Mudarib and any other banking activities not contravening the provisions of the Shari'a;
(d) Industrial, commercial and agricultural business activities, either directly or through companies which the Bank may establish, or in which the Bank may acquire shares; and
(e) Purchasing, leasing and constructing buildings, and the renting thereof.

The Bank is subject to the requirements of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the Central Bank of Bahrain's (the CBB) regulations (as contained in Volume 2 of the CBB rulebook) and directives and the memorandum and articles of association of the Bank. The Bank is not in compliance with the following requirements of the below mentioned laws:

a) the ordinary general assembly of the shareholders has to be convened within six months of the financial year end. As of the date of approval of these financial statements, ordinary general assembly for the year ended 31 December 2013 has not been convened;

b) the Bank's Board of Directors are required to meet at least four times during each financial year, however this requirement was not complied with for the year ended 31 December 2013;

c) the Bank did not submit to the CBB, within three months of the financial year ended 31 December 2013, its final audited accounts including the profit and loss statement nor publish its accounts within two months of the financial year end as required by the CBB;

d) the Bank's annual public disclosures are required to be prepared for the review of external auditors within three month period from 31 December 2013. As of the date of approval of these financial statements, the public disclosures have not been prepared;

e) the Bank's prudential information return is required to be prepared and submitted to the CBB within 20 days from 31 December 2013 and is required to be reviewed by external auditors within two months from 31 December 2013. As of the date of approval of these financial statements the return has not been reviewed; and

f) the Bank's key control positions such as the Financial Controller, Head of Risk Management and Head of Compliance are vacant.

The financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 2 September 2014.

2 BASIS OF PREPARATION

The financial statements have been prepared under the historical cost convention as modified for the re-measurement of investments at fair value through statement of income and certain investments at fair value through equity.

The financial statements have been presented in United States Dollars ["US$"], being the functional currency of the Bank.

The Bank incurred a net loss of US$ 4,893,127 during the year ended 31 December 2013 (2012: US$ 6,025,193) and as of that date, the Bank's accumulated losses amounted to US$ 67,024,045 (2012: US$ 62,130,918) and has exceeded a substantial part of its share capital. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Bank's ability to continue as a going concern. The shareholders are confident that the Bank will generate sufficient cash flows to meet its obligations as they fall due, hence, the financial statements have been prepared on a going concern basis.

The Bahrain Commercial Companies Law requires in the case the Bank that has lost a substantial portion of its capital, an Extraordinary General Meeting of the shareholders should be convened at which the shareholders resolve whether or not to continue the operations of the Company. This meeting is yet to be convened.

Statement of Compliance

These financial statements have been prepared in accordance with Financial Accounting Standards ["FAS"] as issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ["AAOIFI"], the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Bank, the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives. In accordance with the requirements of AAOIFI, for matters for which no AAOIFI standards exist, the Bank uses the relevant International Financial Reporting Standards ["IFRS"] as issued by the International Accounting Standards Board ["IASB"].

3 SIGNIFICANT ACCOUNTING POLICIES

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

FAS 26 Investment in Real Estate

The Bank has adopted FAS 26 issued by AAOIFI which covers the recognition, measurement, presentation and disclosure of investment in real estate that is acquired for the purpose of earning periodical income or held for future capital appreciation or both. Before the adoption of FAS 26, the Bank was following FAS 17 'Investments' and measured its investments in real estate at cost and this measurement continued to be followed under FAS 26.

Accordingly, the Bank has reclassified assets amounting to US$ 2,584,068 from "property and equipment" (changed in the current period to "fixed assets") to "investment in real estate", and has reclassified assets amounting to US$ 17,436,112 from "investment properties" to "investment in real estate". The reclassification had no impact on previously reported loss and accumulated losses.

3.1 Significant accounting judgments and estimates

The application of the accounting policies requires management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The most significant judgments and estimates are discussed below:

Going concern

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1 Significant accounting judgments and estimates (continued)

Fair value of investment in real estate
The fair value of investment in real estate is determined by independent real estate valuation experts. The determination of the fair value for such assets requires the use of judgment and estimates by the independent valuation experts that are based on local market conditions existing at the date of the statement of financial position.

Useful life of fixed assets
The Bank's management determines the estimated useful lives of its fixed assets for calculating depreciation. This estimate is determined after considering the expected usage of the asset and physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charges would be adjusted where the management believes the useful lives differ from previous estimate.

Impairment of financial assets
The Bank assesses at each statement of financial position date whether there is objective evidence that a specific asset or a group of assets may be impaired. An asset or a group of 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 have occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event(s) have an impact on the estimated future cash flows of the asset or the group of the assets that can be reliably estimated.

The Bank treats investments at fair value through equity 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 provisions against receivables
The Bank reviews its receivables at each reporting date to assess whether an impairment provision should be recorded in the financial statements. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about factors involving varying degrees of judgment and uncertainty and actual results may differ resulting in future changes to the provisions.

3.2 Cash and cash equivalents
Cash and cash equivalents comprise cash and balances with banks and due from a financial institution.

3.3 Investments
These are classified as either investments at fair value through statement of income or investments at fair value through equity.

Initial recognition
All investments are initially recognised at cost, being the fair value of the consideration on acquisition including related direct expenses. Direct expenses are transaction costs and include fees and commissions paid to agents, advisors and consultants, levies by regulatory agencies and transfer taxes and duties.

Investments at fair value through statement of income
Subsequent to initial recognition investments that are classified as investments at fair value through statement of income are carried at fair value. The fair value changes of investments at fair value through statement of income are reported in the statement of income.

Investments at fair value through equity
Subsequent to initial recognition, investments that are classified as “investments at fair value through equity” are measured at fair value. The fair value changes of investments at fair value through equity are reported in statement of changes in owners' equity under "investments fair value reserve" until such time the investments are sold, realised or deemed to be impaired, at which time the realised gain or loss is reported in the statement of income.

estate. Investment in real estate is initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, buildings classified as investment in real estate are measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided on the straight line method at rates intended to write-off the cost of the assets over their estimated useful lives. Freehold land is subsequently measured at cost less accumulated impairment losses, if any.

3.6 Fixed assets

Fixed assets is stated at cost less accumulated depreciation. Depreciation is provided on the straight line method at rates intended to write-off the cost of the assets over their estimated useful lives.

The estimated useful lives of the assets for the calculation of depreciation is 3 - 5 years.

Expenditure for maintenance and repairs is expensed as incurred. An item of fixed assets is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income.

The residual values, useful lives and methods of depreciation for fixed assets are reviewed, and adjusted if appropriate, at each financial year end.

3.7 Due to financial institutions

Amounts due to financial institutions are initially recognised at cost, being the fair value of consideration received plus accrued profit less amount repaid.

3.8 Off-balance sheet equity investment accounts

Off-balance sheet equity investment accounts represents assets acquired by funds provided by holders of off-balance sheet equity investment accounts and their equivalent and managed by the Bank as an investment manager based on either a Mudaraba contract or agency contract. The off-balance sheet equity investment accounts are exclusively restricted for investment in specified investment instruments as directed by the off-balance sheet equity of investment accountholders. Assets that are held in such capacity are not included as assets of the Bank in the financial statements.

Off-balance sheet equity investments in quoted securities are valued at their market bid price. Off-balance sheet equity investments in securities for which there are no quoted market prices or other appropriate methods from which to derive fair values, are stated at cost less impairment allowances, if any.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9 Employees' end of service benefits

The Bank makes contributions to the Social Insurance Organisation (SIO) scheme for its national employees calculated as a percentage of the employees' salaries. The Bank's obligations are limited to these contributions, which are expensed when due. For Bahrainis with basic salaries above a certain threshold, the Bank recognises leaving indemnity in line with the requirements of the Labor Law.

The Bank also provides for end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final salary and length of service. The expected costs of these benefits are accrued over the period of employment.

3.10 Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment.

Dividend income

Dividend income from investments is recognised when the right to receive the dividend is established.

Rental income

Rental income is recognised on the basis of contractual amounts receivable on a time apportioned basis.

3.11 Earnings prohibited by Shari'a

The Bank is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, non-Islamic income, if any, is credited to a charity account where the Bank uses these funds for charitable means.

3.12 Derecognition of financial instruments

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

(i) the right to receive cash flows from the asset has expired;

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

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

3.13 Foreign currencies

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the statement of financial position date. All differences are taken to the statement of income. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non monetary items carried at fair value are retranslated at the functional currency spot rate of exchange ruling at the statement of financial position date. All differences are taken to equity as "investments fair value reserve."

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14 Fair values

For investments traded in organised financial markets, fair value is determined by reference to quoted market bid prices at the close of business on the statement of financial position date.

For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same, or is based on an assessment of the value of future cash flows.

3.15 Provisions

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

3.16 Offsetting financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the statement of financial position, if and only if there is a legally enforceable or religious right (as determined by Shari'a) to set off the recognised amounts and the Bank intends to settle on a net basis.

3.17 Zakah

In the absence of appointment of the Bank to pay zakah on behalf of shareholders, the responsibility of payment of zakah is on individual shareholders of the Bank.

4 CASH AND BALANCES WITH BANKS

	2013	*2012*
	US$	*US$*
Cash at banks	**767,593**	992,114
Cash in hand	**1,326**	1,326
	768,919	993,440

5 DUE FROM A FINANCIAL INSTITUTION

	2013	*2012*
	US$	*US$*
Commodity murabaha contract	**2,657,493**	-
Less: Deferred profit	**(994)**	-
	2,656,499	-

6 INVESTMENTS

	2013	*2012*
	US$	*US$*
Investments at fair value through statement of income	**198,412**	1,799,439
Investments at fair value through equity (note 6.1)	**5,808,026**	5,453,875
	6,006,438	7,253,314

6.1 Investments at fair value through equity

	2013	*2012*
	US$	*US$*
Quoted equity securities (note 6.1.1)	**5,379,349**	4,155,198
Unquoted equity security (note 6.1.2)	**428,677**	1,298,677
	5,808,026	5,453,875

6 INVESTMENTS (continued)

6.1 Investments at fair value through equity (continued)

The movement of investments carried at fair value through equity during the year is as follows:

	2013	*2012*
	US$	*US$*
At 1 January	**5,453,875**	14,055,080
Fair value changes	**1,434,973**	(3,150,129)
Impairment (note 14)	**(34,797)**	(5,321,076)
Disposal	**(1,046,025)**	(130,000)
At 31 December	**5,808,026**	5,453,875

6.1.1 Investments with a carrying value of US$ 2,894,235 (31 December 2012 : US$ 1,898,618) are under dispute and in custody of the court as more fully explained in note 21.

6.1.2 This investment is carried at cost, less impairment, as its fair value could not be reliably measured.

7 INVESTMENT IN REAL ESTATE

	2013		
	Freehold land US$	***Buildings US$***	***Total US$***
Cost:			
At 1 January 2013	22,278,496	16,423,279	38,701,775
Disposals	-	(2,094,768)	(2,094,768)
At 31 December 2013	**22,278,496**	**14,328,511**	**36,607,007**
Depreciation and impairment:			
At 1 January 2013	11,579,286	7,102,309	18,681,595
Charge for the year	-	417,946	417,946
Disposals	-	(748,306)	(748,306)
At 31 December 2013	**11,579,286**	**6,771,949**	**18,351,235**
Net carrying values:			
At 31 December 2013	**10,699,210**	**7,556,562**	**18,255,772**

	2012		
	Freehold land US$	*Buildings US$*	*Total US$*
Cost:			
At 1 January 2012	18,742,649	13,557,902	32,300,551
Transfer from fixed assets (note 10)	3,535,847	3,793,497	7,329,344
Disposals	-	(928,120)	(928,120)
At 31 December 2012	22,278,496	16,423,279	38,701,775
Depreciation and impairment:			
At 1 January 2012	9,657,768	4,168,026	13,825,794
Charge for the year	-	409,758	409,758
Transfer from fixed assets (note 10)	1,921,518	2,823,758	4,745,276
Disposals	-	(299,233)	(299,233)
At 31 December 2012	11,579,286	7,102,309	18,681,595
Net carrying values:			
At 31 December 2012	10,699,210	9,320,970	20,020,180

7 INVESTMENT IN REAL ESTATE (continued)

The fair value of investment in real estate at the year end was US$ 22,872,701 (2012: US$ 19,580,047) determined based on valuations performed by independent valuation experts as at 31 December.

8 OTHER ASSETS

	2013 US$	2012 US$
Dividends receivable (note 8.1 and 21)	**887,733**	887,733
Receivable from disposal of investment at fair value through equity (note 8.2)	**420,000**	-
Prepaid expenses	**49,081**	9,565
Statutory deposit with CBB	**13,263**	13,263
Other receivables	**5,219**	489,531
Qard Hassan	**-**	2,108
Refundable deposit	**557**	1,631
	1,375,853	1,403,831

8.1 These dividends have been pledged against amounts due to a financial institution along with the pledged shares as disclosed in notes 6.1.1 and 21 and are in custody of the court.

8.2 The amount was received on 23 March 2014.

9 OTHER LIABILITIES

	2013 US$	2012 US$
Accrued expenses	**474,457**	410,479
Unearned rental income	**187,863**	235,379
Charity payable	**17,513**	35,285
Others	**14,405**	16,051
	694,238	697,194

10 FIXED ASSETS

	2013			
	Motor vehicles US$	***Office equipment & furniture US$***	***Fixtures US$***	***Total US$***
Cost:				
At 1 January 2013	-	844,675	1,398,005	2,242,680
Additions	21,292	18,920	13,448	53,660
Write off	-	(60,950)	-	(60,950)
At 31 December 2013	**21,292**	**802,645**	**1,411,453**	**2,235,390**
Depreciation:				
At 1 January 2013	-	842,155	1,346,875	2,189,030
Charge for the year	2,484	14,182	5,520	22,186
Write off	-	(60,950)	-	(60,950)
At 31 December 2013	**2,484**	**795,387**	**1,352,395**	**2,150,266**
Net carrying values:				
At 31 December 2013	**18,808**	**7,258**	**59,058**	**85,124**

10 FIXED ASSETS (continued)

	2012					
	Freehold land US$	*Buildings US$*	*Motor vehicles US$*	*Office equipment & furniture US$*	*Fixtures US$*	*Total US$*
Cost:						
At 1 January 2012	3,535,847	3,793,497	58,045	842,840	1,349,246	9,579,475
Transfer to investment in real estate (note 7)	(3,535,847)	(3,793,497)	-	-	-	(7,329,344)
Additions	-	-	-	107,936	48,759	156,695
Disposals	-	-	(58,045)	(106,101)	-	(164,146)
At 31 December 2012	-	-	-	844,675	1,398,005	2,242,680
Depreciation and impairment:						
At 1 January 2012	1,921,518	2,778,123	58,045	781,589	1,076,465	6,615,740
Charge for the year	-	45,635	-	60,566	270,410	376,611
Transfer to investment in real estate (note 7)	(1,921,518)	(2,823,758)	-	-	-	(4,745,276)
Disposals	-	-	(58,045)	-	-	(58,045)
At 31 December 2012	-	-	-	842,155	1,346,875	2,189,030
Net carrying values:						
At 31 December 2012	-	-	-	2,520	51,130	53,650

11 OWNERS' EQUITY

(i) *Share capital*

	2013 US$	2012 US$
Authorised:		
303,030,303 ordinary shares of US$ 0.33 each	**100,000,000**	100,000,000
Issued and fully paid up		
As at the beginning and end of the year		
242,424,242 shares of US$ 0.33 each	**80,000,000**	80,000,000

(ii) *Statutory reserve*

In accordance with the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net profit for the year is transferred to the statutory reserve until such time the reserve reaches 50% of the Bank's paid-up share capital. This reserve is not available for distribution, but can be utilised as security for the purpose of distribution in such circumstances as stipulated in the Bahrain Commercial Companies Law and other applicable statutory regulations. No transfer was made during the year as the Bank incurred a loss.

(iii) *Investments fair value reserve*

Unrealised gains and losses resulting from investments carried at fair value through equity, if not determined to be impaired, are recorded in the investments fair value reserve and not available for distribution. Upon disposal of such assets, the related cumulative gains or losses are transferred to retained earnings and become available for distribution.

12 OTHER INCOME, NET

	2013 US$	2012 US$
Gain on disposal of investment in real estate	**456,126**	164,850
Dividend income	**26,325**	33,157
Income from commodity murabaha contract	**21,826**	-
Foreign exchange loss	**(3,974)**	(5,360)
Loss on disposal of fixed assets	-	(57,560)
	500,303	135,087

13 ADMINISTRATIVE AND GENERAL EXPENSES

	2013 US$	2012 US$
Consultancy and legal expenses	**308,338**	95,171
Staff related claims	**202,419**	-
Electricity and municipality	**82,863**	78,404
Maintenance	**81,465**	96,489
Professional fees	**49,602**	57,560
Office service and cleaning	**35,780**	37,159
License and registration	**35,212**	40,754
Board of Directors and committees meeting expenses and attendance allowances	**31,245**	33,554
Shari'a Supervisory Board remuneration, meeting expenses and attendance allowances	**29,708**	31,565
Advertising and promotion	**15,098**	13,545
Communication	**11,097**	12,039
Business development	**10,992**	17,331
Others	**41,145**	47,332
	934,964	560,903

14 IMPAIRMENT

	2013 **US$**	2012 US$
Investments at fair value through equity (note 6)	**34,797**	5,321,076
Other assets	**486,420**	-
	521,217	5,321,076

15 CONTINGENCIES AND COMMITMENTS

	2013 **US$**	2012 US$
Lease commitment	**-**	4,596,919
	-	4,596,919

During 2006, the Bank entered into a lease agreement for the lease of land on behalf of a related party for a term of 29 years, with a grace period of 2.5 years. The Bank also entered into a back to back agreement with the related party in which both parties agreed that ultimate lessee of the land is the Bank's related party and is liable to make the lease payment to the Bank who in turn will settle the lease payments to the lessor.

The related party defaulted on its lease payments due to delay in execution of the planned project on the leased land. Since the lease agreement was signed between the Bank and the lessor, the Bank's Board of Directors acknowledged that the lessor may claim the outstanding lease payments from the Bank and has therefore entered into negotiations with the lessor to reach a settlement agreement on the outstanding lease commitments which amounted to US$ 5,770,600 as at the date of statement of financial position. Based on these negotiations, the Bank's Board of Directors has recognised a liability amounting to US$ 2,885,300 which in their opinion represents the reliable estimate of the expected settlement.

16 FAIR VALUE OF FINANCIAL INSTRUMENTS

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. Consequently, differences can arise between carrying values and fair value estimates.

Set out below is an overview of financial instruments, other than cash and cash equivalents, held by the Bank as at 31 December 2013:

	Amortised Cost US$	***Fair value through equity US$***	***Fair value through statement of income US$***
Financial assets:			
Investments	**-**	**5,808,026**	**198,412**
Deferred payment sale receivables	**3,680,203**	**-**	**-**
Other assets	**1,313,509**	**-**	**-**
Total	**4,993,712**	**5,808,026**	**198,412**
Financial liabilities:			
Due to a financial institution	**3,670,202**	**-**	**-**
Murabaha payable	**3,229,064**	**-**	**-**
Provision against lease commitment	**2,885,300**	**-**	**-**
Other liabilities	**694,238**	**-**	**-**
Total	**10,478,804**	**-**	**-**

16 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The fair values of financial instruments carried at amortised cost are not materially different from their carrying values as at the statement of financial position date.

Fair value hierarchy

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

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

The Bank's quoted equity investments with a carrying value as at 31 December 2013 of US$ 5,577,761 (31 December 2012: US$ 5,954,637) fall under level 1 of the fair value hierarchy. The Bank does not have financial instruments qualifying for Level 2 and 3. The other investment of US$ 428,677 (31 December 2012: US$ 1,298,677) classified at fair value through equity is carried at cost less impairment.

17 CAPITAL MANAGEMENT

The primary objective of the Bank's capital management is to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

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

The Bank's capital structure is primarily made up of its paid up capital, including reserves. From a regulation's perspective, the significant amount of the Bank's capital is in tier 1 form as defined by the CBB, i.e., most of the capital is of permanent nature.

The classification of the Bank's capital in accordance with the regulatory requirements is as follows:

	2013	*2012*
	US$	*US$*
Tier 1 Capital		
Issued and fully paid ordinary shares	**80,000,000**	80,000,000
Legal / statutory reserves	**7,409,515**	7,409,515
Accumulated losses	**(67,024,045)**	(62,130,918)
	20,385,470	25,278,597
Excess amount over maximum permitted large exposure limit	**(12,637,646)**	(13,595,178)
Total Tier 1 Capital	**7,747,824**	11,683,419

17 CAPITAL MANAGEMENT (continued)

	2013	*2012*
	US$	*US$*
Tier 2 Capital		
Unrealised gross gains arising from fair valuing equities (45% only)	**884,040**	238,302
Excess amount over maximum permitted large exposure limit	**(884,040)**	(238,302)
Total Tier 2 Capital	**-**	-
Total Eligible Capital	**7,747,824**	11,683,419

To assess its capital adequacy requirements in accordance with the CBB requirements, the Bank adopts the Standardised approach for its Credit Risk, Basic Indicator Approach for its Operational Risk and Standardised Measurement Approach for its Market Risk. The Capital requirements for these risks are as follows:

Credit Risk Weighted Exposures	**44,760,663**	46,189,744
Market Risk Weighted Exposures	**2,458,227**	5,036,229
Operational Risk Weighted Exposures	**1,616,336**	1,432,979
Total Risk Weighted Exposures	**48,835,226**	52,658,952
Capital Adequacy Ratio	**15.87%**	22.19%

18 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties comprise major shareholders, directors of the Bank, Shari'a Supervisory Board members, entities owned or controlled, jointly controlled or significantly influenced by them and companies affiliated by virtue of shareholding in common with that of the Bank.

Transactions with related parties are undertaken on terms agreed between the parties which may not necessarily be on arm's length basis.

18 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Significant balances with related parties at 31 December comprise:

	Shareholders			*Others*			*2013*	*2012*
	Gross US$	*Provision US$*	*Net US$*	*Gross US$*	*Provision US$*	*Net US$*	*Total US$*	*Total US$*
Assets								
Investment at fair value through statement of income	-	-	-	15,802,165	(15,802,165)	-	-	1,715,715
Investments at fair value through equity	307,176	(307,176)	-	6,074,183	(4,872,840)	1,201,343	1,201,343	1,236,241
Deferred payment sale receivables	3,680,203	-	3,680,203	-	-	-	3,680,203	3,680,203
Other assets	22,213,228	(22,213,228)	-	10,210,625	(10,210,625)	-	-	9,312
Liabilities								
Murabaha payables	3,229,064	-	3,229,064	-	-	-	3,229,064	3,229,064
Other liabilities	-	-	-	142,625	-	142,625	142,625	217,803
OFF-BALANCE SHEET ITEMS: EQUITY OF INVESTMENT ACCOUNTHOLDERS	16,122,978	(16,122,978)	-	-	-	-	-	16,122,978

The income and expenses with related parties included in the financial statements are as follows:

	2013			*2012*
	Shareholders US$	*Others US$*	*Total US$*	*Total US$*
Income				
Fair value loss on investment at fair value through statement of income	-	(1,715,715)	(1,715,715)	(17,315)
Expenses				
Provision for impairment	34,798	9,312	44,110	4,872,841
Board of Directors and Board Committees attendance allowances	-	31,245	31,245	33,554
Shari'a Supervisory Board remuneration and attendance allowances	-	29,708	29,708	31,565
Other comprehensive loss	(101)	-	(101)	(2,485,485)

18 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Key management personnel of the Bank comprise key members of management having authority and responsibility for planning, directing and controlling the activities of the Bank. The key management personnel compensation is as follows:

	2013 *US$*	*2012* *US$*
Salaries and other short-term benefits	**227,036**	149,969
Post employment benefits	**9,655**	11,034
	236,691	161,003

19 SEGMENTAL INFORMATION

The industrial distribution of the Bank's assets and liabilities as of 31 December 2013 is as follows:

	2013			
	Banks and financial institutions US$	*Investment companies US$*	*Others US$*	*Total US$*
Assets				
Cash and balances with banks	**768,919**	**-**	**-**	**768,919**
Due from a financial institution	**2,656,499**	**-**	**-**	**2,656,499**
Investments	**5,922,088**	**-**	**84,350**	**6,006,438**
Deferred payment sale receivables	**-**	**3,680,203**	**-**	**3,680,203**
Investment in real estate	**-**	**-**	**18,255,772**	**18,255,772**
Other assets	**900,996**	**-**	**474,857**	**1,375,853**
Fixed assets	**-**	**-**	**85,124**	**85,124**
Total assets	**10,248,502**	**3,680,203**	**18,900,103**	**32,828,808**
Liabilities				
Due to a financial institution	**3,670,202**	**-**	**-**	**3,670,202**
Murabaha payable	**3,229,064**	**-**	**-**	**3,229,064**
Provision against lease commitment	**-**	**-**	**2,885,300**	**2,885,300**
Other liabilities	**3,271**	**-**	**690,967**	**694,238**
Total liabilities	**6,902,537**	**-**	**3,576,267**	**10,478,804**
OFF-BALANCE SHEET ITEMS: EQUITY OF INVESTMENT ACCOUNTHOLDERS	**-**	**-**	**-**	**-**

19 SEGMENTAL INFORMATION (continued)

	2012			
	Banks and financial institutions US$	*Investment companies US$*	*Others US$*	*Total US$*
Assets				
Cash and balances with banks	993,440	-	-	993,440
Investments	4,353,876	31,936	2,867,502	7,253,314
Deferred payment sale receivables	-	3,680,203	-	3,680,203
Investment in real estate	-	-	20,020,180	20,020,180
Other assets	900,996	-	502,835	1,403,831
Fixed assets	-	-	53,650	53,650
Total assets	6,248,312	3,712,139	23,444,167	33,404,618
Liabilities				
Due to a financial institution	3,670,202	-	-	3,670,202
Murabaha payable	3,229,064	-	-	3,229,064
Other liabilities	35,395	-	661,799	697,194
Total liabilities	6,934,661	-	661,799	7,596,460
OFF-BALANCE SHEET ITEMS: EQUITY OF INVESTMENT ACCOUNTHOLDERS	5,670,202	10,452,776	317,689	16,440,667

Geographical concentration

Assets and liabilities of the Bank as at 31 December 2013 and 31 December 2012 are primarily concentrated in the Middle East region.

20 RISK MANAGEMENT

The Bank is exposed to credit risk, liquidity risk and market risk along with other operational risks.

The Bank's Board of Directors has the overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established an Executive Committee, which is responsible for developing and monitoring the Bank's operations and policies across various functions including the risk management policies. The Executive Committee reviews and approves the CEO's recommendations for investment strategies, investment proposals, various products and services and where deemed necessary, also refers decisions to the Board of Directors.

The Bank's Audit Committee is responsible for monitoring compliance with the risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by an outsourced Internal Audit function.

Credit risk

Credit risk is the risk that a counterparty to a financial transaction does not discharge its obligations on due dates and causes the other party to incur a financial loss.

The Bank's credit risk arises mainly from balances with banks, due from a financial institution, deferred payment sale receivables and other assets. The Bank manages it credit risk on bank balances by placing funds with reputable banks having good credit ratings.

20 RISK MANAGEMENT (continued)

Credit risk (continued)

The Bank's maximum exposure to credit risk at 31 December was as follows:

	2013 US$	*2012* US$
Balances with banks	**767,593**	992,114
Due from a financial institution	**2,656,499**	-
Deferred payment sale receivables	**3,680,203**	3,680,203
Other assets	**1,313,509**	1,381,003
Maximum exposure to credit risk	**8,417,804**	6,053,320

Analysis of the Bank's exposure to credit risk:

	2013				
	Balances with banks and financial institution US$	***Receivables from sale of investments US$***	***Deferred payment sale receivables US$***	***Other financial assets US$***	***Total US$***
Neither past due nor impaired	**3,424,092**	**-**	**-**	**5,776**	**3,429,868**
Past due but not impaired	**-**	**-**	**3,680,203**	**1,307,733**	**4,987,936**
Individually impaired					
Gross amount	**-**	**16,786,726**	**-**	**16,693,813**	**33,480,539**
Provision for impairment	**-**	**(16,786,726)**	**-**	**(16,693,813)**	**(33,480,539)**
Net	**-**	**-**	**-**	**-**	**-**
Total exposure to credit risk	**3,424,092**	**-**	**3,680,203**	**1,313,509**	**8,417,804**

	2012				
	Balances with banks US$	*Receivables from sale of investments US$*	*Deferred payment sale receivables US$*	*Other financial assets US$*	*Total US$*
Neither past due nor impaired	992,114	-	-	6,850	998,964
Past due but not impaired	-	-	3,680,203	899,153	4,579,356
Individually impaired					
Gross amount	-	16,786,726	-	16,682,392	33,469,118
Provision for impairment	-	(16,786,726)	-	(16,207,392)	(32,994,118)
Net	-	-	-	475,000	475,000
Total exposure to credit risk	992,114	-	3,680,203	1,381,003	6,053,320

20 RISK MANAGEMENT (continued)

Credit risk (continued)

Credit quality per class of financial assets

The table below analyses the Bank's maximum credit exposure where the credit quality is reflected by external credit ratings (S&P, Moody's and Fitch) of the counterparties where relevant:

2013	***Balances with banks and financial institution US$***	***Deferred payment sale receivables US$***	***Other financial assets US$***	***Total US$***
Non-investment / speculative: BB – B	**734,591**	**-**	**-**	**734,591**
Unrated	**2,689,501**	**3,680,203**	**1,313,509**	**7,683,213**
	3,424,092	**3,680,203**	**1,313,509**	**8,417,804**

2012	*Balances with banks US$*	*Deferred payment sale receivables US$*	*Other financial assets US$*	*Total US$*
Non-investment / speculative: BB – B	983,473	-	-	983,473
Unrated	8,641	3,680,203	1,381,003	5,069,847
	992,114	3,680,203	1,381,003	6,053,320

20 RISK MANAGEMENT (continued)

Credit risk (continued)

Concentration Risk

Concentration risk is the risk of insufficient diversification of the portfolio resulting in an adverse impact of an external event on portfolio constituents sensitive to similar risk factors. Concentration risk primarily arises due to name and sector concentration.

The Bank's financial assets with credit risk can be analysed by the following industry sector:

2013	***Banks and financial institution US$***	***Investment companies US$***	***Others US$***	***Total US$***
Balances with banks	**767,593**	**-**	**-**	**767,593**
Due from a financial institution	**2,656,499**	**-**	**-**	**2,656,499**
Deferred payment sale receivables	**-**	**3,680,203**	**-**	**3,680,203**
Other assets	**887,733**	**-**	**425,776**	**1,313,509**
	4,311,825	**3,680,203**	**425,776**	**8,417,804**

2012	*Banks and financial institution US$*	*Investment companies US$*	*Others US$*	*Total US$*
Balances with banks	992,114	-	-	992,114
Deferred payment sale receivables	-	3,680,203	-	3,680,203
Other assets	887,733	-	493,270	1,381,003
	1,879,847	3,680,203	493,270	6,053,320

Geographical concentration

Assets and liabilities of the Bank as at 31 December 2013 and 31 December 2012 are primarily concentrated in the Middle East region.

20 RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is defined as the risk that funds will not be available to meet liabilities as they fall due. It is the Bank's policy to keep a significant part of its assets in the form of liquid assets such as balances with banks, due from a financial institution, investments at fair value through statement of income and investments at fair value through equity.

The table below summarises the maturity profile of the Bank's assets and liabilities as of 31 December 2013 based on expected periods to cash conversion from the statement of financial position date:

	2013						
	Up to 1 month US$	*1 to 3 months US$*	*3 months to 1 year US$*	*Total within 1 year US$*	*1 to 3 years US$*	*No fixed maturity US$*	*Total US$*
Assets							
Cash and balances with banks	768,919	-	-	768,919	-	-	768,919
Due from a financial institution	2,656,499	-	-	2,656,499	-	-	2,656,499
Investments	-	-	198,412	198,412	-	5,808,026	6,006,438
Deferred payment sale receivables	3,680,203	-	-	3,680,203	-	-	3,680,203
Investment in real estate	-	-	-	-	-	18,255,772	18,255,772
Other assets	425,219	-	49,081	474,300	-	901,553	1,375,853
Fixed assets	-	-	-	-	-	85,124	85,124
Total assets	7,530,840	-	247,493	7,778,333	-	25,050,475	32,828,808
Liabilities							
Due to a financial institution	3,670,202	-	-	3,670,202	-	-	3,670,202
Murabaha payable	3,229,064	-	-	3,229,064	-	-	3,229,064
Provision against lease commitment	-	-	-	-	-	2,885,300	2,885,300
Other liabilities	137,146	46,442	142,542	326,130	148,010	220,098	694,238
Total liabilities	7,036,412	46,442	142,542	7,225,396	148,010	3,105,398	10,478,804
Net	494,428	(46,442)	104,951	552,937	(148,010)	21,945,077	22,350,004

20 RISK MANAGEMENT (continued)

Liquidity risk (continued)

The table below summarises the maturity profile of the Bank's assets and liabilities as of 31 December 2012 based on expected periods to cash conversion from the statement of financial position date:

	2012						
	Up to 1 month US$	*1 to 3 months US$*	*3 months to 1 year US$*	*Total within 1 year US$*	*1 to 3 years US$*	*No fixed maturity US$*	*Total US$*
Assets							
Cash and balances with banks	993,440	-	-	993,440	-	-	993,440
Investments	-	-	1,799,439	1,799,439	-	5,453,875	7,253,314
Deferred payment sale receivables	3,680,203	-	-	3,680,203	-	-	3,680,203
Investment in real estate	-	-	-	-	-	20,020,180	20,020,180
Other assets	7,327	9,312	9,565	26,204	-	1,377,627	1,403,831
Fixed assets	-	-	-	-	-	53,650	53,650
Total assets	4,680,970	9,312	1,809,004	6,499,286	-	26,905,332	33,404,618
Liabilities							
Due to a financial institution	3,670,202	-	-	3,670,202	-	-	3,670,202
Murabaha payable	3,229,064	-	-	3,229,064	-	-	3,229,064
Other liabilities	121,018	83,893	255,144	460,055	201,854	35,285	697,194
Total liabilities	7,020,284	83,893	255,144	7,359,321	201,854	35,285	7,596,460
Net	(2,339,314)	(74,581)	1,553,860	(860,035)	(201,854)	26,870,047	25,808,158

20 RISK MANAGEMENT (continued)

Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Bank has the following significant exposure in a foreign currency at the date of statement of financial position:

	2013		
	Assets US$	***Liabilities US$***	***Net US$***
Kuwaiti Dinar	**2,061,403**	**-**	**2,061,403**

	2012		
	Assets US$	*Liabilities US$*	*Net US$*
Kuwaiti Dinar	3,329,991	-	3,329,991

Sensitivity Analysis:
The following table demonstrate the sensitivity to a reasonable possible change in foreign exchange rates, with all other variables held constant, of the Bank's statement of income for balances as of 31 December:

	Change in rate	*Effect on net income for the year*	
		2013 US$	*2012 US$*
Kuwaiti Dinar	**5%**	**103,070**	166,500

The decrease in rate will have an opposite impact on net income.

Equity price risk
Equity price risk is the risk that Bank's quoted equity investments will depreciate in value due to movements in the quoted equity prices. The Bank has listed equity investments designated at fair value through statement of income and investments at fair value through equity portfolio. The price movement of these exposures are monitored by the Bank on a daily basis.

The following table demonstrates the sensitivity to a reasonable possible change in equity prices, with all other variables held constant, of the Bank's statement of income or equity based on the position as of 31 December:

Sensitivity Analysis:

	Change in price	*Effect on net income for the year*	
		2013 US$	*2012 US$*
Particulars			
Investments at fair value through statement of income	**20%**	**39,682**	359,888
Investments at fair value through equity	**20%**	**1,075,870**	831,040

The decrease in rate will have an opposite impact on net income.

Operational Risk
Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events which includes but is not limited to legal risk and Shari'a compliance risk. This definition excludes strategic and reputational risk.

20 RISK MANAGEMENT (continued)

Operational Risk (continued)

The Bank has implemented an operational risk framework of the Basic Indicator Approach ["BIA"], as defined by the CBB guidelines. This framework includes measuring, monitoring and managing operational risk across the Bank. This framework uses tools like Risk and Control Self Assessment, identification of Key Risk Indicators, preparation of operational loss database etc.

The operational risk framework will evolve with the changing needs of the Bank's businesses and regulatory guidance, taking into account internal and external operational risk events, business environment and internal control factors.

While individual units have direct responsibility for the control and mitigation of operational risk, the proposed framework provides a consistent methodology across the Bank. The Bank attempts to manage operational risk through appropriate controls, appropriate training of the employees, and internal checks and balances including internal audit and compliance.

21 LITIGATION AND CLAIMS

In 2004, the Bank entered into a sale and purchase agreement with a financial institution to purchase shares of a related party on behalf of another related party. The net amount due to the financial institution was US$ 3,670,202 as at 31 December 2013 (31 December 2012: US$ 3,670,202). In accordance with the terms of the agreement, the Bank pledged certain equity shares with a carrying value of US$ 2,894,235 as at 31 December 2013 (31 December 2012: US$ 1,898,618) in addition to dividends received on these shares amounting to US$ 887,733 as at 31 December 2013 (31 December 2012: US$ 887,733). Subsequently, the agreement was terminated by the financial institution due to disputes with the Bank and as a result, the pledged shares were retained by the financial institution. In the opinion of the Bank's lawyers and management, the agreement was wrongfully terminated and following the financial institution's refusal to settle the matter amicably, the Bank has filed a legal case in the courts of Bahrain against the financial institution for possession of the Bank's investments.

As a result, the court has taken custody of the shares under dispute and the related dividends. The related party on whose behalf the transaction was entered into has provided a manager's cheque for an equal amount which has been deposited with the court amounting to US$ 3,680,203.

The related party on whose behalf the transaction was entered into has also agreed to reimburse the Bank for legal expenses and any losses arising on final settlement with the financial institution. Accordingly, in the opinion of the directors, no provision is required to be made in the financial statements against the investment pledged with the financial institution or for contingent claims that might arise on final settlement.

22 SHARES PLEDGED ON BEHALF OF A RELATED PARTY

In 2004, a related party of the Bank (the "borrower") entered into a murabaha financing agreement (the "financing") with a financial institution. The Bank pledged certain listed equity shares, (8,352,705 shares) with a carrying value of US$ 5,760,487 on behalf of the borrower against the financing. In addition, the borrower and another related party also pledged 4,647,011 shares and 5,840,625 shares respectively against this financing.

The borrower defaulted on the financing and the financial institution filed a case in the court. The court ruled in favour of the financial institution. The court has ordered the borrower to settle the outstanding balance of US$ 5,906,529 plus an annual profit of 3% from the date of the claim, being 10 April 2011, to the date of full payment in addition to legal expenses. The obligation of the Bank and the other related party is limited to the pledged shares.

22 SHARES PLEDGED ON BEHALF OF A RELATED PARTY (continued)

During 2013, a broker was appointed by the court to sell the pledged shares for the best possible price. The broker auctioned the shares with a price of BD 0.100 per share however no potential buyers indicated their interest at this price and the shares are yet to be sold. Based on this price the Bank would not be able to recover its pledged investment and the Bank's Board of Directors have decided to derecognise its pledged investment. The Bank's equity investment in the same shares has also been written down to the auction price.

Further, the related party on behalf of which the Bank has pledged its equity shares has provided an Islamic financing facility to the Bank which appears in the statement of financial position under "murabaha payable" and amounted to US$ 3,229,064 as at 31 December 2013 (31 December 2012: US$ 3,229,064).

23 SHARI'A SUPERVISORY BOARD

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

24 SOCIAL RESPONSIBILITY

The Bank discharges its social responsibilities through donations to charitable causes and organisations.

25 RESTATEMENT OF COMPARATIVE FIGURES

As disclosed in note 22, the Bank pledged an investment with a carrying value of US$ 5,760,487 in respect of a financing obtained by a related party from a financial institution. Following default by the related party, the financial institution filed a legal case in the court which was ruled out in favor of the financial institution and the court ordered the disposal of the pledged shares to settle the overdue amount. During the previous year, the Bank's Board of Directors was anticipating that only a portion of the pledged shares would be sold to settle the overdue amount, however, at the auction price suggested by the broker, all the pledged shares would be disposed off to settle the outstanding obligation. On that basis the Bank's Board of Directors has agreed to derecognise its pledged investment by adjusting the previous year financial statements and writing down its remaining stake in the same shares to the auction price. The comparatives have been restated as set out below:

	31 December 2012	
	(Restated) US$	*(Previously reported)* US$
Statement of financial position		
Investments	**7,253,314**	14,252,457
Investments fair value reserve	**529,561**	2,988,199
Accumulated losses	**(62,130,918)**	(57,590,413)

	'For the year ended 31 December 2012	
	(Restated) US$	*(Previously reported)* US$
Statement of income		
Impairment	(5,321,076)	(780,571)