BBK

بنك البحرين والكويت

Journey of success

Annual Report 2013

H.M. King Hamad bin Isa Al Khalifa
King of the Kingdom of Bahrain

H.H. Sheikh Sabah Al Ahmed Al Sabah
Amir of the State of Kuwait

Our vision

BBK will be the premier regional financial services enterprise in providing superior products and services of high quality through innovation, technology and life-long client relationships.

Our mission

The Bank will expand its overseas presence in more locations in which it chooses to operate in order to satisfy the diversified needs of clients. We believe clients are the driving force in everything we do. We will not compromise on our absolute commitment to providing the very best in client service.

We believe our people are our number one asset with the highest degree of competence, integrity and professionalism. We instil in our people the principles of entrepreneurship, decision-making and ownership through our commitment to training, development, delegation and performance based reward systems.

We are determined to utilise cutting-edge technology which we recognise as most critical in supporting our short, medium and long-term business objectives.

Our shareholders are the source of our financial strength and can expect continued growth and profitability. They are supportive and are confident of our vision of the future.

Contents

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For four decades, BBK has followed a path that has sustained continual growth.

With a visionary leadership, strategic focus and innovation at every turn, this outstanding journey of ongoing success has been one of challenge, achievement and reward not only for our people, customers and shareholders but more importantly to the communities in which we serve. Its renowned, dedicated and caring approach positions BBK as the Bank of distinction helping people achieve brighter financial futures and realise their dreams.

As the journey of success continues, BBK strives ever higher, ever bigger, exploring new horizons and seeking opportunities for prosperity, accomplishment and excellence.

Financial highlights

	2009	2010	2011	2012	**2013**
Income statement highlights *(BD millions)*					
Net interest income	53.6	53.7	58.9	65.8	**68.9**
Other income	39.0	55.4	46.9	42.9	**43.5**
Operating expenses	42.9	45.6	47.9	50.6	**54.4**
Net profit for the year	35.0	39.1	31.8	42.4	**45.1**
Cash dividend	25%	25%	25%	10%	**10%**
Stock dividend	-	-	-	10%	**10%**
Financial statement highlights *(BD millions)*					
Total assets	2,279	2,447	2,765	3,108	**3,231**
Loans and advances	1,269	1,276	1,407	1,499	**1,619**
Investments	446	591	830	937	**1,117**
Customer deposits	1,517	1,594	2,076	2,205	**2,353**
Term borrowings	257	370	237	238	**239**
Total equity	231	241	238	290	**333**
Profitability					
Earnings per share *(fils)*	42	47	38	46	**49**
Cost / income	46.39%	41.82%	45.30%	46.54%	**48.41%**
Return on average assets	1.66%	1.63%	1.20%	1.46%	**1.43%**
Return on average equity	16.38%	16.90%	13.40%	16.31%	**14.53%**
Profit per employee *(BD)*	32,661	36,344	28,952	38,789	**45,232**
Capital					
Capital adequacy	17.51%	18.57%	14.85%	14.29%	**15.33%**
Equity / total assets	10.14%	9.83%	8.61%	9.32%	**10.31%**
Debt / equity	111.33%	153.94%	99.41%	82.18%	**71.94%**
Liquidity and business indicators					
Loans and advances / total assets	55.67%	52.15%	50.87%	48.23%	**50.10%**
Loans and advances / customer deposits	83.63%	80.09%	67.75%	67.98%	**68.79%**
Investments excluding treasury bills / total assets	16.88%	18.82%	22.24%	24.85%	**24.82%**
Liquid assets / total assets	31.10%	32.39%	34.98%	36.50%	**33.25%**
Net yield ratio	2.60%	2.39%	2.38%	2.50%	**2.39%**
Number of employees	1,072	1,077	1,098	1,092	**996**

Net profit for the year 2013

45.1 million

Well positioned with sustainable growth trend.

All figures in Bahraini Dinar.

Net interest income

68.9 million

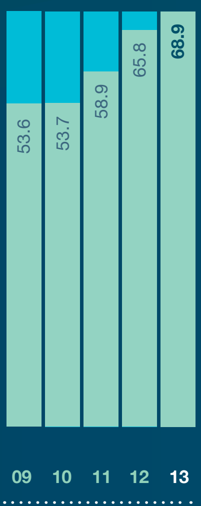
Rise in customer deposits

+6.7 %

Year on Year increase of BD 148 million.

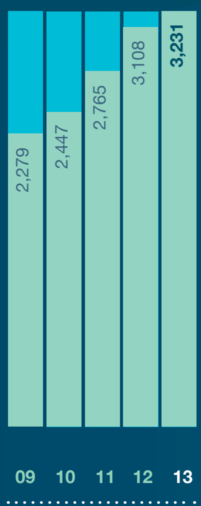
Net interest income

BD millions



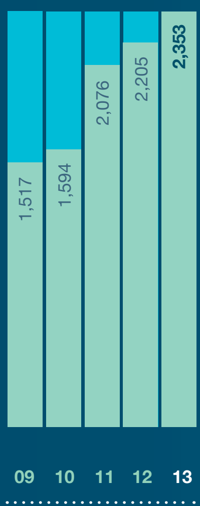
Total assets

BD millions



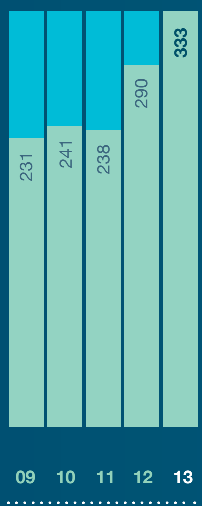
Customer deposits

BD millions



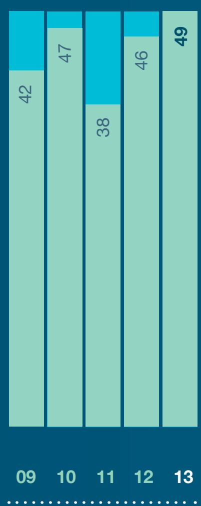
Total equity

BD millions



Earnings per share

Fils



Message from the Chairman

Murad Ali Murad

"BBK's journey of success is a testament to the Bank's strategy, direction and drive."

It is my pleasure to report to you that BBK has had another outstanding year.

Our 2013 results are a testament to the strength of our business model and the performance of our talented and dedicated employees. BBK certainly would never be able to achieve what it has in this year, or any other year, were it not for the commitment and hard work of its people. With a newly aligned Executive Management team and enhanced business framework, I am proud to say we are continuing on our journey of accomplishment, success and operational excellence.

The success in 2013 is a result of progress towards goals established in our 2013-2015 Strategic Plan. In line with the plan, we have developed our business across diverse revenue streams, further expanded our horizons in overseas endeavours and successfully implemented an organisation-wide restructuring programme while maintaining a high level of profitability and growth.

For the world economy it was another challenging year, with growth in many of the emerging markets continuing to slow, and demand in developed economies remaining subdued. However global economic activity gained momentum towards the end of 2013 and in more mature economies such as the Eurozone, the situation has stabilised with a positive move out of recession where austerity measures are paying off. Although fragile, the outlook continues to improve.

For Bahrain, 2013 has brought an improved financial outlook. Indicators such as control on unemployment, a healthy growth rate of around 4.8 percent, and robust governmental spending for 2013/2014 all suggest a good degree of recovery for the country. Our economy has grown and performed well thanks to the generous support of the Government, as well as from the non-oil sector where a number of significant undertakings were started or are about to be launched. These anticipated key infrastructure projects, funded both locally and through the GCC Development Fund, should in turn have positive implications for a number of other sectors and businesses while increasing consumer confidence and optimising future growth trajectory.

Nonetheless, Bahrain continues to face some internal challenges, namely a increased budget deficit plus an inflation rate that reached a high of 3.8 percent during late 2013 which was primarily driven by a rise in housing and utility costs and also affected from an increase in food prices. All set against a backdrop of depleting oil reserves and a recovering socio-political arena. But in a move to prevent the budget deficit widening further and avert the possible risk of a future fiscal crunch, the Government is looking to introduce new ways to redirect subsidies to those most in need and create a more long term sustainable public spending model. Despite these challenges, it is important to bear in mind that Bahrain's current fiscal position is stable; the ratio of Government debt to GDP is below 40 percent as a result of a long history of prudent management and fiscal sustainability, which is a recognised Government priority.

In line with our strategic objectives and key restructuring initiatives, we extended on our ability to do more with less wherever possible. Driven by our commitment to increase efficiency and control operating costs, ambitious targets were set – and met – for consolidating and re-engineering some of the Bank's operations and processes.

BBK won three prestigious awards during the year illustrating the Bank's constant drive for excellence and perfection in all areas of our business. The Bank received the 2013 The J.P. Morgan Quality Recognition Award for best-in-class straight-through transfer processing rates; the Award for Business Excellence from Bizz 2013 International Business; and – for the fourth year running – the Hawkamah award for corporate governance.

Prudent risk management, a strong balance sheet and focused implementation of our strategy enabled BBK to capture opportunities across the region and overseas.

I am pleased to report that BBK achieved a net profit of BD 45.1 million in 2013 compared to BD 42.4 million in 2012, with a return on average equity of 14.5 percent and total assets at year end of BD 3,231 million as compared to BD 3,108 million in 2012.

BBK showed sustainable growth of 6.4 percent in 2013 with well-diversified revenue streams contributing to the positive overall results. Retail Banking, Corporate Banking and Overseas Banking all returned robust figures. The Bank continued to strengthen its international presence through the opening of a third branch in Aluva, in the state of Kerala in the Republic of India, as well as being granted an additional license for a fourth branch in New Delhi, which we plan to open in Q3 2014, further extending our reach in a market with good growth potential. Regional branches in Kuwait and Dubai also continue to gain, showing positive future outlooks.

With regards to our subsidiaries, a recommitment to CrediMax has helped the Bank maintain its market share in the card business while Invita is looking to expand regionally through opening a new branch in Kuwait soon.

Thanks to the skill and commitment of the Bank's Governing Board and Executive Management team, the implementation of internal restructuring initiatives were seamless and I feel confident as we journey into 2014 that BBK will be an even more effective and competitive organisation by streamlining activities, optimising human capital, fostering synergies between divisions and automating many processes.

Good corporate governance remains as ever a central commitment for BBK and we're very proud to maintain our leading position in this area by meeting and surpassing requirements at local, regional and international levels.

As a leading Bahraini financial institution, giving something back to our community is a priority for BBK. I am proud to say in 2013 we allocated a total of BD 1.25 million in support of a number of initiatives including the Crown Prince's International Scholarship Programme (CPISP) and Bahrain philanthropic societies. Our extensive Corporate Social Responsibility (CSR) programme remains an integral part of our business with its activities supported at the very highest levels of the organisation.

As part of an organisation with a history of leadership of over 42 years, all of us at BBK share a commitment to the operating principles and core values that drive our business decisions and practices. In 2013 we continued to demonstrate our allegiance to developing the wider Bahraini economy through our engagement with small and medium-sized enterprises (SMEs), a business sector that has been adversely affected by local conditions in recent years. BBK is dedicated to finding ways to do more for this important sector, supporting and guiding small business owners and entrepreneurs as they grow their enterprises. We feel this is in line with the Government's vision for 2030, as well as a way to contribute to the future prosperity and diversity of the country's economy.

As we look to the future we will continue to serve all our stakeholders with diligence, seeking to bring new and innovative banking services to our customers and striving to achieve excellence in all aspects of our service delivery.

I would like to take this opportunity to extend the utmost gratitude and deepest appreciation to His Majesty King Hamad bin Isa Al Khalifa, the King of the Kingdom of Bahrain, and His Highness Sheikh Sabah Al Ahmed Al Jaber Al Sabah, the Amir of the State of Kuwait. I would also like to extend thanks to their respective Governments and regulatory authorities for their support and guidance during 2013.

I also thank our current Board of Directors for providing the vision, guidance and responsiveness that our organisation needs to ensure continued success in our highly competitive industry.

Finally, I thank BBK's Executive Management team and all BBK employees for their considerable efforts and dedication in this year of consolidation and change, and of course thank our loyal shareholders and customers for their support and ongoing partnership with BBK.

Murad Ali Murad
Chairman

Board of Directors

Murad Ali Murad
Chairman

Chairman of the Nomination, Remuneration & Corporate Governance Committee

Chairman of the Risk Committee

Director since 21 March 1999
(Independent and Non-Executive)

QUALIFICATIONS AND EXPERIENCE: Fellow member of Chartered Institute of Management Accounting, London, United Kingdom. Over 41 years experience in the banking sector and has own business for the past 11 years.

Aref Saleh Khamis
Deputy Chairman

Director since 1 April 2003
(Non-Independent and Non-Executive)

QUALIFICATIONS AND EXPERIENCE: MBA, King Fahad University of Petroleum and Minerals, Dhahran, Kingdom of Saudi Arabia. 29 years experience in the government sector.

NOMINATED BY: Social Insurance Organisation (SIO).

Mohamed Abdulrahman Hussain
Board Member

Chairman of the Executive Committee

Director since 2 March 2008
(Non-Independent and Non-Executive)

QUALIFICATIONS AND EXPERIENCE: BA in Economics and Finance, University of Aleppo, Syria. Over 34 years experience in the banking sector.

Jassem Hasan Ali Zainal
Board Member

Chairman of the Audit Committee

Director since 22 November 1994
(Independent and Non-Executive)

QUALIFICATIONS AND EXPERIENCE: Master in Civil Engineering, Kuwait University, State of Kuwait. 23 years experience in the banking sector, 4 years in the government sector, 5 years with finance companies, 5 years with investment companies and has own business for 5 years.

Dr. Abdulmohsen Medej Mohammed Al Medej
Board Member

Director since 11 May 2009
(Non-Independent and Non-Executive)

QUALIFICATIONS AND EXPERIENCE: PhD, University of Durham, United Kingdom. 35 years experience in the education sector, 18 years in the government sector and has own business for 10 years.

NOMINATED BY: Kuwait Investment Authority.

Mutlaq Mubarak Al Sanei
Board Member

Director since 6 March 2011
(Non-Independent and Non-Executive)

QUALIFICATIONS AND EXPERIENCE: Bachelor of Economics, Kuwait University, State of Kuwait. Over 21 years experience in the management of diversified investments across the Middle East and North Africa and around 5 years in the management of real estate and tourism projects in North Africa.

Elham Ebrahim Hasan
Board Member

Director since 6 March 2011
(Non-Independent and Non-Executive)

QUALIFICATIONS AND EXPERIENCE: BSc in Accountancy, University of Cairo, Egypt. Certified Public Accountant from Boston, MA, United States of America. 28 years experience in the auditing field primarily auditing banks and financial institutions.

NOMINATED BY: Ithmaar Bank.

Dr. Zakareya Sultan Al Abbasi
Board Member

Director since 22 February 2012
(Non-Independent and Non-Executive)

QUALIFICATIONS AND EXPERIENCE: PhD, University of East Anglia, United Kingdom. 28 years experience in the government sector (social insurance).

NOMINATED BY: Social Insurance Organisation (SIO).

Sh. Abdulla bin Khalifa bin Salman Al Khalifa
Board Member

Director since 2 March 2008
(Non-Independent and Non-Executive)

QUALIFICATIONS AND EXPERIENCE: Bachelor of Business Administration, George Washington University, United States of America. 13 years experience in the banking and investment sector.

Sh. Khalifa bin Duaij Al Khalifa
Board Member

Director since 27 February 2005
(Independent and Non-Executive)

QUALIFICATIONS AND EXPERIENCE: MBA, Johns Hopkins University, United State of America, Master in Social and Public Policy, Georgetown University, United States of America. 6 years experience in the government sector (investment field) and 8 years in the diplomatic sector.

Yusuf Saleh Khalaf
Board Member

Director since 6 March 2011
(Independent and Non-Executive)

QUALIFICATIONS AND EXPERIENCE: Associate of Chartered Certified Accountants, United Kingdom. 7 years experience in the auditing field and over 25 years in the banking sector.

Hassan Mohammed Mahmood
Board Member

Director since 1 September 2010
(Non-Independent and Non-Executive)

QUALIFICATIONS AND EXPERIENCE: Bachelor of Commerce, University of Bangalore, Republic of India. Over 16 years experience in audit and consultancy and over 16 years in Islamic finance.

NOMINATED BY: Ithmaar Bank.

Board of Directors' Report

The Board of Directors is honoured to present the 42nd annual report and consolidated financial statements of BBK and its subsidiaries (the "Group") for the year ending 31 December 2013.

Operating environment

In comparison with slow or static growth in emerging economies and continuing instability in world markets, the outlook for the six-nation Gulf Cooperation Council (GCC) is solid with aggregate economic growth at around 5 percent for 2013 on the back of growth in the non-oil sector which benefited from large infrastructure projects.

This regional upturn has had a knock-on effect in our home market with the Bahrain economy remaining relatively well insulated and has continued to grow, albeit relatively slowly, with GDP up at 4.8 percent. This rise was driven by substantial gains in the oil and gas sector and supported by strong investment in infrastructure, a rise in public and private investment and continued contribution from the Government whose expenditure totalled BD 3.6 billion in 2013, up from BD 3.2 billion spent in 2012.

Sustained growth and performance

BBK demonstrated another strong performance for 2013 well in line with projections for the year and continuing the Bank's unbroken record of year-on-year growth. In a climate of increasing local competition and narrowing margins for the financial sector, the Bank's ability in improving its services' delivery channels, streamlining and strengthening its core framework plus the agility to expand in lucrative overseas ventures illustrates the Group's dynamic and evolutionary qualities in local, regional and international arenas – and all while achieving the highest level of effective operational performance.

Financial highlights

The Group can again report a solid full year result with net profits of BD 45.1 million, an increase of 6.4 percent over the previous year's profit of BD 42.4 million. Net interest income rose 4.7 percent to BD 68.9 million with equity showing a healthy growth up 14.9 percent compared to 2012 mainly due to higher profit retention and ongoing positive trends in the cumulative changes of fair value reserves, statutory and general reserves.

We delivered consistent underlying performance in our core business, demonstrating the strength of our strategy and management team. The Bank's total balance sheet strengthened to BD 3,231 million at the end of 2013, an increase of BD 123 million over last year's results. This was fuelled by strong growth in customer deposits which rose by BD 148 million over the course of the year. This rise was achieved by leveraging BBK's established image as one of the safest, most prudent and community-focused financial institutions in the Kingdom of Bahrain, which has won the loyalty and confidence of new customers.

Our capital adequacy ratio remained at the acceptable level of 15.3 percent, exceeding the minimum regulatory requirement, with liquid assets sound representing 33.3 percent of total assets.

The Board has recommended a cash dividend of 10 fils per share and 10 percent stock dividends.

Business review

2013 was a year of significant achievement that saw BBK maintaining its strong position in core business areas with growth in retail and consumer activity driven by technical improvements to service delivery. An ongoing commitment to CrediMax, BBK's pioneering credit card issuing and acquiring subsidiary, and to BBKCashlink, the Bank's market-leading world-class cash management platform also supported this year's excellent results.

Expansion into the GCC region continued to be productive for BBK, with Corporate Banking in the Kingdom of Saudi Arabia, the State of Qatar, and the Sultanate of Oman showing steady growth.

Treasury, Investment & Institutional Banking activity notably increased in 2013 with BBK taking advantage of an active marketplace during the last few years. The Bank considerably grew its business in this area as well as making a significant contribution to overall revenues in 2013.

Consistent performance and growth demonstrates the Bank's strength in strategy and management.

Throughout the year, BBK continued to uphold and strengthen its role in the community as a contributor to the betterment of society and quality of life for Bahraini citizens, businesses and communities through both business and philanthropic initiatives. The Bank provides local business with financial services, products and advice helping Small to Medium Enterprises (SMEs) and entrepreneurs to realise potential, increasing employment, growth and opportunity in the communities in line with Bahrain Vision 2030, which identifies SMEs as one of the key constituents of the country's economic future.

As part of the restructuring initiative undertaken this year, and in line with strategic goals, two new divisions have been added to the Bank's organisational structure. Remedial Management has been set up to provide a more dedicated support platform for handling businesses in challenging circumstances and a Business Development department to focus on innovation and identify new business opportunities. Furthermore, some other departments have been streamlined to increase efficiency optimising delivery channels and reducing overheads.

The newly titled Overseas Banking division, formerly International Banking, now incorporates overseas branches as well as regional offices creating a more streamlined and efficient framework. This division returned very good results again in 2013, with revenues up across its branches in India, Kuwait and Dubai. Spurred by an improving outlook for world economies and narrowing options for local and regional growth, BBK successfully pursued a plan of incremental expansion into the Indian market, obtaining a license for a fourth branch in New Delhi, which will open in Q3, 2014.

Excellent progress was made this year in terms of service delivery. A strategy of investment in technology began to bear fruit during a year that saw us successfully automating key functions and achieving straight-through paperless processing. These innovations helped us grow in core business areas and earned BBK a J.P. Morgan award for quality in service delivery. To protect these systems, BBK became the first bank in the country to quality for ISO certifications in Business Continuity and Information Security.

In further recognition of its importance to the economy, BBK was selected by the Central Bank of Bahrain (CBB) as a Domestic Systemically Important Bank (D-SIB) under the new framework for Basel III.

Corporate governance

Fundamentally, the conduct of the Bank is guided by our core values, our code of ethics and a commitment to openness and transparency. BBK's Board of Directors endeavours always to provide learned and strategic direction for the Bank through applying the highest standards of corporate governance practice. To this end, we comply with all reporting regulations and requirements as defined in the Code of Corporate Governance issued by the Bahrain Ministry of Industry & Commerce and defined in the Rulebook of the CBB in a timely and complete manner and are prepared well in advance to implement the requirements of FATCA and Basel III when they go into effect.

We establish necessary policies and procedures to protect the Bank from risk and to provide it with clear strategic direction. We work to ensure all governance matters are transparent to stakeholders as well as shareholders through channels such as the Annual General Meeting (AGM), quarterly financial statements and this annual report.

Demonstrating the Bank's continued commitment in these crucial areas of business practice, BBK was honoured to receive the Corporate Governance Recognition Award from Hawkamah for a record-breaking fourth consecutive year. Chosen from a field of other MENA countries, BBK was commended for exhibiting high levels of commitment in corporate governance practice and performance disclosure. The award reaffirms our exceptional leadership in this area.

To maintain and further build upon our governance excellence, the Board of Directors is to undergo a comprehensive external performance evaluation in 2014. For the first time, an independent external consultant will be appointed to evaluate the performance of the Board as a whole and Board Committees, with an aim to identify areas for improvement and subsequently implement them if deemed viable.

Going forward

BBK anticipates another challenging year in 2014 due to competition increasing as the economy improves limiting opportunities for expansion locally and regionally. The Kingdom of Bahrain faces a difficult choice between boosting state spending to support the economy and grappling with a rising state budget deficit, the largest in the GCC as a proportion of nation's economy.

For these reasons, BBK will maintain a cautious attitude and continue to control operating costs, and carefully oversee activity across all our business divisions.

Government spending will continue to be the engine of recovery in the Kingdom of Bahrain as well as all other GCC countries in 2014. Equipped with its improved structure, BBK is more than ready to partner with the Bahrain Government and participate in other regional infrastructure investment initiatives. At the same time, an improving global economic climate will allow BBK to selectively seek international opportunities in markets we know well and to open our fourth India branch.

We are aware that given our size, scope, capabilities and commitment, BBK can be a powerful source for doing good and we will maintain our focus on strengthening ties to the communities where we do business through our philanthropy and volunteer activities delivered at the local level as a long-term commitment to help communities thrive and grow.

Appropriations

The Board of Directors recommends the below-listed appropriations of the Bank's net profit for approval by shareholders:

Appropriations	BD'000
Retained earnings as at 1 January 2013	49,840
Profit for the year 2013	45,051
Transfer to general reserve	(3,125)
Transfer to statutory reserve	(4,257)
Proposed appropriation for donations	(1,250)
Retained earnings as 31 December 2013 available for distribution *(before proposed dividend)*	**86,259**
Proposed cash dividends *(10% of paid-up capital, net of treasury stock)*	(9,249)
Proposed stock dividends *(10% of paid-up capital)*	(9,365)
Retained earnings as 31 December 2013 *(after proposed dividend)*	**67,645**

Ratings

A positive acknowledgement of the Bank's resilient financial performance in recent years came from Fitch Ratings who upgraded BBK's Long-Term Issuer Default Rating (LT IDR) to 'BBB', with a 'Stable' outlook, previously rated at 'BBB-'. Fitch also upgraded BBK's Support Rating Floor (SRF) to 'BBB' from 'BBB-' along with the Subordinated Debt Rating (SDR) equally raised by one notch. The Bank's Viability Rating (VR) remains at 'bb+' with a 'Stable' outlook and the Short Term Issuer Default Rating (ST IDR) holds at F3.

Fitch

Local & Foreign Currency	Rating	Outlook
Long Term Issuer Default Rating	BBB	Stable
Short Term Issuer Default Rating	F3	
Viability Rating	bb+	
Support Rating	2	
Support Rating Floor	BBB	

Report issue date: 11 December 2013

Moody's

Local & Foreign Currency	Rating	Outlook
Long Term Bank Deposits	Baa2	Negative
Short Term Bank Deposits	Baa2	
Bank Financial Strength	D+	
Baseline Credit Assessment	baa3	
Senior Unsecured	Baa2	

Report issue date: 3 October 2013

Directors' remuneration

The Directors' remuneration for the year 2013 was BD 577,500. Additionally, Board Committees' sitting fees and travel allowance amounted to BD 96,563 and other related expenses to the Board of Directors' work was BD 38,005. Furthermore, the total amount for BBK subsidiaries' Board remuneration, sitting fees and other related expenses for the year 2013 was BD 227,980 (total remuneration, sitting fees and all related expenses for BBK and its subsidiaries, for 2012: BD 853,095).

Appointment of Auditors

At the Annual General Meeting held on 4 March 2013, Ernst & Young were re-appointed as external auditors to the Bank for the financial year ending 31 December 2013.

Appreciation

The Board would like to communicate its gratitude to BBK's shareholders for their continued confidence, to our customers for their loyalty and patronage, and to BBK's management and employees for the hard work and commitment that underpins another year of excellent results for the Bank.

On behalf of the Board of Directors

Murad Ali Murad
Chairman

Corporate governance report

Good corporate governance is considered central to achieving the Bank's objectives and fundamental in maintaining a leading position within the local and regional banking sectors.

BBK takes pride in ensuring exceptional standards of corporate governance are met. Our Corporate governance policy is underpinned by international standards of best practice.

Shareholders information

BBK's shares are listed on the Bahrain Bourse. The Bank has issued 936,491,734 equity shares, each with a face value of 100 fils. All shares are fully paid.

Annual Ordinary General Meeting and Extraordinary General Meeting

The Annual Ordinary General Meeting (AGM) and the Extraordinary General Meeting (EGM) were held on 4 March 2013. The EGM resolved to approve increasing the Bank's issued and paid up capital by granting 10 percent bonus shares to the shareholders. Further, the EGM resolved to approve amendments to the Memorandum of Association and Articles of Association due to the increase in issued and paid up capital and other necessary changes, to comply with the corporate governance Code of the Kingdom of Bahrain and regulatory requirements. The meeting minutes of the AGM and the EGM are published in this annual report.

The Bank submits a corporate governance report to the AGM annually covering the status on compliance with the related regulatory requirements. Any material non compliance issues are also highlighted in the meeting. The Bank discloses and / or reports to the shareholders at the AGM the details under the Public Disclosure module of the Central Bank of Bahrain's Rule Book. Such disclosures include the total remuneration paid to the Board of Directors, the Executive Management and the External Auditors. The total amount paid to Directors and Executive Management is also contained in the Annual Report.

BBK has yet again been awarded recognition for outstanding corporate governance from Hawkamah for a fourth consecutive year.

Corporate governance philosophy

BBK shall continue its endeavour to enhance shareholders' value, protect their interests and defend their rights by practicing the pursuit of excellence in corporate life. The Bank shall not only comply with all statutory requirements – including the Corporate Governance Code of the Kingdom of Bahrain and the High Level Controls Module of the Central Bank of Bahrain – but also formulate and adhere to strong corporate governance practices. BBK shall continuously strive to best serve the interests of its stakeholders including shareholders, customers, employees and the public at large.

The adoption and implementation of corporate governance is the direct responsibility of the Board of Directors (Board), and this endeavour is in line with the policies of regulatory authorities and statutory requirements in the Kingdom of Bahrain and other countries where BBK operates.

Shareholders			
Name	**Country of origin**	**Number of shares**	**% holding**
Citizens of the Kingdom of Bahrain and Others	-	184,583,288	19.71
Ithmaar Bank	Kingdom of Bahrain	237,656,304	25.38
Social Insurance Organisation (SIO)			
- Pension Fund Commission	Kingdom of Bahrain	175,910,143	18.78
- General Organisation for Social Insurance *(GOSI)*		124,930,581	13.34
Kuwait Investment Authority	State of Kuwait	175,090,900	18.70
Global Mena Macro Fund Company	State of Kuwait	28,793,258	3.07
Global Investment House	State of Kuwait	9,527,260	1.02

Board of Directors' information

Board composition

The Board composition is based on the Bank's Memorandum of Association and Articles of Association and comprises twelve members. The Board represents a mix of high-level professional skills and expertise. Furthermore, in compliance with the corporate governance requirements, the Board Committees consist of members with adequate professional backgrounds and experience. The Board has four Independent Directors. The Board periodically reviews its composition and the contribution of Directors and Committees.

The appointment of Directors is subject to prior Central Bank of Bahrain (CBB) approval. The classification of 'Executive' Directors, 'Non-Executive' Directors and 'Independent Non-Executive' Directors is as per definitions stipulated by the CBB. The current term of the Board started in March 2011 and shall end in March 2014.

Directors are elected / appointed by the shareholders at the AGM. Experts who are non-shareholders or promoters of the Bank may also be elected as Directors. Election or re-election of a Director at the AGM shall be accompanied by a recommendation from the Board, based on a recommendation from the Nomination, Remuneration & Corporate Governance Committee with specific information such as biographical and professional qualifications and other directorships held.

Distribution schedule of each class of equity			
Category	**Number of shares**	**Number of shareholders**	**% of outstanding shares**
Less than 1%	184,583,288	2,391	19.71
1% to less than 5%	38,320,518	2	4.09
5% to less than 10%	-	-	-
10% to less than 20%	475,931,624	3	50.82
20% to less than 50%	237,656,304	1	25.38
50% and above	-	-	-

Board Secretary

The Board is supported by the Board Secretary who provides professional and administrative support to the General Assembly, the Board, its Committees and members. The Board Secretary also assumes the responsibilities of the Company Secretary and Corporate Governance Officer and in this context supports the processes of performance evaluation for the Board, the Board Committees and individual Directors as well as the process of access to independent advice and other relevant issues. The appointment of the Board Secretary is subject to the approval of the Board.

BBK's Board Secretary and Corporate Governance Officer is Ahmed A.Qudoos Agha Baba who joined the Bank in 2009. His qualifications include a BSc in Engineering from the University of Bahrain in 1996 and has since attended many advanced training programs in corporate governance both in Bahrain and abroad accumulating over 17 years of experience in the financial sector.

Directors' roles and responsibilities

The Board of Directors oversees the implementation of the Bank's strategic initiatives and its functioning within the agreed framework, in accordance with relevant statutory and regulatory structures. The Board ensures the adequacy of financial and operational systems and internal control, as well as the implementation of Corporate Ethics and the Code of Conduct.

The Board reserves a formal schedule of matters for its decision to ensure that the direction and control of the Bank rest with the Board. This includes strategic issues and planning, performance reviews, material acquisition and disposal of assets, capital expenditure, authority

Board of Directors' information continued

levels, appointment of Auditors and review of the financial statements, financing and borrowing activities including annual operating plan and budget, ensuring regulatory compliance and reviewing the adequacy and integrity of Internal Controls.

The Board shall exercise judgment in establishing and revising the delegation of authority for Board Committees and Management. This delegation could be for authorisation of expenditures, approval of credit facilities and for other corporate actions. Such delegation may be approved and expressed under various policies of the Bank. The thresholds for the identified authorities will depend upon the operating requirements of the Bank.

The issues of major capital expenditure, divestitures, mergers and acquisitions, certain strategic investments would be within Board's authority.

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

Material transactions that need Board approval

Lending transaction to Directors at a certain level of exposure, require Board's approval. Also Credit and Investment applications exceeding certain pre-defined exposure levels require approval of the Board. Similarly, related party transactions relating to members of the Board require approval of the Board.

Independent professional assistance

The Bank has procedures approved by the Board for allowing Board members to obtain independent professional advice relating to the affairs of the Bank or to their individual responsibilities as members subject to approval by the Board.

Director's induction and professional development

The Board is required to be up to date with current business, industry, regulatory and legislative developments and trends that will affect the Bank's business operations. Immediately after appointment, the Bank will provide a formal induction, if necessary. Meetings will also be arranged with Executive Management and the Bank's auditors. This will foster a better understanding of the business environment and markets in which the Bank operates. A continuing awareness programme is essential and it may take many different forms, through distribution of publications, workshops, presentations at Board meetings and attendance at conferences encompassing topics on directorship, business, industry and regulatory developments.

Board and Committee evaluation

The Board performs a self-evaluation on an annual basis. The Board annually reviews its Charter and its own effectiveness; and initiates suitable steps for any amendments. The Board will also review self-evaluations of the individual Board members and the Board Committees and consider appropriately any recommendations arising out of such evaluation. The relevant policy is published on the Bank's website.

Remuneration of Directors

The Board has adopted a remuneration policy for Directors with well defined procedures to apply to the Directors' various remuneration and compensation components, reflective of their involvement and contributions in the activities of the Board of Directors and its ad hoc, temporary and permanent committees. The basic guideline of the policy is that the participation would be considered in terms of attendance in meetings. Participation in a meeting via Telephone / Video conference shall be considered an attendance of the meeting. The members of the Board are treated equally when they are compensated for additional work or effort in their participation. Directors' remuneration is governed by Commercial Companies Law No. 21 for the year 2001 and therefore all payments comply with the provision of the Law.

Whistle blowing policy

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

Key Persons (KP) policy

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

Code of Conduct

The Board has an approved Code of Conduct for BBK Directors. The Board has also approved a Code of Ethics for the Executive Management and employees. These codes outline areas of conflict of interest, confidentiality, and the responsibilities of signatories to adhere to best practices. The high level responsibility for monitoring the codes lies with the Board of Directors. The Director's 'Code of Conduct' is published on the Bank's website.

Conflict of Interest

The Bank has a documented procedure for dealing with situations involving 'Conflict of Interest' of Directors. In the event of the Board or its Committees considering any issues involving Conflict of Interest of Directors, the decisions are taken by the full Board / Committees. The concerned Director shall leave the meeting room during the discussions of these issues. These events are recorded in the Board / Committees proceedings. The Directors are required to inform the entire Board of Conflicts of Interest (potential or otherwise) in their activities with, and commitments to, other organisations as they arise and abstain from voting on the matter. This disclosure includes all material facts in the case of a contract or transaction involving the Director.

Corporate social responsibility

BBK's contribution towards the well being of the community is an integral part of its corporate role. This corporate social responsibility is translated by the Bank through annual appropriation of a budget allocated for donations to finance community related projects and initiatives. The projects may vary in nature but ought to fall into any one of the following fields; charity, culture, research, education, philanthropy, environmental protection and sports.

BBK has an approved high-level donation policy for the distribution of the donation budget. The policy outlines guiding principles and sets criteria for the evaluation and selection of donation requests with the ultimate objective of maximising the return on both the Bank's social image and the benefit of the community.

Disclosures relating to Board of Directors

Directors' external appointments

Murad Ali Murad

Position	Organisation	Country
First Deputy Chairman	Bahrain Telecommunications Company (Batelco)	*Kingdom of Bahrain*
Deputy Chairman	Umniah Mobile Company	*Jordan*
Board Member	Batelco International Finance Number One Limited	*Cayman Islands*
Board Member	Dhiraagu	*Maldives*
Board Member	Sure Guernsey, Jersey and the Isle of Man Limited	*United Kingdom*
Board Member	Bahrain Kuwait Insurance Company (B.S.C.)	*Kingdom of Bahrain*
Chairman of the Board of Trustees	Human Resources Development Fund in Banking Sector	*Kingdom of Bahrain*
Member	Council of Vocational Training in Banking Sector	*Kingdom of Bahrain*

Aref Saleh Khamis

Position	Organisation	Country
Undersecretary	Ministry of Finance	*Kingdom of Bahrain*
Chairman	Social Insurance Organisation (SIO)	*Kingdom of Bahrain*
Deputy Chairman	Future Generation Fund, Ministry of Finance	*Kingdom of Bahrain*
Deputy Chairman	Qatar-Bahrain Causeway Foundation	*Kingdom of Bahrain*
Alternate Board Member	Arab Shipbuilding and Repair Yard Company (ASRY)	*Kingdom of Bahrain*
Member	Supreme Council for Health	*Kingdom of Bahrain*
Member	Sh. Mohammed bin Khalifa bin Salman Al Khalifa Cardiac Centre	*Kingdom of Bahrain*
Member	King Hamad Hospital Consultative Board	*Kingdom of Bahrain*

Mohamed Abdulrahman Hussain

Position	Organisation	Country
Board Member & Chairman of the Executive Committee	Solidarity Group Holding B.S.C. (c)	*Kingdom of Bahrain*
Board Member & Chairman of the Executive Committee	Eskan Bank B.S.C. (c)	*Kingdom of Bahrain*
Board Member	Saudi Arabian Financial Investment Company (Investcorp)	*Kingdom of Saudi Arabia*
Board Member	The K Hotel	*Kingdom of Bahrain*

Disclosures relating to Board of Directors continued

Directors' external appointments continued

Jassem Hasan Ali Zainal

Position	Organisation	Country
Chairman & CEO	International Finance Company	*State of Kuwait*
Deputy Chairman & Acting CEO	Addax Investment Bank	*Kingdom of Bahrain*
Board Member	Kuwait International Bank	*State of Kuwait*
Board Member	Automated System Company	*State of Kuwait*
Board Member	Al-Masah Capital Limited	*Dubai, UAE*
Board Member	Al-Oula Geojit Capital Company	*Kingdom of Saudi Arabia*
Board Member	Miami International Securities Exchange L.L.C. (MIAX)	*United States of America*

Dr. Zakareya Sultan Al Abbasi

Position	Organisation	Country
CEO	Social Insurance Organization (SIO)	*Kingdom of Bahrain*
Board Member	Osool Asset Management B.S.C. (c)	*Kingdom of Bahrain*
Board Member	Eskan Bank B.S.C. (c)	*Kingdom of Bahrain*

Sh. Abdulla bin Khalifa bin Salman Al Khalifa

Position	Organisation	Country
CEO	Osool Asset Management B.S.C. (c)	*Kingdom of Bahrain*
Chairman	SICO Investment Bank B.S.C. (c)	*Kingdom of Bahrain*
Chairman	Muharraq Mall Company W.L.L.	*Kingdom of Bahrain*
Board Member	BFC Group	*Kingdom of Bahrain*

Sh. Khalifa bin Duaij Al Khalifa

Position	Organisation	Country
President	Court of H.R.H. the Crown Prince	*Kingdom of Bahrain*
Board Member	Crown Prince's International Scholarship Programme	*Kingdom of Bahrain*
Board Member	Isa Bin Salman Educational Charitable Trusts	*Kingdom of Bahrain*
Board Member	Palm Capital Company W.L.L.	*Kingdom of Bahrain*
Board Member	Arab Thought Foundation	*Lebanon*

Dr. Abdulmohsen Medej Mohammed Al Medej

Position	Organisation	Country
Chairman	Zahra Group Holding	*State of Kuwait*
Board Member	Kuwait Investment Authority	*State of Kuwait*
Board Member	Supreme Council for Planning & Development	*State of Kuwait*
Board Member	Kuwait Foundation for the Advancement of Science	*State of Kuwait*
Member, Board of Trustees	Australian College in Kuwait	*State of Kuwait*

Mutlaq Mubarak Al Sanei

Position	Organisation	Country
Director Follow-up Department	Kuwait Investment Authority	*State of Kuwait*
Board Member	The Arab Investment Company	*Kingdom of Saudi Arabia*
Vice Chairman	Kuwait Economic Society	*State of Kuwait*

Elham Ebrahim Hasan

Position	Organisation	Country
Managing Partner	Elham Hasan S.P.C.	*Kingdom of Bahrain*
Chairman	Health Corp Middle East Limited	*Kingdom of Bahrain*
Board Member	BNP Paribas Investment Company (B.I.C.)	*Kingdom of Saudi Arabia*
Board Member	Solidarity Group Holding B.S.C. (c)	*Kingdom of Bahrain*
Board Member	Economic Development Board	*Kingdom of Bahrain*

Yusuf Saleh Khalaf		
Position	**Organisation**	**Country**
Managing Director	Vision Line Consulting W.L.L.	*Kingdom of Bahrain*
Board Member	Solidarity General Takaful B.S.C. (c)	*Kingdom of Bahrain*
Board Member	Eskan Bank B.S.C. (c)	*Kingdom of Bahrain*
Board Member	SICO Investment Bank B.S.C. (c)	*Kingdom of Bahrain*

Hassan Mohammed Mahmood		
Position	**Organisation**	**Country**
Board Member	Faisal Finance (Maroc) S.A.	*Morocco*
Board Member	Overland Capital Group Inc.	*United States of America*
Board Member	Egyptian Investment Company	*Egypt*
Board Member	Islamic Investment Company of Gulf (Bahamas) Limited	*Bahamas*
Board Member	Gulf Financing Investment Company	*Egypt*
Board Member	Egyptian Company for Business Trade	*Egypt*
Board Member	Faisal Islamic Bank of Egypt	*Egypt*
Board Member	Ithraa Capital	*Kingdom of Saudi Arabia*

Directors' and related parties' interests

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

Name of Director	Type of shares	31 Dec 2013	31 Dec 2012
Murad Ali Murad	Ordinary	**739,379**	672,164
Pension Fund Commission / Aref Saleh Khamis *(1)*	Ordinary	**115,500**	105,000
Mohamed Abdulrahman Hussain	Ordinary	**115,500**	105,000
Jassem Hasan Ali Zainal	Ordinary	**164,750**	149,773
GOSI / Dr. Zakareya Sultan Al Abbasi *(2)*	Ordinary	**110,000**	100,000
Sh. Abdulla bin Khalifa bin Salman Al Khalifa	Ordinary	**110,000**	100,000
Sh. Khalifa bin Duaij Al Khalifa	Ordinary	**550,000**	500,000
Kuwait Investment Authority / Dr. Abdulmohsen Medej Mohammed Al Medej *(3)*	Ordinary	**110,000**	100,000
Kuwait Investment Authority / Mutlaq Mubarak Al Sanei *(3)*	Ordinary	**110,000**	100,000
Ithmaar Bank / Elham Ebrahim Hasan *(4)*	Ordinary	**110,000**	100,000
Yusuf Saleh Khalaf	Ordinary	**110,000**	100,000
Ithmaar Bank / Hassan Mohammed Mahmood *(4)*	Ordinary	**165,000**	150,000

(1) Qualifying shares related to Aref Saleh Khamis are part of the whole shares of the Pension Fund Commission ownership.

(2) Qualifying shares related to Dr. Zakareya Sultan Al Abbasi are part of the whole shares of the General Organisation for Social Insurance (GOSI) ownership.

(3) Qualifying shares related to Dr. Abdulmohsen Medej Mohammed Al Medej and Mutlaq Mubarak Al Sanei are part of the whole shares of the Kuwait Investment Authority ownership.

(4) Qualifying shares related to Elham Ebrahim Hasan and Hassan Mohammed Mahmood are part of the whole shares of Ithmaar Bank ownership.

Related parties:

Al Janabeya Company owns 218,898 shares and is related to the Chairman of the Board.

Nature and extent of transactions with related parties during 2013:

None.

Approval process for related parties' transactions:

The Bank has a due process for dealing with transactions involving Directors and related parties. Any such transaction will require the approval of the Board of Directors.

Material contracts and loans involving Directors:

Name of the Director	Relationship with Director	Purpose of loan	Amount of loan	Interest rate	Terms of payment of interest	Repayment of the principal	Security
Murad Ali Murad	Chairman	Personal banking needs	BD 250,000	Fixed deposit rate over 0.75% p.a.	On demand	On demand	100% cash collateral
Jassem Hasan Ali Zainal	Board Member	Personal banking needs	BD 140,000	Base rate (0.5%) p.a.	On demand	On demand	Shares 43% plus fixed deposit of 3%

Note: The materiality amount for such disclosures is considered above BD 100,000.

Directors trading of Bank's shares during the year 2013

None.

Board meetings

The Board of Directors meet at the summons of the Chairman or Deputy Chairman, in event of his absence or disability, or if requested to do so by at least two Directors. The Board meets at least four times a year. A meeting of the Board of Directors is deemed valid if attended by more than half of the members in person.

Meetings of Independent Directors

In 2012, the Board of Directors started to hold separate meetings for Independent Directors. As per the Board Charter, minority shareholders look up to Independent Directors for representation. For this purpose regular Board meetings are preceded by a meeting of Independent Directors unless it is decided by the Independent Directors that there are no issues to discuss. The agendas for this forum's meetings are the same as the agendas for the regular Board meetings. During these meetings the Independent Directors express their views about certain issues, especially those relating to minority shareholders. The summary of the proceedings of such meetings are recorded by the Board Secretary and shared with the Independent Directors.

Board meeting attendance

During 2013, seven Board meetings at the Bank were held in the Kingdom of Bahrain in the following manner:

KEY: ● Attended ○ Absent

Quarterly Board meetings 2013

Members	4 Feb	22 Apr	22 Jul	28 Oct
Murad Ali Murad	●	●	●	●
Aref Saleh Khamis	●	●	●	●
Mohamed Abdulrahman Hussain	●	●	○	●
Jassem Hasan Ali Zainal	●	●	●	●
Dr. Zakareya Sultan Al Abbasi	●	●	●	●
Sh. Abdulla bin Khalifa bin Salman Al Khalifa	●	●	●	●
Sh. Khalifa bin Duaij Al Khalifa	●	●	●	●
Dr. Abdulmohsen Medej Mohammed Al Medej	○	●	●	●
Mutlaq Mubarak Al Sanei	●	●	●	●
Elham Ebrahim Hasan	●	●	●	●
Yusuf Saleh Khalaf	●	●	●	●
Hassan Mohammed Mahmood	●	●	●	●

KEY: ● Attended ○ Absent

Other Board meetings 2013

Members	4 Mar	4 Jun*	23 Dec
Murad Ali Murad	●	●	●
Aref Saleh Khamis	●	●	●
Mohamed Abdulrahman Hussain	●	●	●
Jassem Hasan Ali Zainal	●	●	●
Dr. Zakareya Sultan Al Abbasi	●	●	●
Sh. Abdulla bin Khalifa bin Salman Al Khalifa	●	●	●
Sh. Khalifa bin Duaij Al Khalifa	●	○	●
Dr. Abdulmohsen Medej Mohammed Al Medej	●	○	●
Mutlaq Mubarak Al Sanei	●	●	●
Elham Ebrahim Hasan	●	●	●
Yusuf Saleh Khalaf	●	●	●
Hassan Mohammed Mahmood	●	●	●

* Unscheduled meeting held to approve the terms and conditions of the Capital Management paper.

Board Committees

The Board level Committees are formed and their members are appointed by the Board of Directors each year after the Annual General Meeting. They are considered the high level link between the Board and the Executive Management. The objective of these Committees is to assist the Board in supervising the actual operations of the Bank, by reviewing any issues that are submitted by the Executive Management and making recommendations to the Board for their final review.

The Board reserves the right to form temporary Committees and discontinue them, from time to time as necessary. Furthermore, the members of the Board are provided with copies of the meeting minutes of the said Committees as required by the regulators.

There are no major issues of concern to report relating to the work of the Board Committees during the year 2013.

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

Board Committees' composition, roles and responsibilities

Executive Committee

Members:	Summary terms of reference, roles and responsibilities:	Summary of responsibilities:
Mohammed Abdulrahman Hussain Chairman **Aref Saleh Khamis** Deputy Chairman **Sh. Abdulla bin Khalifa bin Salman Al Khalifa** Member **Mutlaq Mubarak Al Sanei** Member **Abdulkarim Ahmed Bucheery** Member **Elham Ebrahim Hasan** Member	• Not less than five members are appointed for a one year term. • Minimum number of meetings required each year: 8 *(actual meetings in 2013: 11)*. • The Chairman and Deputy Chairman must be a Director and elected by the members of the Committee in the first meeting following the appointment of its members. • The quorum shall be of more than half of the members and must include the Chairman or the Deputy Chairman. The attendance by proxies is not permitted. • The Chairman or Deputy Chairman shall be available at the Annual General Meeting to answer questions relating to the Committee's functions. • The Committee conducts an annual self-assessment of the performance of the Committee / members and report conclusions and recommendations to the Board.	*Reviews, approves and directs the Executive Management on matters raised to the Board of Directors such as business plans, donations, credit / investment applications and such other proposals within its authority and the periodical review of the Bank's achievements.*

Audit Committee

Members:	Summary terms of reference, roles and responsibilities:	Summary of responsibilities:
Jassem Hasan Ali Zainal Chairman *(Independent)* **Sh. Khalifa bin Duaij Al Khalifa** Member *(Independent)* **Yusuf Saleh Khalaf** Member *(Independent)* **Hassan Mohammed Mahmood** Member *(Non-Independent)*	• The Board appoints not less than three members for a one year term. • The Chairman must be elected by the members of the Committee, from amongst the Independent Non-Executive Directors, in its first meeting after the appointment of the members, the majority of members should also be Independent. • Minimum number of meetings required each year: 4 *(actual meetings in 2013: 4)*. • Quorum shall be more than half of the members and must include the Chairman. The attendance by proxies is not permitted. • The Chairman or Deputy Chairman shall be available at the Annual General Meeting to answer questions relating to the Committee's functions. • The Committee conducts an annual self-assessment of the performance of the Committee / members and report conclusions and recommendations to the Board.	*Reviews the internal audit programme and internal control system, considers major findings of internal audit reviews, investigations and management's response, ensures coordination among Internal and External Auditors, monitors trading activities of Key Persons and ensures prohibition of the abuse of inside information and disclosure requirements.*

Nomination, Remuneration & Corporate Governance Committee

Members:	Summary terms of reference, roles and responsibilities:	Summary of responsibilities:
Murad Ali Murad Chairman *(Independent)* **Dr. Abdulmohsen Medej Mohammed Al Medej** Deputy Chairman *(Non-Independent)* **Sh. Khalifa bin Duaij Al Khalifa** Member *(Independent)*	• The Board appoints not less than three members for a one year term. The Chairman is an Independent Director and the majority of members should also be Independent. • The Chairman and the Deputy Chairman must be elected by members of the Committee in its first meeting after the appointment of the members. • Minimum number of meetings required each year: 2 *(actual meetings in 2013: 6)*. • Quorum shall be more than half of the members and must include the Chairman or the Deputy Chairman. The attendance by proxies is not permitted. • The Chairman or Deputy Chairman shall be available at the Annual General Meeting to answer questions relating to the Committee's functions. • The Committee conducts an annual self-assessment of the performance of the Committee / members and report conclusions and recommendations to the Board.	*Assess, evaluate and advise to the Board of Directors on all matters associated with nominations and remunerations of the Directors and the Executive Management. Also, to ensure that the Bank adopts and enhances sound corporate governance practices, which are consistent with the Corporate Governance Code of the Kingdom of Bahrain and the regulatory requirements and also reflects the best market practices in corporate governance and makes recommendations to the Board as appropriate.*

Board Committees continued

Board Committees' composition, roles and responsibilities continued

Risk Committee

Members:	Summary terms of reference, roles and responsibilities:	Summary of responsibilities:
Murad Ali Murad **Chairman** *(Independent)* **Dr. Zakareya Sultan Al Abbasi** **Member** *(Non-Independent)* **Yusuf Saleh Khalaf** **Member** *(Independent)* **Jassem Hasan Ali Zainal** **Member** *(Independent)*	• At least four members are appointed for a 1 year term. • The Chairman and Deputy Chairman must be a Director and elected by the members of the Committee in its first meeting following the appointment of its members. • Minimum number of meetings required each year: 4 *(actual meetings in 2013: 6)*. • The quorum shall be of more than half of the members and must include the Chairman or the Deputy Chairman. The attendance by proxies is not permitted. • The Chairman or Deputy Chairman shall be available at the Annual General Meeting to answer questions relating to the Committee's functions. • The Committee conducts an annual self-assessment of the performance of the Committee/members and report conclusions and recommendation to the Board.	*Reviews risk policies and recommends to the Board of Directors for approval. Also, examines and monitors the risk issues to the Bank's business and operations and directs the Management appropriately.*

Board Committee meetings and record of attendance:

KEY: ● Attended ○ Absent

Executive Committee meetings 2013

Members	3 Feb	3 Mar	2 Apr*	22 Apr	23 May	16 Jun	18 Jul	22 Sep	27 Oct	24 Nov	22 Dec
Mohamed Abdulrahman Hussain	●	●	●	●	●	●	●	●	●	●	●
Aref Saleh Khamis	●	●	●	●	●	●	●	●	●	●	●
Sh. Abdulla bin Khalifa bin Salman Al Khalifa	●	●	●	●	●	●	●	●	●	●	●
Mutlaq Mubarak Al Sanei	●	●	●	●	●	●	●	●	●	●	●
Abdulkarim Ahmed Bucheery	●	●	●	●	●	●	●	●	●	●	●
Elham Ebrahim Hasan	●	●	●	●	●	●	●	●	●	●	●

* Previously unscheduled meeting.

Audit Committee meetings 2013

Members	3 Feb	21 Apr	21 Jul	27 Oct
Jassem Hasan Ali Zainal	●	●	●	●
Sh. Khalifa bin Duaij Al Khalifa	●	●	●	●
Yusuf Saleh Khalaf	●	●	●	●
Hassan Mohammed Mahmood	●	●	●	●

Risk Committee meetings 2013

Members	20 Jan	14 Apr	2 May*	7 Jul	6 Oct	26 Nov*
Murad Ali Murad	●	●	●	●	●	●
Dr. Zakareya Sultan Al Abbasi	●	●	●	●	●	●
Yusuf Saleh Khalaf	●	●	●	●	●	●
Jassem Hasan Ali Zainal	●	●	●	○	●	●

* Previously unscheduled meeting.

Nomination, Remuneration & Corporate Governance Committee meetings 2013

Members	4 Feb	3 Mar	20 May*	1 Jul*	28 Oct	26 Nov*
Murad Ali Murad	●	●	●	●	●	●
Dr. Abdulmohsen Medej Mohammed Al Medej	○	●	●	●	●	●
Sh. Khalifa bin Duaij Al Khalifa	●	●	●	●	●	●

* Previously unscheduled meeting.

Compliance and Anti-Money Laundering

Compliance with regulatory and statutory requirements is an ongoing process. The Bank is conscious of its responsibilities in observing all regulatory provisions and best international practices in its functioning. The Bank has established independent Compliance Function in keeping with Basel and CBB guidelines. The unit acts as a focal point for all regulatory compliance and for adapting other best practice compliance principles. The Bank continuously strives to improve the level of compliance in all its activities. The Bank's adopted corporate philosophy is "BBK shall continue its endeavour to enhance shareholders' value, protect their interests and defend their rights by practicing pursuit of excellence in corporate life." Anti-Money Laundering measures form an important area of the Compliance Function, in addition to areas of corporate governance, disclosure standards, Insiders'/Key Persons trading, conflict of interest and adherence to best practices.

In 2013 the Bank has initiated the establishment of an automated compliance system for the monitoring and management of regulatory requirements across the Bank. This system facilitates the prompt reporting of any compliance concerns or non-compliance incidents as and when they arise.

The Bank has documented an Anti-Money Laundering and Combating Terrorist Financing Policy and Procedure which contains sound customer due diligence measures, procedure for identifying and reporting suspicious transactions, a programme for periodic awareness training to employees, record-keeping and a designated Money Laundering Reporting Officer (MLRO).

The Bank has deployed a risk based automated transaction monitoring system in keeping with the Anti-Money Laundering regulations of the CBB.

The Bank's Anti-Money Laundering measures are regularly audited by the internal auditors who report to the Audit Committee of the Board. The Central Bank performs periodic inspections of the Bank's compliance with Anti-Money Laundering regulations. Additionally, the Bank's Anti-Money Laundering measures are audited by independent External Auditors every year and their report is submitted to the CBB. The overseas branches in India and Kuwait and the subsidiary, CrediMax, have designated compliance and MLRO functions to ensure implementation of local regulations and also to meet CBB requirements as applicable. The Bank is committed to combating money laundering and, towards this end, implements all 'Prevention of Money Laundering Regulations' and other guidelines issued by the CBB. These regulations and guidelines are consistent with the revised FATF recommendations, 'Customer Due Diligence for Banks' paper, and best international practices.

Communication strategy

The Bank has an open policy on communication with its stakeholders and has adopted a communication disclosure policy consistent with Basel II requirements. Shareholders are invited by the Chairman to attend the Annual General Meeting (AGM). The Chairman and other Directors attend the AGM and are available to answer any questions. The Bank is at all times mindful and conscious of its regulatory and statutory obligations regarding dissemination of information to its stakeholders.

The Bank provides information on all events that merit announcement, either on its website – www.bbkonline.com – or through other forms of publication. The Bank's annual report and three years financial statements are also published on the website, as well as the Bank's Corporate Governance report, Corporate Governance Framework, Whistle Blowing policy, Board Charter, Code of Conduct, Key Persons' dealing policy and Terms of Reference of all Board Committees. Shareholders can complete an online form which can be found on the website to forward any queries they may have.

The Bank uses a Bulletin Board for communicating with its employees on general matters, and sharing information of common interest and concern.

Management review

Abdulkarim Ahmed Bucheery, Chief Executive

“In 2013 we delivered improved profitability, strengthened our overseas presence positioning BBK for success in 2014 and beyond.”

2013 has been a transformative year for BBK. We can be justly proud of the Bank’s performance in meeting its targets for growth while simultaneously carrying out significant strategic restructuring of its processes and operations.

BBK has delivered excellent results in 2013 in a climate of continued uncertainty in world markets and slow growth across developed economies. Domestically, the economy has continued to grow in line with expectations, largely influenced by Government spending, yet the advantage of market stability was offset by increased competition in the Bahraini banking sector. BBK’s people have worked hard this year to maintain the Bank’s market share in light of pricing pressure, tighter profit margins and a squeeze in the capital markets.

Despite these challenges, the Bank has expanded its customer base and grown its lending book in Bahrain and across the GCC region as well as internationally. It has consolidated diverse revenue and funding streams and extended its presence with new branches in India. At the same time, BBK has revamped its operational framework and added significantly to its technological platform — all the while maintaining on-target growth and profitability.

The sustained growth reflected in our results testifies to the strength of BBK’s business model, its dedication to providing excellent service in all areas, and its ability to identify and capture new opportunities for growth in a rapidly changing economic environment.

Retail Banking

With respect to Retail Banking, BBK has managed to increase its market share in 2013, with notable growth in the consumer loan segment of the market. As competition across the banking sector exerted a downward pressure on pricing, the Bank held on to its leading position through offering quicker transaction speeds and a more diverse range of products and services. A longstanding commitment to investment in technology, and our practice of continually upgrading and expanding our service delivery platforms, is now bearing fruit in the form of a growing customer base in Bahrain.

Locally, BBK counts a total of 47 ATMs, six Cash Deposit Machines (CDMs), seven Financial Malls and nine branches within the Kingdom of Bahrain. Internationally, BBK has one large branch in the State of Kuwait, a representative office in Dubai, and with the opening of the new branch in Aluva in the state of Kerala during the year, this makes a total of three outlets in the Republic of India with a fourth one under establishment in New Delhi which will be operational in the third quarter of 2014.

Corporate Banking

On the corporate side, 2013 has seen BBK perform strongly despite increased competition and restricted opportunities to lend. Threats we saw during the 2011 crisis have receded, meaning BBK was able to set aside considerably less this year for impairments and emergencies. Today our corporate customers in Bahrain and abroad are standing on more solid ground, ready to take advantage of a gradually improving economic climate.

Since 2010, we have actively sought opportunities to expand the size of our corporate portfolio in the GCC region and this year we have been very successful, especially in Saudi Arabia, Oman and Qatar, delivering substantial growth while maintaining favourable risk levels in the belief that this increased penetration will allow us to grow our loan book in the GCC even further in the future and BBK will continue maintain its strategic focus on this important market.

Small and medium-sized enterprises (SMEs) were another area of significant growth for BBK in 2013. Advances in technology and improved management practices have significantly de-risked this segment of the market and, over the past two years the Bank has been able to increase the size of its SME portfolio. Moreover, we see scope for considerable future expansion in this important and valuable area, which is in line with the Government's goal to foster broad-based economic development in the country. This year we have increased the number of Relationship Managers for SMEs and are well prepared to continue developing this business in coming years.

BBK prides itself on staying close to its corporate clients in hard times as well as easy ones. To this end, we have been pro-active in our efforts to help struggling businesses out of difficulty, thus preserving the quality of our loan portfolios. In a move to formalise what is good risk-management practice for us, a new Remedial Management division was established. Its mandate is to provide early assistance to faltering businesses and to find solutions wherever possible. We believe this will lead to better outcomes for our clients and for the Bank.

Treasury, Investment & Institutional Banking

Treasury, Investment & Institutional Banking activities remains a major contributor to the Bank's financial performance. This illustrates how BBK is making the most of opportunities to pursue high quality, high liquidity investments in a year that saw welcome signs of improvement in the overall global economic picture.

An unusually favourable GCC bond market produced excellent opportunities for fixed income investments during 2012. In 2013, despite a regional retrenchment in credit spread and a tightening of yields, the Bank continued to maintain its GCC bias in fixed income investments while selectively seeking opportunities in emerging and other markets as a means to deploy excess liquidity. In a rallying international equity market, BBK expanded its portfolio in the GCC region and increased levels of investment in a number of promising global equity funds. Our institutional banking portfolio also continued to grow, again with emphasis on the GCC region and select emerging markets, while the global economic upturn drove growth in the trade finance business both for the region and internationally.

On the treasury side, BBK has delivered significant growth in the FX business to our clients while continuing to maintain a sound liquidity position at all times. BBK continues to seek new outlets for its notably high levels of liquidity and this year established a new Business Development division dedicated to identifying future investment opportunities.

Overseas Banking

2013 has been another successful year for our newly titled Overseas Banking division. Previously called International Banking, the unit now encompasses all BBK branches and representative offices globally, and this year performed on-target with achievements in all the goals laid out in our Strategic Plan.

This strategic goal is reflected in a new organisational structure for BBK, implemented in 2013. Our restructuring brings our international branches under the supervision of one centralised division, providing sharper strategic direction and better oversight for what we anticipate will be a bigger part of BBK's business in years to come.

The Republic of India, with its fast-growing economy, continued to be an important geographic focus for BBK. Our Indian branches performed well, managing to offset a currency risk generated by a devaluation of the rupee and returning good growth over last year. In line with strategic objectives, BBK extended its reach into the India this year, opening a third branch in Aluva, in the state of Kerala, and obtained a license from the Reserve Bank of India for a fourth branch to be located in New Delhi, scheduled to open in 2014. This branch positions BBK in close proximity to a natural customer base in the form of a number Middle Eastern embassies and corporations operating in India's capital. We expect it to be highly successful in what is a very promising market.

Performance of our Kuwait branch continued to remain steady, making a significant contribution to the overall profitability of Overseas Banking. Our decision to increase the size of our corporate and treasury teams there has allowed the Bank to grow our loan book and provide trade finance facilities to more corporations and SMEs than ever before.

The excellent results in Kuwait and India demonstrate the wisdom of BBK's 2008 decision to focus on markets where the Bank already had a presence, including the GCC region. That strategic decision has produced consistently positive results through a series of economically challenging years. However, an improving global economic climate in 2013, coupled with more limited opportunities for growth across the GCC, is now once again driving the Bank to seek opportunities to deploy excess liquidity in selective international markets.

Subsidiaries

BBK's wholly owned credit card subsidiary, CrediMax had a good year in 2013, following a strategic decision to defend our market share in an increasingly competitive environment. Invita, BBK's outsourcing business continues to perform well, growing significantly in existing markets and has added a new call centre as a joint venture with a quasi government firm in Kuwait.

2013 saw BBK absorb its Islamic financing subsidiary, namely Capinnova Investment Bank, into its main Corporate Banking structure. Driving the move was the aim to reinforce synergies among our banking services, thus ensuring faster, more integrated service for our Islamic banking customers.

Performance optimisation

Performance optimisation continued to be an important theme for BBK in 2013 and our strong financial performance is all the more remarkable given that it takes place against a background of significant change to the Bank's organisational structure and many of its core business processes.

The recommendations from our 2012 Cost Optimisation review are aimed at controlling operating costs and maximising efficiency while optimising performance. Phase one was carried forward this year through a voluntary right-sizing initiative that successfully brought staff levels into line with strategic goals. Other efficiencies were found through re-engineering processes, introducing automation and streamlining operations wherever possible. A revised Executive Management team structure was put in place to improve succession planning while ensuring a continuously high standard of oversight across the organisation.

Furthermore, a new Business Development office was created this year, to actively seek opportunities for BBK to deploy capital effectively in both local, regional and international markets. We feel confident these changes will allow us to continue our record of growth while maintaining a sound risk management approach.

Thanks to the dedication of our Board, the skill of our management team and the cooperation of our employees, these measures have resulted in a more cost-effective and efficient BBK going into 2014.

Customer centricity

BBK customers rightfully demand products and services that best meet their evolving financial needs, and seek access to banking services when, where and how it suits them. BBK is committed to ensuring these preferences are fully met and aims to support its customers in their financial needs by providing advice when needed and flexibility where possible.

Technology advances

2013 saw major technological upgrades to BBK's core technology systems, a factor that contributed significantly to our success in attracting more corporate and business as well as retail clients.

With an ongoing commitment to keep at the forefront of technological innovation our internet banking platform was upgraded offering new and enhanced functionality with additional card payment options, increased ability to customise and personalise the interface as well as simplified and more streamlined processes.

Significant investments were made across multiple systems and infrastructure components in the Bank to keep pace with both the demands of our customers as well as with the advancements in the technology arena. Our efforts throughout the year to move towards a straight-through processing environment have been recognised, leading to BBK being presented with the J.P. Morgan award for Outstanding Achievement in Service Quality in 2013.

These enhancements are delivering faster, more reliable and more secure financial services to our customers at all levels. Additionally, in 2013 BBK became the first bank in the country to attain ISO certifications in the areas of both Business Continuity and as well as Information Security. These accreditations reinforce our existing business continuity management capabilities and provide an extra level of certainty for all our clients. The Bank continues to maintain and enhance our state-of-the-art Business Continuity Centre, which ensures availability of critical services in case of emergency.

Internal Control

The Internal Control Unit's (ICU) main role is to plan, monitor and ensure that adequate internal control systems are in place in all departments and that the assets of the Bank are duly safeguarded. ICU has well designed and comprehensive internal control systems and procedures in place to ensure the Bank's business activities and any associated risks that could arise in the course of doing business are appropriately managed. These control systems and procedures are reviewed at least annually or even more frequently if deemed necessary.

D-SIB status

BBK is honoured to have been identified by the Central Bank of Bahrain (CBB) as one of Bahrain's Domestic Systemically Important Banks (D-SIBs). Our selection reflects the central importance of BBK to the Bahraini economy and we pledge to live up to the expectations that come with it. The D-SIB distinction brings more practical and efficient regulatory requirements and increased Government oversight along with more Government support. We are delighted to be chosen, and see this as an opportunity to enhance the level of security we are able to offer our clients while at the same time contributing to the economic stability of our country.

Compliance

BBK prides itself on being a leader in compliance, not only satisfying CBB's requirements but striving to meet — and surpass — the most stringent international standards. Responding to a global trend for increasing compliance demands, the Bank redoubled its compliance efforts in 2013, updating its Anti-Money Laundering policies and advancing its preparedness for implementing Basel III and FATCA reporting requirements. With correct policies and procedures in place well ahead of schedule, we are ready to implement these measures whenever they go into effect.

Governance

Excellence in governance continues to be a core value for BBK and, in this year of change, we have reaped the benefits of maintaining a robust strategic framework and a dedicated, well-prepared and highly responsive governing Board. The effects can be seen in our strong performance results and in the effective implementation of our corporate restructuring over the course of the year.

Quality in governance continues to distinguish us in local and regional markets and we were very pleased to receive our fourth consecutive Hawkamah Corporate Governance Award in recognition for our excellence in governance for 2013.

Top employer

Remaining a top employer is a key priority at BBK. Having engaged and motivated employees is essential to achieving success and we need to ensure that our people are eager to work for BBK as well as be proud ambassadors.

Changes to the Bank in 2013 highlighted the importance of human capital and strengthened our longstanding commitment to investing in BBK's people. 2013 saw the launch of a new Bank-wide Employee Recognition Programme, which recognises employees more frequently with new motivators such as 'Spot Awards' rewarding employees on-the-spot for everyday acts of professionalism and innovation. This heightens awareness and increases employee engagement on a day-by-day basis, as well as creating an even more enjoyable working environment, where our people readily know how much we value them and how we reward them where it is due, thus encouraging career growth and workplace satisfaction.

At the same time the Bank continues to provide a comprehensive range of training and development opportunities for employees at all levels, as well as competitive remuneration packages that make BBK an employer of choice in Bahrain and abroad.

BBK is committed to working to encourage further growth and foster greater stability going forward. This is as important for the individuals and communities we serve as it is for the long-term success of the Group.

Conclusion

I am proud to say that BBK has returned an excellent financial performance in 2013. The numbers speak for themselves, but we are particularly pleased to have achieved these results in a year that saw us making important structural changes while fulfilling challenging of commitments laid out in our Strategic Plan. Our success testifies to the dedication and skill of BBK's employees, managers and Board of Directors and our responsible actions, we believe, will deepen relationships with our customers and ultimately add bottom-line value for our shareholders.

In 2014, BBK will build on the success of 2013 by continuing to increase and diversify business activities across Bahrain, in the GCC region and selective international markets, notably the Republic of India. Despite some improvements to the economic climate, we anticipate another challenging year with increased competition, tight margins and pressure on the bottom line. Much will depend on Government investment and BBK is prepared to do its part in partnering in Government-led economic initiatives as they arise.

In line with our Strategic Plan, we will develop our revenue streams while maintaining exemplary risk management practices and protecting asset quality. At the same time, we will continue to develop the Bank internally, improving systems and optimising human capital in order to provide the best possible service to our clients and deliver solid returns to our shareholders.

On behalf of the BBK management team, I would like to take this opportunity to thank our Board of Directors for its unfailing support and wise guidance during the course of year. Our thanks also goes out to the Central Bank of Bahrain, the Bahrain Bourse, the regulators in the State of Kuwait, the Republic of India and the United Arab Emirates and to our loyal customers at home and abroad. Finally, I would like to thank BBK's employees for their hard work and dedication. Without their contribution the Bank would never be able to achieve the level of success it has in 2013.

Abdulkarim Ahmed Bucheery
Chief Executive

Corporate Social Responsibility

We believe our journey of sustainable growth goes hand in hand with giving back to society and contributing to the Kingdom of Bahrain's prosperity and economic development.

Every year the Bank allocates an appropriation amount for donations, which is approved during the Annual General Meeting (AGM) to finance community related projects and initiatives. Its distribution is governed by a high-level donation policy.

Supporting Bahrain

By adopting sound policies and practices, and applying the highest standards of business ethics and transparency, BBK consistently strives to exceed the requirements in Corporate Governance, and this undoubtedly plays an important role in strengthening trust among customers and investors and contributes to a strong Bahrain economy.

During the annual meeting of the International Monetary Fund (IMF) held in Washington DC in October 2013, BBK once again co-sponsored the 'Banks in Bahrain' Reception with the goal of showcasing Bahrain's financial sector to an arena of international institutions from around the globe looking to invest in Bahrain.

As a lead sponsor, BBK also participated in one of the most prestigious conferences in the economic sector; the Euromoney Bahrain Conference 2013, which attracted over 350 top financiers from over 14 countries worldwide.

BBK cares

BBK places the utmost importance to the well-being of its communities and plays an active role in supporting the needs of the society in which it serves.

In the last quarter of the year, Bahrain saw some extreme weather conditions with heavy rain damaging property across the country. BBK contributed BD 50,000 to the Royal Charity Organisation to go towards supporting distressed families and helping repair their homes.

During 2013, BBK renewed its support to the Ministry of Social Development NGO Fund – with a donation of BD 30,000. The fund plays a crucial role in giving grants to active societies and charitable organisations for selected development initiatives assisting them in fulfilling their role in the community.

Education – By investing in education BBK helps pave the way for future generations, increase the acumen in young people and support development of Bahraini talent.

The Bank has embarked on an initiative set up by the Royal Charity Organisation to establish a Kindergarten in each of the five governorates of the country. BBK has committed BD 250,000 for the building of one of those five kindergartens where orphans and underprivileged children can benefit from state-of-the-art education facilities and have the opportunity to learn and contribute to society.

Stemming from the belief in the importance of its role in giving career guidance to the youth, and in liaison with inJAz Bahrain, BBK provided internship to selected students. The programme aims to give a great opportunity in modelling future leaders and giving students a vision on how the banking industry works.

95%
Bahrainis

Funding the future

In 2012, the Bank established a "sinking fund" which is being built up through the years in order to support future CSR projects. Out of the donation appropriation for 2013, BD 320,000 has been dedicated for this purpose.

BD 320,000
Donated towards future CSR initiatives

Bahrainisation

Bahrainisation and the commitment towards the empowerment of the Bahraini employees is a key focus and BBK is proud to enjoy over 95 percent Bahrainisation.

Growing learning opportunities

As Platinum Sponsor, BBK presented its fourth instalment of BD 200,000 towards the BD 1 million pledge to the Crown Prince's International Scholarship Programme (CPISP). The programme offers the opportunity to Bahrain's most talented and outstanding youth to study at top international universities and colleges.

BD 200,000
4th instalment towards one million pledge to CPISP

Sun Shading Programme

BBK continued to supports schools and added Safrah Girls School to its portfolio of schools benefiting from the Sun Shading programme, ensuring students are well protected from the sun and the heat while on their break or during their sports sessions.

BBK extended over BD 1.25 million to worthy causes and community development in 2013.

BBK also provides on-the-job training to employees' children and university students providing them with the opportunity to get real work experience supplementing classroom learning.

Healthcare – Health and well-being has always been at the forefront of BBK contributions over the years, from fully funding community healthcare projects such as BBK Health Centre in Hidd to enticing employees to voluntarily contribute in healthcare.

BBK regularly donates to medical entities and research institutes who are active in fighting diseases such as diabetes, sickle cell anaemia, cancers as well as many others, helping towards the health and longevity of Bahrain's population.

Culture and heritage – In its endeavour to support initiatives that preserve Bahrain's heritage and culture, BBK donated BD 15,000 to the Shaikh Ebrahim Bin Mohammed Al-Khalifa Centre for Culture & Research, which main objective is to restore cultural heritage and historical facilities.

BBK is also proud to be a Gold Sponsor in the Spring of Culture 2014 through its commitment this year with BD 30,000 to support the Ministry of Culture initiative. The annual festival aims to broaden people's horizons and make them gain unique insights into their own communities as well as offering them a broader global perspective of the world's diverse cultures.

Philanthropy – The Bank reaffirmed its commitment to contribute to critical community needs through nearly 50 percent of its total appropriation amount being committed towards charitable giving directly or through its fully-owned subsidiary CrediMax.

Elderly – Caring for the elderly is one of the key focuses of the Bank in it's philanthropic role. BBK donated over BD 21,000 to a wide array of deserving care homes within Bahrain during 2013.

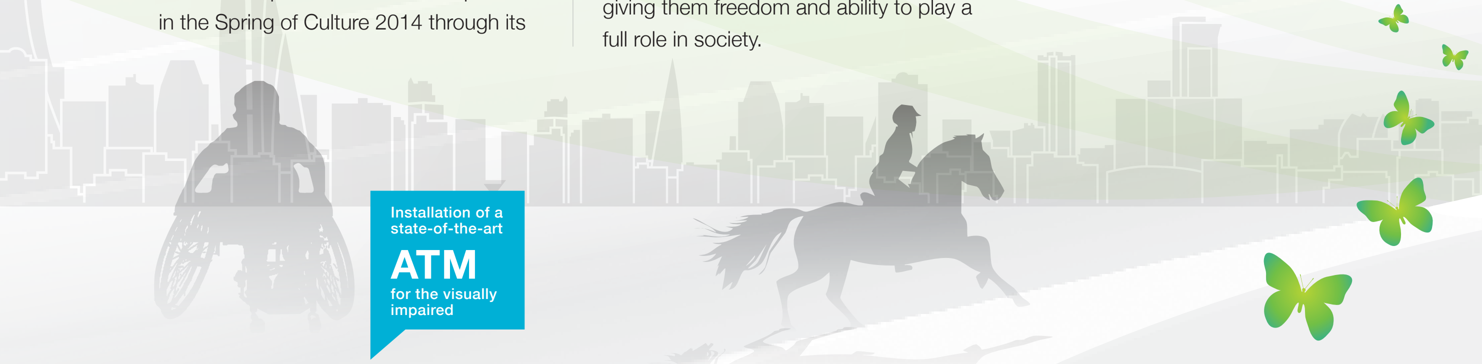
Special needs – Over BD 100,000 was donated in 2013 to special needs societies and associations demonstrating the commitment and importance BBK attributes to this area. But BBK goes far beyond just monetary support, providing them accessibility to banking services with the aim of enhancing their lives and giving them freedom and ability to play a full role in society.

Sports sponsorship – The Bank identifies that sport is a unifying factor bringing people together, and an opportunity to connect with customers, colleagues and communities. BBK supports activities that generate and enhance national pride for citizens as well as inspire the young and promote physical well-being.

Commitment to our people – BBK has always given the utmost importance to its people and believes that a strong, talented team, committed to the values and vision of the Bank, is the definitive pathway for success.

Training and skills education is a commitment the Bank provides its employees offering many opportunities for growth and professional development. Training is an investment in success and has a direct impact on the quality of service the Bank provides for its customers.

BBK rewards its employees through competitive benefits, stock options, health and life insurance savings and retirement programmes plus acknowledging outstanding employees as well as honouring long term employees.



Accessibility

Accessibility for customers with special needs is critical for being a Bank that serves everyone equally. BBK is the first bank in Bahrain to install a state-of-the-art ATM with special functions to assist the visually impaired in making secure cash withdrawals and deposits.

BBK has also trained employees in sign-language and provides wheelchair access in all its branches.

Giving Blood

In 2013, once again, BBK hosted its Blood Donation campaign and the Bank employees gave blood to the Salmaniya Blood Bank to help save lives of others.

Sporting endeavours

Continuing its support of tennis, BBK yet again sponsored Bahrain's Junior Open Tennis Championship for its nineteenth consecutive year.

For twenty six years in a row, the Bank sponsored the annual BBK Equestrian Cup promoting the most prestigious sport of the Bahraini culture.

Environment friendly

BBK continuously enhances its digital services with the goal of reducing the environmental impact and adopts energy saving practices as well as recycling waste paper from Bank branches in the endeavour to reduce the carbon footprint and contribute to a more sustainable working model.

Executive Management

Abdulkarim Ahmed Bucheery

Chief Executive

QUALIFICATIONS AND EXPERIENCE: BSc, University of Aleppo, Syria (1976). 36 years banking experience.

Joined BBK in 2002.

Reyadh Yousif Sater

Deputy Chief Executive, Business Group *(Effective 23 June 2013)*

QUALIFICATIONS AND EXPERIENCE: MBA, University of Glamorgan, United Kingdom (2001). 36 years banking experience.

Joined BBK in 1978.

Jamal Mohamed Hijris

General Manager

Support Group *(Effective 23 June 2013)*

QUALIFICATIONS AND EXPERIENCE: MBA, University of Bahrain, Kingdom of Bahrain (1991). 35 years banking experience.

Joined BBK in 1978.

Mohammed Ali Malik

General Manager

Retail Banking *(Effective 23 June 2013)*

QUALIFICATIONS AND EXPERIENCE: BSc in Computer Science, University of Petroleum & Minerals, Kingdom of Saudi Arabia (1984). 28 years work experience.

Joined BBK in 2000.

Abdulrahman Ali Saif

General Manager

Treasury, Investment & Institutional Banking

QUALIFICATIONS AND EXPERIENCE: PhD in Economics, University of Leicester, United Kingdom (1992). 31 years banking experience.

Joined BBK in 2008.

Rashad Ahmed Akbari

Assistant General Manager

Operations *(Effective 23 June 2013)*

QUALIFICATIONS AND EXPERIENCE: MSc in Marketing, University of Stirling, United Kingdom (1997). 27 years work experience, of which 13 years in banking.

Joined BBK in 2000.

Jamal Mohamed Al Sabbagh

Assistant General Manager

Information Technology

QUALIFICATIONS AND EXPERIENCE: MBA, University of Glamorgan, United Kingdom (2001). 33 years banking experience.

Joined BBK in 1980.

Hassaan Mohammed Burshaid

Assistant General Manager

Human Resources & Administration

QUALIFICATIONS AND EXPERIENCE: MSc, Human Resources Management, DePaul University, United States of America (2006). 19 years experience in the field of human resources.

Joined BBK in 1998.

Abdul Hussain Bustani

Assistant General Manager
Project Management Office

QUALIFICATIONS AND EXPERIENCE: Higher National Diploma (HND), Civil Engineering, Trent University, United Kingdom (1978). 38 years work experience, of which 24 years in banking.

Joined BBK in 1988.

Mohammed Abdulla Isa

Assistant General Manager
Financial Planning & Control

QUALIFICATIONS AND EXPERIENCE: Certified Public Accountant (CPA), American Institute of Certified Public Accountants, Delaware State Board of Accountancy, United States of America (2001). 22 years finance experience.

Joined BBK in 2001.

C.K. Jaidev

Assistant General Manager
Overseas Banking *(Effective 1 September 2013)*

QUALIFICATIONS AND EXPERIENCE: MBA, Indian Institute of Management, Republic of India (1989). 24 years banking experience.

Joined BBK in 1996.

Amit Kumar

Assistant General Manager
Risk & Credit Management

QUALIFICATIONS AND EXPERIENCE: MBA, Indian Institute of Management, Republic of India (1983). 30 years banking experience.

Joined BBK in 1994.

Nadeem A. Aziz Kooheji

Acting Assistant General Manager
Corporate Banking *(Effective 5 November 2013)*

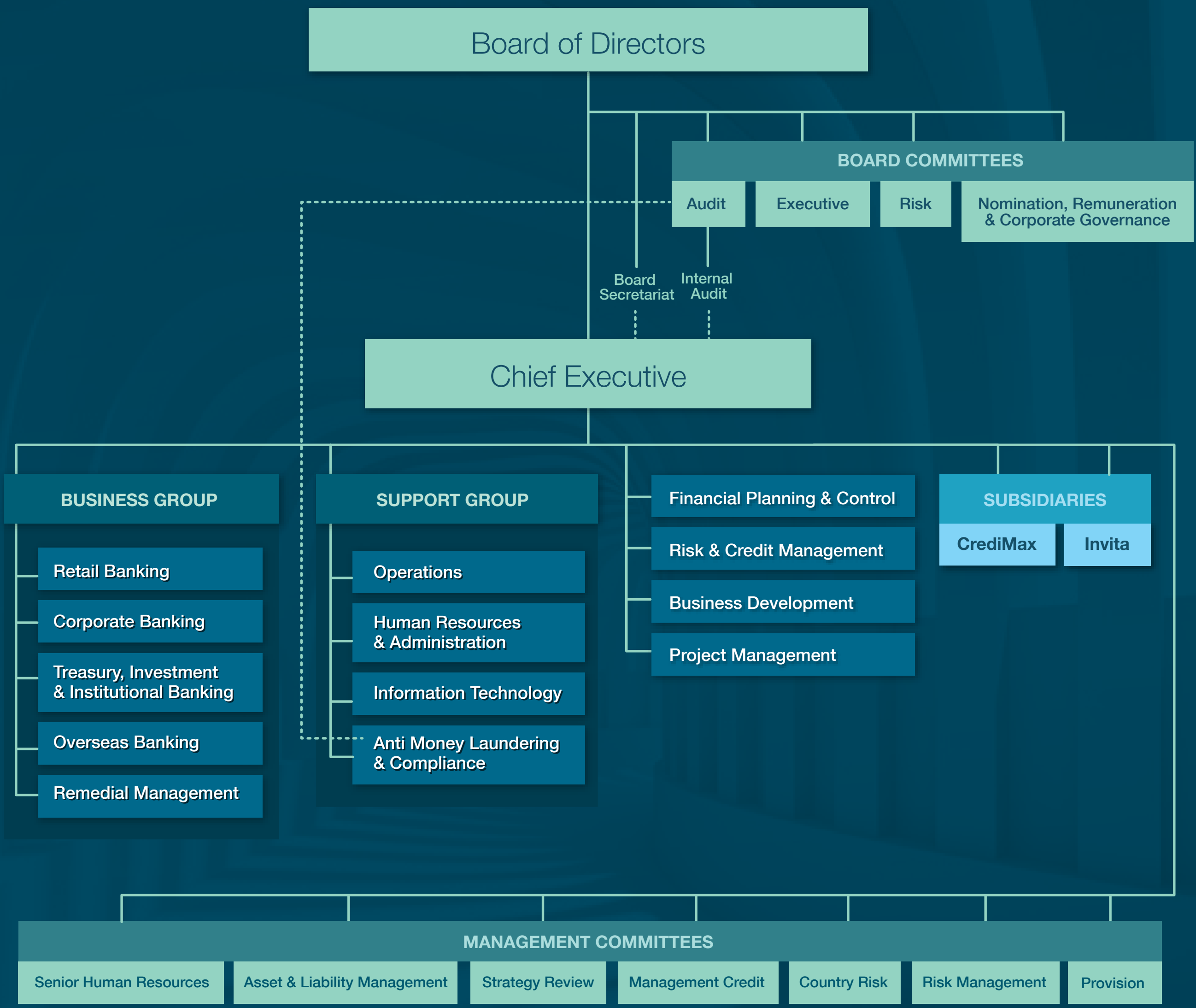
QUALIFICATIONS AND EXPERIENCE: BA in Finance and International Business, University of Texas - Austin, United States of America (1988). Eight years audit and 16 years banking experience.

Joined BBK in 1999.

During the year, members of the Executive Management team, Rashed Salman Al Khalifa, Adnan A. Wahab Al Arayyed and Mahmood Abdul Aziz retired, while Khalil Al Meer, Axel Hofmann and Ashish Sarkar left BBK to pursue other career opportunities. The vacancies were filled by appointments within the Bank.

Organisation information

Organisation Structure



1 International branches in Kuwait and India – including the Non Resident Indian (NRI) Department in Bahrain – and the Representative Office in Dubai report to Overseas Banking.

2 Transactional Banking has partially merged into Operations and Corporate Banking.

3 Capinnova Investment Bank has been absorbed as of 30 September 2013 and its business shifted to Corporate Banking.

4 The Assistant General Manage of Risk & Credit Management is a permanent attendee in Board Risk Committee meetings, and also participates in Board meetings whenever risk issues are discussed.

5 Remedial Management has been created as a centralised department to oversee remedial activities of corporate, SMEs and retail customers.

6 Business Development is a new department that focuses on innovation, identifies new business opportunities and oversees the expansion plans of the BBK Group.

7 Anti-Money Laundering & Compliance reports to the General Manager of Support Group and has full access to the Board's Audit committee. The Head of Anti-Money Laundering & Compliance presents quarterly reports that are discussed in the Audit committee.

Remuneration Policy

BBK employee remuneration framework aims at providing an economically competitive level of compensation to attract and retain talented employees. In its endeavour to achieve this, the Bank maintains the level of overall compensation at the upper quarter percentile line of the Bahrain banking industry with specific reference to the premier commercial banks. The Bank's reward policy is meritocracy based system, linking reward to performance through a performance management system that recognises the value of each job in the organisation and focuses on creating a performance driven culture.

Executive Management remuneration

Fixed and Variable Pay

The total remuneration of the Executive Management team in 2013 was BD 4,661,942. This amount, paid in March 2013, includes the guaranteed cash components such as the basic salary, fixed bonus allowances and the variable performance reward related to 2012.

Employee Performance Share Plan (EPSP) Awards

The total non-vested outstanding shares granted under the EPSP to the active participants as at end of 2013 was 5,386,587 shares, out of which 3,499,298 shares were allocated to the Executive Management team. The vesting of the awarded shares will be subject to satisfactorily achieving the target performance conditions.

Subsidiaries Board remuneration

Members of Executive Management who represent the Bank as directors on the boards of wholly owned subsidiaries and / or associate companies of BBK, received a total amount of BD 231,578 as remuneration and sitting fees for their contribution in the respective subsidiary and / or associate company in 2012.

Long Term Incentive Plans

The BBK Long Term Incentive Plans are share-based reward schemes, under which the Bank allocates certain numbers of shares every year to Executive Management employees based on performance, potential, and job criticality level. The grant price is determined according to the share price at the closing of the market on the fourteenth day after the Annual General Meeting. There are two forms of the Employee Long Term Incentive Plans:

1. Employee Stock Options Plan

This plan was introduced in 1999 and options were granted on a yearly basis until 2009. The plan will end once all options granted till 2009 expire or vest.

2. Employee Performance Shares Plan

The scheme was introduced effective 2010. The plan operates on a yearly basis of shares being allocated and held in a trust in the name of the individual employee over the vesting period. Following the assessment of the performance of the Bank against the target performance conditions stipulated for the period, the ownership of the vested shares is transferred to the individual employee.

Executive Management interests

The number of shares held by members of the Executive Management team as of 31 December 2013 was as follows:

Name	Type of shares	31 Dec 2013	31 Dec 2012
Abdulkarim Ahmed Bucheery	Ordinary	**185,622**	-
Reyadh Yousif Sater	Ordinary	**123,748**	-
Jamal Mohamed Hijris	Ordinary	**293**	267
Abdulrahman Ali Saif	Ordinary	**53,211**	-
Hassaan Mohammed Burshaid	Ordinary	**59,811**	-
Abdul Hussain Bustani	Ordinary	**54,783**	-
Mohammed Abdulla Isa	Ordinary	**7,384**	-
Rashad Ahmed Akbari	Ordinary	**31,903**	-
Jamal Mohamed Al Sabbagh	Ordinary	**45,820**	6,208
Amit Kumar	Ordinary	**42,943**	-

Executive Management trading of Bank's shares during the year 2013

Name	Trading through Bahrain Bourse	Date of trading
Mohammed Ali Malik	Sold *(79,918)* shares	15 Jul 2013
	Sold *(10,829)* shares	19 Sep 2013
Mohammed Abdulla Isa	Sold *(54,490)* shares	05 Aug 2013
Nadeem A. Aziz Kooheji	Sold *(23,613)* shares	02 Jul 2013
	Sold *(3,199)* shares	15 Sep 2013
C.K. Jaidev	Sold *(32,251)* shares	10 Oct 2013

Management Committees

Management Committees are chaired by the Chief Executive. Committee members are heads of the relevant divisions appointed by the Committee Chairman.

Committee	Summary terms of reference, roles and responsibilities:	Frequency of meetings:
Senior Human Resources	Establishes policies and guidelines for the overall management of the statement of financial position and its associated risks.	*Once every other month*
Asset & Liability Management	Establishes policies and guidelines for the overall management of the statement of financial position and its associated risks.	*At least once a month.*
Strategy Review	Reviews and monitors progress on strategic initiatives.	*Twice a year.*
Management Credit	Approves credit and investment proposals above a certain limit. Also reviews and recommends any proposal requiring Executive Committee or Board approval.	*Once a week.*
Country Risk	Reviews country reports/ratings/strategies of the identified countries and presents recommendations for undertaking exposures to the Board for their approval.	*Once a month.*
Risk Management	Identifies, measures, monitors and controls risk by establishing risk policies and procedures.	*Once every other month.*
Provision	Reviews and establishes provisioning requirements for loans, advances and investments.	*Once every quarter.*

Major BBK shareholdings as of 31 December 2013

Name / Entity	Nationality / Head Quarters	Legal status	Ownership date	%	Number of shares 31 Dec 2012 Previous	Number of shares 31 Dec 2013 Current
The company's ownership in other companies listed on the Bahrain Bourse *(5% and above)*						
Bahrain Kuwait Insurance *(BKIC)*	Bahrain	B.S.C. *(c)*	2006	6.82%	4,879,836	**4,879,836**
Securities Investment Company	Bahrain	B.S.C. *(c)*	2006	9.65%	41,250,000	**41,250,000**
Bahrain Commercial Facilities Company	Bahrain	B.S.C. *(c)*	1994	23.00%	37,618,691	**37,618,691**
Major shareholders of the company's outstanding shares *(5% and above)*						
Ithmaar Bank	Bahrain	B.S.C.	2008	25.38%	215,946,187	**237,656,304**
Pension Fund Commission *(PFA)*	Bahrain	Governmental Institution	1986	18.78%	159,933,766	**175,910,143**
Kuwait Investment Authority	Kuwait	Investment Company	1990	18.70%	159,173,547	**175,090,900**
Social Insurance Organisation *(SIO)*	Bahrain	Governmental Institution	1986	13.34%	113,573,255	**124,930,581**
The Bank's holdings in other companies (Quoted / unquoted in / out Kingdom of Bahrain) *(10% and above)*						
CrediMax	Bahrain	B.S.C. *(c)*	1999	100.00%	5,000,000	**10,000,000**
Invita	Bahrain	B.S.C. *(c)*	2006	100.00%	1,000,000	**1,000,000**
Global Payment Services **(1)**	Bahrain	W.L.L.	2005	55.00%	10,000	**10,000**
Sakana Holistic Housing Solutions	Bahrain	B.S.C. *(c)*	2006	50.00%	10,000,000	**10,000,000**
Capinnova Investment Bank **(2)**	Bahrain	B.S.C. *(c)*	1999	100.00%	125,000,000	**-**
The Benefit Company	Bahrain	B.S.C. *(c)*	1997	22.00%	3,960	**4,752**
EBLA Computer Consultancy	Kuwait	K.S.C. *(c)*	2010	36.36%	13,333,334	**13,333,334**
Naseej Company	Bahrain	B.S.C.	2009	15.15%	163,636,370	**163,636,370**
Alosra Bank	Bahrain	B.S.C. *(c)*	2009	10.00%	5,000,000	**5,000,000**
Diyaar Al Harameen Al Ola Limited	Cayman Islands	W.L.L.	2011	35.00%	16,450,000	**16,450,000**
Saudi MAIS Company for Medical Products	Saudi Arabia	W.L.L.	2011	24.00%	8,280	**8,280**
BBK Geojit Securities	Kuwait	K.S.C.	2012	40.00%	2,000,000	**2,000,000**

(1) Shareholding through CrediMax.

(2) Due to closure of Capinnova Investment Bank, the business, assets and liabilities were transferred to BBK on 30 September 2013.

BBK offices and international branches

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Financial review

Despite an environment characterised by low interest rates, new regulatory requirements, and an economic context that remains uncertain, BBK remains true to its corporate strategy and posted another record result for the year.

Consistent performance and disciplined execution of our corporate strategy has resulted in the delivery of another record performance of BD 45.1 million for the year ended 31 December 2013.

This section provides a review of our financial performance focusing on the consolidated operating results and the consolidated statement of financial position of BBK including its overseas branches, its principal subsidiaries, joint ventures, associated companies and the indirect investment in associates through subsidiaries.

The consolidated financial statements have been prepared and are presented in accordance with International Financial Reporting Standards, Bahrain Commercial Companies Law, Central Bank of Bahrain (CBB) and Financial Institutions law.

Operating results

Fiscal 2013 was the first year of the Bank's current corporate strategy cycle that marked significant accomplishments on all fronts. Among these were the integration of several businesses, the revamp of our operational framework and the continuous investment and enhancement of our technological platforms that resulted in improving efficiency while achieving consistent growth and solid results. Improving operational efficiency is one of our key priorities, and the Bank has implemented various measures to further optimise our structure and operations with the aim of translating this into efficiency gains in the near future. Our foundations are solid, our balance sheet remains healthy, and our level of capitalisation and liquidity is quite sound.

BBK achieved a net profit, attributable to the owners of the Bank, of BD 45.1 million for the year ended 31 December 2013, being 6.4 percent higher than last year. The net result for the year was largely impacted by the boost in the Bank's core operating activities, primarily driven by the growth in the net interest income, foreign exchange and investment activities income.

In continuation of BBK's prudent approach to risk management and provisioning, the Bank has conservatively provided adequate provisioning levels in 2013 to cater for unexpected losses caused by market turbulences including possible changes in the fair market value for certain available-for-sale investments.

Operating income

Total operating income for the year recorded growth of BD 3.7 million or 3.5 percent and stood at BD 112.4 million reflecting solid and diversified income streams. Net interest income reached BD 68.9 million; registering a 4.7 percent increase over the last year as a reflection of robust growth in the Bank's core business activities. Other income components also reported marginal growth of BD 0.6 million or 1.5 percent and stood at BD 43.5 million at the end of 2013.

Net interest income

Though the year marked tight and stressed margins due to an overall drop in the market's interest rates the Bank reported a boost of BD 3.1 million in its net interest income, standing at BD 68.9 million at the end of 2013. This increase was primarily a reflection of the growth in the loan and advances portfolio by around BD 120 million or 8.0 percent from BD 1,499 million levels recorded in 2012. The growth in the non-trading

Summary statement of profit or loss

BD millions	2013	2012	Variance BD millions	Change percent
Net interest income	**68.9**	65.8	3.1	4.72%
Other income	**43.5**	42.9	0.6	1.51%
Total income	**112.4**	108.7	3.7	3.45%
Operating expenses	**54.4**	50.6	3.8	7.63%
Provisions	**12.1**	15.0	(2.9)	-19.08%
Profit before taxation	**45.9**	43.1	2.8	6.40%
Taxation / Non-controlling interest	**(0.8)**	(0.7)	(0.1)	8.98%
Net profit for the year	**45.1**	42.4	2.7	6.36%

Disciplined strategy, consistent performance and diversified growth result in another record year.

investment portfolio of BD 27 million or 3.7 percent has also positively contributed to the growth in net interest income for the year.

Interest expense for the year includes amortisation of the previously realised non-recurring income of BD 9.2 million arising from exchanging subordinated debt notes into senior debt notes, which suppressed the net interest income for the year by around BD 1.4 million. Whilst asset margins have continued to see some pressure, net interest income has benefited from strong financial position momentum and wider liability margins.

As a reflection of lower interest rates and depressed margins, the net interest yield ratio for 2013 stood at 2.4 percent compared to 2.5 percent reported last year.

Asset and Liability Management (ALM) was up year on year. The build up of lower yielding, higher quality assets to support more stringent regulatory requirements was well offset by the growth in money market income on the back of improved spreads and a broadening of the depositor base driven by an enhanced product offering.

Other income

Other operating income consists of non-interest income, which is earned from business activities such as dealing in foreign currencies, investment in funds, other than fixed-income funds, the sale of corporate banking and retail banking services, investment trading and share of profit / loss in associated companies and joint ventures.

Total other income generated during the year reached BD 43.5 million; an increase of BD 0.6 million or 1.5 percent over the previous year. Other income includes foreign exchange and investment income and this stood at BD 17.4 million compared with BD 13.9 million for the same period the previous year, registering a growth of 24.7 percent, a direct reflection of more effective investment and foreign exchange strategies. Net fees and commission income for the year rose to BD 24.2 million (2012: BD 26.6 million).

Operating expenses

As BBK grows, it's operating expenses increase. The end of 2013 saw the Bank's total operating expenses reach BD 54.4 million, a 7.6 percent increase over last year. The increase was primarily in staff related expenses, particularly driven by the one-off costs incurred due to the execution of organisational restructuring and the resultant implementation of settlement packages and early retirement plans. Other expenses included infrastructure related costs such as the development of new branches - including renovations and relocations - plus improved distribution channels such as ATMs and enhanced technology systems. Accordingly, the cost to income ratio increased to 48.4 percent from 46.5 percent reported in 2012.

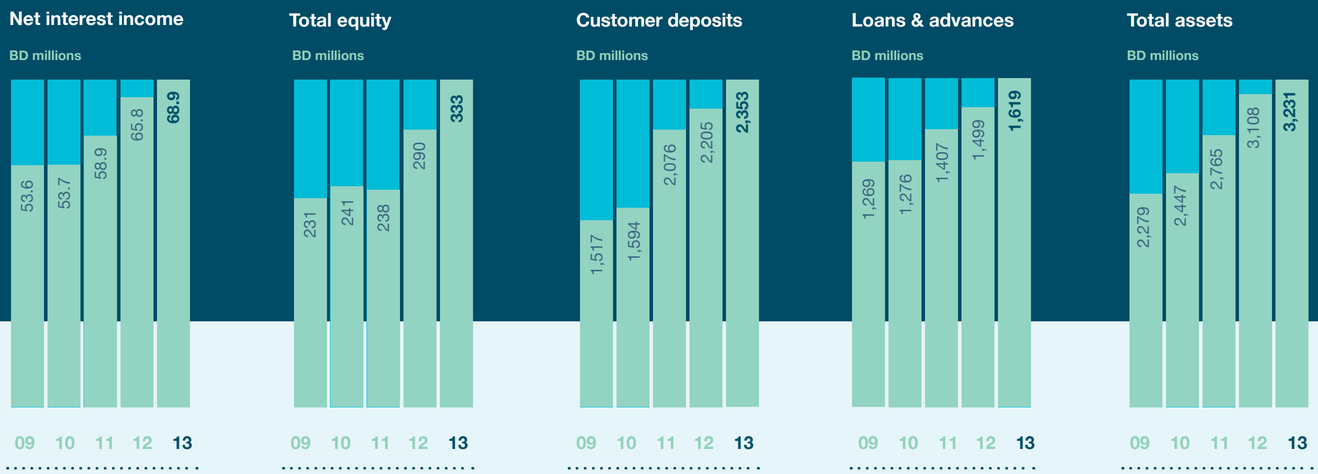
Net provisions

The Bank follows the International Accounting Standard (IAS 39) with regard to accounting for impairment of financial assets. The provisions for impairment of the Bank's loans and advances and assets carried at cost or amortised cost are arrived at after calculating the net present value of the anticipated future cash flows from these financial assets, discounted at original effective interest rates. For assets carried at fair value, impairment is the difference between the carrying cost and the fair value. This approach of provisioning for impairment of the Bank's financial assets is aimed at providing more realistic estimates of the impairment in the values of the assets.

The net provision for credit losses and impaired assets was BD12.1 million in 2013, down from BD 15.0 million charged in 2012. The reduction in the net provision charges for the year was a fair reflection of BBK's efforts and progress to improve the quality of its loans and investment portfolios. As a result, the Bank's total Non-Performing Loans "NPLs" have seen a reduction of BD 18.0 million from BD 148.0 million NPLs balance reported in 2012. While the total provision has declined, the Bank's general provision reserve has been increased during the year in line with management's conservative approach for providing for unexpected losses caused by market turbulences. The provision taken this year is mainly to cover the unexpected losses that may occur in the loan and advance portfolio. The non-trading investment portfolio has performed very well this year as evidenced from the portfolio's positive fair market valuation and noticeable growth achieved in the recovery side. This has resulted in realising a net provision write back of BD 0.3 million as compared to a net provision charges of BD 6.0 million in 2012.

Comprehensive income

Comprehensive income continued to show a positive trend and closed the year at BD 52.3 million (2012: BD 72.7 million). Despite the decline in the total comprehensive, the Bank's total cumulative changes in the fair value balances showed positive growth increasing BD 9.4 million and stood at BD 24.9 million. This was primarily driven by the positive net movements in the fair value of non-trading investment portfolio by BD 8.6 million which testified the recovery of the equity and capital markets.



Financial position

The Group demonstrated discipline and focus in sustaining a strong financial position, which continues to be highly liquid, diversified and conservative with limited exposure to problematic assets classes.

Financial position footings grew by BD 123.1 million or 4.0 percent and reached BD 3,231 million at the end of 2013. The result was largely driven by an increase in customer lending and in the non-trading investment portfolio which was supported by the growth in customer deposits, with surplus liquidity being placed in highly liquid assets such as governments' treasury bills or held with central banks and primarily the Central Bank of Bahrain.

Growth across both the retail and corporate banking activities has been robust, with a good increase in both advances and deposits. We remain a strong net lender in the interbank market, particularly in GCC and MENA region. Our net loans and advances-to-deposits ratio stands at 68.8 percent (2012: 68.0 percent). This is a reflection of our capability to grow deposits whilst optimising the use of surplus liquidity in the markets. The profile of our financial position remains stable as the majority of our financial assets are loans and advances that are held on amortised cost basis, which reduces the risk of short-term distress shocks.

The Group is strongly capitalised, and generated good levels of organic equity during the year, although our Core Tier 1 ratio slightly reduced to 12.5 percent from 12.9 percent in 2012, primarily due to an increase in risk weighted exposure stemming from the growth in the loan and advance portfolio.

Assets

At the year-end, net loans and advances to customers stood at BD 1,619 million, registering a growth of BD 120 million or 8.0 percent over 2012 balance largely due to the growth achieved in the retail and corporate banking as a result of the retrenching from international markets towards booking more exposures in the local and MENA region in line with the corporate strategy plan.

The investment portfolio of the Bank is classified into the following three categories: "Financial assets at fair value through profit or loss" (FVTPL), "Available-for-sale" and "Investments stated at amortised costs". The other two categories consist of quoted bonds and equities and unquoted securities that are mainly acquired with the intention of being retained for the long term. At the end of 2013, the quoted bonds and equities constituted 71.4 percent of the gross investments (62.9 percent at the end of 2012). Fixed income portfolio is substantially hedged against exposure to interest rate risk or highly dominated by regional governments' bonds and sukuk.

The Bank's total non trading investment securities grew by BD 27 million or 3.7 percent and reached BD 744 million at the end of 2013 mostly due to increased investment activities in regional and selective international markets.

Investment in associated companies and joint venture represents the Bank's interest in a number of associates and joint ventures as outlined in later sections of this report. The carrying value of these investments represents the Bank's share of the net assets of these companies.

Treasury bills and interbank deposits are money market instruments held essentially for managing liquidity. The Bank's liquidity position remain strong with total liquid assets amounting to BD 1,074.2 million (2012: 1,134.4 million) representing 33.3 percent of the Bank's total assets (2012: 36.5 percent). Other assets mainly include accrued interest receivable, fixed assets net of accumulated depreciation, and prepaid expenses.

Liabilities

Current, saving and other deposits include the balances of interest-bearing and non interest-bearing accounts due to customers on demand, and term deposits taken with different maturity dates, in various currencies and at varying rates of interest. Customer deposits witnessed a significant growth of BD 148 million, a rise of 6.7 percent and stood at BD 2,353 million at the end of 2013 reflecting the confidence of customers in the Bank.

While deposits and due-to-banks showed a decline of BD 73.6 million compared with the BD 255.0 million level reported in 2012, the Bank remained a net lender in the interbank market with total placements and due-from-banks of BD 202.4 million compared to BD 181.5 million deposits and due-to-banks at the end of 2013.

Interest payable and other liabilities consist of accrued interest payable on interest-bearing deposits, accrued expenses, and provisions.

BBK's consistent and solid results are directly attributable to the complementarity and geographic diversity of it's activities, to the dedication of our people and to the quality of execution of the Bank's highly targeted strategy.

Consolidated statement of financial position

	2013	2012	Variance BD millions	Change percent
Assets				
Cash and balances with central banks	**224.4**	262.7	(38.3)	-14.61%
Treasury bills	**315.1**	165.2	149.9	90.79%
Financial assets at fair value through statement of profit or loss	**0.0**	0.3	(0.3)	0.00%
Deposits and amounts due from banks and other financial institutions	**202.4**	349.9	(147.5)	-42.15%
Loans and advances to customers	**1,618.6**	1,498.7	119.9	7.99%
Non-trading investment securities	**744.0**	717.3	26.7	3.72%
Investment in associated company and joint venture	**57.9**	54.6	3.3	6.05%
Interest receivable and other assets	**42.2**	30.9	11.3	36.63%
Premises and equipment	**26.1**	28.0	(1.9)	-6.23%
Total assets	**3,230.7**	**3,107.6**	**123.1**	**3.96%**
Liabilities and equity				
Liabilities				
Deposits and amounts due to banks and other financial institutions	**181.5**	255.1	(73.6)	-28.83%
Borrowings under repurchase agreement	**56.3**	47.9	8.4	17.52%
Term borrowings	**239.5**	238.1	1.4	0.60%
Customers' current, savings and other deposits	**2,352.9**	2,204.8	148.1	6.72%
Interest payable and other liabilities	**67.6**	72.0	(4.5)	-6.32%
Total liabilities	**2,897.8**	2,817.9	79.9	2.83%
Equity attributable to owners of the Bank	**332.2**	289.2	43.0	14.89%
Non-controlling interest	**0.7**	0.5	0.2	43.03%
Total equity	**332.9**	289.7	43.2	14.93%
Total liabilities and equity	**3,230.7**	**3,107.6**	**123.1**	**3.96%**

Capital adequacy

The Bank has implemented the Basel II framework for the calculation of capital adequacy since January 2008, in accordance with CBB guidelines.

Equity before appropriations stood at BD 333 million at the end of 2013 (2012: BD 290 million). While there was a growth in risk weighted assets, primarily as a result of the growth in the credit exposure, the Bank continued to maintain a comfortable capital adequacy ratio of 15.3 percent (2012: 14.3 percent), well above the CBB's minimum regulatory requirement of 12.0 percent.

To further strengthen the Bank's capital base, the Board of Directors approved the appropriation of BD 3.1 million (2012: BD 4.2 million) from the current year's profit to the general reserve. This would make the general reserve BD 46.8 million, an increase of 7.2 percent over the 2012 general reserve, representing 50 percent of the share capital of the Bank.

The Bank has also conducted an impact assessment of Basel III requirements in line with the guidelines provided by the Bank of International Settlements (BIS) and the CBB, where the outcome showed that the Bank has sufficient capital to accommodate the requirements of Basel III Accord, as and when it's due.

The future is very promising for BBK, and the management is looking ahead with great optimism. However, in order to meet all the upcoming challenges, the Bank shall continue to invest strategically to develop and promote the targeted positioning that distinguishes BBK and fuels it's strength.

Financial information

Independent Auditors’ report to the shareholders of BBK B.S.C.

Report on the financial statements

We have audited the accompanying consolidated financial statements of BBK 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 profit and loss, other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors’ responsibility for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of these 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 the 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 at 31 December 2013, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other regulatory requirements

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

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

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

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

Ernst & Young

3 February 2014
Manama, Kingdom of Bahrain

Consolidated statement of financial position

As at 31 December 2013

	Note	2013 BD '000	2012 BD '000
ASSETS			
Cash and balances with central banks	4	**224,352**	262,741
Treasury bills	5	**315,125**	165,168
Financial assets at fair value through statement of profit or loss		**-**	346
Deposits and amounts due from banks and other financial institutions	6	**202,385**	349,850
Loans and advances to customers	7	**1,618,535**	1,498,745
Non-trading investment securities	8	**743,979**	717,325
Investments in associated companies and joint venture	9	**57,869**	54,566
Interest receivable and other assets	10	**42,283**	30,947
Premises and equipment	11	**26,136**	27,873
TOTAL ASSETS		**3,230,664**	3,107,561
LIABILITIES AND EQUITY			
Liabilities			
Deposits and amounts due to banks and other financial institutions		**181,529**	255,079
Borrowings under repurchase agreement		**56,307**	47,913
Term borrowings	12	**239,498**	238,059
Customers' current, savings and other deposits	13	**2,352,907**	2,204,793
Interest payable and other liabilities	14	**67,496**	72,050
Total liabilities		**2,897,737**	2,817,894
Equity			
Share capital	15	**93,649**	85,135
Treasury stock	15	**(3,014)**	(3,561)
Share premium	15	**39,919**	39,919
Statutory reserve	16	**46,825**	42,568
General reserve	16	**43,700**	39,500
Cumulative changes in fair values	17	**24,902**	15,515
Foreign currency translation adjustments		**(4,508)**	(2,112)
Retained earnings		**67,747**	49,840
Appropriations	18	**22,989**	22,361
ATTRIBUTABLE TO THE OWNERS OF THE BANK		**332,209**	289,165
Non-controlling interest		**718**	502
Total equity		**332,927**	289,667
TOTAL LIABILITIES AND EQUITY		**3,230,664**	3,107,561

Murad Ali Murad	**Aref Saleh Khamis**	**Abdulkarim Ahmed Bucheery**
Chairman	Deputy Chairman	Chief Executive

The attached notes 1 to 46 form part of these consolidated financial statements.

Consolidated statement of profit or loss

Year ended 31 December 2013

	Note	2013 BD '000	2012 BD '000
Interest and similar income	*19*	**110,667**	104,465
Interest and similar expense		**(41,809)**	(38,713)
Net interest income		**68,858**	65,752
Share of profit of associated companies and joint venture	*9*	**5,869**	5,634
Other income	*20*	**37,658**	37,247
Total operating income		**112,385**	108,633
Staff costs		**35,730**	32,429
Other expenses		**15,278**	14,626
Depreciation	*11*	**3,400**	3,498
Net provision for impairment on loans and advances to customers	*7*	**12,400**	8,964
Net (write back) / provision for impairment on non-trading investment securities	*8*	**(263)**	6,034
Total operating expenses		**66,545**	65,551
PROFIT BEFORE TAXATION		**45,840**	43,082
Net tax provision		**(573)**	(573)
PROFIT FOR THE YEAR		**45,267**	42,509
Attributable to:			
Owners of the Bank		**45,051**	42,358
Non-controlling interest		**216**	151
		45,267	42,509
Basic and diluted earnings per share (BD)	*21*	**0.049**	0.046

Murad Ali Murad
Chairman

Aref Saleh Khamis
Deputy Chairman

Abdulkarim Ahmed Bucheery
Chief Executive

The attached notes 1 to 46 form part of these consolidated financial statements.

Consolidated statement of comprehensive income

Year ended 31 December 2013

	Note	2013 BD '000	2012 BD '000
Profit for the year		**45,267**	42,509
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Foreign currency translation adjustments		**(2,396)**	(1,551)
Net movement in cumulative changes in fair values	*17*	**8,590**	31,157
Fair value changes in cash flow hedges	*17*	**797**	550
Other comprehensive income for the year		**6,991**	30,156
Total comprehensive income for the year		**52,258**	72,665
Attributable to:			
Owners of the Bank		**52,042**	72,514
Non-controlling interest		**216**	151
		52,258	72,665

The attached notes 1 to 46 form part of these consolidated financial statements.

Consolidated statement of changes in equity

Year ended 31 December 2013

		Attributable to the owners of the Bank											
		Share capital	Treasury stock	Share premium	Statutory reserve	General reserve	Cumulative changes in fair values	Foreign currency translation adjustments	Retained earnings	Proposed appropriations	Total	Non-controlling interest	Total equity
	Note	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Balance at 1 January 2012		85,135	(4,445)	39,919	42,568	39,500	(16,192)	(561)	29,306	22,438	237,668	351	238,019
Profit for the year		-	-	-	-	-	-	-	42,358	-	42,358	151	42,509
Other comprehensive income		-	-	-	-	-	31,707	(1,551)	-	-	30,156	-	30,156
Total comprehensive income		-	-	-	-	-	31,707	(1,551)	42,358	-	72,514	151	72,665
Share-based payments	40	-	-	-	-	-	-	-	537	-	537	-	537
Dividends paid	18	-	-	-	-	-	-	-	-	(20,938)	(20,938)	-	(20,938)
Donations		-	-	-	-	-	-	-	-	(1,500)	(1,500)		(1,500)
Movement in treasury stock	15	-	884	-	-	-	-	-	-	-	884	-	884
Proposed appropriations	18	-	-	-	-	-	-	-	(22,361)	22,361	-	-	-
Balance at 31 December 2012		85,135	(3,561)	39,919	42,568	39,500	15,515	(2,112)	49,840	22,361	289,165	502	289,667
Profit for the year		-	-	-	-	-	-	-	45,051	-	45,051	216	45,267
Other comprehensive income		-	-	-	-	-	9,387	(2,396)	-	-	6,991	-	6,991
Total comprehensive income		-	-	-	-	-	9,387	(2,396)	45,051	-	52,042	216	52,258
Share-based payments	40	-	-	-	-	-	-	-	102	-	102	-	102
Dividends paid	18	-	-	-	-	-	-	-	-	(8,397)	(8,397)	-	(8,397)
Stock dividends	18	8,514	-	-	-	-	-	-	-	(8,514)	-	-	-
Donations		-	-	-	-	-	-	-	-	(1,250)	(1,250)		(1,250)
Movement in treasury stock	15	-	547	-	-	-	-	-	-	-	547	-	547
Transfer to statutory reserve	16	-	-	-	4,257	-	-	-	(4,257)	-	-	-	-
Proposed appropriations	18	-	-	-	-	-	-	-	(22,989)	22,989	-	-	-
Transfer to general reserve 2012		-	-	-	-	4,200	-	-	-	(4,200)	-	-	-
Balance at 31 December 2013		**93,649**	**(3,014)**	**39,919**	**46,825**	**43,700**	**24,902**	**(4,508)**	**67,747**	**22,989**	**332,209**	**718**	**332,927**

The attached notes 1 to 46 form part of these consolidated financial statements.

Consolidated statement of cash flows

Year ended 31 December 2013

	Note	2013 BD '000	2012 BD '000
OPERATING ACTIVITIES			
Profit for the year before taxation		**45,840**	43,082
Adjustments for:			
Net provisions (write back) relating to:			
Loans and advances to customers	*7*	**12,400**	8,964
Non-trading investment securities	*8*	**(263)**	6,034
Share of profit of associated companies and joint venture	*9*	**(5,869)**	(5,634)
Depreciation	*11*	**3,400**	3,498
Realised gains on sale of non-trading investment securities	*20*	**(3,871)**	(2,952)
Accrual on term borrowings		**1,439**	1,444
		53,076	54,436
(Increase) decrease in operating assets			
Mandatory reserve deposits with central banks		**(5,435)**	2,305
Treasury bills maturing after 90 days		**(142,989)**	34,899
Net change in financial assets at fair value through statement of profit or loss		**346**	(346)
Deposits and amounts due from banks and other financial institutions		**27,718**	64,147
Loans and advances to customers		**(132,190)**	(100,990)
Interest receivable and other assets		**(10,539)**	(2,998)
Increase (decrease) in operating liabilities			
Deposits and amounts due to banks and other financial institutions		**(73,550)**	112,718
Borrowings under repurchase agreements		**8,394**	46,846
Customers' current, savings and other deposits		**148,114**	128,579
Interest payable and other liabilities		**(4,554)**	1,272
Income tax paid		**(535)**	(839)
Net cash (used in) from operating activities		**(132,144)**	340,029
INVESTING ACTIVITIES			
Purchase of non-trading investment securities		**(478,821)**	(567,427)
Sale of non-trading investment securities		**464,675**	442,895
Dividends received from associated company	*9*	**2,845**	2,745
Purchase of premises and equipment		**(1,663)**	(2,766)
Net cash used in investing activities		**(12,964)**	(124,553)
FINANCING ACTIVITIES			
Payment of dividend and donations	*18*	**(9,647)**	(22,438)
Movement in treasury stock		**547**	884
Net cash used in financing activities		**(9,100)**	(21,554)
Foreign currency translation adjustments		**(2,396)**	(1,551)
NET CHANGE IN CASH AND CASH EQUIVALENTS		**(156,604)**	192,371
Cash and cash equivalents at beginning of the year		**506,140**	313,769
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	*23*	**349,536**	506,140

The attached notes 1 to 46 form part of these consolidated financial statements.

Notes to the consolidated financial statements

31 December 2013

1. Activities

BBK B.S.C. (the "Bank"), a public shareholding company, was incorporated in the Kingdom of Bahrain by an Amiri Decree in March 1971 and registered with the Ministry of Industry and Commerce under Commercial Registration number 1234 dated 16 March 1971. The Bank operates in Bahrain under a commercial banking license issued by the Central Bank of Bahrain and its shares are listed on the Bahrain Bourse.

The Bank is engaged in commercial banking activities through its branches in the Kingdom of Bahrain, the State of Kuwait and the Republic of India and credit card operations and business process outsourcing services through its subsidiaries. The Bank's registered office is at 43 Government Avenue, P.O. Box 597, Manama, Kingdom of Bahrain.

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 3 February 2014.

2. Basis of preparation

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and in conformity with the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) 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.

Accounting convention

The consolidated financial statements are prepared on a historical cost basis, except for derivative financial instruments, available-for-sale investment securities, trading investments and financial assets held at fair value through statement of profit or loss, that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in fair values attributable to risks that are being hedged.

The consolidated financial statements are prepared in Bahraini Dinars which is the functional currency of the Bank.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries (the "Group"), all of which have 31 December as their year end. The Bank has the following principal subsidiaries:

Name	Ownership	Country of incorporation	Activity
CrediMax B.S.C. (c)	100%	*Kingdom of Bahrain*	Credit card operations
Invita B.S.C. (c)	100%	*Kingdom of Bahrain*	Business process outsourcing services

CrediMax B.S.C. (c) owns 55 percent (2012 : 55 percent) of the share capital of Global Payment Services W.L.L., which is established in the Kindgom fo Bahrain and engaged in processing and backup services relating to credit, debit and charge cards.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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.
- The Group's voting rights and potential voting rights.

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

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

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

Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as of 1 January 2013:

Not all of these standards and amendments are applicable to the Group's consolidated financial statements.

IFRS 1 first-time adoption of International Financial Reporting Standards - Government loans *(amendments to IFRS 1)*
The amendments did not have any impact on the Group's consolidated financial statements.

IFRS 7 Financial instruments: disclosures - offsetting financial assets and financial liabilities *(amendments to IFRS 7)*
The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32.

2. Basis of preparation continued

Changes in accounting policy and disclosures continued

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

(a) an investor has power over an investee;
(b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and
(c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Group.

IFRS 11 Joint arrangements, IAS 31 interests in joint ventures
IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method.

IFRS 11 had no impact on the consolidated financial statements of the Group.

IFRS 12 Disclosure of interests in other entities
IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles. Accordingly, the Group has made such disclosures.

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 when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Group.

IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 Financial Instruments: Disclosures. Some of these disclosures are specifically required for financial instruments by IAS 34.16A(j).

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

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

IAS 19 Employee benefits
The IASB has issued numerous amendments to IAS 19, which are effective for annual periods beginning on or after 1 January 2013. These include the elimination of the corridor approach and recognising all actuarial gains and losses in the other comprehensive income as they occur; immediate recognition of all past service costs; and replacement of interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset); and certain clarifications and re-wording.

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

Improvements to IFRSs (2009-2011 cycle)

These improvements will not have an impact on the Bank, but include:

- IFRS 1 - Repeat application of IFRS 1
- IFRS 1 - Borrowing costs
- IAS 1 - Clarification of the requirement for comparative information
- IAS 16 - Classification of servicing equipment
- IAS 32 - Tax effects of distributions to holders of equity instruments
- IAS 34 - Interim financial reporting and segment information for total assets and liabilities

Other amendments resulting from Improvements to IFRSs did not have any impact on the accounting policies, financial position or performance of the Bank.

3. Summary of significant account policies

Financial instruments

All financial instruments are initially recognised at the fair value of consideration given, including acquisition costs associated with the investment, except in case of trading investments, where the acquisition costs are expensed in the consolidated statement of profit or loss.

Trading investments

Trading investments are subsequently measured at fair value with any gain or loss arising from a change in fair value being included in the consolidated statement of profit or loss in the period in which it arises. Interest earned or dividends received are included in net trading income.

Financial assets designated at fair value through statement of profit or loss

Financial assets classified in this category are designated by management on initial recognition when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows, that would not be separately recorded.

Financial assets at fair value through statement of profit or loss are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in 'net gain or loss on financial assets designated at fair value through statement of profit or loss. Interest earned is accrued in interest income, while dividend income is recorded in other income. The Group has not designated any financial assets at fair value through profit or loss.

Deposits and due from banks and other financial institutions

These are stated at cost, adjusted for effective fair value hedges, less any amounts written off and provision for impairment.

Loans and advances to customers

Loans and advances to customers are stated at amortised cost, adjusted for effective fair value hedges, net of interest suspended, provision for impairment and any amounts written off.

Non-trading investment securities

These include bonds, equities, managed funds and other investments. Investments in managed funds comprise investments in mutual funds, private equity, real estate and credit structured products.

These are classified as follows:

- Investments carried at amortised cost
- Available-for-sale

Investments carried at amortised cost

Debt instruments which could be classified as loans and advances and which have fixed or determinable payments but are not quoted in an active market are treated as investments and carried at amortised cost, adjusted for effective fair value hedges, less provision for impairment. Premiums and discounts on non-trading investments with fixed or determinable repayments are amortised, using the effective interest rate method, and taken to interest income.

Available-for-sale

All other investments are classified as "available-for-sale". After initial recognition, available-for-sale investments are subsequently measured at fair value, unless fair value cannot be reliably measured in which case they are measured at cost less impairment. Fair value changes which are not part of an effective hedging relationship, are reported as a separate component of equity as cumulative changes in fair value until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported as "cumulative changes in fair value" within equity, is included in the consolidated statement of profit or loss for the year.

That portion of any fair value changes relating from an effective hedging relationship is recognised directly in the consolidated statement of profit or loss.

Fair value measurement *(from 1 January 2013)*

The Group measures financial instruments, such as derivatives at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in *Note 39*.

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.

The fair value of financial instruments that are quoted in an active market is determined by reference to market bid priced respectively at the close of business on the statement of position date.

In case of unquoted investments, 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.

The Group's Risk Management determines the policies and procedures for fair value measurement. 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.

Fair values *(before 1 January 2013)*

In case of unquoted investments, the following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Available-for-sale financial assets valued using a valuation technique or pricing models primarily consist of unquoted equities and debt securities.

These assets are valued using models which sometimes only incorporate data observable in the market and at other times using both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Other non-trading assets valued using a valuation technique consists of certain debt securities and asset-backed securities. The Group values the securities using valuation models which use discounted cash flow analysis which incorporates either only observable data or both observable and non-observable data. Observable inputs include assumptions regarding current rates of interest and real estate prices; unobservable inputs include assumptions regarding expected future default rates, prepayment rates and market liquidity discounts.

Impairment and uncollectability of financial assets

The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is 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 the 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, the probability that they will enter bankruptcy or other financial reorganisation, default or delinquency in interest or principal payments 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.

(i) Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers), the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'interest income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to provision for impairment.

3. Summary of significant account policies continued

Impairment and uncollectability of financial assets continued

(i) Financial assets carried at amortised cost continued

The present value of estimated future cash flows is discounted at the financial asset's original effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics such as asset type, industry, geographical location, collateral type, past due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Available-for-sale financial assets

For available-for-sale investments, the Group assesses at each statement of financial position date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Group assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss on the investment previously recognised in the consolidated statement of profit or loss. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of interest. If in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the consolidated statement of profit or loss, the impairment loss is reversed through the consolidated statement of profit or loss.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of profit or loss is removed from equity and recognised in the consolidated statement of profit or loss. Impairment losses on equity investments are not reversed through the consolidated statement of profit or loss. Increases in fair value after impairment are recognised directly in equity.

(iii) 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 any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Term borrowings

Financial instruments or their components issued by the Group, which are not designated at fair value through statement of profit or loss, are classified as liabilities under 'term borrowings', where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, term borrowings are subsequently measured at amortised cost using the effective interest rate. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (in whole or in part) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of ownership or (b) when it has neither transferred nor retained substantially all the risks and rewards and when it no longer has control over the financial asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Investment in associated companies and joint venture

The Group's investments in associated companies and joint ventures are accounted for using the equity method, under which the investment in an associated company 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 associated company or joint venture since the acquisition date. Goodwill relating to the associated company or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

An associated company or "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 and '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 statement of profit or loss reflects the Group's share of the results of operations in any associated compaies or joint ventures. Any change in other comprehensive income (OCI) of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of associated companies or joint ventures, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associated companies or joint ventures are eliminated to the extent of the interest in the associated companies or joint ventures.

The aggregate of the Group's share of profit or loss of an associated company and/or a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associated company or joint venture.

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

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associated companies or joint ventures. At each reporting date, the Group determines whether there is objective evidence that the investment in the associated company 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 associated company or joint venture and its carrying value, then recognises the loss as 'Share of profit of associated companies and joint ventures' in the statement of profit or loss.

Upon loss of significant influence over the associated company or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associated company 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 profit or loss.

Premises and equipment

All items of premises and equipment are initially recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of all premises and equipment, other than freehold land which is deemed to have an indefinite life.

Collateral pending sale

The Group occasionally acquires real estate in settlement of certain loans and advances to customers. Such real estate is stated at the lower of the carrying value of the related facility and the current fair value of the collateral acquired, assessed on an individual basis. If the current fair value for any individual asset is lower, a provision is created. Gains or losses on disposal, and unrealised losses on revaluation, are recognised in the consolidated statement of profit or loss.

Deposits

All money market and customer deposits are carried at the fair value of consideration received, adjusted for effective hedges, less amounts repaid.

Repurchase and resale agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability, reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate. When the counterparty has the right to sell or repledge the securities, the Group reclassifies those securities in its consolidated statement of financial position, as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the consolidated statement of financial position. The consideration paid, including accrued interest, is recorded in the consolidated statement of financial position, reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in interest income and is accrued over the life of the agreement using the effective interest rate. If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale and measured at fair value with any gains or losses included in 'net interest income'.

Taxation

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.

Employees' end of service benefits

Costs relating to employees' end of service benefits are accrued in accordance with actuarial and other valuations as required by regulations applicable in each location.

Share-based payment transactions

For equity-settled shared-based payment transactions the Group measures the services received, and the corresponding increase in equity at the fair value of the services received by reference to the fair value of the equity instruments granted. The fair value of those equity instruments is measured at grant date. The fair value so calculated at the grant date is recognised as an expense in the consolidated statement of profit or loss over the vesting period, with a corresponding credit to retained earnings. When an employee leaves the Group during the vesting period the shares granted stand forfeited and any amount recognised in respect of these forfeited shares is reversed through the consolidated statement of profit or loss.

Provisions

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

Treasury stock

Treasury stock is deducted from equity and is stated at cost. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of own equity instruments.

Proposed dividends

Proposed dividends are included as part of equity and only recognised as liabilities when approved by the shareholders. The payment of a dividend also requires the prior approval of the Central Bank of Bahrain.

Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. All such guarantees are treated as memorandum liabilities and are disclosed as part of contingent liabilities. Financial guarantees are initially recognised in the consolidated financial statements at fair value, in 'other liabilities', being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is taken to the consolidated statement of profit or loss in 'net provision for impairment'. The premium received is recognised in the consolidated statement of profit or loss in 'fees and commission income' on a straight line basis over the life of the guarantee.

Derivatives

The Group enters into derivative instruments including futures, forwards, swaps, and options in the foreign exchange and capital markets. Derivatives are stated at fair value. Derivatives with positive market values are included in 'other assets' and derivatives with negative market values are included in 'other liabilities' in the consolidated statement of financial position.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through the consolidated statement of profit or loss. These embedded derivatives are measured at fair value with the changes in fair value recognised in the consolidated statement of profit or loss.

Hedge accounting

The Group makes use of derivative instruments to manage exposures to interest rate and foreign currency risks. In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria.

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

A formal assessment is also undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is regarded as highly effective if the changes in 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 percent to 125 percent. Hedges are formally assessed each quarter to reconfirm their effectiveness.

For the purposes of hedge accounting, hedges are classified into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

3. Summary of significant account policies continued

Hedge accounting continued

Fair value hedges
In relation to fair value hedges, which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument to fair value is recognised immediately in the consolidated statement of profit or loss. The hedged item is adjusted for fair value changes and the difference relating to the risk being hedged is recognised in the consolidated statement of profit or loss.

Cash flow value hedges
In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised initially in equity and the ineffective portion is recognised in the consolidated statement of profit or loss. The gains or losses on effective cash flow hedges recognised initially in equity, are either transferred to the consolidated statement of profit or loss in the period in which the hedged transaction impacts the consolidated statement of profit or loss, or included in the initial measurement of the cost of the related asset or liability.

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

Discontinuation of hedges
Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. For effective fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For effective cash flow hedges, 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 profit or loss.

Fiduciary assets

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

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 settle on a net basis.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Interest income and loan commitment fees, which are considered an integral part of the effective yield of a financial asset, are recognised using the effective yield method unless collectability is in doubt. The recognition of interest income is suspended when loans become impaired, such as when overdue by more than ninety days. Notional interest is recognised on impaired loans and other financial assets based on the rate used to discount future cash flows to their net present value based on the original effective interest rate.

Interest expense is recognised using the effective yield method.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Other fees receivable are recognised when earned. Dividend income is recognised when the right to receive payment is established.

Where the Group enters into an interest rate swap to change interest from fixed to floating (or vice versa) the amount of interest income or expense is adjusted by the net interest on the swap until the hedges are effective.

Foreign currencies

(i) Transactions and balances
Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. All differences arising on non-trading activities are taken to 'other income' in the consolidated statement of profit and loss, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity. These differences are taken directly to equity until the disposal of the net investment, at which time they are recognised in the consolidated statement of profit or loss.

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. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

(ii) Group companies
As at the reporting date, the assets and liabilities of subsidiaries and overseas branches are translated into the Group's presentation currency at the rate of exchange as at the statement of financial position date, and their statements of income are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity through the consolidated statement of comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated statement of profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with central banks (excluding mandatory reserve deposits), treasury bills, deposits and due from banks and other financial institutions with original maturities of ninety days or less.

Trade date accounting and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

New standards and amendments issued but not yet effective

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

IFRS 9 Financial instruments

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued. The standard was initially effective for annual periods beginning on or after 1 January 2013, but amendments to IFRS 9 mandatory effective date of IFRS 9 and transition disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. On November 19, 2013, the International Accounting Standards Board (IASB) issued amendments to IFRS 9 that introduced a new general hedge accounting and removed the 1 January 2015, mandatory effective date from IFRS 9. The new hedge accounting model significantly differs from the IAS 39 hedge accounting model in a number of aspects including eligibility of hedging instruments and hedged items, accounting for the time value component of options and forward contracts, qualifying criteria for applying hedge accounting, modification and discontinuation of hedging relationships etc. Under the amendments, entities that adopt IFRS 9 (as amended in November 2013) can choose an accounting policy of either adopting the new IFRS 9 hedge accounting model now or continuing to apply the hedge accounting model in IAS 39 for the time being.

Investment entities *(amendments to IFRS 10, IFRS 12 and IAS 27)*

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

IAS 32 Offsetting financial assets and financial liabilities *(amendments to IAS 32)*

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

IFRIC Interpretation 21 levies (IFRIC 21)

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

Recoverable amount disclosures for non-financial assets *(amendments to IAS 36 impairment of assets)*

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied.

IAS 39 Novation of derivatives and continuation of hedge accounting *(amendments to IAS 39)*

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

Significant accounting judgments and estimates

In the process of applying the Group's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the consolidated financial statements. The most significant uses of judgment and estimates are as follows:

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, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

Classification of investments

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

The Group classifies investments as trading if they are acquired primarily for the purpose of making a short term profit.

The Group classifies debt instruments as carried at amortised cost if the debt instruments are not quoted in an active market.

The Group classifies investments which it intends and has the ability to hold to maturity as held-to-maturity.

The Group classifies financial instruments which contain embedded derivatives which cannot be separated from the host instrument as carried at fair value through statement of profit or loss.

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

Impairment losses on loans and advances and investments

The Group reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the consolidated statement of profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgments about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively in groups of assets, with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio, concentrations of risks and economic data.

Collective impairment provisions on loans and advances

In addition to specific provisions against individually significant loans and advances, the Group also makes a collective impairment provision against groups of loans and advances which have not been identified for allocating specific provision but carry higher risk of default than originally perceived when the assets were booked.

Impairment of non-trading investment securities

The Group reviews its debt securities classified as available-for-sale investments at each statement of financial position date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances. The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and duration and the extent to which the fair value of an investment is less than its cost.

4. Cash and balances with central banks

	2013	2012
	BD '000	BD '000
Cash	**15,833**	15,564
Current accounts and placements with central banks	**142,568**	186,661
Mandatory reserve deposits with central banks	**65,951**	60,516
	224,352	262,741

Mandatory reserve deposits are not available for use in the Group's day-to-day operations.

5. Treasury bills

These are short term treasury bills issued by the Government of the Kingdom of Bahrain and Republic of India, carried at amortised cost.

6. Deposits and amounts due from banks and other financial institutions

	2013	2012
	BD '000	BD '000
Deposits with banks and other financial institutions	**170,051**	327,959
Other amounts due from banks	**32,334**	21,891
	202,385	349,850

7. Loans and advances to customers

	2013	2012
	BD '000	BD '000
Commercial loans and overdrafts	**1,435,853**	1,357,145
Consumer loans	**283,596**	252,554
	1,719,449	1,609,699
Less: Allowance for impairment and interest in suspense	**(100,914)**	(110,954)
	1,618,535	1,498,745

Movements in allowance for impairment and interest in suspense are as follows:

2013	Commercial loans and overdrafts	Consumer loans	Total
	BD '000	BD '000	BD '000
Balance at 1 January	**100,060**	**10,894**	**110,954**
Charge for the year	**13,220**	**2,507**	**15,727**
Recoveries / write-backs	**(2,626)**	**(701)**	**(3,327)**
Interest suspended during the year	**6,060**	**7**	**6,067**
Amounts written off during the year	**(23,879)**	**(1,638)**	**(25,517)**
Interest recovered on impaired loans	**(1,914)**	**(4)**	**(1,918)**
Exchange and other movements	**(1,072)**	**-**	**(1,072)**
Balance at 31 December	**89,849**	**11,065**	**100,914**
Individual impairment	**65,735**	**11,061**	**76,796**
Collective impairment	**21,393**	**2,725**	**24,118**
Gross amount of loans, individually determined to be impaired	**115,531**	**14,434**	**129,965**

2012	Commercial loans and overdrafts	Consumer loans	Total
	BD '000	BD '000	BD '000
Balance at 1 January	87,275	11,131	98,406
Charge for the year	12,115	590	12,705
Recoveries / write-backs	(3,089)	(652)	(3,741)
Interest suspended during the year	6,966	10	6,976
Amounts written off during the year	(1,994)	(177)	(2,171)
Interest recovered on impaired loans	(1,789)	(8)	(1,797)
Exchange and other movements	576	-	576
Balance at 31 December	100,060	10,894	110,954
Individual impairment	83,326	10,889	94,215
Collective impairment	14,322	2,417	16,739
Gross amount of loans, individually determined to be impaired	134,237	13,602	147,839

The fair value of the collateral consisting of cash, securities and real estate that the Group holds relating to loans individually determined to be impaired at 31 December 2013 amounts to BD 107,921 thousand (2012: BD 116,547 thousand).

8. Non-trading investment securities

	Available-for-sale	Carried at amortised cost	Total 2013	Total 2012
	BD '000	BD '000	BD '000	BD '000
Quoted investments				
Government bonds	255,855	2,114	**257,969**	219,202
Other bonds	238,497	-	**238,497**	214,580
Equities	69,729	-	**69,729**	50,343
	564,081	2,114	**566,195**	484,125
Unquoted investments				
Government bonds	119,177	24,150	**143,327**	191,194
Other bonds	34,945	5,914	**40,859**	52,191
Equities	37,681	-	**37,681**	36,361
Managed funds	5,199	-	**5,199**	5,682
	197,002	30,064	**227,066**	285,428
	761,083	32,178	**793,261**	769,553
Allowance for impairment	(49,282)	-	**(49,282)**	(52,228)
Balance at 31 December 2013	711,801	32,178	**743,979**	
Balance at 31 December 2012	478,749	85,166		717,325

Included under available-for-sale investments are unquoted equity and managed funds investments amounting to BD 27,276 thousand (2012: BD 27,426 thousand), which are recorded at cost since their fair value cannot be reliably estimated. There is no market for these investments and the Group intends to hold them for the long term.

The movements in allowance for impairment of non-trading investment securities are as follows:

	2013	2012
	BD '000	BD '000
Balance at 1 January	**52,228**	71,443
Charge for the year	**2,059**	6,851
Recoveries	**(2,322)**	(817)
Amounts written off	**(2,716)**	(25,286)
Exchange and other movements	**33**	37
Balance at 31 December	**49,282**	52,228

9. Investments in associated companies and joint venture

The Group has a 23 percent (2012: 23 percent) shareholding in Bahrain Commercial Facilities Company B.S.C. ("BCFC"), incorporated in the Kingdom of Bahrain, which is engaged in consumer financing, insurance, dealing in real estate and automobiles.

The Group has a 50 percent (2012: 50 percent) stake in Sakana Holistic Housing Solutions B.S.C. (c) ("Sakana"), a jointly controlled company incorporated in the Kingdom of Bahrain which is engaged in Islamic real estate financing.

The Group has a 22 percent (2012: 22 percent) shareholding in The Benefit Company B.S.C. (c) incorporated in the Kingdom of Bahrain which is engaged in ancillary services to provide payment systems and other related financial services for the benefit of commercial banks and their customers in the Kingdom of Bahrain.

The Group has a 36.36 percent (2012: 36.36 percent) stake in EBLA Computer Consultancy K.S.C.C. EBLA incorporated in the State of Kuwait and is engaged in the provision of IT solutions and IT consultancy services in the Middle East.

The Group has a 24 percent (2012: 24 percent) shareholding in Saudi MAIS Company for Medical Products through Capinnova Medical which is a special purpose vehicle company incorporated in the Kingdom of Saudi Arabia.

The Group has a 35 percent (2012: 35 percent) equity stake in Diyar Al Harameen Al Ola Limited (Diyar), a company incorporated in the Cayman Islands. Diyar holds 100 percent beneficial interest in a hotel in Makkah, Kingdom of Saudi Arabia.

The Group has a 40 percent (2012:40 percent) stake in BBK Geojit Securities K.S.C., a jointly controlled company incorporated in the State of Kuwait.

The following tables illustrate summarised financial information of the Group's interest in these entities:

	2013 BD '000	2012 BD '000
Carrying amount of investment in associated companies and joint venture		
At 1 January	**54,566**	51,127
Share of profit	**5,869**	5,634
Dividends received from associated companies	**(2,845)**	(2,745)
Change in unrealised fair values - associated companies *(note 17)*	**279**	550
Balance at 31 December	**57,869**	54,566

	2013 BD '000	2012 BD '000
Share of associated companies and joint venture statements of financial position		
Current and non-current assets	**99,322**	115,090
Current and non-current liabilities	**(41,453)**	(60,524)
Net assets	**57,869**	54,566
Share of associated companies and joint venture revenues		
Revenue	**16,173**	11,675

The market value of investments in BCFC is BD 25,581 thousand (2012: BD 15,584 thousand) compared to the carrying value of BD 20,977 thousand (2012: BD 19,122 thousand).

Below is the summarised financial information of BCFC, which is considered to be a material associate by the Group based on its IFRS financial statements. Reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	2013 BD '000	2012 BD '000
Net interest income	**16,104**	13,252
Gross profit on automotive sales	**10,472**	7,822
Other operating income	**1,426**	2,494
Total operating income	**28,002**	23,568
Operating expense	**(14,172)**	(10,437)
Other expense	**(1,203)**	(818)
Profit for the year	**12,627**	12,313
Group's share of profit for the year	**2,904**	2,832

	2013 BD '000	2012 BD '000
Assets		
Cash and balances with banks	**2,991**	1,912
Loans and advances to customers	**171,919**	150,543
Inventories	**20,940**	16,427
Other assets	**30,159**	23,375
Total Assets	**226,009**	192,257
Liabilities		
Bank overdrafts	**1,135**	781
Trade and other payables	**19,092**	13,654
Bank term loans	**106,951**	87,113
Bonds issued	**6,690**	6,663
Total Liabilities	**133,868**	108,211
Donation Reserve	**(935)**	(907)
Equity	**91,206**	83,139
Proportion of the the Group's ownership	**23%**	23%
	20,977	19,122

The numbers for BCFC are based on 30 September 2013 reviewed financial statements adjusted for expected performance in the last quarter.

10. Interest receivable and other assets

	2013 BD '000	2012 BD '000
Interest receivable	**11,595**	12,056
Accounts receivable	**9,716**	6,515
Positive fair value of derivatives *(note 26)*	**10,127**	628
Prepaid expenses	**1,598**	2,017
Deferred tax	**514**	843
Collateral pending sale	**1,534**	1,534
Other	**7,199**	7,354
	42,283	30,947

11. Premises and equipment

	Freehold land BD '000	Properties and buildings BD '000	Furniture and equipment BD '000	Capital work in progress BD '000	Total BD '000
Net book value at 31 December 2013	**8,431**	**12,797**	**4,848**	**60**	**26,136**
Net book value at 31 December 2012	8,438	13,342	5,661	432	27,873

The depreciation charge for the year amounted to BD 3,400 thousand (2012: BD 3,498 thousand).

12. Term borrowings

The term borrowings were obtained for general financing purposes and comprise:

Amount of facility US$ '000	Rate of interest	Maturity year	2013 BD '000	2012 BD '000
145,140	Libor + 0.75%	2017	**8,509**	8,509
129,860	Libor + 1.75%	2018	**42,489**	41,050
500,000	4.50%	2015	**188,500**	188,500
			239,498	238,059

13. Customers' current, savings and other deposits

	2013 BD '000	2012 BD '000
Term deposits	**1,486,911**	1,238,283
Current accounts	**484,086**	634,842
Savings accounts	**325,416**	269,925
Other accounts	**56,494**	61,743
	2,352,907	2,204,793

14. Interest payable and other liabilities

	2013 BD '000	2012 BD '000
Accrued expenses	**31,810**	32,076
Interest payable	**8,986**	8,612
Accounts payable	**13,087**	10,128
Negative fair value of derivatives *(note 26)*	**7,943**	15,789
Other	**5,670**	5,445
	67,496	72,050

15. Equity

Share capital	2013 BD '000	2012 BD '000
Authorised		
1,000,000,000 shares of BD 0.100 each	**100,000**	100,000
Issued and fully paid		
936,491,734 shares (2012: 851,356,122 shares) of BD 0.100 each	**93,649**	85,135
Treasury stock *(see below)*	**(3,014)**	(3,561)

Treasury stock represents the purchase by the Bank of its own shares. At the end of the year, the Bank held 11,596,295 (2012: 11,688,554) of its own shares, inclusive of bonus shares issued during 2013.

Share premium
The share premium arising on issue of ordinary shares is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

Employee Performance Share Plan
The Group has an Employee Performance Share Plan under which shares are granted to certain eligible employees *(note 40)*.

16. Reserves

Statutory reserve

The statutory reserve has been created in accordance with the Bahrain Commercial Companies Law. The Bank transfers 10 percent of its annual profits to its statutory reserve till such time as the reserve equals 50 percent of the issued share capital of the Bank. During the year the Bank transferred only BD 4,257 thousand as the statutory reserve reached 50 percent of the issued 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 general reserve has been built up in accordance with the provisions of the Bank's articles of association and underlines the shareholders' commitment to enhance the strong equity base of the Bank. The general reserve is distributable subject to CBB approval.

17. Cumulative changes in fair values

	2013 BD '000	2012 BD '000
Available-for-sale investments		
At 1 January	**16,148**	(15,009)
Realised gains on sale of non-trading investment securities	**(2,079)**	(2,420)
Transferred to consolidated statement of profit or loss on impairment	**2,028**	2,790
Change in unrealised fair values during the year	**8,641**	30,787
At 31 December	**24,738**	16,148
Cash flow hedges		
At 1 January	**(633)**	(1,183)
Change in unrealised fair values	**518**	-
Change in unrealised fair values - associated companies *(note 9)*	**279**	550
At 31 December	**164**	(633)
	24,902	15,515

18. Proposed appropriations

	2013 BD '000	2012 BD '000
Cash dividend	**9,249**	8,397
Stock dividend	**9,365**	8,514
Transfer to general reserve	**3,125**	4,200
Donations	**1,250**	1,250
	22,989	22,361

The Board of Directors has proposed a cash dividend of BD 0.010 per share (2012: BD 0.010 per share), net of treasury stock and a stock dividend of BD 0.010 per share (2012: BD 0.010 per share) as of 31 December 2013. The Bank paid a dividend of BD 0.020 per share (2012: BD 0.025 per share).

The above appropriations will be submitted for approval at the Annual General Assembly of the Shareholders to be held on 12 March 2014. The payment of a dividend is also subject to the approval of the Central Bank of Bahrain.

19. Interest and similar income

	2013 BD '000	2012 BD '000
Loans and advances to customers	**79,864**	75,976
Non-trading investment securities - available-for-sale	**22,677**	19,692
Deposits and amounts due from banks and other financial institutions	**1,829**	2,040
Non-trading investment securities - amortised cost	**1,457**	2,368
Notional interest on impaired financial assets - loans and advances to customers *(note 7)*	**1,918**	1,797
Treasury bills	**2,922**	2,592
	110,667	104,465

20. Other income

	2013 BD '000	2012 BD '000
Fee and commission income	**33,160**	32,215
Dividend income	**2,275**	2,052
Realised gains on sale of non-trading investment securities	**3,871**	2,952
Gain on foreign exchange	**5,430**	3,204
Others	**1,906**	2,468
	46,642	42,891
Fee and commission expense	**(8,984)**	(5,644)
	37,658	37,247

Included in fee and commission income is BD 76 thousand (2012: BD 345 thousand) relating to trust and other fiduciary activities.

21. Basic and diluted earnings per share

Basic earnings per share

Basic earnings per share for the year are calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

	2013	2012
Profit for the year attributable to the owners of the Bank *(BD '000)*	**45,051**	42,358
Weighted average number of shares, net of treasury stock, outstanding during the year	**924,895,439**	924,803,180
Basic and diluted earnings per share *(BD)*	**0.049**	0.046

22. Operating segments

Segment information

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

Retail banking	Corporate banking	International banking	Investment, treasury and other activities
Principally handling individual customers' deposits and providing consumer finance type loans, overdrafts, credit facilities and funds transfer facilities, credit cards and foreign exchange.	Principally handling loans and other credit facilities, deposit and current accounts for corporate and institutional customers in Bahrain.	Principally handling loans and other credit facilities, deposit and current accounts for international corporate and institutional customers. This also covers the operations of the overseas units.	Principally providing money market, trading and treasury services as well as the management of the Group's funding operations. Investment activities involve handling investments in local and international markets, investment advisory services and funds management. Other activities also include business process outsourcing services.

These segments are the basis on which the Group reports its information to the chief operating decision maker. Transactions between segments are generally recorded at estimated market rates on an arm's length basis. Interest is charged/credited to business segments based on a transfer pricing rate which approximates the marginal cost of funds on a matched funded basis.

Segment information for the year ended 31 December 2013 was as follows:

	Retail banking	**Corporate banking**	**Overseas banking**	**Investment, treasury and other activities**	**Total**
	BD '000	**BD '000**	**BD '000**	**BD '000**	**BD '000**
Operating income before share of profit of associated companies and joint venture	**34,438**	**30,977**	**29,270**	**11,831**	**106,516**
Net provision for impairment on loans and advances to customers	**(5,000)**	**(4,862)**	**(2,538)**	**-**	**(12,400)**
Net write back of impairment of non-trading investment securities	**-**	**-**	**-**	**263**	**263**
Segment result	**9,880**	**10,403**	**14,717**	**4,398**	**39,398**
Share of profit of associated companies and joint venture	**3,589**	**-**	**-**	**2,280**	**5,869**
Profit for the year					**45,267**
Profit attributable to non-controlling interest					**(216)**
Profit for the year attributable to the owners of the Bank					**45,051**
Segment assets	**431,613**	**620,526**	**1,254,064**	**837,289**	**3,143,492**
Investment in associated companies and joint venture	**23,408**	**-**	**-**	**34,461**	**57,869**
Common assets					**29,303**
Total assets					**3,230,664**
Segment liabilities	**611,888**	**771,126**	**816,421**	**655,639**	**2,855,074**
Common liabilities					**42,663**
Total liabilities					**2,897,737**

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

	Retail banking	Corporate banking	Overseas banking	Investment, treasury and other activities	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
Operating income before share of profit of associated companies and joint venture	34,957	30,328	27,127	10,587	102,999
Net provision for impairment on loans and advances to customers	(1,332)	(1,528)	(6,104)	-	(8,964)
Net provision for impairment of non-trading investment securities	-	-	-	(6,034)	(6,034)
Segment result	13,656	14,476	8,510	233	36,875
Share of profit of associated companies and joint venture	3,442	-	-	2,192	5,634
Profit for the year					42,509
Profit attributable to non-controlling interest					(151)
Profit for the year attributable to the owners of the Bank					42,358
Segment assets	378,424	605,443	1,352,618	690,926	3,027,411
Investment in associated companies and joint venture	21,135	-	-	33,431	54,566
Common assets					25,584
Total assets					3,107,561
Segment liabilities	522,240	665,343	963,779	616,569	2,767,931
Common liabilities					49,963
Total liabilities					2,817,894

22. Operating segments continued

Geographic information

The Group operates in two geographic markets: Domestic (Kingdom of Bahrain), Others (Middle East/Africa, Europe, North America and Asia). The following tables show the distribution of the Group's revenue and non-current assets by geographical segment, allocated based on the location in which the assets and liabilities are located, for the years ended 31 December 2013 and 31 December 2012:

	Domestic BD '000	Others BD '000	Total BD '000
31 December 2013			
Net interest income	**59,851**	**9,007**	**68,858**
Share of profit in associated companies and joint venture	**3,589**	**2,280**	**5,869**
Other income	**33,850**	**3,808**	**37,658**
	97,290	**15,095**	**112,385**
Non-current assets	**21,380**	**4,756**	**26,136**
31 December 2012			
Net interest income	55,612	10,140	65,752
Share of profit in associated companies and joint venture	3,633	2,001	5,634
Other income	35,378	1,869	37,247
	94,623	14,010	108,633
Non-current assets	22,940	4,933	27,873

Non-current assets represents premises and equipment.

23. Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flows include the following consolidated statement of financial position amounts:

	2013 BD '000	2012 BD '000
Cash *(note 4)*	**15,833**	15,564
Current accounts and placements with central banks *(note 4)*	**142,568**	186,661
Treasury bills	**6,968**	-
Financial assets at fair value through statement of profit or loss	**-**	346
Deposits and amounts and due from banks and other financial institutions with an original maturities of ninety days or less	**184,167**	303,569
	349,536	506,140

24. Related party transactions

Related parties represent major shareholders, associated companies and the joint ventures, directors and key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

Amounts outstanding as of the statement of financial position date in respect of transactions entered into with related parties were as follows:

	Major shareholders BD '000	Associated companies and joint venture BD '000	Directors and key management BD '000	Total BD '000
2013				
Loans and advances to customers	**-**	**9,322**	**1,191**	**10,513**
Customers' current, savings and other deposits	**351,551**	**5,033**	**5,160**	**361,744**
2012				
Loans and advances to customers	-	5,697	1,262	6,959
Customers' current, savings and other deposits	330,093	3,387	1,587	335,067

For the years ended 31 December 2013 and 31 December 2012 the Group has not recorded any impairment provision on the amounts due from related parties.

The income and expense in respect of related parties included in the consolidated statement of profit or loss are as follows:

	Major shareholders BD '000	Associated companies and joint venture BD '000	Directors and key management BD '000	Total BD '000
2013				
Interest income	**-**	**457**	**24**	**481**
Interest expense	**3,946**	**70**	**61**	**4,077**
2012				
Interest income	-	135	16	151
Interest expense	3,795	54	11	3,860

Compensation of the key management personnel is as follows:

	2,013 BD '000	2,012 BD '000
Short term employee benefits	**6,806**	9,026
Others	**699**	663
	7,505	9,689

Key management interest in an employee share incentive scheme

The Bank has introduced effective 2010, a new share-based payment scheme *(refer to note 40 for details)*.

25. Maturity analysis of assets and liabilities

The maturity profile of the assets and liabilities as at 31 December 2013 and as at 31 December 2012 given below reflects management's best estimates of the maturities of assets and liabilities. These have been determined on the basis of the remaining period at the statement of financial position date to the contractual maturity date, except in the case of customer deposits. The liquidity profile of customer deposits has been determined on the basis of the effective maturities indicated by the Group's deposit retention history.

31 December 2013	Within 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Sub-total	1 to 5 years	5 to 10 years	10 to 20 years	More than 20 years	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Assets										
Cash and balances with central banks	158,401	-	-	-	158,401	-	-	-	65,951	224,352
Treasury bills	24,075	182,450	67,793	40,807	315,125	-	-	-	-	315,125
Financial assets at fair value through consolidated statement of profit or loss	-	-	-	-	-	-	-	-	-	-
Deposits and amounts due from banks and other financial institutions	185,345	17,040	-	-	202,385					202,385
Loans and advances to customers	77,571	120,885	97,208	125,789	421,453	682,198	262,206	41,787	210,891	1,618,535
Non-trading investment securities	296,298	34,706	39,928	41,300	412,232	155,742	124,995	1,721	49,289	743,979
Investments in associated companies and joint venture	-	-	-	-	-	10,095	-	-	47,774	57,869
Interest receivable and other assets	38,992	103	22	13	39,130	3,153	-	-	-	42,283
Premises and equipment	-	-	-	-	-	-	-	-	26,136	26,136
Total assets	780,682	355,184	204,951	207,909	1,548,726	851,188	387,201	43,508	400,041	3,230,664
Liabilities										
Deposits and amounts due to banks and other financial institutions	168,324	10,721	2,397	87	181,529	-	-	-	-	181,529
Borrowings under repurchase agreement	-	-	-	18,624	18,624	37,683	-	-	-	56,307
Term borrowings	-	-	-	-	-	239,498	-	-	-	239,498
Customers' current, savings and other deposits	314,674	214,651	71,141	39,521	639,987	61,358	-	-	1,651,562	2,352,907
Interest payable and other liabilities	42,042	2,226	1,177	1,245	46,690	20,806	-	-	-	67,496
Total liabilities	525,040	227,598	74,715	59,477	886,830	359,345	-	-	1,651,562	2,897,737
Net	255,642	127,586	130,236	148,432	661,896	491,843	387,201	43,508	(1,251,521)	332,927
Cumulative	255,642	383,228	513,464	661,896		1,153,739	1,540,940	1,584,448	332,927	

31 December 2012	Within 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Sub-total	1 to 5 years	5 to 10 years	10 to 20 years	More than 20 years	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Assets										
Cash and balances with central banks	202,225	-	-	-	202,225	-	-	-	60,516	262,741
Treasury bills	21,709	72,084	51,602	19,773	165,168	-	-	-	-	165,168
Financial assets at fair value through consolidated statement of profit or loss	346	-	-	-	346	-	-	-	-	346
Deposits and amounts due from banks and other financial institutions	326,433	23,417	-	-	349,850	-	-	-	-	349,850
Loans and advances to customers	92,014	90,202	83,085	120,601	385,902	626,302	232,870	43,183	210,488	1,498,745
Non-trading investment securities	304,226	46,896	70,296	27,214	448,632	137,589	79,204	-	51,900	717,325
Investments in associated companies and joint venture	-	-	-	-	-	-	-	-	54,566	54,566
Interest receivable and other assets	27,640	121	46	30	27,837	3,110	-	-	-	30,947
Premises and equipment	-	-	-	-	-	-	-	-	27,873	27,873
Total assets	974,593	232,720	205,029	167,618		767,001	312,074	43,183	405,343	3,107,561
Liabilities										
Deposits and amounts due to banks and other financial institutions	236,783	18,210	-	86	255,079	-	-	-	-	255,079
Borrowings under repurchase agreement	1,031	-	-	-	1,031	46,882	-	-	-	47,913
Term borrowings	-	-	-	-	-	197,009	41,050	-	-	238,059
Customers' current, savings and other deposits	317,905	238,400	71,895	35,341	663,541	14,540	-	-	1,526,712	2,204,793
Interest payable and other liabilities	56,010	2,186	1,244	1,708	61,148	10,902	-	-	-	72,050
Total liabilities	611,729	258,796	73,139	37,135	980,799	269,333	41,050	-	1,526,712	2,817,894
Net	362,864	(26,076)	131,890	130,483	599,161	497,668	271,024	43,183	(1,121,369)	289,667
Cumulative	362,864	336,788	468,678	599,161		1,096,829	1,367,853	1,411,036	289,667	

26. Derivatives

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price in one or more underlying financial instrument, reference rate or index. In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. The use of derivatives is governed by the Group's policies approved by the Board of Directors. The Group enters into derivative contracts for the purpose of reducing risks from potential movements in foreign exchange rates and interest rates inherent in the Group's non-trading assets and liabilities. The Group also enters into derivative contracts for the purpose of trading.

The table below shows the positive and negative fair values of derivative financial instruments together with their notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end but are neither indicative of the market risk nor credit risk.

31 December 2013	Positive fair value BD '000	Negative fair value BD '000	Notional amount BD '000
Derivatives held for trading			
Forward foreign exchange contracts	**424**	**30**	**14,808**
Derivatives held as fair value hedges			
Interest rate swaps	**8,268**	**7,298**	**456,163**
Forward foreign exchange contracts	**917**	**615**	**231,938**
Derivatives held as cash flow hedges			
Interest rate swaps	**518**	**-**	**57,519**
	10,127	**7,943**	**760,428**

31 December 2012	Positive fair value BD '000	Negative fair value BD '000	Notional amount BD '000
Derivatives held for trading			
Forward foreign exchange contracts	36	17	10,536
Derivatives held as fair value hedges			
Interest rate swaps	172	15,584	307,023
Forward foreign exchange contracts	420	188	177,717
	628	15,789	495,276

Derivative product types

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and are subject to daily cash margin requirements. Forward rate agreements are effectively tailor-made interest rate futures which fix a forward rate of interest on a notional amount, for an agreed period of time starting on a specified future date.

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. For currency swaps, fixed or floating interest payments and notional amounts are exchanged in different currencies.

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period. The Group does not engage in the writing of options.

Derivatives held or issued for trading purposes

Most of the Group's derivative trading activities relate to back to back customer deals. In addition, the Group takes certain foreign exchange positions with the expectation of profiting from favourable movements in prices, rates or indices. Also included under this heading are derivatives which do not meet IAS 39 hedging requirements.

Derivatives held or issued for hedging purposes

The Group has put in place systems for the measurement and management of risk. Part of the risk management process involves managing the Group's exposure to fluctuations in foreign exchange rates (currency risk) and interest rates through asset and liability management activities. It is the Group's policy to reduce its exposure to currency and interest rate risks to acceptable levels as determined by the Board of Directors. For strategies adopted to manage interest rate and currency risk, please refer notes 35 and 36 respectively.

As part of its asset and liability management the Group uses derivatives for hedging currency and interest rate movements. This is achieved by hedging specific financial instruments, forecasted transactions as well as strategic hedging against consolidated statement of financial position sheet exposures. In all such cases the objective of the hedging relationship, details of the hedged item and hedging instrument are documented and the transactions are accounted for as fair value or cash flow hedges, as the case may be.

Fair value hedges

Fair value hedges are used by the Group to protect it against changes in the fair value of financial assets and financial liabilities due to movements in exchange rates and interest rates. The financial instruments hedged for interest rate risk include loans, available-for-sale debt securities, debt issued and other borrowed funds. The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks, and interest rate swaps to hedge interest rate risk.

For the year ended 31 December 2013, the Group recognised a net gain of BD 18 thousand (2012: net gain of BD 32 thousand), representing the gain on the hedging instruments. The total loss on hedged items attributable to the hedged risk amounted to BD 102 thousand (2012: loss of BD 16 thousand).

27. Commitments and contingent liabilities

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.

Commitments to extend credit represent the unused portions of contractual commitments to make loans and revolving credits, principally in the form of loans and advances, guarantees and letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to a loss in an amount equal to the total unused commitments. However, the likely amount of loss, which cannot readily be quantified, is expected to be considerably less than the total unused commitment as most of the commitments to extend credit are contingent upon the customer maintaining specific credit standards. Commitments generally have fixed expiration dates of less than one year or other termination clauses. Since commitments may expire without being drawn upon, the total contracted amounts do not necessarily represent future cash requirements.

Letters of credit, guarantees (including standby letters of credit) and acceptances commit the Group to make payments on behalf of customers contingent upon certain conditions. Standby letters of credit, which are included under guarantees, would have market risk if issued or extended at a fixed rate of interest. However, these contracts are primarily made at a floating rate.

The Group has the following credit related commitments:

31 December 2013	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Contingencies						
Letters of credit	**9,062**	**22,204**	**36,285**	**-**	**-**	**67,551**
Guarantees	**16,711**	**27,589**	**149,174**	**16,596**	**335**	**210,405**
						277,956
Commitments						
Undrawn loan commitments	**39,288**	**49,012**	**127,973**	**2,361**	**-**	**218,634**
Commitments in respect of investments	**-**	**-**	**-**	**-**	**396**	**396**
						219,030
						496,986

31 December 2012	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Contingencies						
Letters of credit	11,499	29,855	22,343	123	-	63,820
Guarantees	14,478	54,344	186,108	13,063	4,979	272,972
						336,792
Commitments						
Undrawn loan commitments	73,008	39,433	137,126	3,118	406	253,091
Commitments in respect of investments	-	-	-	-	396	396
						253,487
						590,279

The Group does not expect all its commitments to be drawn before the expiry of the commitment.

As at 31 December 2013, the Group had no capital commitments (2012: nil).

Lease commitments

Operating lease commitments – Group as lessee

The Group has entered into commercial leases on premises. Future minimum lease payments under non-cancelable operating leases as at 31 December are as follows:

	2013	2012
	BD '000	BD '000
Within one year	**437**	433
After one year but not more than five years	**1,322**	1,453
More than five years	**2,259**	2,433
	4,018	4,319

28. Risk management

Efficient and timely management of risks involved in the Group's activities is critical for the financial soundness and profitability of the Group. Risk management involves the identifying, measuring, monitoring and managing of risks on a regular basis. The objective of risk management is to increase shareholders' value and achieve a return on equity that is commensurate with the risks assumed. To achieve this objective, the Group employs leading risk management practices and recruits skilled and experienced people.

As with other financial institutions, the Group faces a range of risks in its business and operations including (i) credit risk; (ii) market risk (comprising of interest rate risk, currency risk and equity price risk); (iii) liquidity risk, (iv) legal risk and (v) operational risk, as detailed below.

The Board of Directors of the Bank has overall responsibility for managing risks. Whilst the Board approves and periodically reviews risk management policies and strategies of the Group, the management establishes procedures to implement the policies and strategies. The Risk Management Committee (RMC) and Asset and Liability Management Committee (ALMC), comprising Executive and Senior Management, are high level management committees responsible for the overall management of the risk profile of the Group. RMC discusses important risk related issues, policies, procedures and reviews implementation of its decisions. ALMC reviews issues relating to the statement of financial position at a micro level. The Country Risk Committee (CRC) reviews country risk and business strategies and macro economic conditions with reference to the countries identified for doing business.

The Risk & Credit Management department (RCM) is responsible for identifying risk characteristics inherent in new and existing products, activities, countries, regions, industries as well as establishing or developing relevant policies, procedures and exposure limits to mitigate these risks. The RCM also establishes systems and processes for monitoring market and operational risks. The RCM processes credit applications and ensures that the provisions of credit risk policies are complied with. The RCM generates regular reports on credit risk exposures, performs credit rating reviews and monitors credit limits. The Assistant General Manager of RCM reports directly to the Chief Executive of the Bank, thereby ensuring the independence of the risk management process.

The internal audit department assess whether the policies and procedures are complied with and, if necessary, suggest ways of further improving internal procedures.

The various risks to which the Group is exposed to and how the Group manages them is discussed in the following paragraphs.

29. Credit risk and concentration of credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and thereby cause the other party to incur a financial loss. Concentration of credit risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features, fail to meet contractual obligations, due to them being affected by changes in economic, political or other conditions.

Credit risk in derivative financial instruments arises from potential counterparty default on contractual obligations and it is limited to the positive fair value in favour of the Group.

The Group attempts to control credit risk by monitoring credit exposures continuously, limiting transactions with specific counterparties, assessing the creditworthiness of counterparties, diversifying lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses, and by obtaining security wherever necessary and appropriate. In addition to monitoring credit limits, the Group manages credit exposures by entering into netting agreements and collateral arrangements with counterparties in appropriate circumstances, and limiting the duration of exposures.

The Group has well defined policies and procedures for identifying, measuring, monitoring and controlling credit risk in all of the Group's activities, at the level of individual credit and at portfolio level. Credit limits are approved after a thorough assessment of the creditworthiness of the borrower or counterparty, including the purpose and structure of the credit, and its source of repayment. Credit proposals are reviewed by the RCM, which is independent of business units, before approval by the appropriate approving authority is obtained. All policies relating to credit are reviewed and approved by the Board of Directors. An Executive Committee, consisting of eight senior members of the Board of Directors, reviews and approves larger credits. In addition, all larger credits in excess of the approval authority of the Executive Committee are approved by the Board of Directors.

The Group devises specific business and risk strategies relating to corporate, retail, investments and treasury areas, within the ambit of the Group's risk policies and procedures. Any additional risks associated with such strategies are discussed in the RMC meetings and necessary risk control measures are applied through amendments to policies, procedures and circulars. The Group also draws up a comprehensive Risk Management Strategy every year and monitors the progress of that strategy.

Day-to-day monitoring of individual borrower or counterparty exposure is the responsibility of the respective business unit. The Group's Credit Administration Unit, a part of the RCM, ensures that credit facilities are released after appropriate approval and against proper documentation. It also monitors excesses over limits, past dues, expired credits and escalates exceptions if any, for corrective action.

Counterparty credit limits are established for all customers after careful assessment of their creditworthiness and approval as per the levels of authority (approved by the Executive Committee and the Board of Directors). These are also subject to large credit exposure limit criteria of the Central Bank of Bahrain and the local regulators in overseas locations. Standard procedures, outlined in the Group's Credit Procedures Manual, require that all credit proposals be subjected to a detailed screening by a designated Credit Officer who is part of a three signature approval process and functions independent of the business units.

The credit growth, quality and portfolio composition are monitored continuously to maximize the risk adjusted return and reduce the level of incidence of impairment and accretion of marginal credits. The Group monitors concentration risk by establishing limits for maximum exposure to individual borrower or counterparty, country, bank and industry. Such limits are also stipulated for each product. These limits are approved after detailed analysis and are reviewed and monitored regularly.

The Group has a risk asset rating policy which defines criteria for rating risk assets. All credits are assigned a rating in accordance with the defined criteria. All lending relationships are reviewed at least once in a year and more frequently in case of non-performing assets (NPAs). The Internal Audit Department conducts an independent review of risk assets periodically and submits its report to Senior Management/Audit Committee. The Group endeavours continuously to improve upon the internal credit risk rating methodologies and credit risk management policies and practices, to reflect the true credit risk of the portfolio and the credit culture in the Group.

It is the Group's policy to ensure that provisions for credit loss are maintained at an adequate level. For loans and advances considered by the management as individually significant, specific provision is made for the impairment loss calculated on the basis of estimated discounted value of future cash flows in line with IAS 39 guidelines. For the remaining accounts, which are individually not significant, specific provision is made based on historic trends and the current economic environment. All provisions are approved by the Provision Committee, which comprises members of senior management.

Details of the composition of the loans, advances and overdraft portfolio are set out in note 7 to the consolidated financial statements.

The portfolio of non-performing assets is managed by skilled and experienced staff, under separate recovery / loan remedial units.

Details of the industry sector analysis and the geographical distribution of assets, liabilities and off statement of financial position items are set out in note 31.

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

The table below shows the maximum exposure to credit risk for the components of the statement of financial position and for derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	2013 BD '000	2012 BD '000
Balances with central banks	**208,519**	247,177
Treasury bills	**315,125**	165,168
Deposits and amounts due from banks and other financial institutions	**202,385**	349,850
Loans and advances to customers	**1,618,535**	1,498,745
Non-trading investment securities	**648,142**	639,946
Interest receivable and other assets	**38,637**	26,553
	3,031,343	2,927,439
Contingent liabilities	**277,956**	336,792
Commitments	**219,030**	253,487
	496,986	590,279
	3,528,329	3,517,718

31. Concentration of assets, liabilities and off-statement of financial position items

The distribution of assets, liabilities and credit commitments and contingencies by geographic region and industry sector is as follows:

2013	Assets BD '000	Liabilities BD '000	Credit commitments and contingencies BD '000
Gulf Co-operation Council countries	**2,701,498**	**2,717,387**	**431,604**
North America	**60,012**	**4,401**	**1,799**
European Union countries	**104,987**	**82,926**	**10,669**
Asia	**326,010**	**82,562**	**32,051**
Others	**38,157**	**10,461**	**20,863**
	3,230,664	**2,897,737**	**496,986**
Trading and manufacturing	**507,204**	**155,469**	**192,109**
Banks and other financial institutions	**792,965**	**1,125,029**	**73,372**
Construction and real estate	**421,771**	**48,347**	**142,662**
Government and public sector	**988,822**	**751,217**	**3,209**
Individuals	**251,222**	**602,046**	**5,291**
Others	**268,680**	**215,629**	**80,343**
	3,230,664	**2,897,737**	**496,986**

2012	Assets BD '000	Liabilities BD '000	Credit commitments and contingencies BD '000
Gulf Co-operation Council countries	2,653,345	2,636,565	446,437
North America	43,131	4,333	2,586
European Union countries	104,236	95,478	24,778
Asia	271,009	72,101	97,987
Others	35,840	9,417	18,491
	3,107,561	2,817,894	590,279
Trading and manufacturing	499,103	121,821	184,948
Banks and other financial institutions	829,658	1,325,908	162,989
Construction and real estate	506,665	41,712	150,235
Government and public sector	900,077	621,062	7,580
Individuals	140,511	519,793	9,134
Others	231,547	187,598	75,393
	3,107,561	2,817,894	590,279

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 are as follows:

- For commercial lending, charges over real estate properties, inventory and trade receivables, and bank guarantees
- For retail lending, mortgages over residential properties
- Cash collaterals such as bank deposits
- Marketable securities

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

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

It is the Groups policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

32. Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal and external credit risk ratings.

The table below shows the credit quality by class of asset for loan-related statement of financial position lines, based on the Group's credit rating system.

	Neither past due nor impaired				
	High grade	Standard grade	Sub-standard grade	Past due or individually impaired	Total
31 December 2013	**BD '000**	**BD '000**	**BD '000**	**BD '000**	**BD '000**
Loans and advances to customers					
Commercial loans	**296,544**	**734,862**	**214,817**	**189,630**	**1,435,853**
Consumer loans	**249,214**	**150**	**3,031**	**31,201**	**283,596**
Total	**545,758**	**735,012**	**217,848**	**220,831**	**1,719,449**

	Neither past due nor impaired				
	High grade	Standard grade	Sub-standard grade	Past due or individually impaired	Total
31 December 2012	BD '000	BD '000	BD '000	BD '000	BD '000
Loans and advances to customers					
Commercial loans	309,660	639,369	215,145	192,971	1,357,145
Consumer loans	219,954	62	3,741	28,797	252,554
Total	529,614	639,431	218,886	221,768	1,609,699

Internal credit risk ratings

The Group follows an internal rating mechanism for grading relationships under loans and advances.

The Group utilises a scale ranging from 1 to 10 for credit relationships, with 1 to 8 denoting performing grades and 9 to 10 for non-performing, in line with Basel II guidelines. Grades 1 to 3 represents high grade, 4 to 5 represents standard grade and 6 to 8 represents sub-standard grade.

All credits are assigned a rating in accordance with the defined criteria.

The Group endeavours continuously to improve upon the internal credit risk rating methodologies and credit risk management policies and practices to reflect the true underlying credit risk of the portfolio and the credit culture in the Group.

All lending relationships are reviewed at least once in a year and more frequently in the case of non-performing assets.

Past due loans and advances include those that are only past due by a few days. An analysis of past due loans, by age, is provided below.

Ageing analysis of past due but not impaired loans

31 December 2013	**Less than 30 days**	**31 to 60 days**	**61 to 89 days**	**Total**
	BD '000	**BD '000**	**BD '000**	**BD '000**
Loans and advances to customers				
Commercial loans	**59,840**	**9,198**	**5,061**	**74,099**
Consumer loans	**10,784**	**2,682**	**3,301**	**16,767**
Total	**70,624**	**11,880**	**8,362**	**90,866**

31 December 2012	Less than 30 days	31 to 60 days	61 to 89 days	Total
	BD '000	BD '000	BD '000	BD '000
Loans and advances to customers				
Commercial loans	50,018	5,293	3,423	58,734
Consumer loans	10,057	3,379	1,759	15,195
Total	60,075	8,672	5,182	73,929

The credit quality of other financial assets is managed by the Group using external credit ratings. The table below shows the credit quality by class of the financial assets.

31 December 2013	Neither past due nor impaired High grade	Standard grade	Sub-standard grade	Past due or individually impaired	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
Deposits and amounts due from banks and other financial institutions	**130,044**	**72,341**	**-**	**-**	**202,385**
Balances with central banks	**1,577**	**206,942**	**-**	**-**	**208,519**
Treasury bills	**-**	**315,125**	**-**	**-**	**315,125**
Bonds	**326,102**	**316,547**	**5,429**	**32,573**	**680,651**
Total	**457,723**	**910,955**	**5,429**	**32,573**	**1,406,680**

The Bank has considered a provision of BD 32,492 thousand towards the impaired bonds amounting to BD 32,573 thousand.

31 December 2012	Neither past due nor impaired High grade	Standard grade	Sub-standard grade	Past due or individually impaired	Total
	BD '000	BD '000	BD '000	BD '000	BD '000
Deposits and amounts due from banks and other financial institutions	323,718	26,132	-	-	349,850
Balances with central banks	117,029	130,148	-	-	247,177
Treasury bills	-	165,168	-	-	165,168
Bonds	325,225	314,584	-	37,358	677,167
Total	765,972	636,032	-	37,358	1,439,362

The Bank has considered a provision of BD 37,205 thousand towards the impaired bonds amounting to BD 37,358 thousand.

The following table shows the parameters used for classification of investments:

	S&P / Fitch				Moody's			
High grade	Range from	AAA	to	A-	Range from	Aaa	to	A3
Standard grade	Range from	BBB+	to	B-	Range from	Baa1	to	B3
Sub-standard grade	Range from	CCC+	to	CCC-	Range from	Caa1	to	Caa3

High grade includes unrated investments amounting to BD 11,745 thousand (2012: BD 10,140 thousand). These mainly comprise of sukuks issued by GCC governments and corporates.

33. Carrying amount of financial assets whose terms have been renegotiated

The table below shows the carrying amount for financial assets by class, renegotiated during the year.

	2013	2012
	BD '000	BD '000
Loans and advances to customers		
Commercial loans	**45,487**	82,046
Consumer loans	**5,809**	5,978
	51,296	88,024

34. Market risk

Market risk is defined as the risk of potential loss that may arise from adverse changes in the value of a financial instrument or portfolio of financial instruments due to movements in interest rates, foreign exchange rates, equity, commodity prices and derivatives. This risk arises from asset - liability mismatches, changes that occur in the yield curve, foreign exchange rates and changes in volatilities / implied volatilities in the market value of derivatives.

The Group has clearly defined policies for conducting investment (including trading investments) and foreign exchange business which stipulates limits for these activities. Investments are made strictly in accordance with investment acceptance criteria. The Group does not undertake any commodity trading activities. For management of market risk arising from movement in interest rates, refer to note 35.

The Group uses an internal Value-at-Risk (VaR) model for measuring general market risk in the trading book of the Group and all foreign exchange positions. The internal model was approved by the Central Bank of Bahrain. VaR is calculated using a 99 percent confidence level for a 10 day holding period. This implies a 1 percent possibility of the loss exceeding the VaR amount calculated by the model. As at 31 December, VaR calculated based on the above parameters was as follows:

	2013	2012
	BD '000	BD '000
Foreign exchange	**66**	49
	66	49

The Bank's Risk & Credit Management department conducts backtesting in accordance with the Market Risk Capital Adequacy Regulations issued by the Central Bank of Bahrain to ensure that the VaR model and assumptions used for computing VaR numbers are reliable. Backtesting of 1 day VaR as per actual profit and loss (comparing 1 day VaR with the average actual daily profit and loss) and also hypothetical back testing (comparing 1 day VaR with derived profit and loss of static positions) is carried out on a daily basis as stipulated in the Central Bank of Bahrain Rule book. The objective is to ensure that the assumptions used for computing VaR are reasonable and provide a VaR number that is a good indicator of possible losses in trading positions. During the year, the backtesting produced satisfactory results.

The Group also conducts stress testing to identify events or influences that could greatly impact material trading positions taken by the Group. As per the Central Bank of Bahrain requirements, validation of the internal model is conducted by the Internal Audit Department of the Bank as well as by the external auditors.

35. Interest rate risk management

Interest rate risk is the exposure of the Group's financial condition to adverse movements of interest rates. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off statement of financial position instruments that mature or re-price in a given period. Excessive interest rate risk can pose a significant threat to the Group's earnings and capital base. Accordingly, an effective risk management process that maintains interest rate risk within prudent levels is essential to the safety and soundness of the Group.

It is the Group's policy to keep its assets and liabilities mismatches at stable and acceptable levels to maintain a steady net interest income. The Group monitors interest rate risk based on gap / duration limits. The Group also uses 'what if' scenarios for projecting net interest income and economic value of equity of the Group. The Group uses derivative instruments such as interest rate swaps, floating rate agreements and bond futures to manage interest rate risk. Whilst day-to-day management of interest rate risk is the responsibility of the Global Treasurer, ALMC also reviews the interest rate risk reports periodically.

Based on the consolidated statement of financial position as at 31 December 2013 an increase of 100 basis point in interest rates, with all variables held constant, will result in an increase in the net interest income, for the following next 12 months, by approximately BD 6,460 thousand (2012: increase by BD 7,405 thousand). However, further downward movement of interest rates by 100 basis points might not be a practical assumption in the current environment, given the current low levels of interest rates, and hence capping the downward movement of interest rates at zero percent the negative impact on the net interest income as at 31 December 2013 is estimated at BD 3,315 thousands (2012: BD 3,539 thousands). On the other hand, the scope for interest rates increase from its current levels is most probable which the Bank shall benefit.

An increase of 100 basis point in interest rates, with all other variables held constant, will result in a negative impact on equity of approximately 2.7 percent amounting to BD 8,066 thousand (2012:3.2 percent, BD 9,006 thousand). Similarly, a decrease of 100 basis point in interest rates, with all other variables held constant, will result in a positive impact on equity of approximately 2.7 percent amounting to BD 8,066 thousand (2012:3.2 percent, BD 9,006 thousand).

36. Currency risk

The functional currency of the Group is the Bahraini Dinar.

The Group had the following significant non-strategic net exposures denominated in foreign currencies as of the consolidated statement of financial position date:

	2013	2012
	BD '000	BD '000
	equivalent long (short)	equivalent long (short)
US Dollar	**(20,725)**	(12,608)
Euro	**45**	(1,024)
GCC currencies *(excluding Kuwaiti Dinar)*	**21,137**	20,843
Kuwaiti Dinar	**(1,119)**	981
Others	**250**	305

As the Bahraini dinar and other GCC currencies (except the Kuwaiti Dinar) are pegged to the US dollar (US$), positions in US$ and other GCC currencies are not considered to represent a significant currency risk. For currency sensitivity impact refer to VaR *(note 34)*.

The Board of Directors has established levels of currency risk by setting limits on currency position exposures. Positions are monitored on a daily basis to ensure that they are maintained within established limits. The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks.

37. Equity price risk

Equity price risk is the risk that the fair values of equities or managed funds decrease as a result of changes in the corresponding value of equity indices or the value of individual equity stocks. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

The effect on equity (as a result of a change in the fair value of equity instruments held as available-for-sale) due to a reasonable possible change in equity indices, with all other variables held constant, is as follows:

	Effect on equity		
	% change in Index	**Total 2013**	Total 2012
		BD '000	BD '000
Bahrain Bourse	± 15%	**2,057**	2,475
Other GCC and other stock exchanges	± 15%	**6,795**	3,764
		8,852	6,239

38. Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. To guard against this risk, the Group has diversified funding sources, assets are managed with liquidity in mind and liquidity positions are monitored, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

In addition, the Group maintains various statutory deposits with central banks and has taken lines of credit from various banks and financial institutions.

The Bank has in place a liquidity risk policy, which describes the roles and responsibilities of ALMC and Treasury, and stipulates the broad guidelines with regard to minimum liquid assets to be maintained by the Bank, gap limits under each time bucket of the maturity ladder, cumulative outflow of cash limits for each time bucket and various liquidity ratios to be maintained which are approved by the ALMC based on the Annual Liquidity Strategy.

It is the Bank's policy to keep its assets in high-quality liquid assets such as inter-bank placements, treasury bills and government bonds, to ensure that funds are available to meet maturing liabilities, undrawn facilities and deposit withdrawals as they fall due for payment. A substantial proportion of the Bank's deposits is made up of retail current, savings and fixed deposit accounts which, though payable on demand or at short notice, have traditionally formed part of a stable deposit base and a source of core funding.

The day to day management of liquidity risk is the responsibility of the Global Treasurer, who monitors the sources and maturities of assets and liabilities closely and ensures that limits stipulated by the ALMC are complied with, and that funding is not concentrated from any one source.

The Bank also draws up contingency plans to deal with extraordinary conditions of liquidity risk after comprehensive scenario analysis.

The table below summarises the maturity profile of the Group's financial liabilities (including interest) based on contractual undiscounted repayment obligations.

31 December 2013	Within 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	10 to 20 years	More than 20 years	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Deposits and due to banks and other financial institutions	**168,339**	**10,723**	**2,397**	**87**	-	-	-	-	**181,546**
Borrowings under repurchase agreement	-	-	-	**19,133**	**40,517**	-	-	-	**59,650**
Term borrowings	-	**22**	**830**	**4,801**	**251,758**	-	-	-	**257,411**
Customers' current, savings and other deposits	**1,291,435**	**598,524**	**238,862**	**167,307**	**70,325**	**13,004**	-	-	**2,379,457**
Total undiscounted financial liabilities	**1,459,774**	**609,269**	**242,089**	**191,328**	**362,600**	**13,004**	-	-	**2,878,064**
Derivative financial instruments									
Contractual amounts payable	**(164)**	**(1,381)**	**(45,228)**	**(27,474)**	**(317,336)**	**(246,060)**	-	-	**(637,643)**
Contractual amounts receivable	**760**	**2,003**	**43,292**	**23,208**	**291,551**	**231,956**	-	-	**592,770**
	596	**622**	**(1,936)**	**(4,266)**	**(25,785)**	**(14,104)**	-	-	**(44,873)**

31 December 2012	Within 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	10 to 20 years	More than 20 years	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Deposits and due to banks and other financial institutions	234,775	18,236	-	2,178	-	-	-	-	255,189
Borrowings under repurchase agreement	1,031	-	-	-	49,081	-	-	-	50,112
Term borrowings	-	42	1,212	4,824	210,648	49,464	-	-	266,190
Customers' current, savings and other deposits	1,315,239	546,457	189,294	145,349	19,073	11,719	-	-	2,227,131
Total undiscounted financial liabilities	1,551,045	564,735	190,506	152,351	278,802	61,183	-	-	2,798,622
Derivative financial instruments									
Contractual amounts payable	(318)	(1,030)	(4,120)	(7,808)	(224,815)	(149,079)	(7,540)	-	(394,710)
Contractual amounts receivable	554	1,114	2,466	4,987	206,660	139,135	7,540	-	362,456
	236	84	(1,654)	(2,821)	(18,155)	(9,944)	-	-	(32,254)

39. Fair values of financial instruments

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

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

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

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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy at 31 December 2013 and 31 December 2012.

31 December 2013	Level 1	Level 2	Total
	BD'000	BD'000	BD'000
Financial assets			
Bonds	**477,911**	**16,780**	**494,691**
Equities	**59,711**	**6,427**	**66,138**
Managed funds	-	**2,422**	**2,422**
Derivatives held for trading	-	**424**	**424**
Derivatives held as fair value hedges	-	**9,185**	**9,185**
Derivatives held as cash flow hedges	-	**518**	**518**
	537,622	**35,756**	**573,378**
Financial liabilities			
Derivatives held for trading	-	**30**	**30**
Derivatives held as fair value hedges	-	**7,913**	**7,913**
	-	**7,943**	**7,943**

31 December 2012	Level 1	Level 2	Total
	BD'000	BD'000	BD'000
Financial assets			
Bonds	429,686	2,909	432,595
Equities	41,817	5,106	46,923
Managed funds	-	3,031	3,031
Derivatives held for trading	-	36	36
Derivatives held as fair value hedges	-	592	592
	471,503	11,674	483,177
Financial liabilities			
Derivatives held for trading	-	17	17
Derivatives held as fair value hedges	-	15,772	15,772
	-	15,789	15,789

Included under available-for-sale investments are unquoted equity and managed funds investments amounting to BD 27,276 thousand (2012: BD 27,426 thousand) which are recorded at cost.

39. Fair values of financial instruments continued

Transfers between level 1, level 2 and level 3

During the reporting year ended 31 December 2013 and 31 December 2012, there were no transfers into and out of level 3 fair value measurements.

The table below sets out the estimated carrying values and fair values of those on and off statement of financial position financial instruments carried at amortised cost where fair values are different from the carrying amounts shown in the consolidated financial statements:

2013	Carrying value	Fair value	Difference
	BD '000	BD '000	BD '000
Financial liabilities			
Term borrowings	**239,498**	**241,599**	**(2,101)**
Financial assets			
Non-trading investment securities	**153,452**	**153,437**	**(15)**

2012	Carrying value	Fair value	Difference
	BD '000	BD '000	BD '000
Financial liabilities			
Term borrowings	238,059	236,395	1,664
Financial assets			
Non-trading investment securities	207,350	206,694	(656)

The above financial liabilities and assets are level 1 fair value.

The management assessed that cash and balances with central bank, treasury bills, deposits and amount due from banks and other financial institutions, deposits and amount due to banks and other financial institutions and customers' current, saving and other deposits approximate their carrying amounts largely due to the short-term maturities of these instruments.

40. Share-based payments

The expense recognised for employee services received during the year is shown in the following table:

	2013	2012
	BD '000	BD '000
Expense arising from equity-settled share-based payment transactions	**667**	537
Shares vested during the year	**(565)**	-

During 2010, the Nomination and Remuneration Committee of the Bank modified the employees stock option plans for the previously granted stock options. The existing plan was discontinued with effect from 31 March 2010. The Bank moved to a new long-term incentive plan, which is referred to as the Employee Performance Share Plan (EPSP), which will award shares (rather than options) to executives. The details of the modifications to stock option plan and EPSP are described below:

Employee Performance Share Plan (EPSP)

Shares are granted to Senior Managers and above, with more than 12 months' service at the date of grant and meeting certain performance criteria. The shares granted are subject to the satisfaction of conditions relating to the Bank's net profit over a three year period and the employee being in employment at the end of the 3 year period (vesting period).

The Bank utilises its existing treasury shares for the EPSP and may also choose to issue new shares to settle the EPSP in the future. The price of the shares granted was equal to the market price of the Bank's shares on the grant date. Up to 31 December 2013, 6,135,127 shares (2012: 4,421,422 shares) have been transferred from treasury stock to the independent trustee in line with the EPSP.

The following table illustrates the number and cost per share of the shares granted during the year under the new scheme.

	Number of shares 2013	Cost per share 2013	Number of shares 2012	Cost per share 2012
		BD		BD
Opening balance of shares granted but not vested	**4,421,422**	**0.404**	2,773,443	0.406
Equity shares granted during the year	**2,783,900**	**0.380**	2,354,253	0.412
Equity shares transferred to trust	**1,713,705**	**0.414**	1,647,979	0.400
Shares transferred to active employees	**(1,390,992)**	**0.406**	-	-

The market price of BBK B.S.C. shares at 31 December 2013 was BD 0.426 (2012: BD 0.394).

41. Capital adequacy

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

	2013	2012
	BD '000	BD '000
Capital base:		
Tier 1 capital	**278,150**	267,117
Tier 2 capital	**63,935**	28,588
Total capital base (a)	**342,085**	295,705
Credit risk weighted exposure	**2,042,061**	1,889,899
Operational risk weighted exposure	**179,728**	166,879
Market risk weighted exposure	**9,625**	12,479
Total risk weighted exposure (b)	**2,231,414**	2,069,257
Capital adequacy (a/b * 100)	**15.33%**	14.29%
Minimum requirement	**12.00%**	12.00%

Capital management

The primary objectives of the Groups capital management policies are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

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

Basel II and Capital management

The Bank has adopted the new Basel II Capital Adequacy Framework (Basel II) with effect from 1 January 2008 as per the guidelines issued by the Central Bank of Bahrain, which is enhancing the Bank's risk management process, supervisory review, disclosure standards and capital management.

The Bank has adopted the Standardized Approach in case of credit risk, the Internal Model Approach for market risk and the Basic Indicator Approach for operational risk.

The Bank has established its Internal Capital Adequacy Assessment Process (ICAAP) to provide policy guidance in Capital Planning and Capital Management. The Bank also uses Risk Adjusted Return on Capital (RAROC) model in its decision making process.

42. Legal and operational risk

Legal risk

Legal risk is the risk relating to losses due to legal or regulatory action that invalidates or otherwise precludes performance by the end user or its counterparty under the terms of the contract or related netting agreements.

The Group has developed preventive controls and formalised procedures to identify legal risks so that potential losses arising from non-adherence to laws and regulations, negative publicity, etc. are significantly reduced. The Group also has well established legal procedures to scrutinise product offerings and manage risks arising out of its transactions.

As at 31 December 2013, there were legal cases pending against the Group aggregating BD 824 thousand (2012: BD 841 thousand). Based on the opinion of the Group's legal advisors, the management believes that no liability is likely to arise from these cases.

Operational risk

Operational risk is the exposure to loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Group has clearly defined operations procedures for each of its products and services. It also has advanced computer systems that enable it to run operations with speed and accuracy.

The operational risk department operates independently from other units of the Bank and reports directly to the Audit Committee, which consists of members of the Board. It conducts regular reviews of all business areas of the Bank and reports control deficiencies and exceptions to the Bank's policies and procedures. It also recommends measures to mitigate operational risk, which are implemented by management immediately.

The Bank also has a contingency plan to take care of any failure of its computer systems. Regular back-ups are made for all important datasets, and stored outside of the Bank's premises. This ensures that in case of any system failure, the Bank will be able to continue its operations without losing critical data or business transactions. As part of its disaster recovery plan, the Bank has established a back-up site which would operate during an emergency.

The Bank has a specific Business Continuity Plan ("BCP") unit. The main objective of the BCP is to ensure that in the event of full or partial disaster, the Bank should be able to continue providing essential services to customers, minimising any adverse effects on the Bank's business, through business impact analysis, business restoration plans and procedures, for the identified critical functions.

The Bank is using an operational risk management solution for monitoring operational risk, conducting risk and control self assessments and capturing operational loss data in accordance with Basel II / Central Bank of Bahrain guidelines.

The Bank's subsidiaries have similar contingency plans for their operations.

43. Deposit protection scheme

Deposits held with the Bahrain operations of the Bank are covered by the Deposit Protection Scheme (the Scheme) established by the Central Bank of Bahrain regulation concerning the establishment of the Deposit Protection Scheme and Deposit Protection Board. No upfront contribution is currently required under this scheme and no liability is due until one of the member commercial banks of the scheme is unable to meet its deposit obligations.

44. Staff saving scheme

The scheme is a contribution saving fund between the Bank and the employee of the Bank. It was introduced in January 1996 with the objective of providing the employees with a cash benefit upon resignation, retirement or death. Participation in the scheme is discretionary and the employee may contribute any amount. The Bank guarantees a corresponding contribution of an amount that is 3 percent higher provided that total Bank contribution is not in excess of 10 percent of the employees' salary. The employee becomes eligible for the full amount of the Bank contribution once the employee has completed 5 years of service, otherwise the entitlement is proportionately calculated. The scheme is managed by a committee, consisting of members from management and representatives nominated and selected by staff.

As at 31 December 2013 the total contribution fund including the earned income stands at BD 11,936 thousand (2012: BD 12,234 thousand). Out of the total fund amount, payment of the principal amount equal to BD 11,724 thousand (2012: BD 11,528 thousand) consisting of the respective staff and Bank's contribution is guaranteed by the Bank to employees participating in the scheme.

45. Transfer of assets from subsidiary

Capinnova Investment Bank

In an extraordinary general meeting held on 8 May 2013, the shareholders of the ("Bank") passed a resolution approving the amalgamation of Capinnova Investment Bank ("Capinnova") with the Parent. The amalgamation has been approved by the Central Bank of Bahrain and the Ministry of Industry and Commerce and was completed on 25 September 2013 in accordance with the internal assignment agreement between Capinnova and the Bank dated 17 September 2013.

Sakana

The Bank has a 50 percent (31 December 2012: 50 percent) equity stake in Sakana Holistic Housing Solutions B.S.C.(c) ("Sakana"). Sakana is a jointly controlled company incorporated in the Kingdom of Bahrain and engaged in Islamic real estate financing.

The Board of Directors of Sakana has resolved on 7 January 2013 to voluntarily liquidate its operations, subject to shareholders approval. As of the date of issuance of these financial statements, the plan of liquidation and the consultation with all of its stake holders is still in progress.

46. Comparative figures

Certain figures from the prior year have been reclassified to conform to the presentation adopted in the current year. Such reclassification did not affect previously reported consolidated profit, other comprehensive income or equity.

Basel II Pillar III disclosures

31 December 2013

1. Executive summary

This report has been prepared in accordance with Pillar III disclosure requirements prescribed by the Central Bank of Bahrain, herein refered to as "CBB".

CBB Basel II guidelines became effective on 1 January 2008 as the common framework for the implementation of the Basel Committee on Banking Supervision's (Basel Committee) Basel II capital adequacy framework for banks incorporated in the Kingdom of Bahrain.

The disclosures in this report are in addition to the disclosures set out in the consolidated financial statements for the year ended 31 December 2013 presented in accordance with the International Financial Reporting Standards (IFRS).

2. Introduction to the Basel II framework

The CBB's Basel II framework is based on three pillars, consistent with the Basel II framework developed by the Basel Committee, as follows:-

Pillar I:	calculation of the Risk-Weighted Assets (RWAs) and capital requirement. The capital requirment has to be covered by own regulatory framework.
Pillar II:	the supervisory review process, including the Internal Capital Adequacy Assessment Process (ICAAP).
Pillar III:	rules for the disclosure of risk management and capital adequacy information.

Pillar I

Pillar I prescribes the basis for the calculation of the regulatory capital adequacy ratio. Pillar I sets out the definition and calculations of the RWAs, and the derivation of the regulatory capital base. The capital adequacy ratio is calculated by dividing the regulatory capital base by the total RWAs.

The resultant ratio is to be maintained above a predetermined and communicated level. Under the previously applied Basel I Capital Accord, the minimum capital adequacy ratio for banks incorporated in the Kingdom of Bahrain was 12 percent compared to the Basel Committee's minimum ratio of 8 percent.

The CBB also requires banks incorporated in the Kingdom of Bahrain to maintain a buffer of 0.5 percent above the minimum capital adequacy ratio. In the event that the capital adequacy ratio falls below 12.5 percent, additional prudential reporting requirements apply, and a formal action plan setting out the measures to be taken to restore the ratio above the target level is to be formulated and submitted to the CBB. Consequently, the CBB requires BBK to maintain an effective minimum capital adequacy ratio of 12.5 percent. No separate minimum tier 1 ratio is required to be maintained under the CBB's Basel II capital adequacy framework.

Under the CBB's Basel II capital adequacy framework, the RWAs are calculated using more sophisticated and risk sensitive methods than under the previous Basel I regulations. Credit risk and market risk are two essential risk types that were included under Basel I, while operational risk has been introduced as a new risk type in the CBB's Basel II capital adequacy framework. The table below summarises the approaches available for calculating RWAs for each risk type in accordance with the CBB's Basel II capital adequacy framework.

Approaches for determining regulatory capital requirements as per CBB guidelines

Credit risk	Market risk	Operational risk
Standardised Approach	Standardised Approach	Basic Indicator Approach
Foundation Internal Ratings Based Approach (FIRB)	Internal Models Approach	Standardised Approach

The approach applied by BBK for each risk type is as follows:

i) Credit Risk

For regulatory reporting purposes, BBK is using the Standardised Approach for credit risk. The standardised approach is similar to the basis under the previous Basel I capital adequacy regulations, except for the use of external ratings to derive the RWAs and the ability to use a wider range of financial collaterals. The RWAs are determined by multiplying the credit exposure by a risk weight factor dependent on the type of counterparty and the counterparty's external rating, where available.

ii) Market risk

For the regulatory market risk capital requirement, BBK is using the Internal Model Approach based on Value-at-Risk (VaR) model. The use of the Internal Model Approach for the calculation of regulatory market risk capital has been approved by the CBB.

iii) Operational risk

Under the CBB's Basel II capital adequacy framework, all banks incorporated in the Kingdom of Bahrain are required to apply the Basic Indicator Approach for operational risk unless approval is granted by the CBB to use the Standardised Approach. The CBB's Basel II guidelines do not currently permit the use of the Advanced Measurement Approach (AMA) for operational risk. For regulatory reporting purposes, BBK is currently using the Basic Indicator Approach. Under the Basic Indicator Approach, the regulatory capital requirement is calculated by applying an alpha co-efficient of 15 percent to the average gross income for the preceding three financial years.

Pillar II

Pillar II defines the process of supervisory review of an institution's risk management framework and, ultimately, its capital adequacy.

Under the CBB's Pillar II guidelines, all banks incorporated in the Kingdom of Bahrain are required to maintain a 12 percent minimum capital adequacy ratio.

Pillar II comprises two processes:

- an Internal Capital Adequacy Assessment Process (ICAAP), and
- a supervisory review and evaluation process.

The ICAAP incorporates a review and evaluation of risk management and capital relative to the risks to which the bank is exposed. BBK has developed ICAAP document and it addresses all components of BBK's risk management, from the daily management of more material risks to the strategic capital management of the Group.

The supervisory review and evaluation process represents the CBB's review of the Group's capital management and an assessment of internal controls and corporate governance. The supervisory review and evaluation process is designed to ensure that institutions identify their material risks, allocate adequate capital, and employ sufficient management processes to support such risks.

The supervisory review and evaluation process also encourages institutions to develop and apply enhanced risk management techniques for the measurement and monitoring of risks in addition to the credit, market and operational risks addressed in the core Pillar I framework. Other risk types which are not covered by the minimum capital requirements in Pillar I include liquidity risk, interest rate risk in the banking book, business risk and concentration risk. These are covered either by capital, or risk management and mitigation processes under Pillar II.

Pillar III

In the CBB's Basel II framework, the third pillar prescribes how, when, and at what level information should be disclosed about an institution's risk management and capital adequacy practices.

The disclosures comprise detailed qualitative and quantitative information. The purpose of the Pillar III disclosure requirements is to complement the first two pillars and the associated supervisory review process. The disclosures are designed to enable stakeholders and market participants to assess an institution's risk appetite and risk exposures and to encourage all banks, via market pressures, to move toward more advanced forms of risk management.

Under the current regulations, partial disclosure consisting mainly of quantitative analysis is required during half year reporting, whereas full disclosure is required to coincide with the financial year end reporting.

3. Group structure

The Group's financial statements are prepared and published on a full consolidation basis, with all subsidiaries being consolidated in accordance with IFRS. For capital adequacy purposes, all subsidiaries are included within the Group structure. However, the CBB's capital adequacy methodology accommodates both normal and aggregation forms of consolidation.

The principal subsidiaries, associates and joint ventures and basis of consolidation for capital adequacy purposes are as follows:

	Domicile	Ownership	Consolidation basis
Subsidiaries			
CrediMax B.S.C. (c)	*Kingdom of Bahrain*	100%	Full consolidation
Invita B.S.C. (c)	*Kingdom of Bahrain*	100%	Full consolidation
Global Payment Serivces W.L.L. (GPS)*	*Kingdom of Bahrain*	55%	Full consolidation
Associates			
EBLA Computer Consultancy K.S.C.C.	*State of Kuwait*	36%	Risk-weighted
Diyar Al Harameen AL Ola Limited	*Cayman Islands*	35%	Risk-weighted
Saudi MAIS Company for Medical Products	*Kingdom of Saudi Arabia*	24%	Risk-weighted
Bahrain Commercial Facilities Company B.S.C. (c)	*Kingdom of Bahrain*	23%	Aggregation
The Benefit Company B.S.C. (c)	*Kingdom of Bahrain*	22%	Aggregation
Joint ventures			
Sakana Holistic Housing Solutions B.S.C. (c)	*Kingdom of Bahrain*	50%	Aggregation
BBK Geojit Securities K.S.C.	*State of Kuwait*	40%	Aggregation

** Shareholding through CrediMax subsidiary.*

There are no restrictions on the transfer of funds or regulatory capital within the Group.

4. Capital components - consolidated

Tier 1 capital is defined as capital of the same or close to the character of paid-up capital and comprises share capital, share premium, retained earnings and eligible reserves. Eligible reserves include general reserve, statutory reserve, and unrealised losses arising from revaluation of equities classified as available-for-sale, and exclude unrealised losses arising from revaluation of debt securities classified as available-for-sale.

Tier 2 capital comprises interim profits, qualifying subordinated term finance, collective impairment provisions, and unrealised gains arising from revaluation of equities classified as available-for-sale, though limited to 45 percent. It excludes unrealised gains arising from valuing debt securities classified as available-for-sale.

The subordinated term financing facilities, amounting to US$ 13.541 million discounted out of the total amount outstanding US$ 22.570 million (initital amount raised US$ 145 million), are part of its US$ 1 billion Euro Medium Term Deposits Notes Programme. The subordinated financing facilities have been approved for inclusion in tier 2 capital for regulatory capital adequacy purposes by the CBB.

The CBB applies various limits to elements of the regulatory capital base. The amount of innovative tier 1 securities cannot exceed 15 percent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying subordinated term finance cannot exceed 50 percent of tier 1 capital. There are also restrictions on the amount of collective impairment provisions that may be included as part of tier 2 capital, which should be maximum of 1.25 percent of the risk weight.

In accordance with the CBB's Basel II capital adequacy framework, certain assets are required to be deducted from regulatory capital rather than included in risk-weighted assets (RWAs). At 31st December 2013, BD 0.886 million was deducted from regulatory capital in relation to securitisation exposures that were rated below BB- or were unrated. In accordance with the CBB's Basel II capital adequacy framework, the deductions are applied 50 percent from tier 1 and 50 percent from tier 2 capital.

There are no impediments on the transfer of funds or regulatory capital within the Group other than restrictions over transfers to ensure minimum regulatory capital requirements are met for subsidiary companies.

	BD '000
Tier 1 capital	
Share capital	90,635
General reserves	43,700
Statutory reserves	46,825
Share premium	39,919
Retained earnings and others	41,177
Non-controlling interest	718
Unrealised losses arising from fair valuing equities	(1,265)
Deductions from tier 1 capital	(17,328)
Total tier 1 capital	**244,381**
Tier 2 capital	
Current year profit	45,051
45% of unrealised gains arising from fair valuing equities	6,988
Collective impairment provisions	24,118
Subordinated term debt	5,105
Deductions from tier 2 capital	(17,328)
Total tier 2 capital	**63,934**
Total available capital (tier 1 + tier 2)	308,315
Aggregation	33,770
Total eligible capital	**342,085**

5. Capital adequacy

The Group's policy is to maintain a strong capital base so as to preserve investor, creditor and market confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' return is also recognised, as well as the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. The Group manages its capital structure and makes adjustments to the structure taking account of changes in economic conditions and strategic business plans. The capital structure may be adjusted through the dividend payout, and the issue of new shares, and subordinated term finance.

BBK aims to maintain a minimum total capital adequacy ratio in excess of 13.35 percent. The CBB's current minimum total capital adequacy ratio for banks incorporated in the Kingdom of Bahrain is set at 12 percent. The capital adequacy ratio of the Group at 31 December 2013 was 15.33 percent.

Strategies and methods for maintaining a strong capital adequacy ratio

BBK prepares multi-year strategic projections on a rolling annual basis which include an evaluation of short term capital requirements and a forecast of longer-term capital resources.

5. Capital adequacy continued

Capital ratios - consolidated and subsidiaries above 5% of group capital

	Total capital ratio	Tier 1 capital ratio
BBK - Group	15.33%	12.47%
CrediMax	64.32%	45.20%

6. Credit risk – Pillar III Disclosures

This section describes the BBK's exposure to credit risk, and provides detailed disclosures on credit risk in accordance with the CBB's Basel II framework, in relation to Pillar III disclosure requirements.

Definition of exposure classes

BBK has a diversified on and off statement of financial position credit portfolio, the exposures of which are divided into the counterparty exposure classes defined by the CBB's Basel II capital adequacy framework for the standardised approach for credit risk. A high-level description of the counterparty exposure classes, referred to as standard portfolios in the CBB's Basel II capital adequacy framework, and the generic treatments, i.e. the risk weights to be used to derive the RWAs, are as follows:-

Sovereigns portfolio

The sovereigns portfolio comprises exposures to governments and their respective central banks. The risk weights are zero percent for exposures in the relevant domestic currency, or in any currency for exposures to GCC sovereigns. Foreign currency claims on other sovereigns are risk weighted based on their external credit ratings.

Certain multilateral development banks as determined by the CBB may be included in the sovereigns portfolio and treated as exposures with a zero percent risk weighting.

Public Sector Entities (PSE) portfolio

Claims on Bahraini PSEs, and claims on PSEs on domestic currency - which are assigned a zero percent risk weight by their respective country regulator, can be assigned a zero percent risk weight. All other PSEs are risk-weighted according to their external ratings.

Banks portfolio

Claims on banks are risk-weighted based on their external credit ratings. A preferential risk weight treatment is available for qualifying short term exposures. Short term exposures are defined as exposures with an original tenor of three months or less. The Bank's portfolio also includes claims on investment firms, which are risk-weighted based on their external credit ratings, though without any option for preferential treatment for short term exposures.

Corporates portfolio

Claims on corporates are risk-weighted based on their external credit ratings. A 100 percent risk weight is assigned to exposures to unrated corporates. A preferential risk weight treatment is available for certain corporates owned by the Government of Bahrain, as determined by the CBB, which are assigned a zero percent risk weight.

Regulatory retail portfolio

Claims on retail portfolio are risk-weighted at 75 percent, except for past due portfolio.

Mortgage portfolio

Claims which are fully secured by first mortgages on residential property that is or will be occupied by the borrower, or that is leased, must carry a risk weighting of 75 percent. Claims secured mortgages on commercial real estate are subject to a minimum of 100 percent risk weight. If the borrower is rated below BB-, the risk-weight corresponding to the rating of the borrower must be applied.

Equities portfolio

The equities portfolio comprises equity investments in the banking book, i.e. the available-for-sale securities portfolio. A 100 percent risk weight is assigned to listed equities while unlisted equities are weighted at 150 percent.

In addition to the standard portfolios, other exposures are assigned to the following exposure classes:

Investments in funds portfolio

The risk weight for claims on corporate will be used to determine the risk weight for investments in rated funds. Unrated funds will be assigned a risk weight of 100 percent if listed, and 150 percent if not listed.

Past due exposures

This includes claims, for which the repayment is overdue for more than ninety days. The risk weighting applied for such loans is either 100 percent or 150 percent, depending on the level of provisions maintained against the loan.

Holding of real estate

All holding of real estate by banks (owned directly or by the way of investments in real estate companies, subsidiaries or associated companies or other arrangements such as trusts, funds or Real Estate Investment Trusts (REITs) must be risk weighted at 200 percent. Premises occupied by the bank are weighted at 100 percent.

Other assets and holdings of securitisation tranches

Other assets are risk-weighted at 100 percent. Securitisation tranches are risk weighted based on their external credit ratings. Risk weightings range from 20 percent to 350 percent. Exposures to securitisation tranches that are rated below BB- or are unrated are deducted from regulatory capital rather than subject to a risk weight.

All BBK's holding of securitisations is part of the Bank's investment portfolio.

External rating agencies

BBK uses ratings issued by Standard & Poor's, Moody's and Fitch to derive the risk weightings under the CBB's Basel II capital adequacy framework. Where ratings vary between rating agencies, the highest rating from the lowest two ratings is used to represent the rating for regulatory capital adequacy purposes.

Credit risk presentation under Basel II

The credit risk exposures presented in most of this report differ from the credit risk exposures reported in the consolidated financial statements. Differences arise due to the application of different methodologies, as illustrated below:-

- Under the CBB's Basel II framework, off statement of financial position exposures are converted into credit exposure equivalents by applying a Credit Conversion Factor (CCF). The off statement of financial position exposure is multiplied by the relevant CCF applicable to the off statement of financial exposure position category. Subsequently, the exposure is treated in accordance with the standard portfolios as referred to above in this report, in the same manner as on statement of financial position exposures.
- Credit risk exposure reporting under Pillar III is frequently reported by standard portfolios based on the type of counterparty. The financial statement presentation is based on asset class rather than the relevant counterparty. For example, a loan to a bank would be classified in the Bank's standard portfolio under the capital adequacy framework although is classified in loans and advances in the consolidated financial statements.
- Certain eligible collateral is applied to reduce exposure under the Basel II capital adequacy framework, whereas no such collateral netting is applicable in the consolidated financial statements.
- Based on the CBB's Basel II guidelines, certain exposures are either included in, or deducted from, regulatory capital rather than treated as an asset as in the consolidated financial statements, e.g. unrated securitisation tranches.

7. Capital requirement for risk-weighted exposure

	Gross credit exposures (before risk mitigation)	Eligible financial collateral	Credit risk after risk mitigation	Risk-weighted asset	Regulatory capital required 12%
	BD '000	BD '000	BD '000	BD '000	BD '000
Sovereign	869,039	-	48,321	25,798	3,095
Public sector entities	178,633	-	54,712	25,031	3,004
Banks	608,839	909	607,929	273,181	32,782
Corporates	1,220,194	36,347	1,125,054	1,123,735	134,848
Regulatory retail	222,439	19,055	203,384	152,538	18,305
Mortgage	83,878	1,614	82,265	61,767	7,412
Equity	94,797	-	-	107,184	12,862
Investment in funds	2,620	-	2,620	3,930	472
Past due	77,391	1	77,390	105,171	12,621
Real estate	32,871	-	-	55,846	6,702
Other assets	58,523	-	58,523	58,523	7,022
Cash items	16,314	-	-	96	12
Total	**3,465,538**	**57,926**	**2,260,198**	**1,992,800**	**239,137**
Aggregation	49,260	-	49,260	49,260	5,911
Total credit risk	**3,514,798**	**57,926**	**2,309,458**	**2,042,060**	**245,048**
Market risk	-	-	-	**9,625**	**1,155**
Operational risk	-	-	-	**179,728**	**21,567**
Total risk-weighted exposure	**3,514,798**	**57,926**	**2,309,458**	**2,231,413**	**267,770**

Included in the equity category investment in insurance entity that is risk-weighted rather than deducted from eligible capital, this, if deducted will reduce the eligible capital to BD 338,769 thousand:

Entity	Nationality	Ownership %	Risk-weighted asset	Impact on regulatory capital
Bahrain Kuwait Insurance Company B.S.C. (c) "BKIC"	Kingdom of Bahrain	6.82%	2,635	316

Collateral valuation policy

The Bank has detailed policies and procedures for valuing collateral/securities offered for various credit facilities. The collateral is valued, at minimum, quarterly or annually, based on the type of security.

More frequent valuations are also considered if warranted by market volatility and declining trend in valuations are observed. The basis of valuation for different types of securities such as equity, debt, and real estate is also clearly defined in the policies.

8. Funded and unfunded total credit exposure

Total gross credit exposures	Total funded credit exposure	Total un-funded credit exposure
	BD '000	BD '000
Sovereign	868,369	670
Public sector entities	173,295	5,338
Banks	561,929	46,910
Corporates	1,008,598	211,596
Regulatory retail	218,423	4,016
Mortgage	83,878	-
Equity	94,797	-
Investment in funds	2,422	198
Past due	77,391	-
Real estate	32,871	-
Other assets	58,523	-
Cash items	16,314	-
Total	**3,196,810**	**268,728**
Aggregation	49,260	-
Total credit risk	**3,246,070**	**268,728**

9. Average credit exposure

The following are the average quarterly balances for the full year:

	BD '000
Sovereign	921,556
Public sector entities	178,155
Banks	634,533
Corporates	1,178,564
Regulatory retail	208,926
Mortgage	80,270
Equity	79,751
Investment in funds	2,840
Past due	92,659
Real estate	30,685
Other assets	56,907
Cash items	16,438
Total	**3,481,284**
Aggregation	62,256
Total credit risk	**3,543,540**

10. Concentration of credit risk by region

	GCC	North America	Europe	Asia	Others	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Cash and balances with central banks	221,986	-	-	2,366	-	**224,352**
Treasury bills	308,157	-	-	6,968	-	**315,125**
Deposits in banks and other financial institutions	135,477	27,499	33,476	5,918	14	**202,384**
Loans and advances to customers	1,424,709	9	16	193,801	-	**1,618,535**
Investments in associated companies	17,897	-	-	-	6,202	**24,099**
Investment securities	493,338	32,422	71,495	114,701	31,940	**743,896**
Other assets	66,164	-	-	2,255	-	**68,419**
Total funded exposure	**2,667,728**	**59,930**	**104,987**	**326,009**	**38,156**	**3,196,810**
Unfunded commitments and contingencies	231,835	4,821	7,282	12,551	12,239	**268,728**
Aggregation	49,260	-	-	-	-	**49,260**
Total credit risk	**2,948,823**	**64,751**	**112,269**	**338,560**	**50,395**	**3,514,798**

11. Concentration of credit risk by industry

	Trading and manufacturing	Banks and other financial institutions	Construction and real estate	Government and public sector	Individuals	Others	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Cash and balances with central banks	-	15,833	-	208,519	-	-	**224,352**
Treasury bills	-	-	-	315,125	-	-	**315,125**
Deposits in banks and other financial institutions	-	202,384	-	-	-	-	**202,384**
Loans and advances to customers	478,292	256,170	398,796	48,844	251,222	185,211	**1,618,535**
Investments in associated companies	9,810	-	6,202	-	-	8,087	**24,099**
Investment securities	19,102	284,725	16,773	416,334	-	6,962	**743,896**
Other assets	-	-	-	-	-	68,419	**68,419**
Total funded exposure	**507,204**	**759,112**	**421,771**	**988,822**	**251,222**	**268,679**	**3,196,810**
Unfunded commitments and contingencies	104,074	49,967	73,614	2,626	2,232	36,215	**268,728**
Aggregation	-	49,260	-	-	-	-	**49,260**
Total credit risk	**611,278**	**858,339**	**495,385**	**991,448**	**253,454**	**304,894**	**3,514,798**

12. Concentration of credit risk by maturity

	Within 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	5 to 10 years	10 to 20 years	Above 20 years	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Cash and balances with central banks	158,401	-	-	-	-	-	-	65,951	**224,352**
Treasury bills	24,075	182,450	67,793	40,807	-	-	-	-	**315,125**
Deposits in banks and other financial institutions	185,344	17,040	-	-	-	-	-	-	**202,384**
Loans and advances to customers	77,571	120,885	97,208	125,789	682,198	262,206	41,787	210,891	**1,618,535**
Investments in associated companies	-	-	-	-	-	-	-	24,099	**24,099**
Investment securities	5,081	37,103	41,443	57,636	271,447	233,904	2,291	94,991	**743,896**
Other assets	38,992	103	22	13	3,153	-	-	26,136	**68,419**
Total funded exposure	**489,464**	**357,581**	**206,466**	**224,245**	**956,798**	**496,110**	**44,078**	**422,068**	**3,196,810**
Unfunded commitments and contingencies	47,329	34,092	65,738	109,389	10,023	1,933	-	224	**268,728**
Aggregation	-	-	-	-	7,944	-	-	41,316	**49,260**
Total credit risk	**536,793**	**391,673**	**272,204**	**333,634**	**974,765**	**498,043**	**44,078**	**463,608**	**3,514,798**

13. Impaired loans and provisions

	Principle and interest outstanding	Impaired loans	Specific provisions
	BD '000	BD '000	BD '000
Manufacturing	254,718	14,795	11,812
Mining and quarrying	31,246	2,444	251
Agriculture, fishing and forestry	5,059	25	26
Construction	158,185	11,573	4,858
Financial	284,121	31,892	22,392
Trade	212,171	4,813	3,909
Personal / Consumer finance	232,201	16,080	14,774
Credit cards	36,714	917	1,137
Commercial real estate financing	174,570	39,196	14,630
Residential mortgage	93,247	6,390	2,029
Government	49,170	-	-
Technology, media and telecommunications	86,267	356	470
Transport	16,810	-	-
Other sectors	84,971	1,484	508
Total	**1,719,450**	**129,965**	**76,796**

14. Reconciliation of changes in impaired loans and provisions

	Specific impairment provisions	Collective impairment provisions
	BD '000	BD '000
At beginning of the year	94,215	16,739
Amounts written off	(25,517)	-
Write backs / cancellation due to improvement	(3,266)	(61)
Additional provisions made	12,930	8,864
Exchange adjustment and other movements	352	(1,424)
Notional interest on impaired loans	(1,918)	-
Balance at reporting date	**76,796**	**24,118**

15. Impaired and past due loans by region

	GCC	North America	Europe	Asia	Others	Total
	BD '000	BD '000	BD '000	BD '000	BD '000	BD '000
Past due loans	78,634	-	-	12,232	-	90,866
Impaired loans	125,116	-	-	4,849	-	129,965
Specific impairment provisions including interest in suspense	74,809	-	-	1,987	-	76,796
Collective impairment provisions	23,846	-	-	272	-	24,118

16. Ageing of impaired past due loans

	3 months up to 1 year	1 to 3 years	Over 3 years	Total
	BD '000	BD '000	BD '000	BD '000
Impaired past due loans	15,342	42,901	71,722	**129,965**
Less: specific provisions	5,457	9,919	37,380	**52,756**
Less: Interest in suspense	945	4,724	18,371	**24,040**
Net outstanding	**8,940**	**28,258**	**15,971**	**53,169**
Market value of collateral	25,935	47,871	34,115	**107,921**

17. Restructured loans

	BD '000
Loans restructured during the period	**51,296**
Impact of restructured facilities and loans on provisions	**15,472**

The above restructuring did not have any significant impact on present and future earnings and were primarily extentions of the loan tenor, revisions in interest rate, and additional collateral received.

18. Market risk disclosures for banks using the Internal Models Approach (IMA) for trading portfolios

The market risk Internal Model Approach (IMA) is being used to measure Value-at-Risk (VaR) for calculating capital charge arising from market risk exposures (mainly foreign exchange and interest rate risk positions) of the trading book. The VaR model quantifies the maximum potential loss that could occur in the trading book risk positions under normal market conditions, at 99 percent confidence level, on a 10-day horizon.

BBK maintains a prudent approach to handle market risk exposures guided by Market Risk Policy and Procedure. The Position, Stoploss and VaR limits are monitored by Middle Office which is part of the Risk & Credit Management department i.e. independent of the Business Group, and a daily Risk Report is compiled and circulated to executive management.

In addition to the above, the Middle Office also carries out valuation of the investment portfolio independently as per the internal policies and procedures. Furthermore, BBK also conducts stress testing and backtesting of market risk positions.

The summary of VaR of the trading book during 2013 is as follows:

VaR results for 31 December 2013 (10 day 99%) Global (Bahrain and Kuwait)

1 January 2013 to 31 December 2013

Asset class	Limit	VaR 31 Dec 2013	High VaR	Low VaR	Average VaR
	BD '000	BD '000	BD '000	BD '000	BD '000
Foreign exchange	641	66	240	10	48
Interest rate	151	0	3	0	0
	792	**66**	**240**	**10**	**48**

The Bank conducts backtesting of VaR on a daily basis in compliance with CBB regulations to validate the internal VaR model and to check whether or not the model can predict potential losses with a fair degree of accuracy. Under backtesting, the daily VaR numbers are compared with the mark-to-market profit or loss figures (on actual Profit & Loss basis and also hypothetical Profit & Loss basis). If this comparison is close enough, the backtest raises no issues regarding quality of the risk measurement model.

The backtesting results for the period 1 January 2013 to 31 December 2013 confirmed that there was no occasion on which a daily trading loss exceeded VaR figure.

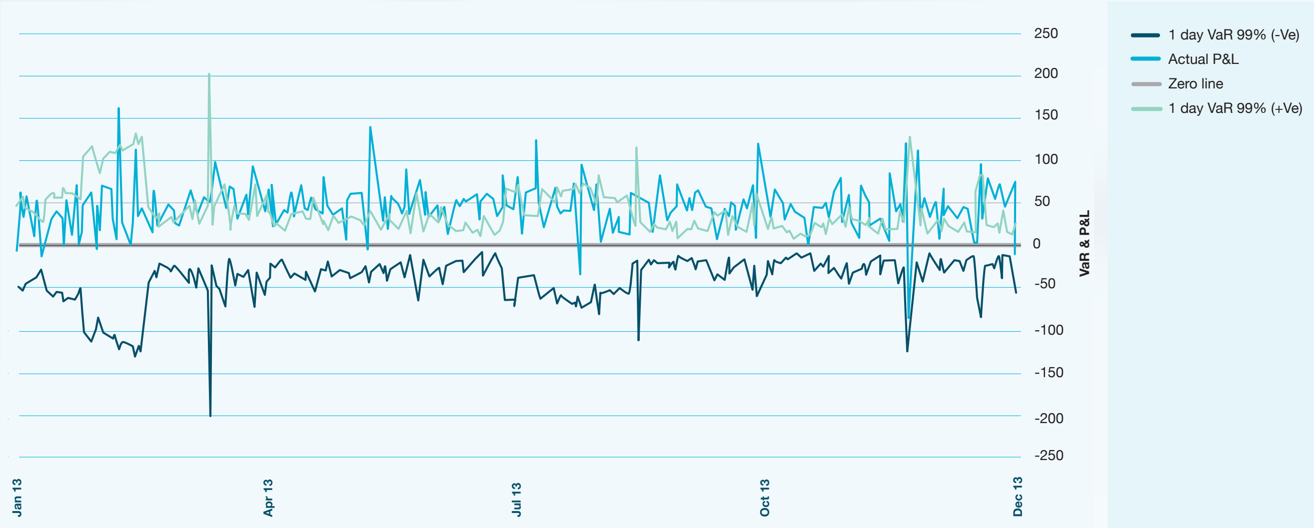
Month end VaR (10 day 99%)

Month	VaR in BD '000
January 2013	100
February 2013	35
March 2013	38
April 2013	36
May 2013	43
June 2013	79
July 2013	64
August 2013	13
September 2013	70
October 2013	52
November 2013	15
December 2013	66

18. Market risk disclosures for banks using the Internal Models Approach (IMA) for trading portfolios continued

The following graph shows that the daily actual Profit & Loss (Actual Profit & Loss basis) vis-à-vis one day VaR, for the review period.

Value-at-Risk backtesting 1 January 2013 to December 2013



19. Concentration risk to individuals where the total exposure is in excess of single obligor limit of 15 percent

	BD '000
Sovereign exposures*	664,835
Total	**664,835**

* The above exposures are exempted from deductions as per the CBB guidelines.

20. Credit derivatives exposure

	BD '000
Collateral debt obligations	805
Total credit derivatives	**805**

21. Equity positions in the banking book

	BD '000
Publicly traded equity shares	70,024
Privately held equity shares	23,240
Total	**93,264**
Capital required	**11,192**

22. Gains on equity instruments

	BD '000
Realised gains / losses in the consolidated statement of profit or loss	**967**
Unrealised gains / losses in tier 1 capital (eligible portion)	**(1,265)**
Unrealised gains / losses in tier 2 capital (eligible portion)	**6,988**