First Energy Bank B.S.C. (c)

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

31 DECEMBER 2013

مصرف الطاقة الأول
FirstEnergyBank

Sharia'a Supervisory Board Report

In compliance with the terms of our letter of appointment, we are required to report as follows:

The Sharia'a Supervisory Board ("**SSB**") has reviewed the principles and contracts relating to the transactions conducted by First Energy Bank (the "Bank") during the course of the year ending December 31, 2013. Their review was conducted in order to judge whether the Bank followed the principles of the Islamic Sharia'a, specific fatwas, and guidelines issued by the **SSB.** The **SSB** has also reviewed and approved the internal periodic Sharia'a reports issued by the Bank's Head of Sharia'a Compliance. The Bank's management is responsible for ensuring that its operations are carried out in compliance with **SSB** rulings.

The **SSB** responsibility is to present an independent view of the Bank's operations and to communicate it to the shareholders.

The review was planned and performed so as to obtain all necessary information and explanations to provide sufficient evidence proving that the Bank has not violated any rules and principles of the Islamic Sharia'a.

In our opinion:

- The Bank's contracts, transactions and deals for the year ending December 31, 2013 are in compliance with the rules and principles of the Islamic Sharia'a.
- The Bank's allocation of profit and charging of losses relating to investment accounts are in compliance with the rules and principles of the Islamic Sharia'a.
- The Bank's calculation of Zakat is in compliance with the rules and principles of the Islamic Sharia'a.

We beseech the Almighty to grant us excellence and success.

Wassalam Alaikum Wa Rahmat Allah Wa Barakatuh

Sheikh Dr.Nizam Mohammed Saleh Yaqubi
Chairman - Sharia'a Supervisory Board

Sheikh Dr. Mohammed Ali bin Ibrahim Elgari
Member - Sharia'a Supervisory Board

Sheikh Dr. Osama Mohamed Bahar
Member - Sharia'a Supervisory Board

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Report of the Board of Directors to the Shareholders

Dear Shareholders of First Energy Bank,

In the name of Allah, the beneficent, the merciful, prayers and peace upon the last apostle and messenger, our prophet Mohammed and his companions.

On behalf of the Board of Directors, it is my privilege to present the annual report and consolidated financial statements of First Energy Bank B.S.C. ("FEB") for the year ended 31 December 2013. Despite challenges in the financial sector which continue to persist on a global front, the Bank remained resilient and focused towards growth.

FINANCIAL HIGHLIGHTS FOR YEAR-END 2013

2013 was another profitable year for the Bank. I am pleased to report that FEB has achieved a net profit of $40.1 million, after provisions of $9.8 million, compared to $37.0 million in 2012. The Bank's operating profit increased to $64.3 million in 2013 as compared to $61.2 million in 2012, which includes a gain of $21.7 million, resulted from converting an associate to a subsidiary by exercising its equity conversion option. The increase in operating profit was largely due to enhanced income from Ijarah assets as well as capital gains from securities.
Total assets stood at $1.42 billion at the end of the year compared to the $1.40 billion at the end of 2012. FEB's capital adequacy ratio continues to be strong at 82% compared with a minimum regulatory requirement of 12%.

INVESTMENTS UPDATE

FEB's investment portfolio continued to grow and be profitable during 2013.. I am pleased to inform you that MENAdrill which is the first and principal investment of the Bank continues to operate as a profitable and cash generating entity. Both the Jack up rigs are operating satisfactorily under contracts with Pemex, the national oil and gas company in Mexico.
In terms of new investments, the Bank together with Borealis AG formed a joint venture in Bulgaria, called FEBORAN AD in the 4th Quarter of 2013. The joint-venture company purchased 20.3% of the shares of Neochim AD which is Bulgaria's leading producer and distributor of fertilizers; it operates one ammonia plant, two nitric acid plants and an ammonium nitrate plant in Dimitrovgrad in southern Bulgaria. This investment in Neochim extends the FEB investment portfolio into Europe and also into petrochemicals.
In addition to the Bank's investment in Neochim, the other noteworthy transaction was in December 2013, when the Bank signed a Euro 25 million Murabaha facility with Kore Coal Finance B.V., established in the Netherlands and a subsidiary of Sapinda Holding B.V. This transaction is in line with the Bank's long term commitment to seize attractive and income generating opportunities and diversify in asset classes which can generate sustained income streams.

WAY FORWARD

I am confident that FEB given its established base will continue to perform well in 2014. The Bank will continue pursuing its investment strategy targeting a balanced portfolio that achieves an acceptable return on investments in addition to providing capital growth and value to its shareholders.

Finally, I would like to place on record that the financial success of the Bank in 2013 would not have been possible without the dedication and commitment shown by the Bank's management and staff. I would like also to take this opportunity to express my gratitude to our highly esteemed and respected shareholders for their continuous support and commitment to the Bank.

Yours truly,

Khadem Abdulla Al Qubaisi
Chairman of the Board of Directors

Building a better working world

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

We have audited the accompanying consolidated financial statements of First Energy Bank B.S.C. (c) (the "Bank") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 December 2013, and the related consolidated statements of income, cash flows, changes in equity and sources and uses of zakah and charity fund for the year then ended. These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Group's Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

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

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

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

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

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

Ernst + Young

17 February 2014
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Notes	**2013** **US$ '000**	2012 US$ '000
ASSETS			
Cash and bank balances	3	**55,986**	15,654
Due from financial institutions	4	**129,394**	158,403
Investment in ijarah assets	5	**516,484**	529,363
Investment securities	6	**489,825**	497,387
Investment in associates	7	**130,340**	101,049
Other assets	8	**84,981**	89,263
Property and equipment	9	**10,283**	9,345
TOTAL ASSETS		**1,417,293**	1,400,464
LIABILITIES AND EQUITY			
Liabilities			
Due to financial institutions	10	**48,189**	59,612
Murabaha payable	11	**48,756**	54,081
Term financing	12	**63,882**	68,200
Other liabilities	13	**60,141**	58,992
Total liabilities		**220,968**	240,885
Equity			
Equity attributable to shareholders of the parent	14		
Share capital		**1,000,000**	1,000,000
Statutory reserve		**7,991**	4,784
Investment fair value reserve		**11,464**	-
Foreign exchange translation reserve		**(1,834)**	(2,170)
Retained earnings		**36,074**	32,104
Total equity attributable to shareholders of the parent		**1,053,695**	1,034,718
Non-controlling interest	15	**142,630**	124,861
Total equity		**1,196,325**	1,159,579
TOTAL LIABILITIES AND EQUITY		**1,417,293**	1,400,464
COMMITMENTS	26	**69,890**	77,968

H.E. Khadem Al Qubaisi	Mohamed Al Fahim	Mohamed Ghanem
Chairman	Board Member	Chief Executive Officer

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2013

	Notes	2013 US$ '000	2012 US$ '000
INCOME			
Profit from Islamic financing	16	472	5,090
Profit on Islamic financing		(530)	(644)
Net (loss) income from Islamic financing		(58)	4,446
Rental income from investment in ijarah assets		68,605	33,084
Financing cost relating to term financing obtained to purchase ijarah assets	12	(2,439)	(2,506)
Profit on Islamic financing against investment in ijarah assets		(1,697)	(1,053)
Depreciation on investment in ijarah assets	5	(13,742)	(7,459)
Other operating expenses relating to ijarah assets	17	(19,237)	(8,553)
Net income on investment in ijarah assets		31,490	13,513
Income from securities	18	24,269	17,259
Share of results of associates	7	4,947	(7,067)
Profit on subordinated finance	19	2,906	10,657
Gain arising on conversion of associate to subsidiary		-	21,759
Other income - net		725	596
Total income		64,279	61,163
EXPENSES			
Staff costs	20	9,677	10,656
General and administrative expenses	21	4,362	7,327
Depreciation and amortisation		324	2,079
Total expenses		14,363	20,062
NET INCOME FOR THE YEAR BEFORE PROVISION FOR IMPAIRMENT / WRITE OFF		49,916	41,101
Provision for impairment / write off	22	(9,828)	(4,077)
NET INCOME FOR THE YEAR		40,088	37,024
Attributable to:			
Shareholders of the parent		32,071	29,838
Non-controlling interest		8,017	7,186
		40,088	37,024

H.E. Khadem Al Qubaisi	Mohamed Al Fahim	Mohamed Ghanem
Chairman	Board Member	Chief Executive Officer

The attached notes 1 to 31 form part of these consolidated financial statements.

First Energy Bank B.S.C. (c)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Notes	*2013* *US$ '000*	*2012* *US$ '000*
OPERATING ACTIVITIES			
Net income for the year		**40,088**	37,024
Adjustments for :			
Depreciation on investment in ijarah assets	5	**13,742**	7,459
Depreciation and amortisation		**324**	2,079
Amortisation of premium		**2,973**	2,756
Fair valuation loss on equity option		**-**	1,386
Provision for impairment / write off	22	**9,828**	4,077
Share of results of associates	7	**(4,947)**	7,067
Gain arising on conversion of associate to subsidiary		**-**	(21,759)
Gain on disposal of securities		**(12,939)**	(5,794)
Loss on disposal of property and equipment		**22**	-
Operating profit before changes in operating assets and liabilities		**49,091**	34,295
Net changes in operating assets and liabilities:			
Financing receivables		**-**	317,008
Due from financial institutions original maturity of more than 90 days		**4,206**	26,219
Other assets		**5,559**	(40,800)
Due to financial institutions		**(11,423)**	(29,915)
Other liabilities		**(9,085)**	(43,577)
Payment to charities		**(908)**	(207)
Net cash from operating activities		**37,440**	263,023
INVESTING ACTIVITIES			
Purchase of securities		**(233,619)**	(345,113)
Proceeds from disposal / maturity of securities		**261,300**	182,485
Net changes in investment in associates		**(24,008)**	(16,000)
Investment in ijarah assets		**(863)**	(515,063)
Purchase of property and equipment		**(1,156)**	(104)
Purchase of software		**(94)**	(184)
Net cash from (used in) investing activities		**1,560**	(693,979)
FINANCING ACTIVITIES			
Movement in non-controlling interest	15	**9,796**	80,115
Dividend paid		**(23,580)**	-
Dividend paid to non-controlling interest	15	**(44)**	(31)
Murabaha payable		**(5,325)**	54,081
Term financing, net		**(4,318)**	68,200
Net cash (used in) from financing activities		**(23,471)**	202,365
NET MOVEMENT IN CASH AND CASH EQUIVALENTS		**15,529**	(228,591)
Cash and cash equivalents at 1 January		**169,851**	398,442
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**185,380**	169,851

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise of the following:

Cash and bank balances	3	**55,986**	15,654
Due from financial institutions with original maturity of 90 days or less	4	**129,394**	154,197
		185,380	169,851

The attached notes 1 to 31 form part of these consolidated financial statements.

First Energy Bank B.S.C. (c)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Notes	*Equity attributable to shareholders of the parent*							
		Share capital US$ '000	*Statutory reserve US$ '000*	*Investment fair value reserve US$ '000*	*Foreign exchange translation reserve US$ '000*	*Retained earnings US$ '000*	*Total US$ '000*	*Non-controlling interest US$ '000*	*Total equity US$ '000*
Balance at 1 January 2013		1,000,000	4,784	-	(2,170)	32,104	1,034,718	124,861	1,159,579
Movement in non-controlling interest	15	-	-	-	-	-	-	9,796	9,796
Dividends of subsidiary	15	-	-	-	-	-	-	(44)	(44)
Unrealised gain on remeasurement to fair value of investment at fair value through equity		-	-	15,293	-	-	15,293	-	15,293
Net amount transferred to consolidated statement of income on disposal of investment at fair vaule through equity		-	-	(3,829)	-	-	(3,829)	-	(3,829)
Effects of exchange difference on translation of investment in subsidiary					336		336	-	336
Net income for the year		-	-	-	-	32,071	32,071	8,017	40,088
Dividend paid	14	-	-	-	-	(24,000)	(24,000)	-	(24,000)
Transfer to statutory reserve		-	3,207	-	-	(3,207)	-	-	-
Transfer to zakah and charity fund		-	-	-	-	(894)	(894)	-	(894)
Balance at 31 December 2013		**1,000,000**	**7,991**	**11,464**	**(1,834)**	**36,074**	**1,053,695**	**142,630**	**1,196,325**
Balance at 1 January 2012		1,000,000	1,800		(2,170)	5,481	1,005,111	37,591	1,042,702
Movement in non-controlling interest	15	-	-	-	-	-	-	80,115	80,115
Dividends of subsidiary	15	-	-	-	-	-	-	(31)	(31)
Net income for the year		-	-	-	-	29,838	29,838	7,186	37,024
Transfer to statutory reserve		-	2,984	-	-	(2,984)	-	-	-
Transfer to zakah and charity fund		-	-	-	-	(231)	(231)	-	(231)
Balance at 31 December 2012		1,000,000	4,784	-	(2,170)	32,104	1,034,718	124,861	1,159,579

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF ZAKAH AND CHARITY FUND

For the year ended 31 December 2013

	Note	***2013 US$ '000***	*2012 US$ '000*
Sources of zakah and charity funds			
Undistributed zakah and charity funds at the beginning of the year		**25**	1
Contributions by the Bank		**894**	231
Total sources of zakah and charity funds during the year		**919**	232
Uses of zakah and charity fund			
Contributions for charitable purposes		**908**	207
Total uses of funds during the year		**908**	207
Undistributed zakah and charity fund at 31 December	13	**11**	25

1 INCORPORATION AND ACTIVITIES

First Energy Bank B.S.C. (c) (the "Bank") is a closed shareholding company incorporated in the Kingdom of Bahrain on 23 June 2008, under Commercial Registration No. 69089. The Bank operates under an Islamic Wholesale Banking license issued by the Central Bank of Bahrain (the "CBB"). The Bank's registered office is at Building 1459, Road 4626, Block 346, Manama, Kingdom of Bahrain.

The principal activities of the Bank and its subsidiaries (the "Group") include Shari'a compliant investment advisory services, participation in project development, joint ventures, mergers and acquisitions and the purchase of assets and asset portfolios primarily related to the energy sector. The Bank is regulated by the CBB and supervised by a Shari'a Supervisory Board for compliance with Shari'a rules and principles.

The consolidated financial statements were authorised for issue by the Board of Directors on 17 February 2014.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for equity-type instruments through equity that have been measured at fair value. The consolidated financial statements are presented in United States Dollar ("US$") being the reporting and functional currency of the Bank. All values are rounded to the nearest thousand (US$ '000) unless otherwise indicated.

Statement of Compliance

The consolidated financial statements have been prepared in accordance with Financial Accounting Standards (FAS) as issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group, the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, and the CBB regulations (as contained in Volume 2 and applicable provisions of Volume 6 of the CBB rulebook) and directives. In accordance with the requirements of AAOIFI, for matters which are not covered by the AAOIFI standards, the Group uses relevant International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("the IASB").

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at and for the year ended 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Non-controlling interest in a subsidiary's net assets is reported as a separate item in the Group's owners' equity. In the consolidated statement of income, non-controlling interest is included in net profit, and shown separately from that of the shareholders.

Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in owners' equity since the date of combination. Losses applicable to the non-controlling interest in excess of the non-controlling interest in a subsidiary's owners' equity are allocated against the interests of the Group except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses.

2 ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)
Transactions with non-controlling interests are handled in the same way as transactions with external parties. Sale of participations to non-controlling interests result in a gain or loss that is recognised in the consolidated statement of income. Changes in the ownership interest in a subsidiary that do not result in a loss of control are accounted for as an owners' equity transaction.

The consolidated financial statements comprise the financial statements of the Bank and its following subsidiaries:

Name of subsidiary	*Equity interest*		*Country of incorporation*	*Nature of business*
	2013	*2012*		
North Africa Investment Company	100%	100%	Kingdom of Bahrain	To hold the Group's 40% associate stake in Arab Drilling and Workover Company, Libya.
First Energy-Oman	100%	100%	Cayman Islands	To hold 15% direct interest in Al Izz Islamic Bank in Oman.
FEB-Novus Aircraft Holding Company	98.5%	98.5%	Commonwealth of the Bahamas	To purchase and lease one A330-300 aircraft to Malaysian Airlines System.
Cosmos Industrial Investment Corporation B.S.C. (c) *	93%	93%	Kingdom of Bahrain	Holding company for investment in a project for development and operation of a polycrystalline silicon plant in the Kingdom of Saudi Arabia.
MENAdrill Investment Company **	59.44%	59.44%	Cayman Islands	Development and lease of jack up oil rigs.
Al Dur Energy Investment Company	59%	59%	Cayman Islands	To hold 15% indirect interest in a power and water plant project in the Kingdom of Bahrain.
Feboran AD ***	59.95%	-	Bulgaria	To hold the Group's 20.3% associate stake in Neochim AD, Bulgaria.

* This subsidiary is consolidated based on 31 December 2013 accounts audited by the respective subsidiary's auditors.

** This subsidiary is consolidated based on 30 November 2013 unaudited accounts reviewed by the respective subsidiary's auditors.

*** This subsidiary was incoporated on 21 December 2013, to hold a 20.3% equity stake in Neochim AD, Bulgaria (note 7).

2.2 Summary of significant accounting policies

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

FAS 26 Investment in Real Estate
FAS 26 covers the recognition, measurement, presentation and disclosure of investment in real estate that is acquired for the purpose of earning periodical income or held for future capital appreciation or both. The adoption of this standard did not have any impact on the accounting policies, financial position or performance of the Group.

2 ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

The adoption of other standards, changes in IFRS or interpretations as issued by the IASB do not have any impact on the Group. In addition, standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are not expected to have any significant impact on the Group's financial position or performance.

a. Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash and balances with banks and amounts due from financial institutions with original maturities of 90 days or less.

b. Due from financial institutions

These comprise international commodity murabaha and wakala contracts, which are trade transaction agreements stated net of deferred profit and provision for impairment.

c. Investment in ijarah assets

Investment in ijarah assets are stated at cost less accumulated depreciation and accumulated impairment. Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of ijarah assets to their residual values over their useful life.

Ijarah assets are derecognised on disposal or when no future economic benefits are expected from their use. Any gain or loss arising on derecognition of the ijarah asset (calculated as the difference between the net disposal proceeds and the carrying amount of the ijarah asset) is recognised in the consolidated statement of income in the year the asset is derecognised.

d. Investment securities

These are classified as either equity type instruments carried at fair value through equity or debt type instruments carried at amortised cost.

Initial recognition

All investments are recognised on the acquisition date and are recognised initially at their fair value plus transaction costs.

Equity-type instruments at fair value through equity

Subsequent to acquisition, these are re-measured at fair value with unrealised gains or losses recognised in owners' equity until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in owners' equity is recognised in the consolidated statement of income.

Instruments which do not have a quoted market price or other appropriate methods from which to derive reliable fair values are stated at cost less impairment allowances.

Debt-type instruments at amortised cost

These instruments are managed on a contractual yield basis and are not held for trading and have not been designated at fair value through statement of income. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such investments is recognised in the consolidated statement of income, when the investment is de-recognised or impaired.

e. Investment in associates

An associate is an entity over which the Bank has significant influence. The Bank's investment in its associates is accounted for using the equity method.

Under the equity method, the investment in associates is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Bank's share of net assets of the associates.

2 ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

e. Investment in associates (continued)
The consolidated statement of income reflects the share of the results of operations of the associates. Unrealised gains and losses resulting from transactions between the Bank and the associates are eliminated to the extent of the interest in the associates.

The share of profit or loss from associates is shown on the face of the consolidated statement of income.

The financial statements of the associates are prepared for the same reporting period as the Bank. Where necessary, adjustments are made to bring the accounting policies in line with those of the Bank.

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

Upon loss of significant influence over associates, the Bank measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associates upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of income.

f. Property and equipment
Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment. The cost of additions and major improvements are capitalised; maintenance and repairs are charged to the consolidated statement of income as incurred. Gains or losses on disposal are reflected in other income. Depreciation is calculated using the straight-line method over the estimated useful lives of 3-5 years other than freehold land, which is deemed to have an indefinite life.

g. Due to financial institutions
These comprise international commodity murabaha and wakala contracts, which are trade transaction agreements stated net of deferred profit and provision for impairment.

h. Fair values
Fair value is determined for each financial asset individually in accordance with the valuation policies set out below:

(i) For investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the consolidated statement of financial position date.

(ii) For unquoted investments, fair value is determined by reference to recent significant buy or sell transactions with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments or applying relevant valuation techniques such as net present value of estimated future cash flows.

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

(iv) Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less provision for impairment.

2 ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

i. Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

j. Intangible assets

Intangible assets comprise principally the value of computer software. Intangible assets acquired are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

k. Dividends

Dividends to shareholders are recognised as liabilities in the period in which they are declared.

l. Revenue recognition

Profit from Islamic financing

Profit from Islamic financing (murabaha and wakala) is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised on a time-apportioned basis over the period of the transaction. Where the income from a contract is not contractually determinable or quantifiable, it is recognised when the realisation is reasonably certain or when actually realised. Income related to accounts that are 90 days overdue is excluded from the consolidated statement of income.

Profit on subordinated finance

Profit on subordinated finance is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised using the effective profit rates over the period of the contract. Recognition of income is suspended when the Group believes that the recovery of these amounts may be doubtful.

Rental income from investment in ijarah assets

Rental income from investment in ijarah assets is recognized on the basis of contractual amounts receivable on a time apportioned basis.

Income from investment in sukuk

Income from investment in sukuk is recognised on a time-apportioned basis using the effective profit method.

Dividend income

Dividend income is recognised when the right to receive is established. This is usually the ex-dividend date for equity securities.

2 ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

l. Revenue recognition (continued)

Investment advisory services income
Investment advisory services income is recognised when the services are provided and income is earned. This is usually when the Bank has performed all significant acts in relation to a transaction and it is highly probable that the economic benefits from the transaction will flow to the Bank. Significant acts in relation to a transaction are determined based on the terms agreed in the private placement memorandum/contracts for each transaction.

m. Earnings prohibited by Shari'a
The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly all non-Islamic income is credited to a charity fund which the Group uses for social welfare activities.

n. Zakah
Zakah is calculated using the net invested funds method as prescribed by the Bank's Shari'a Supervisory Board . Zakah is the responsibility of individual shareholders. However, it is paid by the Bank on behalf of the shareholders based on statutory reserve, investment fair value reserve, foreign exchange translation reserves and retained earning balances at the end of the year with the payment of Zakah on share capital being the responsibility of the Bank's shareholders.

o. Employees' end of service benefits
Provision is made for end of service indemnity payable under the Bahraini Labor Law applicable to non-Bahraini employees' accumulated periods of service at the consolidated statement of financial position date.

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

The Bank also operates a voluntary employees saving scheme under which the Bank and the employee contribute monthly on a fixed percentage of salaries basis. The scheme is in the nature of a defined contribution scheme and contributions by the Bank are recognised as an expense in the consolidated statement of income when they are due.

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

q. Impairment of financial assets
An assessment is made at each consolidated statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of income. Specific provisions are created to reduce all impaired financial contracts to their realisable cash equivalent value. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment value was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated statement of income. In the case of equity-type instruments at fair value through equity, impairment is reflected directly as a write down of the financial asset. Impairment losses on equity-type instruments at fair value through equity are not reversed through the consolidated statement of income. Any subsequent increases in their fair value are recognised directly in equity.

2 ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

r. Foreign currencies

Foreign currency transactions at the subsidiary level
Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. The monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the financial position date. All differences are taken to the statement of income at the entity level.

Foreign currency translations
As at the reporting date, assets and liabilities in foreign currencies are translated into the presentational currency of the Group (United States Dollar) at the rate of exchange ruling at the financial position date and their statement of income is translated at the average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign entity is recognised in the consolidated statement of income.

s. Judgements and estimates
The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported in the consolidated financial statements. The most significant uses of judgements 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 Board of Directors 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 a going concern basis.

Classification of investments
Management decides on acquisition of an investment whether it should be classified as an equity-type instrument at fair value through statement of income, an equity-type instrument at fair value through equity or a debt-type instrument at amortised cost.

Special purpose entities
The Group sponsors the formation of special purpose entities (SPE's) primarily for the purpose of allowing clients to hold investments. The Group provides corporate administration, investment management and advisory services to these SPE's, which involve the Group making decisions on behalf of such entities. The Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. The Group does not consolidate SPE's that it does not have the power to control. In determining whether the Group has the power to control an SPE, judgments are made about the objectives of the SPE's activities, its exposure to the risks and rewards, as well as about the Group intention and ability to make operational decisions for the SPE and whether the Group derives benefits from such decisions.

Impairment losses on financing contracts with customers
The Group reviews its financing contracts at each reporting date to assess whether an impairment allowance should be recorded in the consolidated financial statements. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about factors involving varying degrees of judgment and uncertainty and actual results may differ resulting in future changes to the provisions.

2 ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

s. Judgements and estimates (continued)

Impairment of equity-type instruments at fair value through equity
The Group treats equity-type instruments at fair value through equity as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group evaluates factors, such as the historical share price volatility for comparable quoted equities and future cash flows and the discount factors for comparable unquoted equities.

Liquidity
The Group manages its liquidity through consideration of the maturity profile of its assets and liabilities which is set out in the liquidity risk disclosures in note 27 (a). This requires judgment when determining the maturity of assets and liabilities with no specific maturities.

t. Derecognition
A financial asset (or, where applicable a part of a financial asset or part of a Group of similar financial assets) is derecognised when:

(i) the right to receive cash flows from the asset have expired;
(ii) 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 the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

u. Offsetting financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

v. Shari'a supervisory board
The Group's business activities are subject to the supervision of a Shari'a supervisory board consisting of three members appointed by the general assembly of shareholders.

w. Trade 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.

3 CASH AND BANK BALANCES

	2013 ***US$ '000***	*2012* *US$ '000*
Balances with banks	**55,973**	15,644
Cash in hand	**13**	10
	55,986	15,654

4 DUE FROM FINANCIAL INSTITUTIONS

	2013 *US$ '000*	2012 *US$ '000*
Commodity murabaha contracts	**94,959**	109,409
Wakala contracts	**34,450**	49,024
	129,409	158,433
Less: Deferred profits	**(15)**	(30)
	129,394	158,403

The original maturity of commodity murabaha and wakala contracts are as follows:

	2013 *US$ '000*	2012 *US$ '000*
Original maturity of 90 days or less	**129,394**	154,197
Original maturity of more than 90 days	**-**	4,206
	129,394	158,403

5 INVESTMENT IN IJARAH ASSETS

	Aircraft *US$ '000*	*Oil rigs* *US$ '000*	*Total* *US$ '000*
Cost:			
At 1 January 2013	100,000	440,889	540,889
Additions	-	863	863
At 31 December 2013	**100,000**	**441,752**	**541,752**
Depreciation:			
At 1 January 2013	3,300	8,226	11,526
Charge for the year	3,600	10,142	13,742
At 31 December 2013	**6,900**	**18,368**	**25,268**
Net book value:			
As at 31 December 2013	**93,100**	**423,384**	**516,484**
As at 31 December 2012	96,700	432,663	529,363

An Aircraft with a carrying value of US$ 93,100 thousand (31 December 2012: US$ 96,700 thousand) has been mortgaged against the term financing availed by Norddeutsche Landesbank Girozentrale (note 12).

6 INVESTMENT SECURITIES

At 31 December 2013	***Amortised Cost*** ***US$ '000***	***Fair value through equity*** ***US$ '000***	***Total*** ***US$ '000***
Debt type			
Quoted investments - Sukuk	**349,431**	**-**	**349,431**
*Unquoted investment - Debt security**	**83,056**	**-**	**83,056**
Equity type			
Quoted investment - Equity shares	**-**	**36,343**	**36,343**
Unquoted investments - Equity shares / ***	**-**	**40,995**	**40,995**
	432,487	**77,338**	**509,825**
Provision for impairment	**-**	**(20,000)**	**(20,000)**
	432,487	**57,338**	**489,825**

6 INVESTMENT SECURITIES (continued)

At 31 December 2012	*Amortised Cost* *US$ '000*	*Fair value through equity* *US$ '000*	*Total* *US$ '000*
Debt type			
Quoted investments - Sukuk	392,967	-	392,967
Unquoted investment - Debt security	79,215	-	79,215
Equity type			
*Unquoted investments - Equity shares ***	-	45,205	45,205
	472,182	45,205	517,387
Provision for impairment	-	(20,000)	(20,000)
	472,182	25,205	497,387

*The Group has converted US$ 3,841 thousand from contingent and standby equity in Al Dur Energy Investment Company ("ADEIC") of US$ 5,205 thousand into an interest free shareholder loan. Additionally, a balance of US$ 369 thousand of standby equity has been returned to ADEIC, of which US$ 292 thousand has been utilised to top-up the liability reserve account (note 8).

The Group's quoted investment in equity shares held at fair value through equity amounting to US$ 36,343 thousand as of 31 December 2013 (31 December 2012: Nil) includes an unrealised gain on remeasurement to fair value of US$ 11,464 thousand (31 December 2012: Nil).

The Group's investments in sukuk held at amortised cost amounting to US$ 349,431 thousand as of 31 December 2013 (31 December 2012: US$ 392,967 thousand) have a fair value of US$ 351,987 thousand (31 December 2012: US$ 402,646 thousand).

** Under unquoted investments which are held at fair value through equity are investments amounting to US$ 20,995 thousand (31 December 2012: US$ 25,205 thousand) which are held at cost less provision for impairment due to the unpredictable nature of their future cash flows and the lack of other suitable methods for arriving at a reliable fair value for these investments.

7 INVESTMENT IN ASSOCIATES

	2013 ***US$ '000***	*2012* *US$ '000*
At 1 January	**101,049**	92,116
Acquisition during the year *	**24,398**	48,078
Elimination of intra-group transactions	-	(1,078)
Share of results of associates	**4,947**	(7,067)
Conversion of an associate to subsidiary	-	(31,000)
Foreign exchange translation differences	**336**	-
Reduction of share capital ***	**(390)**	-
At 31 December	**130,340**	101,049

* The Group has acquired 20.3% stake in Neochem AD (through Feboran AD) on 21 December 2013. This associate has not been equity accounted in these consolidated financial statements due to the unavailability of financial information. This will not have significant impact on the Group's financial statements due to acquisition date being close to the Group's year-end.

During 2012, the Bank exercised its equity conversion option on a murabaha financing facility provided to one of its associate companies which resulted in a gain of US$ 21,759 thousand and the conversion of the associate into a 59.44% owned subsidiary which is now consolidated in these consolidated financial statements.

7 INVESTMENT IN ASSOCIATES (continued)

Investment in associates comprise the following:

Name	*Country of incorporation*	*% holding* 2013	2012	*Nature of business*
Arab Drilling and Workover Company **	Libya	40%	40%	Lease of oil drilling rigs
Al Izz Islamic Bank ***	Oman	15%	15%	Islamic Banking
Neochim AD *	Bulgaria	20.3%	0%	Manufacture of chemicals and chemical products

Summarised financial information of associates that have been equity accounted in these consolidated financial statements, not adjusted for percentage of ownership held by the Group:

	2013 ***US$ '000***	*2012* *US$ '000*
Total assets	**667,655**	458,407
Total liabilities	**145,282**	54,700
Total revenues	**76,234**	52,094
Total net income (loss)	**9,252**	(18,615)

** Based on the management accounts received from Arab Drilling and Workover Company, profit of US$ 14,236 thousand was recognised for the 11 month period ended 31 October 2013. The Group has recognised profit of US$ 5,694 thousand in these consolidated financial statements representing their 40% share.

*** Based on Al Izz Islamic Bank reviewed accounts, losses of US$ 4,984 thousand were recognised for the 11 month period ended 30 September 2013. The Group has recognised losses of US$ 747 thousand in these consolidated financial statements representing their 15% share. Further, Al Izz Islamic Bank has repaid US$ 390 thousand to First Energy Oman pertaining to pre-incorporation expenses incurred upon incorporation.

8 OTHER ASSETS

	Notes	***2013*** ***US$ '000***	*2012* *US$ '000*
Project work-in-progress *		**48,985**	46,101
Profit receivable on subordinated finance	19	**13,563**	10,657
Liability reserve receivable **		**11,438**	11,136
Ijarah receivable		**11,131**	4,910
Deferred expenses		**3,179**	5,134
Advances paid		**1,533**	1,656
Goodwill *	22	**500**	2,309
Intangible assets – software		**214**	248
Due from associate		**65**	67
Others		**3,773**	7,045
Provision for impairment*	22	**(9,400)**	-
		84,981	89,263

*Project work-in-progress comprises costs incurred for the acquisition and development of a project in the Kingdom of Saudi Arabia by Cosmos Industrial Investment Corporation B.S.C. (c). During the year, goodwill of US$ 1,809 thousand has been written off and a provision of US$ 9,400 thousand has been recognised against the project work in progress.

8 OTHER ASSETS (continued)

** Liability reserve receivable represents an amount that has been funded by Al Dur Energy Investment Company to Al Dur Power and Water Company to meet the liability reserve account (LRA) funding requirement under the common term agreement entered into on 29 June 2009, whereby the shareholders are required to fund such account in meeting the repayment of senior debt obligations (note 6).

9 PROPERTY AND EQUIPMENT

	Land	*Computers and Equipment*	*Motor vehicles*	*Furniture and fixtures*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*	*US$ '000*
Cost:					
At 1 January 2013	22,994	1,016	71	6,841	30,922
Additions	-	197	173	786	1,156
Disposals	-	-	-	(6,841)	(6,841)
At 31 December 2013	**22,994**	**1,213**	**244**	**786**	**25,237**
Depreciation:					
At 1 January 2013	-	963	1	6,819	7,783
Charge for the year	-	30	38	128	196
Disposal	-	-	-	(6,819)	(6,819)
At 31 December 2013	**-**	**993**	**39**	**128**	**1,160**
Provision for impairment:					
At 1 January 2013	13,794	-	-	-	13,794
Charge for the year	-	-	-	-	-
At 31 December 2013	**13,794**	**-**	**-**	**-**	**13,794**
Net book values:					
At 31 December 2013	**9,200**	**220**	**205**	**658**	**10,283**
At 31 December 2012	9,200	53	70	22	9,345

10 DUE TO FINANCIAL INSTITUTIONS

	2013	*2012*
	US$ '000	*US$ '000*
Wakala contracts	**48,189**	59,612
	48,189	59,612

11 MURABAHA PAYABLE

The following table shows the movement of murabaha payable during the year:

	2013	2012
	US$ '000	US$ '000
Balance at beginning of the year	**53,755**	-
Additions	**-**	55,000
Repayments	**(5,270)**	(1,245)
	48,485	53,755
Accrued profit	**271**	326
	48,756	54,081

On 10 May 2012, MENAdrill Investment Company (the "subsidiary") refinanced a facility of US$ 130,000 thousand granted by the Bank of which US$ 55,000 thousand was advanced by another bank.

12 TERM FINANCING

The following table shows the movement of term financing during the year:

	2013 US$ '000	2012 US$ '000
Balance at beginning of the year	**68,165**	-
Additions	**-**	72,000
Repayments	**(4,341)**	(3,835)
	63,824	68,165
Accrued profit	**58**	35
	63,882	68,200

In January 2012, FEB-Novus Fin One Ltd ("FEB-Novus") raised term financing of US$ 72,000 thousand to partially fund the acquisition of an Airbus A330-300 aircraft (note 5). The term financing matures in January 2024 and bears a profit rate of 1 month Libor plus 345bps per annum. FEB-Novus is consolidated in FEB-Novus Aircraft Holding Company, Bahamas (98.5% owned subsidiary of the Bank) in compliance with AAOIFI "Statement of financial accounting No.1: Conceptual Framework for the financial reporting by Islamic Financial Institutions". The financing arrangement is between FEB-Novus and the ultimate finance provider.

13 OTHER LIABILITIES

	2013 US$ '000	*2012 US$ '000*
Payables to financial institutions *	**37,545**	33,272
Employee-related accruals	**13,889**	10,839
Accounts payable	**4,608**	8,504
Accrued expenses	**1,392**	2,275
Zakat and charity payable	**11**	25
Collective impairment provision (note 22)	**2,696**	4,077
	60,141	58,992

* These relate to funds from a Libyan entity frozen by the Bank as per CBB circular EDFIS/C/011/2011 dated 31 March 2011.

14 EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT

(a) Share capital

	2013 US$ '000	*2012 US$ '000*
Authorised:		
2,000,000,000 ordinary shares of US$ 1 each	**2,000,000**	2,000,000
Issued, subscribed and paid-up:		
1,000,000,000 ordinary shares of US$ 1 each	**1,000,000**	1,000,000

(i) The Group has only one class of equity shares and the holders of these shares have equal voting rights.

14 EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT (continued)

(a) Share capital (continued)

(ii) Names and nationalities of the major shareholders and the percentage of equity shares held in which they have an interest of 5% or more of outstanding shares are as follows:

		2013		2012	
	Country of incorporation	***% of holding***	***Share capital***	*% of holding*	*Share capital*
Tasameem Real Estate	UAE	**21.85%**	**218,504**	21.85%	218,504
Libyan Investment Authority	Libya	**16.25%**	**162,500**	16.25%	162,500
Abu Dhabi Water and Electricity Authority	UAE	**15.00%**	**150,000**	15.00%	150,000
Emirates Islamic Bank	UAE	**10.00%**	**100,000**	10.00%	100,000
Mohammed Bin Hussain Bin Ali AlAmoudi	KSA	**5.00%**	**50,000**	5.00%	50,000
AlJabr Trading Co	KSA	**5.00%**	**50,000**	5.00%	50,000

(iii) The distribution schedule of equity shares, setting out the number of holders and percentage of holding is as follows:

At 31 December 2013

Categories	***Number of shares***	***Number of shareholders***	***% of total outstanding shares***
Less than 5%	**268,996**	**16**	**26.90%**
5% up to less than 10%	**100,000**	**2**	**10.00%**
10% up to less than 25%	**631,004**	**4**	**63.10%**
	1,000,000	**22**	**100%**

At 31 December 2012

Categories	*Number of shares*	*Number of shareholders*	*% of total outstanding shares*
Less than 5%	268,996	16	26.90%
5% up to less than 10%	100,000	2	10.00%
10% up to less than 25%	631,004	4	63.10%
	1,000,000	22	100.00%

(b) Reserve

Statutory reserve

In accordance with the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net income for the year is transferred to the statutory reserve until such time as the reserve reaches 50% of the paid-up share capital. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the CBB. During the year US$ 3,207 thousand (2012: US$ 2,984 thousand) was transferred to statutory reserve.

Investment fair value reserve

This represents cumulative unrealised fair value changes on equity type investments at fair value through equity. This reserve is transferred to the consolidated statement of income upon sale or impairment of the investment.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the net investment in foreign operations.

(c) Dividend

The dividend for the year ended 31 December 2012 amounting to US$ 24,000 thousand (US$ 0.024 per share) was paid during the year, following regulatory approvals and the approval of the shareholders in the Annual General Meeting held on 27 March 2013.

15 NON-CONTROLLING INTEREST

	2013	*2012*
	US$ '000	*US$ '000*
At 1 January	**124,861**	37,591
Net income for the year	**8,017**	7,186
Conversion of an associate to subsidiary	-	74,882
Acquisition during the year	**9,796**	462
Dividends of a subsidiary	**(44)**	(31)
Increase in share capital	-	4,771
	142,630	124,861

16 PROFIT FROM ISLAMIC FINANCING

	2013	*2012*
	US$ '000	*US$ '000*
Profit on murabaha financing	-	4,072
Profit on commodity murabaha and wakala contracts	**472**	1,018
	472	5,090

17 OTHER OPERATING EXPENSES RELATING TO IJARAH ASSESTS

	2013	*2012*
	US$ '000	*US$ '000*
Repairs and maintenance - rigs	**9,272**	3,824
Insurance - rigs	**3,625**	1,851
Professional and consultancy fee	**2,804**	1,365
Rental of cement unit	**1,350**	323
Miscellaneous expenses	**2,186**	1,190
	19,237	8,553

Comparative figures include expenses of MENAdrill Investment Company (the "subsidiary") from 29 March 2012, date of conversion from an associate to subsidiary (note 7).

18 INCOME FROM SECURITIES

	2013	*2012*
	US$ '000	*US$ '000*
Income from sukuk	**11,330**	11,465
Gain on disposal of sukuk	**8,301**	5,794
Gain on disposal of shares	**4,638**	-
	24,269	17,259

19 PROFIT ON SUBORDINATED FINANCE

A profit of 3.85% per annum has been accrued on the outstanding principal amount of the subordinated finance of US$ 79,215 thousand from 23 July 2009 granted by Al Dur Energy Investment Company to Al Dur Power and Water Company. The profit was not recognised until the commencement of commercial operations of the power plant, which occurred in February 2012. The commencement date was delayed, and management viewed it as conservative to start accrual of profit only after commencement of commercial operations.

20 STAFF COSTS

	2013 US$ '000	2012 US$ '000
Salaries and benefits	**8,282**	8,308
Other staff expenses	**1,395**	2,348
	9,677	10,656

21 GENERAL AND ADMINISTRATIVE EXPENSES

	2013 US$ '000	2012 US$ '000
Professional and consultancy fee	**816**	497
Rent and utilities	**744**	1,577
Travelling and related expenses	**719**	643
Board and shari'a committee expenses	**581**	1,612
Maintenancce related expense	**467**	379
license and subscription	**442**	545
Communication and stationary expense	**210**	292
Advertising and marketing expenses	**14**	50
Loss on fair value of equity option	**-**	1,386
Others	**369**	346
	4,362	7,327

22 PROVISION FOR IMPAIRMENT / WRITE OFF

The following table shows the movement of provisions / write off during the year:

		Specific impairment	Collective impairment	Total	Specific impairment	Collective impairment	Total
		2013			2012		
	Notes	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000	US$ '000
Balance at beginning of the year	13	**-**	**4,077**	**4,077**	-	-	-
Charged during the year	8	**9,400**	**-**	**9,400**	-	4,077	4,077
Write off during the year	8	**1,809**	**-**	**1,809**	-	-	-
Write back during the year	8	**-**	**(1,381)**	**(1,381)**	-	-	-
		11,209	**2,696**	**13,905**	-	4,077	4,077

23 RELATED PARTY BALANCES AND TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence or joint control over the other party in making financial and operating decisions. Related parties comprise major shareholders, directors, shari'a supervisory board, external auditors and executive management of the Group and/or entities over which they exercise control and/or significant influence.

The related party balances included in these consolidated financial statements are as follows:

	Notes	***Associates US$ '000***	***Key management personnel/ Shari'a board members/ external auditors US$ '000***	***Significant shareholders/ Board members/ entities in which directors are interested US$ '000***	***31 December 2013 US$ '000***	*Associates US$ '000*	*Key management personnel/ Shari'a board members/ external auditors US$ '000*	*Significant shareholders/ Board members/ entities in which directors are interested US$ '000*	*31 December 2012 US$ '000*
Assets									
Cash and bank balances		**-**	**-**	**883**	**883**	-	-	417	417
Due from financial institutions		**-**	**-**	**10,001**	**10,001**	-	-	11,801	11,801
Investment securities		**-**	**-**	**35,930**	**35,930**	-	-	70,291	70,291
Investment in associates	7	**130,340**	**-**	**-**	**130,340**	101,049	-	-	101,049
Other assets	8	**65**	**-**	**-**	**65**	67	-	-	67
Liabilities									
Due to financial institutions		**-**	**-**	**-**	**-**	-	-	9,601	9,601
Other liabilities		**-**	**418**	**38,025**	**38,443**	-	488	34,372	34,860

23 RELATED PARTY BALANCES AND TRANSACTIONS (continued)

The related party transactions included in these consolidated financial statements are as follows:

	Notes	**Associates US$ '000**	**Key management personnel/ Shari'a board members/ external auditors US$ '000**	**Significant shareholders/ Board members/ entities in which directors are interested US$ '000**	**31 December 2013 US$ '000**	*Associates US$ '000*	*Key management personnel/ Shari'a board members/ external auditors US$ '000*	*Significant shareholders/ Board members/ entities in which directors are interested US$ '000*	*31 December 2012 US$ '000*
Income									
Profit from Islamic financing		**-**	**-**	**6**	**6**	4,072	-	124	4,196
Profit on Islamic financing		**-**	**-**	**(377)**	**(377)**	-	-	(365)	(365)
Income from securities		**-**	**-**	**2,728**	**2,728**	-	-	2,107	2,107
Share of results of associates	7	**4,947**	**-**	**-**	**4,947**	(7,067)	-	-	(7,067)
Gain arising on conversion of associate to subsidiary	7	**-**	**-**	**-**	**-**	21,759	-	-	21,759
Other income - net		**-**	**-**	**-**	**-**	20	-	-	20
Expenses									
Staff costs		**-**	**1,398**	**-**	**1,398**	-	1,543	-	1,543
General and administrative expenses		**-**	**259**	**493**	**752**	1,386	274	1,516	3,176

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

	2013 US$ '000	*2012 US$ '000*
Board member fees	**493**	1,516
Salary and other benefits	**1,324**	1,450
Post employment benefits	**74**	93
	1,891	3,059

24 ZAKAH

Zakah payable by the shareholders in respect of each share for the year ended 31 December 2013 is US cents 1.86 (2012: US cents 1.75) for every share held. US cents 0.14 (2012: US cents 0.09) is payable by the Bank in their capacity as the agents of the shareholders and US cents 1.72 (2012: US cents 1.66) is the responsibility of the individual shareholders.

25 SEGMENT INFORMATION

a) Industry sector

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

2013	***Banks and financial institutions US$ '000***	***Energy, power and infrastructure US$ '000***	***Others US$ '000***	***Total US$ '000***
Assets				
Cash and bank balances	**55,986**	**-**	**-**	**55,986**
Due from financial institutions	**129,394**	**-**	**-**	**129,394**
Investment in ijarah assets	**-**	**423,384**	**93,100**	**516,484**
Investment securities	**237,436**	**109,290**	**143,099**	**489,825**
Investment in associates	**46,875**	**58,732**	**24,733**	**130,340**
Other assets	**-**	**28,702**	**56,279**	**84,981**
Property and equipment	**-**	**-**	**10,283**	**10,283**
Total assets	**469,691**	**620,108**	**327,494**	**1,417,293**
Liabilities				
Due to financial institutions	**48,189**	**-**	**-**	**48,189**
Murabaha payable	**48,756**	**-**	**-**	**48,756**
Term financing	**63,882**	**-**	**-**	**63,882**
Other liabilities	**37,545**	**1,662**	**20,934**	**60,141**
Total liabilities	**198,372**	**1,662**	**20,934**	**220,968**

The industrial distribution of the Group's assets and liabilities as of 31 December 2012 is as follows:

2012	*Banks and financial institutions US$ '000*	*Energy, power and infrastructure US$ '000*	*Others US$ '000*	*Total US$ '000*
Assets				
Cash and bank balances	15,654	-	-	15,654
Due from financial institutions	158,403	-	-	158,403
Investment in ijarah assets	-	432,663	96,700	529,363
Investment securities	277,086	104,420	115,881	497,387
Investment in associates	48,012	53,037	-	101,049
Other assets	-	37,713	51,550	89,263
Property and equipment	-	-	9,345	9,345
Total assets	499,155	627,833	273,476	1,400,464
Liabilities				
Due to financial institutions	59,612	-	-	59,612
Murabaha payable	54,081	-	-	54,081
Term financing	68,200	-	-	68,200
Other liabilities	33,272	4,675	21,045	58,992
Total liabilities	215,165	4,675	21,045	240,885

25 SEGMENT INFORMATION (continued)

b) Geographic sector

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

2013	***MENA US$ '000***	***Europe US$ '000***	***America US$ '000***	***Asia US$ '000***	***Total US$ '000***
Assets					
Cash and bank balances	**19,912**	**35,310**	**764**	**-**	**55,986**
Due from financial institutions	**94,109**	**-**	**35,285**	**-**	**129,394**
Investment in ijarah assets	**-**	**-**	**423,384**	**93,100**	**516,484**
Investment securities	**448,463**	**21,362**	**-**	**20,000**	**489,825**
Investment in associates	**105,606**	**24,734**	**-**	**-**	**130,340**
Other assets	**69,915**	**11,131**	**1,670**	**2,265**	**84,981**
Property and equipment	**10,283**	**-**	**-**	**-**	**10,283**
Total assets	**748,288**	**92,537**	**461,103**	**115,365**	**1,417,293**
Liabilities					
Due to financial institutions	**48,189**	**-**	**-**	**-**	**48,189**
Murabaha payable	**48,756**	**-**	**-**	**-**	**48,756**
Term financing	**-**	**63,882**	**-**	**-**	**63,882**
Other liabilities	**57,143**	**-**	**2,356**	**642**	**60,141**
Total liabilities	**154,088**	**63,882**	**2,356**	**642**	**220,968**

The geographical distribution of the Group's assets and liabilities as of 31 December 2012 is as follows:

2012	*MENA US$ '000*	*Europe US$ '000*	*America US$ '000*	*Asia US$ '000*	*Total US$ '000*
Assets					
Cash and bank balances	11,788	3,006	860	-	15,654
Due from financial institutions	129,226	9,339	19,838	-	158,403
Investment in ijarah assets	-	-	432,663	96,700	529,363
Investment securities	426,794	40,239	-	30,354	497,387
Investment in associates	101,049	-	-	-	101,049
Other assets	74,430	4,910	7,000	2,923	89,263
Property and equipment	9,345	-	-	-	9,345
Total assets	752,632	57,494	460,361	129,977	1,400,464
Liabilities					
Due to financial institutions	59,612	-	-	-	59,612
Murabaha payable	54,081	-	-	-	54,081
Term financing	-	68,200	-	-	68,200
Other liabilities	51,560	-	7,417	15	58,992
Total liabilities	165,253	68,200	7,417	15	240,885

The Group's revenue and expenses are reviewed at a Group level and therefore no separate operating segment results and other disclosures are provided in these consolidated financial statements.

26 COMMITMENTS

	2013 US$ '000	2012 US$ '000
Other capital commitments	**67,856**	67,856
Forward treasury commitments	**-**	9,602
Operating lease commitments	**2,034**	510
	69,890	77,968

In its normal course of business, the Bank initially undertakes contractual commitments in relation to project assets and then places the project with its investors along with the associated contractual commitments. Further, the Group has arranged for bank guarantees amounting to US$ 11,936 thousand (2012: US$ 11,936 thousand) in relation to performance obligations against its investment in a project through one of its subsidiaries.

27 RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- liquidity risk;
- credit risk;
- market risks; and
- operational risk.

The Bank has a risk management framework in place for managing these risks which are constantly evolving as the business activities change in response to credit, market, product and other developments.

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework
The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed to reflect changes in market conditions, products and services offered.

The Management Risk Committee is responsible for recommending policy and framework to the Board Audit and Risk Committee, which in turn is responsible for reviewing and recommending to the Board for approval. The Risk Management Department is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank.

The principal risks associated with the Group's business and the related risk management processes are as follows:

27 RISK MANAGEMENT (continued)

(a) Liquidity risk

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are to be settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Board of Directors approves all significant policies and strategies related to the management of liquidity. Management Committees including the Asset Liability Committee and the Management Risk Committee review the liquidity profile of the Group on a regular basis and any material change in the current or prospective liquidity position is notified to the Board through the Board Audit and Risk Committee.

The Risk Management Department monitors the liquidity profile of the Bank on an ongoing basis to ensure that the liquidity gap is within regulatory limits and the liquidity gap and key liquidity ratios are within the internal Board approved limits.

Details of the Group's liquid assets to total assets at the reporting date and during the reporting period were as follows:

	Liquid assets/ Total assets	
	2013	*2012*
At 31 December	**0.40**	0.39
Average for the year	**0.40**	0.42

27 RISK MANAGEMENT (continued)

(a) Liquidity risk (continued)

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

2013	*Up to 3 months US$ '000*	*3 to 6 months US$ '000*	*6 months to 1 year US$ '000*	*1 to 3 years US$ '000*	*3 to 5 years US$ '000*	*5 to 10 years US$ '000*	*10 to 20 years US$ '000*	*No fixed maturity US$ '000*	*Total US$ '000*
Assets									
Cash and bank balances	55,986	-	-	-	-	-	-	-	55,986
Due from financial institutions	129,394	-	-	-	-	-	-	-	129,394
Investment in ijarah assets	-	-	-	-	-	-	-	516,484	516,484
Investment securities	-	13,235	641	251,461	178,384	46,104	-	-	489,825
Investment in associates	-	-	-	-	-	-	-	130,340	130,340
Other assets	806	738	82,724	-	-	-	-	713	84,981
Property and equipment	-	-	-	-	-	-	-	10,283	10,283
Total assets	186,186	13,973	83,365	251,461	178,384	46,104	-	657,820	1,417,293
Liabilities									
Due to financial institutions	48,189	-	-	-	-	-	-	-	48,189
Murabaha payable	-	-	-	48,756	-	-	-	-	48,756
Term financing	1,177	1,123	2,266	8,993	9,037	25,813	15,473	-	63,882
Other liabilities	40,025	-	17,420	-	-	-	-	2,696	60,141
Total liabilities	89,391	1,123	19,686	57,749	9,037	25,813	15,473	2,696	220,968
Net gap	96,795	12,850	63,679	193,712	169,347	20,291	(15,473)	655,124	1,196,325
Cumulative net gap	96,795	109,645	173,324	367,036	536,383	556,674	541,201	1,196,325	
Commitments	18,053	117	50,155	939	626	-	-	-	69,890

27 RISK MANAGEMENT (continued)

(a) Liquidity risk (continued)

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

2012	*Up to 3 months US$ '000*	*3 to 6 months US$ '000*	*6 months to 1 year US$ '000*	*1 to 3 years US$ '000*	*3 to 5 years US$ '000*	*5 to 10 years US$ '000*	*10 to 20 years US$ '000*	*No fixed maturity US$ '000*	*Total US$ '000*
Assets									
Cash and bank balances	15,654	-	-	-	-	-	-	-	15,654
Due from financial institutions	154,197	4,206	-	-	-	-	-	-	158,403
Investment in ijarah assets	-	-	-	-	-	-	-	529,363	529,363
Investment securities	200	-	-	235,474	244,718	16,995	-	-	497,387
Investment in associates	-	-	-	-	-	-	-	101,049	101,049
Other assets	230	565	85,911	-	-	-	-	2,557	89,263
Property and equipment	-	-	-	-	-	-	-	9,345	9,345
Total assets	170,281	4,771	85,911	235,474	244,718	16,995	-	642,314	1,400,464
Liabilities									
Due to financial institutions	59,612	-	-	-	-	-	-	-	59,612
Murabaha payable	-	-	-	54,081	-	-	-	-	54,081
Term financing	1,114	1,082	2,181	9,189	8,745	24,857	21,032	-	68,200
Other liabilities	40,738	-	14,177	-	-	-	-	4,077	58,992
Total liabilities	101,464	1,082	16,358	63,270	8,745	24,857	21,032	4,077	240,885
Net gap	68,817	3,689	69,553	172,204	235,973	(7,862)	(21,032)	638,237	1,159,579
Cumulative net gap	68,817	72,506	142,059	314,263	550,236	542,374	521,342	1,159,579	
Commitments	27,793	255	49,920	-	-	-	-	-	77,968

The contractual maturities of the financial assets and liabilities are not significantly different from their expected maturities and the Bank does not have assets and liabilities with contractual maturities beyond 20 years.

27 RISK MANAGEMENT (continued)

(b) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk principally from the balances with banks, commodity murabaha and wakala contracts placed with financial institutions, investments in sukuks and other receivables.

For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country risk and sector risk).

Management of credit risk

Credit risk is assessed and approved on an individual basis for each counterparty at least once a year as a part of the internal risk review process. As at 31 December 2013, all credit exposures were appropriately approved by the relevant authority level. The credit risk assessment conducted as a part of the internal risk review process included rating each exposure using industry specific rating models which consider key risk factors to assign the internal credit rating. The Bank assigns rating-based credit limits for all counterparty banks and financial institutions with whom it places short-term funds. All placements during the year were with financial institutions having internal and / or external credit ratings mapped to the "Standard" credit category of the Bank. The Bank also conducts detailed assessments of the debt investment opportunities to evaluate the commercial viability of the investments. Sukuk investments during the year were with obligors who were either banks, sovereigns or sovereign owned companies, subsidiaries, and were rated externally and/or internally. The Bank monitors the creditworthiness of the counterparties and the performance of the exposures with regard to timeliness of payments and other credit conditions on an ongoing basis. Annual and interim credit reviews are conducted to check the credit quality and impairment assessment requirement, if any.

The Bank attempts to reduce credit risk by assigning limits for each counterparty, monitoring credit exposure, and continuously assessing the creditworthiness of counterparties. The Bank uses external ratings for regulatory purposes.

In addition to external ratings, the Bank assigns an internal rating which is mapped to the lowest external rating, in cases where the entity is rated by more than one credit rating agency. The external ratings used for this purpose are those issued by S&P, Moody's, Fitch and Capital Intelligence. In case the entity is not rated externally the Bank assigns an internal rating based on an in house credit assessment.

The Bank performs collective assessment of impairment for its credit exposures on a yearly basis as per the the Bank's internal guidelines. Credit exposures are also subject to regular reviews by the Risk Management Department.

During the year, the Bank has made a specific provision of US$ 9,400 thousand. There were no restructured facilities during the year (2012: nil).

Maximum exposure to credit risk

The table below shows the gross maximum exposure to credit risk for the components of the consolidated statement of financial position. The figures represent gross exposure net of any provision for impairment, without taking into account any collateral held and other credit mitigates.

	Maximum exposure	
	2013	*2012*
	US$ '000	*US$ '000*
Balances with banks	**55,973**	15,644
Due from financial institutions	**129,394**	158,403
Investment securities	**432,487**	472,182
Other assets	**80,368**	81,142
	698,222	727,371

As of 31 December 2013, none of the above exposures are either past due or impaired (2012: nil).

27 RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Credit quality per class of financial assets

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

2013	***Balances with banks US$ '000***	***Due from financial institutions US$ '000***	***Investment securities US$ '000***	***Other assets US$ '000***	***Total US$ '000***
Prime to High grade: AAA – AA	**35,553**	**45,990**	**37,460**	**-**	**119,003**
Medium grade: A – BBB	**9,289**	**53,401**	**224,191**	**-**	**286,881**
Non-investment / speculative: BB – B	**10,248**	**-**	**41,410**	**-**	**51,658**
Unrated	**883**	**30,003**	**129,426**	**80,368**	**240,680**
	55,973	**129,394**	**432,487**	**80,368**	**698,222**

2012	*Bank balances US$ '000*	*Due from financial institutions US$ '000*	*Investment securities US$ '000*	*Other assets US$ '000*	*Total US$ '000*
Prime to High grade: AAA – AA	2,434	53,342	54,004	-	109,780
Medium grade: A – BBB	8,736	75,360	271,503	-	355,599
Non-investment / speculative: BB – B	4,263	-	21,362	-	25,625
Unrated	211	29,701	125,313	81,142	236,367
	15,644	158,403	472,182	81,142	727,371

Concentration Risk

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

The Bank strictly adheres to the regulatory guidelines in respect of large exposures and connected and related counterparty exposures to effectively manage name concentration. Any excesses above the said limits are reported to the CBB and treated in accordance to the regulatory guidelines by way of capital deduction. In addition, the Bank has established internal limits on the maximum permissible exposures to sectors for managing sector concentration.

In respect of geographical concentration the Bank has defined limits for each country / geography which is based on the lowest among the available ratings by S&P, Moody's, Fitch and Capital Intelligence. The Bank also closely monitors political risk arising from events in each country of exposure.

27 RISK MANAGEMENT (continued)

(b) Credit risk (continued)

Concentration Risk (continued)

The Group's financial assets with credit risk, before taking into account any collateral held or other credit enhancements, can be analysed by the following industry sector:

2013	***Banks and financial institutions US$ '000***	***Energy, power and infrastructure US$ '000***	***Others US$ '000***	***Total US$ '000***
Balances with banks	**55,973**	**-**	**-**	**55,973**
Due from financial institutions	**129,394**	**-**	**-**	**129,394**
Investment securities	**237,434**	**83,056**	**111,997**	**432,487**
Other assets	**-**	**29,209**	**51,159**	**80,368**
	422,801	**112,265**	**163,156**	**698,222**

2012	*Banks and financial institutions US$ '000*	*Energy, power and infrastructure US$ '000*	*Others US$ '000*	*Total US$ '000*
Balances with banks	15,644	-	-	15,644
Due from financial institutions	158,403	-	-	158,403
Investment securities	277,086	79,215	115,881	472,182
Other assets	-	30,270	50,872	81,142
	451,133	109,485	166,753	727,371

The Group's financial assets with credit risk, before taking into account any collateral held or other credit enhancements, can be analysed by the following geographical regions:

2013	***MENA US$ '000***	***Europe US$ '000***	***America US$ '000***	***Asia US$ '000***	***Total US$ '000***
Balances with banks	**19,899**	**35,310**	**764**	**-**	**55,973**
Due from financial institutions	**94,109**	**-**	**35,285**	**-**	**129,394**
Investment securities	**411,124**	**21,363**	**-**	**-**	**432,487**
Other assets	**67,566**	**11,131**	**1,671**	**-**	**80,368**
	592,698	**67,804**	**37,720**	**-**	**698,222**

2012	*MENA US$ '000*	*Europe US$ '000*	*America US$ '000*	*Asia US$ '000*	*Total US$ '000*
Balances with banks	11,778	3,006	860	-	15,644
Due from financial institutions	129,226	9,339	19,838	-	158,403
Investment securities	442,951	18,877	-	10,354	472,182
Other assets	71,445	4,910	4,605	182	81,142
	655,400	36,132	25,303	10,536	727,371

27 RISK MANAGEMENT (continued)

(c) Market Risk

Market risk is the risk that changes in market risk factors, such as currency risk, profit rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's major exposure is in GCC currencies, which are primarily pegged to the US Dollars. The Bank monitors this exposure on an ongoing basis.

The Group had the following net exposures denominated in foreign currencies (other than GCC currencies) as of 31 December:

	2013 US$ '000	*2012 US$ '000*
Sterling Pounds	**66**	82
Euros	**(14,858)**	87
Indian Rupees	**20,000**	20,000
Libyan Dinars	**42,550**	53,037
Bulgarian Leva	**14,663**	-

The table below indicates the impact of reasonably possible changes in exchange rates on the Group's net foreign currency exposure. The impact has been calculated using the net foreign currency exposure as at the consolidated statement of financial position date and calculating the impact of the changes in exchange rates:

	Change in exchange rates (+/-)	***Net income and equity (+/-)***	*Net income and equity (+/-)*
	%	***2013 US$'000***	*2012 US$'000*
Sterling Pounds	**10**	**7**	8
Euros	**10**	**(1,486)**	9
Indian Rupees	**10**	**2,000**	2,000
Libyan Dinars	**10**	**4,255**	5,304
Bulgarian Leva	**10**	**1,466**	-

Equity price risk

The Group's listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Group manages equity price risk through diversification and by placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions.

As at 31 December 2013, the Group had an investment in a quoted equity on the Dubai Financial Market. The table below reflects the sensitivity of the investment by considering the impact of reasonably expected changes in the capitalisation rate.

	Change in exchange rates (+/-)	***Effect on net equity (+/-)***
	%	***US$'000***
Stock Exchange	**10**	**3,634**

27 RISK MANAGEMENT (continued)

(c) Market Risk (continued)

Equity price risk (continued)
The Group also has unquoted investments carried at cost where the impact of changes in equity prices will only be reflected when the investment is sold or deemed to be impaired, when the consolidated statement of income will be impacted, or when a third party transaction in the investment gives a reliable indication of fair value which will be reflected in equity.

Profit rate risk in the banking book
Profit rate risk in the banking book is the exposure of the Group's financial condition to adverse movements in profit rates. Changes in profit rates affect the Group's earnings by changing its net profit income and the level of other profit rate sensitive income and expenses. Changes in profit rates also affect the underlying value of the Group's assets and liabilities because of the absolute or economic value changes of future cash flows due to the change in profit rates. Profit rate risk primarily arises on account of reprising risk, yield curve risk, basis risk and optionality risk.

The Group's profit rate sensitive assets are mainly commodity murabaha and wakala placed with financial institutions and investments in Sukuk. The Group has exposures to both fixed and floating rate Sukuk. Fixed rate sukuk represent 94% of the total Sukuk portfolio as at 31 December 2013 (2012: 95%). The rate sensitive liabilities comprise of due to financial institutions, murabaha payable, term financing and other liabilities.

The Group has minimal exposure to reprising and yield curve risks. Reprising risk arises on account of mismatch in profit rate fixation periods between assets and liabilities. Yield curve risk arises due to shift in the yield curve resulting in changes in the economic value of cashflows. Exposure to basis risk is not material and although the basis risk exposure is monitored, the Bank does not consider this item of profit rate risk in the internal risk calculations. The rate sensitive assets mainly comprise commodity murabaha and wakala contracts and Sukuk. Part of these assets are funded by rate sensitive liabilities in the form of murabaha and wakala payable. The short-term nature of these items and high degree of correlation between profits earned and paid on them minimises the basis risk. The remaining rate sensitive assets (Sukuks and residual inter-bank placements) are funded by equity. The Group is not exposed to optionality risk arising due to embedded options in rate sensitive assets or liabilities.

27 RISK MANAGEMENT (continued)

Profit rate risk in banking book (continued)

The Bank monitors the timing difference in the re-pricing of the Bank's rate-sensitive assets and liabilities and resulting impact of any parallel shift in the yield curve on the expected net profit income for up to one year, and the value of equity and overall economic value of equity considering the changes in net profit income and the value of equity. The profit rate risk is managed by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard profit rate scenarios. A standard 200 basis point (bp) profit rate shock by way of parallel shift in all yield curves is considered on a monthly basis to ensure that the resulting impact on the economic value of equity is within the limit prescribed by the Basel Committee on Banking Supervision.

Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for re-pricing bands. A summary of the Group's profit rate gap position is as follows:

2013	***Up to 3 months US$ '000***	***3 to 6 months US$ '000***	***6 months to 1 year US$ '000***	***1 to 3 years US$ '000***	***Over 3 years US$ '000***	***Total US$ '000***
Assets						
Due from financial institutions	**129,394**	**-**	**-**	**-**	**-**	**129,394**
Investment securities	**19,611**	**13,235**	**641**	**174,513**	**224,487**	**432,487**
Total assets	**149,005**	**13,235**	**641**	**174,513**	**224,487**	**561,881**
Liabilities						
Due to financial institutions	**48,189**	**-**	**-**	**-**	**-**	**48,189**
Murabaha payable	**-**	**-**	**-**	**48,756**	**-**	**48,756**
Term financing	**1,177**	**1,123**	**2,266**	**8,993**	**50,323**	**63,882**
Other liabilities	**-**	**37,545**	**-**	**-**	**-**	**37,545**
Total liabilities	**49,366**	**38,668**	**2,266**	**57,749**	**50,323**	**198,372**
Profit rate sensitivity gap	**99,639**	**(25,433)**	**(1,625)**	**116,764**	**174,164**	**363,509**

2012	*Up to 3 months US$ '000*	*3 to 6 months US$ '000*	*6 months to 1 year US$ '000*	*1 to 3 years US$ '000*	*Over 3 years US$ '000*	*Total US$ '000*
Assets						
Due from financial institutions	158,403	-	-	-	-	158,403
Investment securities	20,178	-	-	190,291	261,713	472,182
Total assets	178,581	-	-	190,291	261,713	630,585
Liabilities						
Due to financial institutions	59,612	-	-	-	-	59,612
Murabaha payable	-	-	-	54,081	-	54,081
Term financing	1,114	1,082	2,181	9,189	54,634	68,200
Other liabilities	-	33,272	-	-	-	33,272
Total liabilities	60,726	34,354	2,181	63,270	54,634	215,165
Profit rate sensitivity gap	117,855	(34,354)	(2,181)	127,021	207,079	415,420

27 RISK MANAGEMENT (continued)

Profit rate risk in banking book (continued)
The sensitivity of the Group's consolidated statement of income to a 200 basis points parallel increase (decrease) in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position), would be an increase (decrease) of profit by US$ 7,270 thousand (2012:US$ 8,308 thousand).

Overall, profit rate risk positions are managed by Treasury, which uses commodity murabaha and wakala contracts with/ from financial institutions to manage the overall position arising from the Group's activities.

The average effective profit rates on the financial assets and liabilities as at 31 December were as follows:

	2013	*2012*
Due from financial institutions	**0.28%**	0.44%
Investment securities	**7.24%**	5.21%
Due to financial institutions	**0.50%**	0.62%
Murabaha payable	**3.27%**	3.35%
Term financing	**2.30%**	3.13%
Other liabilities	**1.00%**	1.00%

(d) Operational risk
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or loss resulting from external events. Operational risk also includes Shari'a non-compliance risk but excludes strategic and reputational risks.

The Bank manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances. In addition the Bank is committed to the training of its staff. The Bank has conducted Risk and Control Self Assessment of Operational Risk in all departments to identify the Key Risk Indicators as a part of the overall Operational Risk Management framework. The Bank monitors the key risks and operational risk losses on an ongoing basis and regularly reports the position to the senior management and the Board. The Bank has also implemented an IT enabled operational risk system to automate the operational risk processes namely risk and controls assessment, loss data collection and key risk indicator calculation.

28 ACCOUNTING CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

	Amortised Cost US$ '000	*Fair value through equity US$ '000*
Financial assets:		
Investment securities	**432,487**	**57,338**
Other assets*	**80,368**	**-**
Total	**512,855**	**57,338**
Financial liabilities:		
Due to financial institutions	**48,189**	**-**
Murabaha payable	**48,756**	**-**
Term financing	**63,882**	**-**
Other liabilities*	**63,933**	**-**
Total	**224,760**	**-**

*Other assets exclude deferred expenses, goodwill, advances paid and intangible assets-software.

*Other liabilities exclude provision for indemnity.

29 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction. Consequently, differences can arise between carrying values and fair value estimates.

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

The 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.

29 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

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

	2013			
	Level 1	***Level 2***	***Level 3***	***Total***
	US$ '000	***US$ '000***	***US$ '000***	***US$ '000***
Fair value through equity				
Quoted equity shares	**36,343**	**-**	**-**	**36,343**

	2012			
	Level 1	*Level 2*	*Level 3*	*Total*
	US$ '000	*US$ '000*	*US$ '000*	*US$ '000*
Fair value through equity				
Quoted equity shares	-	-	-	-

Under unquoted investments which are held at fair value through equity are investments amounting to US$ 20,995 thousand (31 December 2012: US$ 25,205 thousand) which are held at cost less provision for impairment due to the unpredictable nature of their future cash flows and the lack of other suitable methods for arriving at a reliable fair value for these investments (note 6).

The fair values of the Group's other financial instruments are not significantly different from their carrying values as at 31 December 2013 and 2012 except as disclosed in note 6.

30 SOCIAL RESPONSIBILITY

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

31 COMPARATIVES

Certain of the prior year's figures have been reclassified to conform to the presentation adopted in the current year. Such reclassification did not affect previously reported income or shareholders' equity. The effect of the above reclassifications on the consolidated statement of comprehensive income for the year ended 31 December 2012 is as follows:

	US$ '000
Decrease in general and administrative expenses	8,553
Decrease in depreciation and amortisation	7,459
Increase in other operating expenses relating to ijarah assets	8,553
Increase in depreciation on investment in ijarah assets	7,459