Ibdar Bank
Annual Report 2013

مصرف إبدار
Ibdar Bank

His Royal Highness Prince Khalifa bin Salman Al Khalifa

The Prime Minister of the Kingdom of Bahrain

His Majesty King Hamad bin Isa Al Khalifa

The King of the Kingdom of Bahrain

His Royal Highness Prince Salman bin Hamad Al Khalifa

The Crown Prince & Deputy Supreme Commander of Bahrain Defence Force

Table of Contents

Corporate Profile

Ibdar Bank, born from the merger of Elaf Bank, CAPIVEST and Capital Management House, is amongst the strongest Islamic investment banks in Bahrain and indeed, the Gulf region. Licensed as an Islamic Wholesale Bank by the Central Bank of Bahrain, Ibdar Bank has total equity in excess of USD 325 million and assets over 300 million spanning the GCC, Middle East and North Africa (Mena), Asia and Europe.

Ibdar is a multi-disciplined Islamic investment bank that combines financial expertise with a proven track record of business ingenuity and responsible execution in order to deliver wealth to stakeholders.

The Bank delivers a wide range of products and services within private equity, real estate and capital markets to clients comprising government agencies, reputable financial institutions, established corporations and families and high net-worth individuals from across the GCC region and beyond.

Shareholders

Ibdar Bank is backed and supported by a select group of regional shareholders and a close-knit network of strategic partners, business associates and allies. Ibdar Bank's shareholders include a group of well-established, diversified and renowned institutions across the GCC countries among which are:

Kuwait Finance House (Kuwait) *	30.085%
Kuwait Investment Company (Kuwait)	7.691%
Sokouk Holding Company (Kuwait)	4.894%
Kuwait Finance House (Bahrain)	4.711%
Qatar Islamic Bank (Qatar)	4.600%
Al-Bassam Investment Company (Bahrain)	3.906%
Overseas Investment (Oman)	3.469%
Bahrain Islamic Bank (Bahrain)	3.376%
Samama Global Corporation (BVI)	3.353%
Gulf Investment House (Kuwait)	2.956%
Others	30.959%

* Based on EGM held on 8th April 2014, Aref Investment Group holdings of 28% transfared to Kuwait Finance House (Kuwait).

Vision

To be an Islamic investment banking leader vested in innovation, value creation and a highly ethical business approach that is grounded in Islamic principles and combines with global best practices.

Mission

To grow Ibdar Bank to be an Islamic investment banking powerhouse, known for its business ingenuity and financial talent, bound by discipline and adherence to its founding business principles.

Values and Principles

Ibdar Bank focuses on long-term, effective relationships; efficient operating procedures; appropriate risk management; attraction, retention, and development of productive, ethical people; and a culture of high achievement.

Management Values

Ibdar Bank operates according to six certain Key Business Values:

Proven Track-Record

With a track-record of over 30 years, Ibdar Bank has a long standing heritage of sustainability across markets and investment cycles.

Business Ingenuity

At Ibdar Bank, original thought and ideas are applied to everything we do. We look beyond the usual to identify and fully understand new business opportunities and ventures that will produce measurable value and deliver steady returns to our shareholders and co-investors.

Financial Talent

Our people are our greatest competitive advantage and form the foundations of our ability to analyse and determine the best solutions for each and every client. To maintain loyalty and support their professional growth, we aim to offer an innovative place of work and the opportunity to continually enhance their knowledge and skills.

Responsible Execution

Our commitment to responsibility runs deep. We bring our experience and discipline to everything we undertake, deliberating over every detail, gaining a thorough understanding of each project and collaborating with specialist experts when required to create value and achieve meaningful results.

Interest Alignment

Ibdar Bank views its clients as co-investors and partners, putting their capital into each and every deal to ensure complete interest alignment.

Higher Ideals

Islamic principles are fundamental to Ibdar Bank's working ethic, ensuring transparency, trust, confidentiality and Shari'ah respect as absolute. Above all, Ibdar strives to do what is right, working with and for our clients' best interests at all times.

Operation Principles

Ibdar Bank is committed to five Core Business Principles:

1. Excellent client focus and service
2. Effective and efficient operations
3. Strong capital and liquidity
4. Lead by Example
5. Risk-Attentive Entrepreneurship

Chairman's Statement

Dear Ladies and Gentlemen,

In the name of Allah, the Most Merciful, the Most Compassionate. Praise be to Allah, and Peace and Prayers upon the Last Prophet and Messenger Mohammed, his Household and his Companions.

It is my pleasure to present the Annual Report of Ibdar Bank for the financial year ended 31 December 2013.

Steady progress has been made throughout the year as we continued to integrate the businesses of the three legacy banks, whereby we consolidated and unified our policies, procedures and processes from which we created a solid platform to build a new identity the highlight of which was our re-branding as Ibdar Bank. All in all, this created a sense of a fresh start from which the bank is well positioned to transact new business.

Financial Results

The bank's financial results for 2013 showed some positive signs with net income of USD 2.217 million, however, after provisions and impairments the net profit stood at USD 22,575 compared to a net loss of USD 12.4 million in 2012. Total revenues for the year stood at USD 13.3 million compared to USD 11.9 million in 2012, while total assets amounted to USD 360 million and shareholders' equity at USD 328.2 million.

Adherence to Islamic Value

On behalf of the bank's board of directors, I would like to thank our Shari'ah Supervisory Board of well-respected scholars his Eminence Dr. Abdul Sattar Abdul Kareem Abu-Ghuddah, Chairman, his Eminence Shaikh Adnan Abdulla Al Qattan and his Eminence Shaikh Nidham Mohammed Saleh Yaquby, who continued to work tirelessly to ensure the bank continued to adhere to Islamic values.

FUTURE OUTLOOK

We continue to feel optimistic about the future outlook for Ibdar Bank and with much of the integration work completed, the bank is well placed to undertake new transactions and accordingly, we are fully focused on re-engaging with the markets and bringing new products, platforms and co-investment opportunities across sectors and asset classes to our clients.

The bank currently has a strong pipeline of opportunities, which it is evaluating and to which its capital, expertise and original thinking can potentially be applied to build and extract value. Areas of focus for Ibdar are strategic growth industries within its main markets of operation and those in which the bank, through its predecessors, has already built a significant track record of investment success. These include aviation, maritime, infrastructure, oil & gas, and real estate, among others.

At the same time, Ibdar's strategy also calls for the rationalization of its existing portfolio across these sectors and others. At present, every effort is being made to further bolster and add value to core assets within the portfolio whilst also preparing for the strategic exit of non-core businesses and investments.

Ibdar will engage in Private Equity, Capital Markets and Real Estate through which it aims to generate diversified and recurring income streams for the bank, its shareholders and co-investors.

Geographically, the bank's focus will be on the GCC, MENA region including Turkey and Southeast Asia in addition to pursuing select opportunities in developed markets, where opportunities exist and where its experience and network of best in class local partners can be leveraged.

AKNOWLEDGEMENT

On behalf of the bank's board of directors and executive management, I would like to take this opportunity to thank his Majesty King Hamad Bin Isa Al Khalifa, His Royal Highness Prince Khalifa Bin Salman Al Khalifa, the Prime Minister and His Royal Highness Prince Salman Bin Hamad Al Khalifa, the Crown Prince and First Deputy Prime Minister.

I would also like to extend our sincere appreciation to the Central Bank of Bahrain and Ministry of Industry and Commerce for their valuable direction and assistance throughout the year.

Finally, I would like to thank our shareholders and business partners for their support, and last but not least, the management and staff for their dedication and professionalism, which was especially noted as we integrated the three legacy banks.

Paul Andrew Mercer
Chairman

Paul Andrew Mercer
Chairman

Board of Directors

Board of Directors

Reflecting the Bank's top tier institutional shareholders base, the Board of Directors at Ibdar brings a wealth of financial and industry-specific experience. The primary responsibility of each Director is to provide effective governance over the Bank's affairs and to promote and achieve sustainable performance that results in a long-term growth for the benefit of all our shareholders. The Board also has the duty of balancing the interests of our stakeholders, including our clientele, business partners, correspondents, employees, suppliers, and our local communities, whilst continuing to maintain high standards of transparency and accountability.

Paul Andrew Mercer
Chairman

Mr. Paul Andrew Mercer joined the Board in 2011 and was re-elected Chairman of Ibdar Bank in January 2013. He holds a Post Graduate Diploma in Law from Chester Law School, UK and Bachelor and Master Degrees in Law from Cambridge University, UK, and has an extensive experience of 19 years in Law and Banking.

Mr. Mercer is an Executive Manager at Kuwait Finance House (Bahrain) and heads up the Legal, Compliance & AML, Risk Management, Strategic Planning & Governance, Credit, Operations, Collections and IT departments. He is also the Vice Chairman of Bahrain-based Menatelecom and a Board member of Turkapital Holding, Bahrain, and Motherwell Bridge, UK. From 1995 until 2003, he worked as a private practice lawyer with leading UK law firms Clifford Chance, Norton Rose and Macfarlanes.

Mohammad Khalifa Al-Adsani
Vice Chairman

Mr. Mohammad Khalifa Al-Adsani joined the Board in 2011. He holds a Bachelor's degree in Accounting, and is a Certified Investments and Derivatives Auditor (CIDA), Certified Internal Audit (CIA), Certified Management Accountant (CMA), Certified Financial Manager (CFM), Certified Financial Planner (CFP), Certified Mutual Fund Specialist (CMFS) – NISCA, and Certified Risk Analyst (CRA).

He has been involved in the banking, investment and finance industry and business management for over 22 years. Mr. Al Adsani is the Chief Executive Officer of Aref Investment Group. Before his appointment as CEO, Mr. Al Adsani handled the responsibility of Operations Director at Aref Investment Group, Senior Vice President – Operations at Aayan Leasing & Investment Co., Chief Auditor at Touristic Enterprises Company and Internal Auditor at Kuwait Airways.

Board of Directors

Abdul Hakim Al-Adhamy
Board Member

Mr. Abdul Hakim Al-Adhamy joined the Board in 2013 bringing with him 35 years of experience in auditing, risk advisory and banking. He holds a Bachelor degree in Commerce from Baghdad University.

Currently, Mr. Al-Adhamy serves as Independent Member of the Board of Directors and Member of the Audit Committee of Ebrahim Khalil Kanoo BSC (c), Bahrain, Board and Executive Committee member of Amwaj Property Limited BVI, Audit, Risk & C.G. Committee member of Kuwait Finance House BSC (c), Bahrain, and Audit & Risk Committee member of the Commercial Bank of Dubai PSC. Dubai, UAE.

Previously, Mr. Al-Adhamy was a Partner with both KPMG Bahrain and Qatar from 1997 to 2007, and Ernst and Young Bahrain from 1985 to 1990. He also served as Board member and Audit & Risk Committee Chairman of Islamic Bank of Britain, PLC-UK, Bahrain National Holding BSC – Bahrain, Capital Management House BSC (c), Bahrain. And Member of the Audit Committee, Solidarity Saudi Takaful Company.

He is also a member of the Institute of Chartered Accountants of England and Wales, since 1977.

Abdullah Almarzouq
Board Member

Mr. Abdullah Almarzouq joined the Board in 2011. He holds an MBA from MIT Sloan School of Management, USA 2002, and a BSC degree in Mechanical Engineering from Tufts University, USA. He has been involved in the banking industry and business management for over 18 years.

Mr. Almarzouq heads the International Investment Department at Kuwait Finance House (KFH) and represents KFH in various boards in Kuwait, Saudi Arabia and Bahrain. Before his appointment at KFH, Mr. Almarzouq handled the responsibility of Investment Banking at HSBC – Middle East. He was also Manager of Stocklord Hedge Fund with a focus on energy and commodities, and Head of Corporate Finance at the National Bank of Kuwait.

Khalid Abdulla Al Bassam
Board Member

Mr. Khalid Abdulla Al Bassam joined the Board in 2013. He graduated with a Bachelor degree in Business Administration, from Eastern New Mexico University, USA. His 25-year career includes extensive experience in management, banking and investments. Mr. Al Bassam is the Chairman of Al Bassam Investment Company W.L.L. He is also a Board member of Gulf Investment Corporation, Kuwait; Islamic Bank of Asia, Singapore; the Unit Investment Fund of the Islamic Development Bank-Jeddah, Saudi Arabia and Skaugen Gulf Petchem Carriers,Bahrain.

Previously, he was the Deputy Governor of the Central Bank of Bahrain, Chairman of Bahrain Islamic Bank B.S.C., Vice Chairman of Bahrain Stock Exchange and a Board member of the Social Insurance Organization (SIO) Bahrain.

Khalid bin Mohammed Alaboodi
Board Member

Mr. Khalid bin Mohammed Alaboodi holds a Bachelor Degree in Economics from King Saud University, KSA, and a Master Degree in Economics from the Northeastern University, USA. He has been involved in the economics, banking industry and business management for almost 30 years.

Mr. Alaboodi has been the Chief Executive Officer of the Islamic Corporation for the Development of the Private Sector (ICD) since 2007. He started his tenure with the Ministry of Finance & National Economy of Saudi Arabia that was followed by a move to Washington, where he was appointed as Alternate Executive Director for Saudi Arabia at the World Bank Board.

Currently, Mr. Alaboodi serves as the Chairman of Bosna Bank International's Real Estate Company, Bosna, Arab Fisheries Company, Saudi Arabia, Burj Bank, Pakistan, Africa Finance Corporation, Senegal, and Mauritania Investment Group.

Board of Directors

Khalid Mohammed Yusuf Najibi
Board Member

Mr. Khalid Mohammed Najibi holds a Bachelor's degree in Business Administration with a major in Finance from Schiller International, UK, and is a Certified Public Accountant (CPA). He has been involved in the banking, investment and finance industry and business management for over 23 years.

Mr. Najibi is the Founding Member and Executive Director of Najibi Investment Company, Board Member of Arbah Capital in the Kingdom of Saudi Arabia, and Board Member of Skaugen Gulf Petchem Carriers.

Previously, Mr. Najibi was a Board Member and Managing Director of Capital Management House in Bahrain, Board Member and Chairman of the Nomination & Remuneration Committee of QInvest in Qatar, Board Member of LONA Real Estate, Board Member of Gulf Finance House in Bahrain, and Board Member of Crown Industries.

Mishari Zaid Al Khalid
Board Member

Mr. Mishari Zaid Al Khalid joined the Board in 2013. He holds a Bachelor Degree in Business Administration from the University of Cairo, Egypt. Through his 37-year career, he has gained extensive experience in banking, investment and business management. Mr. Al Khalid is the General Manager of Al Khalid International Group in Kuwait.

He is also the Vice Chairman of Kuwait Investment Company and a member of the Board of National Hotels Company in Bahrain. Before that, he served as the Chairman and Managing Director of Al-Safat Real Estate Company in Kuwait, General Manager of Kuwaiti Real Estate Investment Group, Executive Committee Member at Egyptian Gulf Bank in Egypt, and Director of Investment Affairs Office of the General Organization for Social Insurance in Kuwait. In addition, he served as a member of the Board of Directors of CAPIVEST in Bahrain, Al-Safat Investment Company in Kuwait, and Kuwaiti Egyptian Investment Company in Egypt.

Saleh Hasan Al Afaleq
Board Member

Mr. Saleh Hasan Al Afaleq holds a Bachelor degree in Management Information System from King Faisal University, Saudi Arabia, and a Master degree in Human Resource Development from Seattle University, USA, and has extensive experience of 23 years in business management.

Mr. Al Afaleq is the Director and CEO of Al-Kifah Holding Company and its subsidiaries, Chairman and Founding Member of Al-Ahsa Amusement and Tourism Company, Vice Chairman of Arbah Capital (KSA), and Board member of Noor Capital (Abu Dhabi), Board member of Saudi Industrial Property Authority (MODON), and Board member of the General Authority of Civil Aviation. He is also the Chairman of Al-Ahsa Chamber of Commerce & Industry (Saudi Arabia) and a Board Member of the Council of Saudi Chambers of Commerce.

Zeyad Tareq Al Mukhaizeem
Board Member

Mr. Zeyad Tareq Al Mukhaizeem joined the Board in 2013. He graduated with a Bachelor of Science in Civil Engineering from the University of the Pacific, USA 2004, and MBA from DePaul University, USA - Bahrain Campus 2007. His 11-year career includes extensive experience in investment management, real estate, and business restructuring/turnaround.

Mr. Al Mukhaizeem is Executive Director of the International Investment Division at Aref Investment House in Kuwait. He also serves as a Chairman of the Board and Executive Committee for Munshaat Real Estate Projects Company and a Board member of Bank of London and the Middle East (BLME) with board positions for real estate and private equity funds.

Prior to that, Mr. Al Mukhaizeem worked as Project Manager at the Kuwaiti Manager Company and Bovis Lend Lease, Kuwait/Bahrain, and Investment Manager at the Direct Investment Department at Kuwait Finance House, Kuwait.

He has also been a member of the Project Management Institute (PMI) since 2004, and the International Association of Consultants Valuators and Analysts since 2009.

Board Committees

The Board of Ibdar Bank has established four Sub Committees with specific delegated authorities and responsibilities to assist in carrying out its functions and ensure that there is independent oversight of internal control and risk management. The Committees - Audit; Executive; Nomination & Remuneration; and Risk Management - report to the Board on their activities based on approved charters setting forth their roles and duties.

Audit Committee

Role

The Committee performs the following functions:

- The Committee reviews accounting and financial policies and procedures.
- The Committee reviews the integrity of the Bank financials and internal controls.
- The Committee recommends appointment of external auditors.
- The Committee reviews and assesses external and internal audit work.
- The Committee ensures that management has appropriate controls for identifying and monitoring risk, compliance and practice standards.
- The Committee oversees the internal audit function
- The Committee encourages culture of accountability in the bank and, particularly, for financial matters.

Members

Abdul Hakim Al Adhami	Chairman
Khalid Abdulla Al Bassam	Member
Mishari Zaid Al Khalid	Member

Executive Committee

Role

The Committee performs the following functions:

- The Committee plays an effective supervisory role in Ibdar Bank's business decisions.
- It oversees the Bank's long-term policy objectives of the Bank and its activities and has among other, the duties of developing and reviewing strategies, framework, policies and procedures for the approval of the Board.
- The Committee reviews the plans and annual budgets and monitors the Bank's overall performance against these plans and budgets.
- The Committee assesses and approves new product or activities proposed by the business units. It identifies business opportunities both in terms of products, acquisition or disposals.
- The Committee decides on all investments within its authority limits delegated by the Board.

Members

Mohammed Al Adsani	Chairman
Abdullah Almarzouq	Member
Khalid Mohammed Yusuf Najibi	Member
Saleh Hasan Al Afaleq	Member
Zeyad Tareq Al Mukhaizeem	Member

Nomination and Remuneration Committee

Role

The Committee performs the following functions:

- The Committee regularly reviews the size of the Board and its Committees to recommend any adjustments necessary, in addition to overseeing the independency of the independent directors.
- The Committee identifies, nominates and considers candidates to fill Board vacancies through Board appointment, shareholder election, or management recommendations and proposals.
- The Committee designs the plan for succession and replacement of senior management including replacement in the event of an emergency or other unforeseeable vacancy.
- The Committee identifies interviews and appoints candidates to fill specific officer vacancies and oversee the process of recruiting the internal auditor that is the Audit Committee's responsibility.
- The Committee reviews and approves the Bank's Human Resources policies and procedures, including the recruitment, retention, and termination policies and procedures for senior management.
- The Committee review the Bank's remuneration policy for the board of directors, and individual remuneration packages for the CEO and other senior managers.
- Retain and oversee outside consultants or firms for determining approved persons' remuneration, administering remuneration plans, or related matters.
- The Committee reviews and approves the Group's Executive Bonus and the design of all share incentive plans.

Members

Khalid bin Mohammed Alaboodi	Chairman
Khalid Najibi	Member
Mishari Zaid Al Khalid	Member

Risk Committee

Role

The Committee performs the following functions:

- The Committee plays a key role in advising and assisting the Board in the implementation of risk management framework keeping in view the recommended Basel II framework.
- The Committee is responsible to oversee the Bank's risk management framework, and ensure that the procedures for identification, assessment, monitoring, mitigating, and managing risks are in place and operating effectively to reach compliance with internal risk management guidelines and Basel II.
- The Committee reviews significant financial and other risk exposures and the steps management has taken to monitor, control and report such exposures;
- The Committee reviews and evaluates Bank's risk management policies and practices and provide guidance on strategies and overall risk tolerance level of the Bank

Members

Paul Andrew Mercer	Chairman
Abdul Hakim Al Adhami	Member
Khalid Abdulla Al Bassam	Member

Executive Management

Management Team

Ibdar Bank has a management team, delegated by the Board, to manage the overall activities of the Bank and execute its financial and operational strategy. The management team takes the responsibility of operating the Bank in an effective, ethical and legal manner designed to produce significant and consistent value for its shareholders in accordance with the Bank's policies and standards.

Mohamed A. Aljasim
Chief Investment Officer

Mr. Mohamed A. Aljasim was appointed Chief Investment Officer at Ibdar Bank in 2013 subsequent to the sucessful merger of Elaf Bank, Capital Management House (CMH) and CAPIVEST. He has over 14 years of extensive experience in venture capital, private equity, real estate, asset management and fund raising within various industry segments.

Before his appointment at Ibdar, Mr. Aljasim handled the responsibility of Chief Investment Officer at CMH. He was also senior Executive Director and Head of Investment Banking at Gulf Finance House BSC (c), beside holding several directorships in other companies.

He graduated from the University of Portsmouth, UK with a BA (Hons) Accounting in 1999.

Sameeh Abdulla Al Khan
Chief Operating Officer

Mr. Sameeh Abdulla Al Khan joined Ibdar Bank in 2013 as a Chief Operating Officer following the successful merger of Elaf Bank with CAPIVEST and Capital Management House. Mr. Al Khan has over 30 years of industry experience in different strategic positions, in both conventional and Islamic banking.

Prior to his appointment at Ibdar Bank, Mr. Al Khan served as Chief Operating Officer at CAPIVEST, Vice President, Head of Operation at Faisal Islamic Bank of Bahrain and Assistant Manager – Retail Services at the National Bank of Bahrain. Mr. Al Khan holds an Advanced Management Diploma from the Bahrain Institute of Banking and Finance.

Management Committees

The two Management Committees at Ibdar Bank support the Management Team in managing and overseeing the Bank's activities. The Committees take the responsibilities of proposing new strategies, policies, and procedures to the Board. These Committees are:

Asset and Liability Committee (ALCO)

Objective / Function

The Asset and Liability Committee determines the appropriate levels of liquidity, and ensures that all future commitments are funded in the most appropriate and cost-efficient manner. The Committee also ensures that the Bank fully adheres to the requirements of the CBB regarding capital, liquidity, and mismatched risk. It ascertains that approved investment deposit limits are not exceeded and treasury management and dealing activities are within the policy guidelines set by the Board. Furthermore, it monitors and supervises the overall balance sheet structure.

Members

Chairman until the appointment of CEO	Chairman
Chief Operating Officer	Member
Chief Investment Officer	Member
Head of Financial Control	Member
Head of Treasury & Capital Market	Member
Head of Risk Management	Member

Investment, Credit and Risk Committee

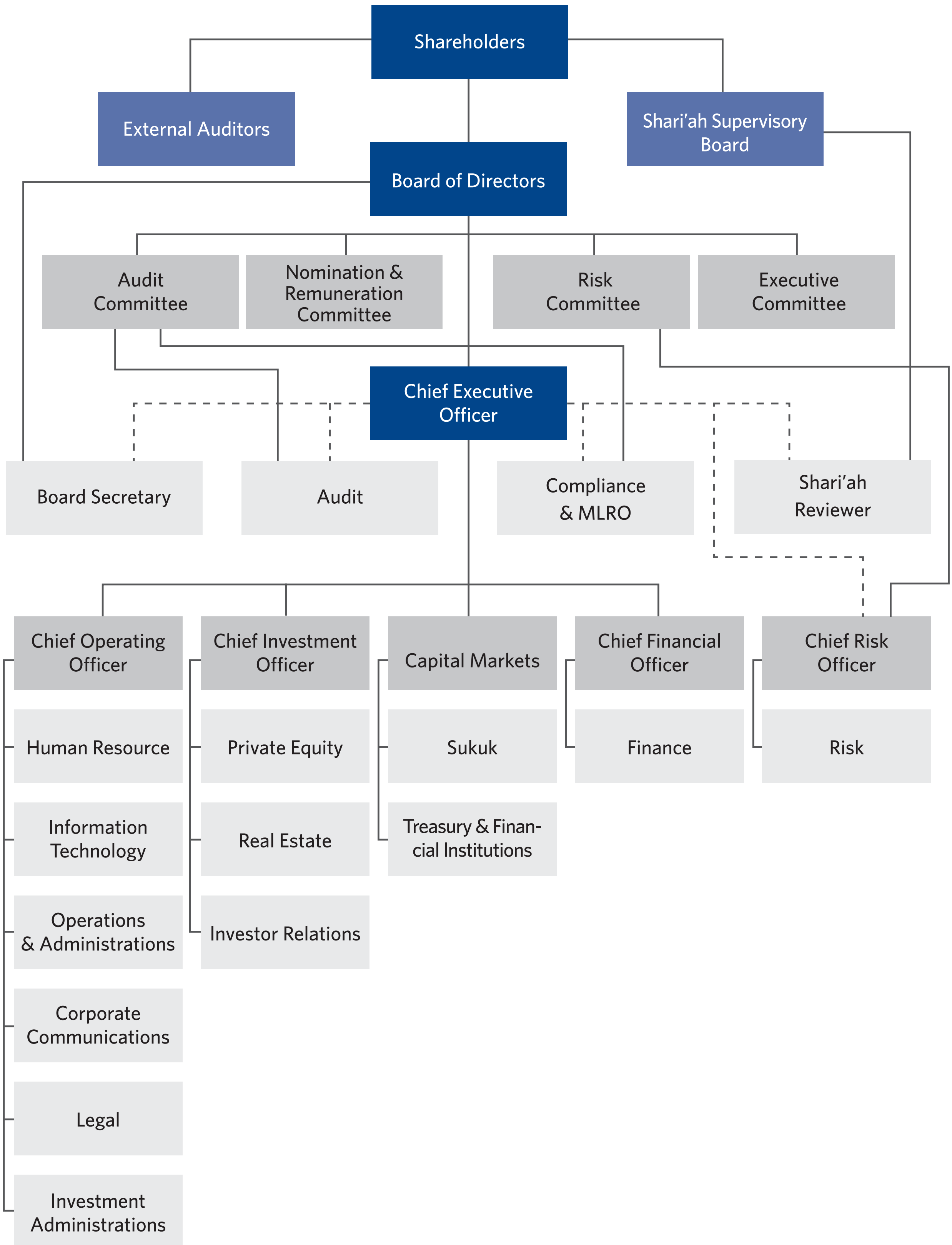
Objective / Function

The Investment, Credit and Risk Committee is responsible for managing and supervising all activities related to investments, credit and risk management. The Committee reviews and recommends investment policies, strategies, and products and services to the Executive Committee and the Board. It also examines, recommends and approves investment proposals as per the policies and strategies approved by the Board. In addition, it monitors the risk profile and risks per product to ensure that adequate measures have been taken to maintain the quality of the Bank's assets.

Members

Chairman until the appointment of CEO	Chairman
Chief Operating Officer	Member
Chief Investment Officer	Member
Head of Risk Management	Non - voting Member
Head of Legal	Non - voting Member

Organizational Structure



Risk Mangement and Compliance

RISK MANAGEMENT

Ibdar Bank has always been committed to improve its risk management. Therefore, the Bank developed an integrated risk management framework aimed at setting the best course of action under uncertainty by identifying, measuring, prioritizing, monitoring and managing the Bank specific and market wide (systemic) risks. The Bank manages risk through a framework of sound risk principles that include an optimum organizational structure, well defined policies and procedures, risk review and monitoring process that are closely aligned with our long term business strategy.

The Bank strives on a continuous basis to reinforce and improve its risk policies and procedures. The decision-making process at Ibdar Bank always includes risk assessment, risk audit, and risk control. The Bank has a stringent approach to risk management, and strives to effectively manage and control exposures to risk.

All through 2013, Ibdar Bank has implemented additional plans and programs in line with recommended Basel II risk management framework. These plans and programs have proven to be effective in identifying, measuring, monitoring, and controlling investment activity and operational risks. They also reinforced the Bank's adherence to the Shari'ah principles and its full compliance with all applicable laws and regulations pertaining to Islamic financial institutions.

Roles' Distribution

Board of Directors

The Board at Ibdar Bank has the responsibility and obligation to approve and adopt Risk Management and Compliance policies and procedures, which are reviewed and evaluated on a regular basis. These policies and procedures establish clear goals, risk limits and risk tolerance based upon the Board investment orientations and strategies and the market general environment.

They also identify approval authorities, and reporting requirements. Furthermore, the Board reviews the Executive Management's periodic reports regarding the on-going and in-the-pipeline investments and investment opportunities. Accordingly, necessary actions and measures are taken in order to ensure that all activities are in full respect to the Board risk policies and procedures, as well as related regulations.

Risk Management Committee

The Board Risk Management Committee plays a key role in advising and assisting the Board in the implementation of a risk management framework keeping in view the recommended Basel II framework and Central Bank of Bahrain requirements. The Committee assists the Board in discharging its accountability and responsibility for risk management of the Bank-wide risk management systems, practices, and procedures including credit, market, and operational risk, and providing recommendations for improvement.

COMPLIANCE

Ibdar Bank is keen to comply with the principles of Islamic Shari'ah, regulations and guidelines of the Central Bank of Bahrain, Commercial Companies and Labor laws applied in Bahrain, Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions, and Basel II requirements. Ibdar Bank has reinforced in 2013 its compliance process, and has taken all necessary measures to ensure the conformity of its banking activities and staff with the requirements of the regulatory and statutory Bodies, and industry standards and codes. The Bank has also established clear standards to protect its subsidiaries, special purpose vehicles, and joint ventures, and make sure they do not breach any law or regulation inside and outside Bahrain.

Ibdar Bank has a strict "know-your-customer" process, and it only establishes business relationships after thorough screening to clearly identify each counter party. All the Bank's professional employees received in 2013 a training related to the anti-money laundering laws and practices in the Kingdom of Bahrain.

Shari'ah Supervisory Board

Shari'ah Supervisory Board

Understanding the importance of maintaining adherence to the Islamic principles, the Shari'ah Supervisory Board forms an integral part of Ibdar Banks' operations. The Board actively participates in developing and overseeing the Bank's products and business activities through reviewing all transactions and projects to ensure that they are fully compliant and in accordance, with the rules and principles of the Islamic Shari'ah.

The Board includes eminent and distinguished Islamic scholars, each of whom is an expert in Shari'ah provisions related to financial transactions.

His Eminence Shaikh Dr. Abdul Sattar Abdul Kareem Abu-Ghuddah
Chairman

Dr. Abdul Sattar Abdul Kareem Abu-Ghuddah joined the Shari'ah Supervisory Board of Ibdar Bank in 2013. He holds two Bachelor degrees in Law and Shari'ah from the University of Damascus; and two Master degrees in Shari'ah and Hadith, and a PhD in Comparative Fiqh from the Al-Azhar University in Egypt. Dr. Abu-Ghuddah is an active member of the Islamic Fiqh Academy, which evolved from the Organization of Islamic Conference in Jeddah, KSA. He is also a member of both the Accounting Standards Board and Shari'ah Board of AAOIFI in Bahrain.

Dr. Abu-Ghuddah teaches Fiqh, Islamic studies and Arabic in Riyadh and has performed the valuable task of researching information for the Fiqh Encyclopaedia complied by the Ministry of Awqaf and Islamic Affairs in Kuwait. He is currently the Chairman and Shari'ah supervisory board member numerous international and regional Islamic banks and financial institutions, including the Shari'ah Board of the Central Bank of Bahrain. In addition to his participation in Islamic finance conferences, Dr. Abu-Ghuddah is also very prominent for his publications in the various topics of Islamic banking.

His Eminence Shaikh Adnan Abdulla Al Qattan
Board Member

Shaikh Adnan Abdulla Al Qattan holds a Bachelor's degree in Islamic Shari'ah from the Islamic University, Madinah, Saudi Arabia, and a Master's degree in Quran and Sunnah from the University of Um Al-Qura, Makkah, Saudi Arabia. Shaikh Al Qattan is the Chairman of Bahrain's Hajj Mission, President of the Supreme Shari'ah Appeal Court, and a member of the Supreme Council for Islamic Affairs. He is also the President of the Board of Trustees of Al Sanabel Orphans Care and Vice-President of the Royal Charity Organization.

Shaikh Al Qattan serves in the Shari'ah Supervisory Board of various Islamic banks and financial and investment institutions, in addition to being Friday sermon orator at Al-Fatih Grand Mosque in Manama (Bahrain).

His Eminence Shaikh Dr. Nidham Mohammed Saleh Yaquby
Board Member

Shaikh Nidham Mohammed Saleh Yaquby holds a Bachelor's degree in Economics and Comparative Religion from McGill University, Montreal and PhD from Lahaye University. Shaikh Nidham obtained his Shari'ah knowledge and teachings from prominent Shari'ah scholars in the Gulf region and achieved their highest valuation. Shaikh Nidham is chairman and Shari'ah supervisory board member of in numerous international Islamic banks and financial institutions including the Dow Jones Islamic Index.

He is a member of the Shari'ah board of the Central Bank of Bahrain, AAOIFI's Shari'ah Board, and the Islamic Rating Agency Shari'ah Board. Shaikh Nidham is also very prominent for his participation, contribution in international Islamic finance conferences, and offering financial solutions and instruments for contemporary financing schemes. Shaikh Yaquby is a visiting professor at the International Islamic University, Malaysia.

Shari'ah Supervisory Board's Report

مصرف إبدار
Ibdar Bank

Thanks to Allah Almighty, and Prayers and Peace be upon His Messenger, our Prophet Mohammed and all his Relatives and Companions.

The Shari'ah Supervisory Board congratulates the Shareholders for completion of the 3 way merger process and announcing the new identity of the fruit or this process, IBDAR Bank. We ask Allah Almighty to guide us all for the best in this life and hereafter.

After completing the financial on 31/12/2013, we report you the following:

We have studied the products introduced by the bank and verify the extent of the Bank's commitment to the provisions and principles of Islamic Shari'ah's laws, and with the specific fatwas, rulings and guidelines issued by us.

Since the Executive Management takes the responsibility to ensure that the Bank's commitment to act in accordance with the rules and principles of Shari'ah law, our responsibility is limited to declaring and stating the Shari'ah opinion on the banking and investment transactions that were presented the Shari'ah Supervisory Board.

The scope of our review covered the most important investment projects, such as Sukuks & Money market, Investments in Real Estate , Private Equities investments in aviation , shipping & Industry.

The Shari'ah Supervisory Board also respond to the inquiries by the concerned departments in the bank directly or through its Executive member, as well as declaring opinions and advices, when requested to do so, on new contracts and financial transactions structuring developed.

In our opinion:

1. The contracts and transactions entered into by the Bank during the year ended 31December 2013, that we have reviewed are in compliance with the Islamic Shari'ah rules and principles;
2. Impure earnings equivalent to USD 9,356 were identified during the year 2013, the is directed management to disburse this amount for charity purposes immediately.
3. The allocation of profit and losses relating to investment accounts conform to the basis that had been approved by us in accordance with Islamic Shari'ah rules and principles;
4. The basis of Zakat calculation and estimation is in compliance with Islamic rules and with accordance to AAOIFI Shari'ah Standard. The exact amount of Zakat per share is stated within the final version of the Annual Report.

We pray to Allah almighty to grant the Bank all success and further compliance with the principles of Islamic Shari'ah.

Prayer and peace be upon our prophet Mohammed, his relatives and companions.

Dr. Abdulsttar Abu Ghudda	Shaikh Nidham Mohammed Saleh Yaquby	Shaikh Adnan Abdulla Al Qattan
SSB Chairman	SSB Executive Member	SSB Member

www.ibdarbank.com

مصرف إبدار ش.م.ب (م)، برج الزامل، الطابق السادس، شارع الخليفة، ص.ب ١٠٠١ المنامة، مملكة البحرين، هاتف: ٥١٠٠٠٠ ١٧ ٩٧٣+، فاكس: ٥١٠٠٥١ ١٧ ٩٧٣+

Ibdar Bank BSC (c), Zamil Tower, Sixth Floor, Al Khalifa Avenue, P.O. Box 1001 Manama, Kingdom of Bahrain, Telephone: +973 17 510000, Facsimile: +973 17 510051

Financial Performance

Independent Auditors' Report to the Shareholders

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

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

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

We have audited the accompanying consolidated statement of financial position of Ibdar Bank B.S.C. (c) (the "Bank") and its subsidiaries (the "Group") as of 31 December 2013, and the related consolidated statements of income, cash flows, changes in owners' equity and changes in off-balance sheet equity of investment accountholders for the year then ended. These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'ah 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, changes in owners' equity and changes in off-balance sheet equity of investment accountholders for the year then ended in accordance with the 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'ah Rules and Principles as determined by the Shari'ah Supervisory Board of the Group.

Ernst & Young

19 February 2014
Manama, Kingdom of Bahrain

Ibdar Bank B.S.C (c)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Notes	2013 USD	2012 USD
ASSETS			
Cash and balances with banks	3	**16,239,464**	12,986,997
Due from financial institutions	4	**15,591,327**	35,083,388
Financing receivables	5	**12,232,440**	13,698,448
Musharaka financing	6	**786,630**	1,902,720
Receivable from ijarah investors	7	**14,800,849**	14,800,849
Investment in ijarah asset	8	**4,791,720**	4,961,974
Ijarah muntahia bittamleek	9	**1,282,534**	1,905,822
Investment securities	10	**228,867,112**	232,067,260
Investment in associates	11	**11,372,412**	5,046,963
Investment in real estate	12	**44,079,522**	38,441,871
Development properties	13	**6,164,051**	16,173,111
Non-current asset held for sale	14	**-**	1,326,260
Fixed assets	15	**726,393**	433,070
Other assets	16	**3,125,990**	3,938,566
TOTAL ASSETS		**360,060,444**	382,767,299
LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY			
Liabilities			
Due to financial institutions	17	**22,784,833**	39,036,923
Due to non financial institutions	18	**164,576**	435,408
Other liabilities	19	**8,456,159**	15,641,883
Total liabilities		**31,405,568**	55,114,214
EQUITY OF INVESTMENT ACCOUNT HOLDERS	20	**497,535**	1,263,633
OWNERS' EQUITY	21		
Share capital		**300,000,000**	300,000,000
Share premium		**16,385,368**	16,385,368
Statutory reserve		**676,313**	676,313
Accumulated loss		**(1,099,841)**	-
Investments fair value reserve		**5,437,274**	796,081
General reserve		**4,618,036**	4,618,036
Equity attributable to parent's shareholders		**326,017,150**	322,475,798
Non-controlling interest		**2,140,191**	3,913,654
Total owners' equity		**328,157,341**	326,389,452
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNT HOLDERS AND OWNERS' EQUITY		**360,060,444**	382,767,299
OFF BALANCE SHEET:			
EQUITY OF INVESTMENT ACCOUNT HOLDERS		**112,413,997**	110,731,271
COMMITMENTS	33	**9,417,503**	14,277,462

Paul Mercer
Chairman

Mohamed Al Adsani
Vice Chairman

The attached notes 1 to 39 form part of these consolidated financial statements.

Ibdar Bank B.S.C (c)
CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2013

	Notes	2013 USD	2012 USD
INCOME			
Profit from Islamic financing	22	**2,796,846**	2,575,200
Profit on Islamic financing		**(427,435)**	(170,704)
Net income from Islamic financing		**2,369,411**	2,404,496
Income from investment securities	23	**7,544,865**	9,263,830
Fair value loss on investment at fair value through statement of income		**(1,616,314)**	-
Share of results from associates	11	**262,357**	-
Income from investment banking services		**753,214**	218,760
Other income	24	**3,983,391**	6,208
Total income		**13,296,924**	11,893,294
EXPENSES			
Staff cost	25	**6,234,256**	4,280,076
Depreciation and amortisation	26	**141,995**	1,268,853
Other expenses	27	**4,703,303**	3,577,206
Total expenses		**11,079,554**	9,126,135
NET INCOME BEFORE PROVISION AND IMPAIRMENT AND ACQUISITION EXPENSES		**2,217,370**	2,767,159
Provision and impairment - net	28	**(2,194,795)**	(6,621,795)
Acquisition expenses	29	**-**	(8,515,611)
NET PROFIT / (LOSS) FOR THE YEAR		**22,575**	(12,370,247)
Attributable to:			
Shareholders of the parent		**(1,099,841)**	-
Non-controlling interest		**1,122,416**	-
		22,575	-

Paul Mercer
Chairman

Mohamed Al Adsani
Vice Chairman

The attached notes 1 to 39 form part of these consolidated financial statements.

Ibdar Bank B.S.C (c)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Notes	2013 USD	2012 USD
OPERATING ACTIVITIES			
Net profit / (loss) for the year		**22,575**	(12,370,247)
Adjustments for:			
Depreciation and amortisation	26	**141,995**	1,268,853
Fair value loss on investment at fair value through statement of income		**1,616,314**	-
Impairment and provision	28	**2,194,795**	6,621,795
Share of results from associates	11	**(262,357)**	-
Gain on disposal of development properties	24	**(1,479,400)**	-
Gain on disposal of equity-type instruments at fair value through equity	23	**(1,018,858)**	(1,119,611)
Gain on disposal of debt-type instruments at amortised cost	23	**(634,351)**	(2,522,533)
Net amortisation of premium (discount)		**683,143**	(594,762)
Gain on disposal of investment in real estate	24	**(857,143)**	-
Gain on disposal of fixed assets	24	**(18,223)**	(17,560)
Fixes assets write off		**-**	765,320
Gain on amalgamation	1	**-**	(32,524)
Operating profit / (loss) before changes in operating assets and liabilities		**388,490**	(8,001,269)
Changes in operating assets and liabilities:			
Financing receivables		**1,466,008**	1,946,072
Musharaka financing		**894,123**	(75,951)
Investment in ijarah asset		**170,254**	-
Ijarah muntahia bittamleek		**623,288**	(1,905,822)
Other assets		**812,576**	(462,267)
Due to financial institutions		**(16,252,090)**	9,484,438
Due to non financial institutions		**(270,832)**	-
Other liabilities		**(7,476,749)**	7,212,176
Equity of investment accountholders		**(766,098)**	-
Net cash (used in) / from operating activities		**(20,411,030)**	8,197,377
INVESTMENT ACTIVITIES			
Purchase of investment securities		**(43,104,557)**	(91,788,574)
Proceeds from disposal of investment securities		**42,444,033**	94,190,008
Proceeds from disposal of development properties		**14,727,851**	-
Proceeds from disposal investment in real estate		**857,143**	-
Purchase of investment in real estate		**(1,541,752)**	-
Purchase of fixed assets	15	**(435,318)**	(88,091)
Purchase of associate	11	**(5,898,308)**	-
Proceed from disposal of fixed assets		**18,223**	17,560
Net cash from investing activities		**7,067,315**	2,330,903
FINANCING ACTIVITY			
Changes in non-controlling interest		**(2,895,879)**	-
Net cash used in financing activity		**(2,895,879)**	-
NET MOVEMENT IN CASH AND CASH EQUIVALENTS		**(16,239,594)**	10,528,280
Cash and cash equivalents at 1 January		**43,534,072**	16,560,985
Cash and cash equivalents received on amalgamation	1	**-**	16,444,807
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**27,294,478**	43,534,072
CASH AND CASH EQUIVALENTS COMPRISE:			
Cash and balances with banks	3	**16,239,464**	12,986,997
Due from financial institutions with original maturity of 90 days or less	4	**11,055,014**	30,547,075
		27,294,478	43,534,072

The attached notes 1 to 39 form part of these consolidated financial statements.

Ibdar Bank B.S.C (c)
CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
At 31 December 2013

		Equity attributable to parent's shareholders									
	Notes	Share capital USD	Share premium USD	Statutory reserve USD	Accumulated loss USD	Investments fair value reserve securities USD	Investments fair value reserve real estate USD	General reserve USD	Total USD	Non-controlling interest USD	Total owners' equity USD
Balance at 1 January 2013		300,000,000	16,385,368	676,313	-	796,081	-	4,618,036	322,475,798	3,913,654	326,389,452
Net (loss) / profit for the year		-	-	-	(1,099,841)	-	-	-	(1,099,841)	1,122,416	22,575
Cumulative changes in fair values		-	-	-	-	2,551,781	2,089,412	-	4,641,193	-	4,641,193
Changes in non- controlling interest		-	-	-	-	-	-	-	-	(2,895,879)	(2,895,879)
Balance at 31 December 2013		**300,000,000**	**16,385,368**	**676,313**	**(1,099,841)**	**3,347,862**	**2,089,412**	**4,618,036**	**326,017,150**	**2,140,191**	**328,157,341**
Balance at 1 January 2012	21	200,000,000	-	676,313	(45,011,717)	(896,197)	-	-	154,768,399	-	154,768,399
Reduction of share capital	21	(62,000,000)	-	-	45,011,717	-	-	16,988,283	-	-	-
Issue of shares	21	162,000,000	16,385,368	-	-	-	-	-	178,385,368	-	178,385,368
Net loss for the year	21	-	-	-	(12,370,247)	-	-	-	(12,370,247)	-	(12,370,247)
Transfer to general reserve		-	-	-	12,370,247	-	-	(12,370,247)	-	-	-
Acquisition of non-controlling interests		-	-	-	-	-	-	-	-	3,913,654	3,913,654
Cumulative changes in fair values		-	-	-	-	367,776	- -	-	367,776	-	367,776
Transfer to statement of income on impairment	28b	-	-	-	-	1,324,502	-	-	1,324,502	-	1,324,502
Balance at 31 December 2012		300,000,000	16,385,368	676,313	-	796,081	-	4,618,036	322,475,798	3,913,654	326,389,452

The attached notes 1 to 39 form part of these consolidated financial statements.

Ibdar Bank B.S.C (c)
CONSOLIDATED STATEMENT OF CHANGES IN OFF-BALANCE SHEET EQUITY OF INVESTMENT ACCOUNT HOLDERS
For the year ended 31 December 2013

	Marketable equity securities portfolio	Unlisted securities portfolio	Real estate portfolio	Total
	USD	USD	USD	USD
Balance at 1 January 2013	1,756,161	66,250,381	42,724,729	110,731,271
Deposits	-	613,031	-	613,031
Withdrawals	(442,838)	-	(186,693)	(629,531)
Revaluations	1,518,909	180,317	-	1,699,226
Balance at 31 December 2013	**2,832,232**	**67,043,729**	**42,538,036**	**112,413,997**
Balance at 1 January 2012	-	-	-	-
Additions by amalgamation (note 1)	1,756,161	66,250,381	42,724,729	110,731,271
Balance at 31 December 2012	1,756,161	66,250,381	42,724,729	110,731,271

The attached notes 1 to 39 form part of these consolidated financial statements.

1 INCORPORATION AND ACTIVITIES

Ibdar Bank B.S.C. (c) (the "Bank"), is a closed shareholding company incorporated in the Kingdom of Bahrain on 12 June 2007 under commercial registration (CR) number 65549. The Bank operates as an Islamic Wholesale Investment Bank under a license issued by the Central Bank of Bahrain (the "CBB"). The Bank's registered office is Zamil Tower, 6th Floor, Al Khalifa Avenue, Block 305, Manama, Kingdom of Bahrain.

During the year 2012, the shareholders of the Bank approved the merger of the Bank with Capivest B.S.C (c) (Capivest) and Capital Management House B.S.C. (CMH) where Capivest and CMH operations were amalgamated into the Bank's operations to form the Merged Entity in accordance with Article 312 (a) (1) of the Bahrain Commercial Companies Law. The merger was approved by the CBB and the Ministry of Industry and Commerce on 13 September 2012 and 11 October 2012 respectively subject to a 90 days no objection period. On 31 December 2012, via letter no. EDBS/KH/337/2012, the CBB approved the legal amalgamation of Capivest and CMH operations into the Bank in respect to which the assets of CMH and Capivest as of 31 December 2012 were takenover and liabilities of CMH and Capivest as of 31 December 2012 were assumed by the Bank along with the off-balance sheet equity of investment accountholders. As a consideration for the above amalgamation the Bank issued 162,000 thousand shares to the shareholders of Capivest and CMH for a shareholding of 23% and 31% respectively in the merged entity. This transaction is considered as acquisition of CMH and Capivest by the Bank and has been accounted for accordingly. As the acquisition took place on the last day of the financial year of the Bank (31 December 2012), the statement of financial position has been consolidated but there was no impact on the consolidated statement of income due to the acquisition by the Bank. Consequently, the comparative information might not be comparable with the current year financial information.

During the year, the Bank changed its name from Elaf Bank B.S.C. (c) to Ibdar Bank B.S.C. (c), as part of a rebranding exercise, effective from 3 December 2013.

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

The principal activities of the Bank and its subsidiaries (the "Group") include investment advisory services and investment transactions, which comply with Islamic rules and principles according to the opinion of the Group's Shari'ah Supervisory Board.

The Group carries out its business activities through its head office in the Kingdom of Bahrain and its branch in Malaysia. The branch was granted a license to perform islamic banking business on 15 June 2011 under Islamic Banking Act 1983.

These consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 19 February 2014.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for investments classified as "fair value through statement of income" and "fair value through equity" and investment in real estate that have been measured at fair value. The consolidated financial statements are presented in United States Dollar ("USD"), being the functional and reporting currency of the Group.

Statement of Compliance

The consolidated financial statements have been in accordance with Financial Accounting Standards (FAS) as issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"), the Shari'ah Rules and Principles as determined by the Shari'ah Supervisory Board of the Group, the Bahrain Commercial Companies Law, the CBB and Financial Institutions Law, and the CBB regulations (as

2 ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Statement of Compliance (continued)

contained in Volume 2 and applicable provisions of Volume 6 of CBB rulebook) and directives. In accordance with the requirements of AAOIFI, for matters which are not covered by 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 31 December each year.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

a) The contractual arrangement with the other vote holders of the investee;
b) Rights arising from other contractual arrangements; and
c) The Group's voting rights and potential voting rights.

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

The financial statements of the subsidiaries are prepared for the same reporting period as the Group, using consistent accounting polices. Adjustments are made to conform the financial statements of the subsidiaries to the accounting policies of the Group.

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

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

2 ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Basis of consolidation (continued)

	Company ***Subsidiaries***	***Activities***	***Year of incorporation***	***Country of incorporation***	***Ownership 2013***	*Ownership 2012*
1	Elaf Bahrain Real Estate Company B.S.C. (c)	Subsidiary to purchase and sale all kinds of real estate properties	2008	Kingdom of Bahrain	**100%**	100%
2	Elaf Corporate Services Limited	Subsidiary to manage its affiliated companies	2008	British Virgin Islands	**100%**	100%
3	Sokouk Exchange Centre – Tadawul Holding W.L.L.	Subsidiary to manage its affiliated companies	2008	Kingdom of Bahrain	**100%**	100%
4	Tamkeen Investment Company B.S.C. (c)	Subsidiary to administer Management Incentive Program ("MIP").	2008	Kingdom of Bahrain	**100%**	100%
5	Suffun Bahrain W.L.L. **	SPV for an associated company investment.	2010	Kingdom of Bahrain	**100%**	100%
6	Suffun Investment Company *	SPV for investors investment in an associated company	2010	Cayman Island	**100%**	100%
7	GCC Balanced Growth Fund Company B.S.C.(c)	SPV for GCC Balanced Growth Fund	2010	Kingdom of Bahrain	**100%**	100%
8	Medical Management Group SPC *	SPV to Investment in health care	2005	Kingdom of Bahrain	**100%**	100%
9	Omavest Holding W.L.L. *	SPV to Investment in various projects	2009	Kingdom of Bahrain	**100%**	100%
10	Capivest Real Estate Fund *	SPV to Investment in various projects	2010	Kingdom of Bahrain	**100%**	100%
11	Sakan Development Company Limited	SPV to Investment in real estate	2006	Cayman Island	**70.91%**	70.91%

* Subsidiaries not operational at 31 December 2013.

** On 31 December 2012, CBB approved the legal amalgamation of Capivest and CMH into the Bank (note 1).

As a result of the above amalgamation, the Bank took over Suffun Bahrain W.L.L. ("Suffun"), a 100% owned Company by CMH.

Suffun was classified as non-current asset held for sale as of 31 December 2012, however, in light of the surrounding market conditions plan to sale a controlling interest in the Suffun was ceased. Accordingly, the criteria to apply IFRS 5 "Non Current Assets Held for Sale and Discontinued operations" was no longer met. Therefore, Suffun is consolidated in these consolidated financial statements.

2 ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

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

FAS 26 Investment in Real Estate
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.

Adoption of other standards, changes in IFRS or interpretation as issued by the IASB does 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 equivalent

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

Mudaraba
Mudaraba is stated at the fair value of consideration given less impairment, if any.

Mudaraba is a form of partnership between work and capital in which the Group contributes capital. Mudaraba capital provided by the Group at inception in kind (if other than cash) is measured at the fair value of the assets. If the valuation of assets results in difference between fair value and book value, such difference is recognized as profit or loss to the Group.

In case Mudaraba capital is lost or damaged prior to the inception of work without misconduct or negligence on the part of the mudarib, then such losses are deducted from mudaraba capital and are treated as a loss to the Group. In the case of termination or liquidation, the unpaid portion by the mudarib is recognised as receivable due from the mudarib.

Commodity murabaha receivables
Commodity murabaha receivables are sales on deferred terms. The Group arranges a murabaha transaction by buying a commodity (which represents the object of the murabaha) and then resells this commodity to a Murabeh (beneficiary) after computing a margin of profit over cost. The sale price (cost plus the profit margin) is repaid in instalments by the Murabeh over the agreed period.

These are stated net of deferred profits, any amount written off and provision for doubtful debts, if any. The Group considers the promise made by the purchase orderer in a Murabaha contract as obligatory.

Wakala contracts
These are stated at cost less impairment, if any.

c. Financing receivables

Financing receivables are stated at cost net of deferred profit and provision for impairment, if

2 ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

c. Financing receivables (continued)

any. The Group considers the promise made by the purchase orderer in a financing receivables as obligatory. Specific provisions are created for impairment where losses are expected to arise on non-performing receivables. The receivables are written off when they are considered to be uncollectible to reduce all impaired financing receivables to their expected realisable values.

d. Musharaka financing

Musharaka is a form of capital partnership. These are stated at the fair value of consideration given less any impairment. Musharaka capital provided by the Group at inception in kind (if other than cash) is measured at the fair value of the assets. If the valuation of assets results in difference between fair value and book value, such difference is recognised as profit or loss to the Group.

e. Investment in ijarah asset

Investment in ijarah asset is 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 asset to its residual values over lease term.

Ijarah asset is derecognised on disposal or when no future economic benefits are expected from its 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.

f. Ijarah muntahia bittamleek

This is initially recorded at cost including initial direct costs. Ijarah muntahia bittamleek is a lease whereby the legal title of the leased asset passes to the lessee at the end of the ijarah (lease term), provided that all ijarah installments are settled. These assets are stated at cost less accumulated depreciation.

Depreciation is calculated using the straight-line method at rates calculated to write off the cost of each asset over its lease term.

g. Investment securities

Investments comprise equity-type instruments at fair value through statement of income, equity-type instruments at fair value through equity and debt-type instruments at amortised cost.

Investments are recognised on the acquisition date at their fair value plus transaction costs, except for "investments at fair value through statement of income". Transaction costs relating to "investments at fair value through statement of income". are charged to the consolidated statement of income when incurred.

Equity-type instruments at fair value through statement of income
This includes instruments held for the purpose of generating profits from the short term market fluctuations. These are subsequently re-measured at fair value. All related realised and unrealised gains or losses are included in the consolidated statement of income.

2 ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

g. Investment securities (continued)

Equity-type instruments at fair value through equity
These include all equity-type instruments that are not fair valued through statement of income. Subsequent to acquisition, these are re-measured at fair value with unrealised gains or losses recognised directly in owner's equity under "Investments fair value reserve" 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 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, if any.

The losses arising from impaired equity type instruments at fair value through equity are recycled in the consolidated statement of income in "provision and impairment" and removed from the cumulative changes in investments fair value reserve. Subsequent increases in the fair value of investments at fair value through equity are not reversed through the consolidated statement of income.

Debt-type instruments at amortised cost
These are managed on a contractual yield basis and are not held for trading and has not been designated at fair value through statement of income and are classified as debt-type instruments at amortised cost. Such investments are carried at amortised cost, less provision and 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.

h. Investment in associates

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

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of income reflects the share of the results of operations of the associate. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

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

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

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

2 ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

h. Investment in associates (continued)

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate 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.

i. Investment in real estate

Properties held for rental, or for capital appreciation purposes, or both, are classified as investment in real estate. Investment in real estate is initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, investment in real estate is re-measured at fair value and changes in fair value (only gains) are recognised as investments fair value reserve in the consolidated statement of changes in owners' equity.

Losses arising from changes in fair value of investment in real estate are firstly adjusted against the investments fair value reserve to the extent of the available balance and then the remaining losses are recognised in the consolidated statement of income. If there are unrealised losses that have been recognised in the consolidated statement of income in the previous financial period, the current period unrealised gains shall be recognised in the consolidated statement of income to the extent of crediting back such previous losses in the consolidated statement of income. When the property is disposed of, the cumulative gains previously transferred to the investments fair value reserve, are transferred to consolidated statement of income.

j. Development properties

Properties constructed and held for sale are classified as development properties. Unsold properties are stated at the lower of cost or net realisable value. The cost of development properties includes the cost of land and other related expenditure which are capitalised as and when activities that are necessary to get the properties ready for sale are in progress. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

k. Non-current asset held for sale

Subsidiaries/associates acquired with a view to subsequent disposal within 12 months are classified as non current assets "held-for-sale" when the sale is highly probable. Related assets and liabilities of the subsidiary/associate are shown separately on the consolidated statement of financial position as "Assets held-for-sale" and "Liabilities relating to assets held-for-sale". Assets that are classified as held-for-sale are measured at the lower of carrying amount or fair value less costs to sell. Any resulting impairment loss reduces the carrying amount of the assets. Assets that are classified as held-for-sale are not depreciated. Any impairment loss is recognised in the consolidated statement of income for any initial and subsequent write down of these assets to fair value, less costs to sell. A gain for any subsequent increase in the fair value, less costs to sell, is recognised to the extent that it is not in excess of the cumulative impairment loss that was previously recognised.

l. Fixed assets

Fixed assets 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

2 ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

l. Fixed assets (continued)

reflected in other income. Depreciation is calculated using the straight-line method over the estimated useful life of the assets.

The calculation of depreciation and amortisation is on the following basis:

- Leasehold improvements	10 years *
- Computer hardware and software	3 years
- Furniture and fixture	5 years
- Office and electric equipment	5 years
- Motor vehicles	4 years

* The calculation of depreciation on leasehold improvements is calculated over the life of lease if less than 10 years.

m. 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.

n. Impairment of financial assets

The Group assesses at each financial position date whether there is objective evidence that a financial asset is impaired. In the case of equity-type instruments at fair value through equity, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for equity-type instruments at fair value through equity, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in consolidated statement of income) is removed from owner's equity and recognised in the consolidated statement of income. Impairment losses recognised in the consolidated statement of income on equity instruments are not subsequently reversed through the consolidated statement of income.

Impairment losses on financing receivables and debt-type instruments at amortised cost are measured as the difference between the carrying amount of the financial asset and the present

2 ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

n. Impairment of financial assets (continued)

value of estimated cash flows discounted at the assets' original effective profit rate. Losses, if any, are recognised in the consolidated statement of income and reflected in an allowance account against financing receivables and debt-type instruments at amortised cost. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the consolidated statement of income.

o. Due to financial institutions

These comprise international commodity murabaha and wakala contracts. These are carried at their amortised cost.

p. Equity of investment account holders

Equity of investment account holders are carried at fair value of consideration received plus accrued profits less amounts settled.

Total income pertaining to investment account holders is allocated to individual investment accounts on their daily weighted average balances.

q. Foreign currency transactions

Functional and presentation currency
Items included in the consolidated financial statements of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in US Dollars, which is the Group's functional and presentation currency.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of income. Translation differences on non-monetary items carried at their fair value, such as certain equity-type instruments at fair value through equity, are included in investments fair value reserve.

Group companies
The Group companies' functional currencies are either denominated in US Dollar or currencies which are effectively pegged to the US Dollar, and hence, the translation of financial statements of the group entities that have a functional currency different from the presentation currency do not result in exchange difference.

r. Revenue recognition

Profit from islamic financing
Income from murabaha receivable is recognised when the income is quantifiable and contractually determined at the commencement of the contract, the income is recognised proportionately over the period of the contract.

Income on mudaraba is recognised when the right to receive payment is established or on distribution by the mudarib, where as losses are charged to income on declaration by the mudarib.

2 ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

r. Revenue recognition (continued)

Income on musharaka financing is recognised when the right to receive payment is established. Income related to accounts that are 90 days overdue is excluded from the consolidated statement of income.

Income from investments
Income from debt-type instruments at amortised cost (investment in sukuk) is recognised on a time-apportioned basis using the effective profit method.

Dividend income from equity-type instruments at fair value through equity is recognised when the right to receive is established. This is usually the ex-dividend date for equity securities.

Income from investment banking services
Income from investment banking services is recognised when the service is provided and income is earned. This is usually when the Group has performed all significant acts in relations to the service being rendered and it is highly probable that the economic benefits from the transaction will flow to the Group.

Other income
Other income is recognised when the right to receive payment is established.

s. Employees' end of service benefits

Provision is made for leaving indemnity payable under the Bahraini Labour Law applicable to non-Bahraini employees' accumulated periods of service at the financial position date. Moreover provision for indemnity payable is also made for Bahraini employees.

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

The Group provides end of service benefits to its expatriate employees. Entitlement to these benefits is based upon the employees final salary and length of service, subject to completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

t. Provisions

Provisions are recognised when the Group has an present obligation (legal or constructive) as a result of a past event, it is probable that 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.

u. Dividends

Dividends to shareholders are recognised as a liability when it is approved by the shareholders.

v. Off balance sheet equity of investment account holders

This represents funds received by the Group to be invested in specified products as directed by the investment account holders. The assets funded by these funds are managed in a fiduciary

2 ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

v. Off balance sheet equity of investment account holders (continued)

capacity by the Bank and are not included in the consolidated statement of financial position since the Group does not have the right to use or dispose these assets.

w. Zakah

In accordance with the instructions of Shari'ah Supervisory Board, payment of Zakah is the responsibility of the shareholders of the Group. Accordingly, no Zakah has been charged to the consolidated financial statements.

x. Fiduciary assets

The Group provides fiduciary services that result in holding or investing of assets on behalf of its employees. Assets held in a fiduciary capacity are not reported in the consolidated financial statements, as they are not the asset of the Group.

y. Judgments and estimates

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements. The most significant uses of judgments 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
Real estate investments acquired to earn rentals or for capital appreciation are classified as investment in real estate.

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 a equity or debt-type instrument at amortised cost.

Fair value of unquoted investments at fair value through equity
Where the fair value of the Group's investment portfolio cannot be derived from an organised market, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment by management is required to establish fair values. The judgments include consideration of comparable assets, discount rates and the assumptions used to forecast cash flows.

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

2 ACCOUNTING POLICIES (continued)

2.2 Summary of significant accounting policies (continued)

y. Judgments and estimates (continued)

Impairment
The Group treats investments classified as fair value through equity as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is «significant» or «prolonged» requires considerable judgment. In making this judgment, the Group evaluates, among other factors, normal volatility in share price and duration and the extent to which the fair value of quoted equities is less than its cost and the future cash flows and the discount factors for unquoted equities.

The Group reviews its doubtful financial contracts on each reporting date to assess whether a provision for impairment should be recorded in the consolidated statement of income. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

z. 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.

aa. 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.

bb. 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.

cc. Shari'ah supervisory board

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

3 CASH AND BALANCES WITH BANKS

	2013 USD	2012 USD
Cash	**796**	7,542
Balances with banks	**16,238,668**	12,979,455
	16,239,464	12,986,997

4 DUE FROM FINANCIAL INSTITUTIONS

	2013 USD	2012 USD
Mudaraba	**15,591,327**	27,445,106
Commodity murabaha receivables	**-**	5,640,268
Wakala contracts	**-**	2,000,014
	15,591,327	35,085,388
Less: Deferred profits	**-**	(2,000)
	15,591,327	35,083,388

During the year, no investments representing mudaraba have been made on behalf of equity of investment accountholders (2012: USD 1,264,000).

The original maturity of mudaraba, commodity murabaha receivables and wakala contracts is as follows:

	2013 USD	2012 USD
Original maturity of 90 days or less	**11,055,014**	30,547,075
Original maturity of more than 90 days	**4,536,313**	4,536,313
	15,591,327	35,083,388

5 FINANCING RECEIVABLES

	2013 USD	2012 USD
Murabaha receivables	**12,232,440**	14,044,503
Less: Deferred profit	**-**	(346,055)
	12,232,440	13,698,448

As of 31 December 2013, financing receivables of USD 12,232,440 (2012: Nil) were past due but not impaired (2012: Nil).

6 MUSHARAKA FINANCING

	2013 USD	2012 USD
Musharaka financing	**1,064,578**	1,958,701
Less: Provision and impairment (note 28)	**(277,948)**	(55,981)
	786,630	1,902,720

An amount of USD 277,948 of musharaka financing was impaired as of 31 December 2013 (2012: USD 55,981).

7 RECEIVABLE FROM IJARAH INVESTORS

Receivable from ijarah investors represent balances due from investors who participated in the Group's ijarah series products. The balance outstanding as of 31 December 2013 relates to amounts due from ijarah 9 investors of USD11,407,546 (2012: USD11,407,546) and ijarah 6 investors of USD3,393,303 (2012: USD 3,393,303) which will be settled in accordance with the ijarah product structures.

In accordance with the initial agreement, receivables from ijara 9 and 6 investors are to be settled through the exit of the properties underlying the ijara 9 and 6 structures. During the year, the Group has initiated extending the initial exit date. As at 31 December 2013, the fair valuation conducted by independent valuers was USD 35,394,341 (2012: USD 32,347,480).

8 INVESTMENT IN IJARAH ASSET

	2013 USD	2012 USD
Cost:		
At 1 January	**8,616,025**	8,616,025
Principal prepayments received during the year	**(170,254)**	-
At 31 December	**8,445,771**	8,616,025
Depreciation:		
At 1 January	**1,750,484**	965,616
Charge for the year	**-**	784,868
At 31 December	**1,750,484**	1,750,484
Less: Provision and impairment (note 28)	**(1,903,567)**	(1,903,567)
Net book value:		
As at 31 December	**4,791,720**	4,961,974

9 IJARAH MUNTAHIA BITTAMLEEK

	2013 USD	2012 USD
Cost:		
At 1 January	**2,500,000**	-
Additions	**-**	2,500,000
At 31 December	**2,500,000**	2,500,000
Depreciation:		
At 1 January	**594,178**	-
Charge for the year	**623,288**	594,178
At 31 December	**1,217,466**	594,178
Net book value:		
As at 31 December	**1,282,534**	1,905,822

10 INVESTMENT SECURITIES

At 31 December 2013

	Amortised Cost USD	Fair value through equity USD	Fair value through statement of income USD	Total USD
Debt type				
Quoted sukuks	**79,862,970**	**-**	**-**	**79,862,970**
Equity type				
Quoted shares	**-**	**34,802,682**	**-**	**34,802,682**
Unquoted shares	**-**	**96,930,198**	**17,271,262**	**114,201,460**
	79,862,970	**131,732,880**	**17,271,262**	**228,867,112**

During the year, the Group charged provision and impairment of USD 4,921,194 (2012: USD 3,344,149) against investment in fair value through equity (note 28).

At 31 December 2012

	Amortised Cost USD	Fair value through equity USD	Fair value through statement of income USD	Total USD
Debt type				
Quoted sukuks	72,381,253	-	-	72,381,253
Equity type				
Quoted shares	-	13,665,212	-	13,665,212
Unquoted shares	-	125,673,058	20,347,737	146,020,795
	72,381,253	139,338,270	20,347,737	232,067,260

The Group's investments in sukuk held at amortised cost amounting to USD 79,862,970 (2012: USD 72,752,595) has a fair value amounting to USD 80,885,404 (2012: USD 74,495,215).

11 INVESTMENT IN ASSOCIATES

	2013 USD	2012 USD
At 1 January	**5,046,963**	3,444,085
Additions:		
due to amalgamation (note 1)	**-**	1,602,878
due to reclassification (note 2.1)	**5,898,308**	-
Share of results from associates	**262,357**	-
Share of results from associate transferred to investments fair value reserve	**164,784**	-
	11,372,412	5,046,963

11 INVESTMENT IN ASSOCIATES (continued)

Investment in associates comprise the following:

Name	Country of incorporation	% holding
Ali Iskandar Al Ansari and Partners W.L.L.(i)	State of Qatar	35%
Aqari Real Estate Company B.S.C. (c)(ii)	Kingdom of Bahrain	31.88%
Alpha Lease and Finance Holding Company B.S.C. (c)(iii)	Kingdom of Bahrain	30%
Apex Real Estate Company B.S.C.(c) (i)	Kingdom of Bahrain	30%
Skaugen Gulf Petchem Carriers B.S.C. (c) (i),(ii)	Kingdom of Bahrain	30%

(i) These associates are fully provided for and the financial information below does not include their financial information.

(ii) The financial information below includes the information based on 31 December 2013 unaudited management accounts for these associate.

(iii) A provision of USD 1,500,000 is maintained against the Bank's investment in this associate which was last equity accounted for based on 30 September 2012 unaudited financial statements.

(iv) Recognised due to consolidation of Suffun Bahrain W.L.L. that owns 30% of Skaugen Gulf Petchem Carriers B.S.C. (c) (note 2.1).

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 **USD**	2012 USD
Total assets	**73,698,595**	44,759,183
Total liabilities	**24,755,757**	14,506,911
Total net income	**1,425,539**	885,717

12 INVESTMENT IN REAL ESTATE

	2013 **USD**	2012 USD
Lands	**28,354,872**	26,447,550
Buildings	**15,724,650**	11,994,321
	44,079,522	38,441,871

13 DEVELOPMENT PROPERTIES

	2013 **USD**	2012 USD
Land	**2,269,890**	5,943,959
Development cost	**3,894,161**	10,229,152
	6,164,051	16,173,111

During the year, the Group has released provisions upon disposal of development properties of USD 3,239,391 (2012: nil).

14 NON-CURRENT ASSET HELD FOR SALE

	2013 USD	2012 USD
Suffun Bahrain W.L.L. (note 2.1)	-	1,326,260
	-	1,326,260

15 FIXED ASSETS

	Lease hold improvements USD	Computer hardware and software USD	Furniture and equipment USD	Vehicles USD	Total USD
Cost:					
At 1 January 2013	302,941	141,397	69,169	66,844	580,351
Additions	79,017	280,883	75,418	-	435,318
Disposals	-	-	-	(66,844)	(66,844)
At 31 December 2013	**381,958**	**422,280**	**144,587**	**-**	**948,825**
Depreciation and amortisation:					
At 1 January 2013	30,281	41,004	9,152	66,844	147,281
Charge for the year	37,868	63,388	40,739	-	141,995
Disposals	-	-	-	(66,844)	(66,844)
At 31 December 2013	**68,149**	**104,392**	**49,891**	**-**	**222,432**
Net book values:					
At 31 December 2013	**313,809**	**317,888**	**94,696**	**-**	**726,393**
At 31 December 2012	272,660	100,393	60,017	-	433,070

16 OTHER ASSETS

	2013 USD	2012 USD
Income receivable	**1,365,014**	1,159,201
Ijarah receivable	**621,446**	630,133
Staff receivable	**423,355**	61,432
Prepaid expenses	**213,451**	307,087
Sales proceeds receivables	**-**	1,302,935
Others	**502,724**	477,778
	3,125,990	3,938,566

17 DUE TO FINANCIAL INSTITUTIONS

	2013 USD	2012 USD
Murabaha payable	**11,764,958**	21,355,038
Wakala payables	**11,019,875**	17,681,885
	22,784,833	39,036,923

18 DUE TO NON FINANCIAL INSTITUTIONS

These mainly represent funds received from investors to be invested in entities to be set up or promoted by the Group.

19 OTHER LIABILITIES

	2013 USD	2012 USD
Accounts payable	**2,811,179**	442,595
Due to ijarah investors	**1,474,929**	1,073,424
Acquisition payables	**897,767**	8,017,873
Provision for employee benefits	**704,121**	1,609,222
Directors' fee accrual	**529,959**	520,823
Bonus accruals	**-**	268,786
Others *	**2,038,204**	3,709,160
	8,456,159	15,641,883

*Others include collective impairment provision of USD 291,025 (2012: Nil) (note 28).

20 EQUITY OF INVESTMENT ACCOUNT HOLDERS

Equity of investment account holders are funds of investees held by the Bank which it can invest as it deems appropriate without restriction as to where, how and for what purpose the funds are invested. These accounts are payable on demand and the account holder has the right to withdraw or transfer funds without penalty.

The Bank provides these accounts as an added service to investees who have idle cash and does not market these accounts as a product. Therefore, it is not the practice of the Bank to guarantee the preservation of capital or competitive rate of return through the creation of profit equalization reserves or investment risk reserves. As a result, the Bank has minimal displaced commercial risk.

Profit paid to the investment account holders is based on the profit earned on the profit bearing assets.

21 OWNERS' EQUITY

(i) Share capital	**2013 USD**	2012 USD
Authorized:		
500,000,000 (2012: 500,000,000) ordinary shares at USD 1 per share	**500,000,000**	500,000,000
Issued, subscribed and paid up capital:		
At beginning of year:		
300,000,000 (2010:200,00,000) ordinary shares at USD 1 per share	**300,000,000**	200,000,000
Nil reduction of share capital (2012: 62,000,000 ordinary shares) (note 1)	**-**	(62,000,000)
Issued during the year :		
Nil of share capital (2012: 162,000,000 ordinary shares) (note 1)	**-**	162,000,000
Issued and paid up share capital at end of the year:		
300,000,000 (2012: 300,000,000) ordinary shares at USD 1 per share	**300,000,000**	300,000,000

Additional information on shareholding pattern

(a) Names and nationalities of the major shareholders and the number of shares in which they have an interest of 5% or more of outstanding shares as of 31 December:

	Country of incorporation	**2013 % of holding**	**2013 Share capital**	2012 % of holding	2012 Share capital
Aref Investment Group	Kuwait	**28.52 %**	**85,560,000**	28.52%	85,560,000
Kuwait Investment Company	Kuwait	**7.69 %**	**23,072,427**	7.69%	23,072,427
Gulf Investment House	Kuwait	**5.79 %**	**17,357,403**	5.79%	17,357,403

(b) Distribution schedule of equity shares, setting out the number of holders and percentage in the following categories as of 31 December:

	2013		
Categories	**Number of shares**	**Number of shareholders**	**% of total outstanding shares**
Less than 5%	**174,010,170**	**133**	**58.00 %**
5% up to less than 10%	**40,429,830**	**2**	**13.48 %**
20% up to less than 50%	**85,560,000**	**1**	**28.52 %**
	300,000,000	**136**	**100.00 %**

	2012		
Categories	Number of shares	Number of shareholders	% of total outstanding shares
Less than 5%	174,010,170	133	58.00 %
5% up to less than 10%	40,429,830	2	13.48 %
20% up to less than 50%	85,560,000	1	28.52 %
	300,000,000	136	100.00 %

21 OWNERS' EQUITY (continued)

(ii) Share premium

Amounts collected in excess of the par value of the issued share capital during any new issue of shares, net of issue expenses, are treated as share premium. This amount is not available for distribution, but can be utilised as stipulated by the Bahrain Commercial Companies Law and following the approval of the CBB.

(iii) Reserves

Statutory reserve

In accordance with the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net profit for the year is transferred to the statutory reserve until such time as the reserve reaches 50% of the Bank's 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. No amount was transferred to statutory reserve as loss was incurred for the year ended 31 December 2013.

Investments fair value reserve

This represents cumulative unrealised fair value changes on investments and the net foreign exchange gain (loss) arising from translating the investments carried at fair value other than the investments carried at fair value through profit and loss. This reserve is transferred to the consolidated statement of income upon sale or impairment of the investments.

General reserve

This represents the reserve arising on the reduction of the Bank's share capital from USD 200,000,000 to USD 138,000,000.

22 PROFIT FROM ISLAMIC FINANCING

	2013 **USD**	2012 USD
Profit on ijarah	**1,748,285**	1,580,195
Profit on mudaraba	**439,797**	520,740
Profit on commodity murabaha receivables	**354,093**	387,391
Profit on wakala contracts	**191,599**	2,217
Profit on musharaka financing	**63,072**	84,657
	2,796,846	2,575,200

23 INCOME FROM INVESTMENT SECURITIES

	2013 **USD**	2012 USD
Profit earned on debt-type instruments at amortised cost	**4,971,896**	5,493,534
Gain on disposal of equity-type instruments at fair value through equity	**1,018,858**	1,119,611
Dividends received on equity-type instruments at fair value through equity	**919,760**	128,152
Gain on disposal of debt-type instruments at amortised cost	**634,351**	2,522,533
	7,544,865	9,263,830

24 OTHER INCOME

	2013 USD	2012 USD
Gain on disposal of development properties	**1,479,400**	-
Rental income from investments in real estate	**1,222,538**	-
Gain on disposal of investment in real estate	**857,143**	-
Gain on disposal of fixed assets	**18,223**	-
Others	**406,087**	6,208
	3,983,391	6,208

25 STAFF COST

	2013 USD	2012 USD
Salaries and benefits	**4,754,305**	3,302,159
Social insurance expenses	**393,312**	114,928
Other staff expenses	**1,086,639**	862,989
	6,234,256	4,280,076

26 DEPRECIATION AND AMORTISATION

	Note	2013 USD	2012 USD
Depreciation and amortisation - fixed assets	15	**141,995**	483,985
Depreciation - investment in ijarah asset	8	**-**	784,868
		141,995	1,268,853

27 OTHER EXPENSES

	2013 USD	2012 USD
Professional expenses	**775,625**	411,091
Premises cost	**648,868**	751,997
Board of directors sitting fee and expenses	**654,683**	524,549
Travel and accommodation	**170,684**	152,076
Fixed assets writen off	**-**	765,320
Other administrative expenses	**2,453,443**	972,173
	4,703,303	3,577,206

28 PROVISION AND IMPAIRMENT - NET

(a) The following table shows the movement of provision and impairment during the year ended 31 December:

	Specific impairment		**Collective impairment**		Specific impairment		Collective impairment	
	Musharaka financing	**Investment in ijarah asset**		**2013 Total**	Musharaka financing	Investment in ijarah asset		2012 Total
	USD	**USD**	**USD**	**USD**	USD	USD	USD	USD
Provision at beginning of the year	**55,981**	**1,903,567**	**-**	**1,959,548**	7,024	-	-	7,024
Charged during the year	**43,955**	**-**	**291,025**	**334,980**	49,577	1,903,567	-	1,953,144
Foreign exchange translation	**178,012**	**-**	**-**	**178,012**	(620)	-	-	(620)
Provision at end of the year	**277,948**	**1,903,567**	**291,025**	**2,472,540**	55,981	1,903,567	-	1,959,548
Notes	6	8	19		6	8		

(b) The following table shows the provision and impairment charge during the year ended 31 December:

	Note	**2013 USD**	2012 USD
Musharaka financing		**221,967**	49,577
Investment securities	10	**4,921,194**	3,344,149
Investment in ijarah asset	8	**-**	1,903,567
Transfer from investments fair value reserve		**-**	1,324,502
Collective impairment provision	19	**291,025**	-
Release of provisions upon disposal of development properties	13	**(3,239,391)**	-
		2,194,795	6,621,795

Ibdar Bank B.S.C (c)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

Ibdar Bank B.S.C (c)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

29 ACQUISITION EXPENSES

	2013 USD	2012 USD
Merger expenses	-	5,615,611
Redundancy expenses*	-	2,900,000
	-	8,515,611

* During 2012, the shareholders of the Bank approved the merger of the Bank with Capivest and CMH, where the Board of Directors of the Bank has decided to reduce the workforce of the Group, in relation to which an amount of USD 2,900 thousand was provided at the year end.

30 OTHER COMPREHENSIVE INCOME

	2013 USD	2012 USD
Net profit (loss) for the year	22,575	(12,370,247)
Unrealised investment fair value reserve securities	2,551,781	367,776
Unrealised investment fair value reserve real estate	2,089,412	-
	4,663,768	(12,002,471)

31 SEGMENT INFORMATION

a) Geographic sector

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

	Middle East USD	Europe USD	Africa USD	South East Asia & Others USD	Total USD
2013					
Assets					
Cash and balances with banks	6,956,544	7,575,455	-	1,707,465	16,239,464
Due from financial institutions	15,591,327	-	-	-	15,591,327
Financing receivables	12,232,440	-	-	-	12,232,440
Musharaka financing	-	-	-	786,630	786,630
Receivable from ijarah investors	14,800,849	-	-	-	14,800,849
Investment in ijarah asset	-	-	-	4,791,720	4,791,720
Ijarah muntahia bittamleek	-	-	-	1,282,534	1,282,534
Investment securities	178,631,332	35,886,913	14,348,867	-	228,867,112
Investment in associates	11,372,412	-	-	-	11,372,412
Investment in real estate	44,079,522		-	-	44,079,522
Development properties	6,164,051	-	-	-	6,164,051
Fixed assets	726,393	-	-	-	726,393
Other assets	2,320,372	67,132	53,046	685,440	3,125,990
Total assets	292,875,242	43,529,500	14,401,913	9,253,789	360,060,444
Liabilities					
Due to financial institutions	16,266,027	-	-	6,518,806	22,784,833
Due to non financial institutions	164,576	-	-	-	164,576
Other liabilities	8,253,881	4,095	133,479	64,704	8,456,159
Total liabilities	24,684,484	4,095	133,479	6,583,510	31,405,568
Equity of investment accountholders	366,753	-	130,782	-	497,535

31 SEGMENT INFORMATION (continued)

a) Geographic sector (continued)

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

	Middle East USD	Europe USD	Africa USD	South East Asia & Others USD	Total USD
2012					
Assets					
Cash and balances with banks	8,770,393	4,182,524	-	34,080	12,986,997
Due from financial institutions	35,083,388	-	-	-	35,083,388
Financing receivables	12,372,062	1,326,386	-	-	13,698,448
Musharaka financing	916,916	-	-	985,804	1,902,720
Receivable from ijarah investors	14,800,849	-	-	-	14,800,849
Investment in ijarah asset	-	-	-	4,961,974	4,961,974
Ijarah muntahia bittamleek	-	-	-	1,905,822	1,905,822
Investment securities	180,471,731	34,870,121	16,725,408	-	232,067,260
Investment in associates	5,046,963	-	-	-	5,046,963
Investment in real estate	38,441,871	-	-	-	38,441,871
Development properties	16,173,111	-	-	-	16,173,111
Non-current asset held for sale	1,326,260	-	-	-	1,326,260
Fixed assets	433,070	-	-	-	433,070
Other assets	2,958,842	45,515	133,808	800,401	3,938,566
Total assets	316,795,456	40,424,546	16,859,216	8,688,081	382,767,299
Liabilities					
Due to financial institutions	25,008,985	-	-	14,027,938	39,036,923
Due to non financial institutions	435,408	-	-	-	435,408
Other liabilities	15,579,539	-	62,344	-	15,641,883
Total liabilities	41,023,932	-	62,344	14,027,938	55,114,214
Equity of investment accountholders	125,836	-	1,137,797	-	1,263,633

31 SEGMENT INFORMATION (continued)

b) Industry sector

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

	Trading and manufacturing USD	Banks and financial institutions USD	Real Estate USD	Others USD	Total USD
2013					
Assets					
Cash and balances with banks	-	16,238,668	-	796	16,239,464
Due from financial institutions	-	15,591,327	-	-	15,591,327
Financing receivables	-	-	-	12,232,440	12,232,440
Musharaka financing	-	-	-	786,630	786,630
Receivable from ijarah investors	-	-	-	14,800,849	14,800,849
Investment in ijarah asset	-	-	-	4,791,720	4,791,720
Ijarah muntahia bittamleek	-	-	-	1,282,534	1,282,534
Investment securities	21,537,038	69,904,689	77,993,404	59,431,981	228,867,112
Investment in associates	-	3,444,085	1,948,510	5,979,817	11,372,412
Investment in real estate	-	-	44,079,522	-	44,079,522
Development properties	-	-	6,164,051	-	6,164,051
Fixed assets	-	-	-	726,393	726,393
Other assets	72,399	205,661	511,508	2,336,422	3,125,990
Total assets	**21,609,437**	**105,384,430**	**130,696,995**	**102,369,582**	**360,060,444**
Liabilities					
Due to financial institutions	-	22,784,833	-	-	22,784,833
Due to non financial institutions	-	-	-	164,576	164,576
Other liabilities	151,516	163,192	2,427,993	5,713,458	8,456,159
Total liabilities	**151,516**	**22,948,025**	**2,427,993**	**5,878,034**	**31,405,568**
Equity of investment accountholders	**135,084**	**-**	**-**	**362,451**	**497,535**

31 SEGMENT INFORMATION (continued)

b) Industry sector (continued)

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

	Trading and manufacturing USD	Banks and financial institutions USD	Real Estate USD	Others USD	Total USD
2012					
Assets					
Cash and balances with banks	-	12,986,997	-	-	12,986,997
Due from financial institutions	-	35,083,388	-	-	35,083,388
Financing receivables	-	-	1,326,386	12,372,062	13,698,448
Musharaka financing	-	985,804	-	916,916	1,902,720
Receivable from ijarah investors	-	-	-	14,800,849	14,800,849
Investment in ijarah asset	-	-	-	4,961,974	4,961,974
Ijarah muntahia bittamleek	-	-	-	1,905,822	1,905,822
Investment securities	15,695,096	82,000,945	91,654,476	42,716,743	232,067,260
Investment in associates	-	3,444,085	1,602,878	-	5,046,963
Investment in real estate	-	-	38,441,871	-	38,441,871
Development properties	-	-	16,173,111	-	16,173,111
Non-current asset held for sale	-	-	-	1,326,260	1,326,260
Fixed assets	-	-	-	433,070	433,070
Other assets	12,819	421,706	689,210	2,814,831	3,938,566
Total assets	15,707,915	134,922,925	149,887,932	82,248,527	382,767,299
Liabilities					
Due to financial institutions	-	39,036,923	-	-	39,036,923
Due to non financial institutions	268,679	-	-	166,729	435,408
Other liabilities	247,834	163,192	300,275	14,930,582	15,641,883
Total liabilities	516,513	39,200,115	300,275	15,097,311	55,114,214
Equity of investment accountholders	1,137,797	-	-	125,836	1,263,633

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.

Ibdar Bank B.S.C (c)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

32 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'ah 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:

	Associated companies USD	**Directors/ key management personnel Shari'ah board members External auditors USD**	**Major shareholders / entities in which directors are interested USD**	**31 December 2013 USD**	Associated companies USD	Directors/ key management personnel Shari'ah board members External auditors USD	Major shareholders / entities in which directors are interested USD	31 December 2012 USD
Assets								
Cash and balances with banks	**-**	**-**	**34,706**	**34,706**	-	-	5,911,922	5,911,922
Due from financial institutions	**-**	**-**	**-**	**-**	-	-	5,650,499	5,650,499
Investment securities	**-**	**24,136,656**	**4,712,149**	**28,848,805**	-	25,723,626	12,286,966	38,010,592
Investment in associates	**11,372,412**	**-**	**-**	**11,372,412**	5,046,963	-	-	5,046,963
Other assets	**191,415**	**210,084**	**2,122**	**403,621**	-	78,818	1,061	79,879
	11,563,827	**24,346,740**	**4,748,977**	**40,659,544**	5,046,963	25,802,444	23,850,448	54,699,855
Liabilities								
Due to financial institutions	**-**	**-**	**-**	**-**	-	-	13,242,584	13,242,584
Due to non financial institutions	**-**	**-**	**156,628**	**156,628**	-	-	250,004	250,004
Other liabilities	**79,576**	**1,773,507**	**45,628**	**1,898,711**	79,576	2,166,890	5,336,519	7,582,985
	79,576	**1,773,507**	**202,256**	**2,055,339**	79,576	2,166,890	18,829,107	21,075,573
Equity of investment accountholders	**-**	**130,542**	**-**	**130,542**	-	1,137,797	-	1,137,797
Commitments	**-**	**9,168,966**	**-**	**9,168,966**	-	11,405,836	-	11,405,836

32 RELATED PARTY BALANCES AND TRANSACTIONS (continued)

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

	Associated companies USD	**Directors/ key management personnel Shari'ah board members External auditors USD**	**Major shareholders / entities in which directors are interested USD**	**31 December 2013 USD**	Associated companies USD	Directors/ key management personnel Shari'ah board members External auditors USD	Major shareholders / entities in which directors are interested USD	31 December 2012 USD
Income								
Income from investment securities	**-**	**-**	**568,776**	**568,776**	-	-	382,591	382,591
Income from investment banking services	**80,500**	**-**	**491,017**	**571,517**	-	-	-	-
Share of results from associates	**262,357**	**-**	**-**	**262,357**				
Expenses								
Other expenses	**-**	**1,076,877**	**-**	**1,076,877**	-	670,198	-	670,198
Acquisition expenses	**-**	**-**	**-**	**-**	-	-	5,615,611	5,615,611

Compensation of key management personnel of the Bank, included in consolidated statement of income, is as follows:

	2013 USD	2012 USD
Short term employee benefits	**891,814**	2,080,153
Long term employee benefits	**43,492**	366,299

Director's sitting fee and expenses for the year ended 31 December 2013 amounted to USD 655 thousand (2012: USD 525 thousand).

33 COMMITMENTS

	2013 USD	2012 USD
Uncalled capital commitments in respect of investment	**9,168,966**	13,505,836
Promise to purchase foreign currency commitment	**-**	484,140
Commitment related to project developments	**132,626**	132,626
Operating lease commitments - expiring within one year	**80,101**	97,472
Operating lease commitments - expiring in one to three years	**35,810**	57,388
	9,417,503	14,277,462

34 RISK MANAGEMENT

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

- credit risk;
- liquidity risk;
- market risks;
- profit rate in banking book; and
- operational risk

The Group has a risk management and governance framework, which is intended to integrate risk management in its strategic thinking and business practices.

Furthermore, the Group has taken several initiatives to implement a comprehensive Basel II framework. These initiatives involve steps to identify all risk areas that it manages and has particularly strengthened its risk management policies and procedures.

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.

Risk Management and Governance Structure

Board of Directors
The Board of Directors of the Group has overall responsibility for establishing the Group's approach to risk and ensuring that an effective risk management framework is in place. The Board approves and periodically reviews the risk management policies and strategies of the Group. The Bank's Board of Directors' structure constitute of 10 members as of 31 December 2013.

Audit Committee
The mandate of the Audit Committee requires it to assist the Board in fulfilling its statutory and fiduciary responsibilities with respect to internal controls, accounting policies, auditing and financial reporting practices. The committee is responsible to assist the Board in its oversight of (i) the integrity and reporting of the Group's quarterly and annual consolidated financial statements, (ii) compliance with legal and regulatory requirements; and (iii) the independence and performance of the Group's internal and external auditors. The Committee also reviews the activities and performance of the internal audit function.

Risk Committee
The Risk Committee ("RC") is a sub-committee of the Board of Directors and assists the Board in fulfilling its oversight responsibilities with regards to development of risk management framework across all spectrums of business and operational activities conducted by the Group. The mandate of this committee is to develop and implement risk management strategies and policies. The committee is also responsible for assessment of the efficiency of overall risk management function of the Group and compliance with regulatory requirements relating to risk management. The committee also ensures transparency and timeliness of internal and external disclosures on risk matters.

34 RISK MANAGEMENT (continued)

Risk Management and Governance Structure (continued)

Shari'ah Supervisory Board
The Group's compliance with Shari'ah principles is overseen by an external and independent Shari'ah Supervisory Board (SSB), fully supported by the Group's other departments. The SSB is responsible for ensuring that there is an ongoing process of reviewing and auditing for Shari'ah compliance in accordance with AAOIFI standards for existing and new investments. The SSB ensures that all investments undertaken by the lines of business are structured in such a manner that investments comply strictly with Shari'ah principles.

Asset and Liability Committee
The Asset and Liability Committee ("ALCO") establishes policy and objectives for management of the Group's assets and liabilities in terms of structure, distribution, risk and return and its impact on profitability. It also monitors cash flows, tenor and cost/yield profiles of assets and liabilities and evaluates the Group's consolidated statement of financial position both from profit rate sensitivity and liquidity points of view, makes corrective adjustments based upon perceived trends and market conditions, monitors liquidity and foreign exchange exposures and positions.

Investment, Credit & Risk Committee
The Investment Credit & Risk Committee ("ICRC") comprises of the Chairman of the Board, Chief Investment Officer and Chief Operating Officer as voting members, in addition to the Heads of Risk Management and Legal as non voting members. In addition to facilitating the credit and investment decisions, the ICRC's mission is to establish and maintain a risk management framework throughout the Group to best manage Bank's shareholders and client interests. Its mandate is to identify, assess and measure risks arising from the Group's activities, and to define the appropriate course of action to mitigate or manage them.

Risk Management Department
The Risk Management Department ("RMD") is responsible for implementing and maintaining risk related policies & procedures to ensure an independent control process. It provides oversight compliance with risk principles, policies and limits across the Group. The department is also responsible for the independent control of risks, including monitoring the risk of exposures against limits and the assessment of risks of new products and structured transactions. This department also ensures complete capture of the risks in risk measurement and reporting systems.

Internal Audit
Internal Audit is responsible for carrying out a risk-based program designed to provide assurance that assets are being safeguarded. This involves ensuring that controls are in place and working effectively in accordance with Group policies and procedures as well as with laws and regulations. The work carried out by Internal Audit includes providing assurance on the effectiveness of the risk management functions as well as that of controls operated by the business units. The Audit Committee approves the annual audit plan and also receives regular reports of the results of audit work.

Risk Management and Reporting Structure
The Group identifies, measures, controls and monitors its material risks on a periodic basis. The Group has established relevant risk limit structures to quantify its risk appetite. RC reviews and recommends the limits, suggested by the ICRC to the Board which is ultimately responsible for the final approval of the limit. The monitoring and controlling of risks is managed through limits set by the ICRC. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept.

The RMD presents reports to the Board of Directors through ICRC and RC. These reports include risk and investment review of Group's portfolio and its impact on Group's capital adequacy.

As part of the Risk Management's reporting framework, tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-

34 RISK MANAGEMENT (continued)

Risk Management and Governance Structure (continued)

Risk Management and Reporting Structure (continued)
to-date information. A periodic briefing is given to the Executive Management and all other relevant members of the Group on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

(a) 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. Being a wholesale investment bank, the Group is involved in investment advisory services and investment transactions which comply with Islamic rules and principles according to the opinion of the Shari'ah Board. Credit risk arises largely through balance with banks, short-term placements of excess cash, financing receivables, musharaka financing, receivable from ijarah investors, investment in securities and other assets.

The Group manages and controls its credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits. Counterparty limits are established with the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to revision at the time of renewal of the facility.

The Board has delegated responsibility for the management of credit risk to its ICRC. ICRC is the highest management-level authority on all credit exposures. The overall role of ICRC is to facilitate the business of the Group in the most effective and efficient manner within the risk guidelines specified by the Board or its designated RC. Prior to funding a facility, and regardless of its size, the ICRC provides an independent assessment of the opportunity, highlighting key risks prior to commitment.

The RMD regularly monitors the level of risk within the Group's portfolio to ensure that appropriate level of economic capital is maintained. This process ensures that the required risk capital is below the available equity, which results in a positive equity cushion. The RMD ensures that Ibdar maintains appropriate asset diversification by geography, industry and investment type.

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 mitigants.

	Maximum exposure	
	2013	2012
	USD	USD
Balances with banks	**16,238,668**	12,979,455
Due from financial institutions	**15,591,327**	35,083,388
Financing receivables	**12,232,440**	13,698,448
Musharaka financing	**786,630**	1,902,720
Receivable from ijarah investors	**14,800,849**	14,800,849
Investment securities	**79,862,970**	72,381,253
Other assets	**2,912,539**	3,631,479
	142,425,423	154,477,592

34 RISK MANAGEMENT (continued)

Risk Management and Governance Structure (continued)

(a) 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 USD**	**Due from financial institutions USD**	**Financing receivables USD**	**Musharka financing USD**	**Receivable from ijarah investors USD**	**Investment securities USD**	**Other assets USD**	**Total USD**
Prime to High grade: AAA – AA	1,283,720	-	-	-	-	3,303,446	63,976	4,651,142
Medium grade: A – BBB	41	-	-	-	-	30,105,601	490,373	30,596,015
Non-investment / speculative: BB – B	32,378	-	-	-	-	9,631,783	164,513	9,828,674
Unrated	14,922,529	15,591,327	12,232,440	786,630	14,800,849	36,822,140	2,193,677	97,349,592
Total	**16,238,668**	**15,591,327**	**12,232,440**	**786,630**	**14,800,849**	**79,862,970**	**2,912,539**	**142,425,423**

2012	Balances with banks USD	Due from financial institutions USD	Financing receivables USD	Musharka financing USD	Receivable from ijarah investors USD	Investment securities USD	Other assets USD	Total USD
Prime to High grade: AAA – AA	1,147,315	-	-	-	-	4,362,427	1,090	5,510,832
Medium grade: A – BBB	266,075	-	-	-	-	33,591,932	687,247	34,545,254
Non-investment / speculative: BB – B	6,041	-	-	-	-	-	-	6,041
Unrated	11,560,024	35,083,388	13,698,448	1,902,720	14,800,849	34,426,894	2,943,142	114,415,465
Total	12,979,455	35,083,388	13,698,448	1,902,720	14,800,849	72,381,253	3,631,479	154,477,592

34 RISK MANAGEMENT (continued)

Risk Management and Governance Structure (continued)

(a) Credit Risk (continued)

Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar economic activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly effected by changes in economic, political or other conditions. The Group seeks to manage the concentration risk by establishing and constantly monitoring geographic and industry wise concentration limits.

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	**Trading and manufacturing USD**	**Banks and financial institutions USD**	**Real Estate USD**	**Others USD**	**Total USD**
Balances with banks	**-**	**16,238,668**	**-**	**-**	**16,238,668**
Due from financial institutions	**-**	**15,591,327**	**-**	**-**	**15,591,327**
Financing receivables	**-**	**-**	**-**	**12,232,440**	**12,232,440**
Musharaka financing	**-**	**-**	**-**	**786,630**	**786,630**
Receivable from ijarah investors	**-**	**-**	**-**	**14,800,849**	**14,800,849**
Investment securities	**6,695,820**	**15,751,479**	**30,695,903**	**26,719,768**	**79,862,970**
Other assets	**72,399**	**205,661**	**511,508**	**2,122,971**	**2,912,539**
	6,768,219	**47,787,135**	**31,207,411**	**56,662,658**	**142,425,423**

2012	Trading and manufacturing USD	Banks and financial institutions USD	Real Estate USD	Others USD	Total USD
Balances with banks	-	12,979,455	-	-	12,979,455
Due from financial institutions	-	35,083,388	-	-	35,083,388
Financing receivable	-		1,326,386	12,372,062	13,698,448
Musharaka financing	-	985,804	-	916,916	1,902,720
Receivable from ijarah investors	-	-	-	14,800,849	14,800,849
Investment securities	5,300,000	14,202,721	25,466,405	27,412,127	72,381,253
Other assets	12,819	421,706	686,210	2,510,744	3,631,479
	5,312,819	63,673,074	27,479,001	58,012,698	154,477,592

34 RISK MANAGEMENT (continued)

Risk Management and Governance Structure (continued)

(a) Credit 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 geographical regions:

	Middle East USD	Europe USD	Africa USD	South East Asia and Others USD	Total USD
2013					
Balances with banks	**6,955,748**	**7,575,455**	**-**	**1,707,465**	**16,238,668**
Due from financial institutions	**15,591,327**	**-**	**-**	**-**	**15,591,327**
Financing receivables	**12,232,440**	**-**	**-**	**-**	**12,232,440**
Musharaka financing	**-**	**-**	**-**	**786,630**	**786,630**
Receivable from ijarah investors	**14,800,849**	**-**	**-**	**-**	**14,800,849**
Investment securities	**71,980,403**	**7,882,567**	**-**	**-**	**79,862,970**
Other assets	**2,106,921**	**67,132**	**53,046**	**685,440**	**2,912,539**
	123,667,688	**15,525,154**	**53,046**	**3,179,535**	**142,425,423**

	Middle East USD	Europe USD	Africa USD	South East Asia and Others USD	Total USD
2012					
Balances with banks	8,762,851	4,182,524	-	34,080	12,979,455
Due from financial institutions	35,083,388	-	-	-	35,083,388
Financing receivable	12,372,062	1,326,386	-	-	13,698,448
Musharaka financing	916,916	-	-	985,804	1,902,720
Receivable from ijarah investors	14,800,849	-	-	-	14,800,849
Investment securities	63,431,863	8,949,390	-	-	72,381,253
Other assets	2,651,755	45,515	133,808	800,401	3,631,479
	138,019,684	14,503,815	133,808	1,820,285	154,477,592

Ibdar Bank B.S.C (c)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

34 RISK MANAGEMENT (continued)

Risk Management and Governance Structure (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances.

The main action to manage the Group's liquidity is through the adherence to limits on liquidity mismatches. These include the limits of the cumulative excess of maturing liabilities over assets in the short-term and limits on dependence on short-dated funds.

Treasury department is overall responsible for ensuring that the limits enacted are adhered to, on a day-to-day basis and managing excess liquidity of the Group through short term placements and investments. Treasury department maintains a constant communication with the banks which have extended a committed short term financing line to the Group. Treasury department provides a monthly report to the ALCO regarding the dependability and reliability of these banks. Treasury department also monitors the market conditions.

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 USD	3 months to 1 year USD	Sub total USD	1 to 5 years USD	5 to 10 years USD	No fixed maturity USD	Total USD
Assets							
Cash and balances with banks	16,239,464	-	16,239,464	-	-	-	16,239,464
Due from financial institutions	11,055,014	4,536,313	15,591,327	-	-	-	15,591,327
Financing receivables	-	12,232,440	12,232,440	-	-	-	12,232,440
Musharaka financing	-	-	-	786,630	-	-	786,630
Receivable from ijarah investors	-	14,800,849	14,800,849	-	-	-	14,800,849
Investment in ijarah asset	174,111	4,617,609	4,791,720	-	-	-	4,791,720
Ijarah muntahia bittamleek	208,333	625,000	833,333	449,201	-	-	1,282,534
Investment in securities	-	-	-	54,519,491	25,343,479	149,004,142	228,867,112
Investment in associates	-	-	-	-	-	11,372,412	11,372,412
Investment in real estate	-	-	-	-	-	44,079,522	44,079,522
Development properties	-	-	-	-	-	6,164,051	6,164,051
Fixed assets	-	-	-	-	-	726,393	726,393
Other assets	836,646	1,700,290	2,536,936	377,527	-	211,527	3,125,990
Total assets	**28,513,568**	**38,512,501**	**67,026,069**	**56,132,849**	**25,343,479**	**211,558,047**	**360,060,444**

34 RISK MANAGEMENT (continued)

Risk Management and Governance Structure (continued)

(b) Liquidity risk (continued)

2013	Up to 3 months USD	3 months to 1 year USD	Sub total USD	1 to 5 years USD	5 to 10 years USD	No fixed maturity USD	Total USD
Liabilities							
Due to financial institutions	6,595,590	16,189,243	22,784,833	-	-	-	22,784,833
Due to non financial institutions	-	164,576	164,576	-	-	-	164,576
Other liabilities	1,361,485	3,958,759	5,320,244	2,844,631	-	291,284	8,456,159
Total liabilities	7,957,075	20,312,578	28,269,653	2,844,631	-	291,284	31,405,568
Equity of investment accountholders	497,535	-	497,535	-	-	-	497,535
Total liabilities and equity of investment accountholders	8,454,610	20,312,578	28,767,188	2,844,631	-	291,284	31,903,103
Net liquidity gap	20,058,958	18,199,923	38,258,881	53,288,218	25,343,479	211,266,763	328,157,341
Cumulative net liquidity gap	20,058,958	38,258,881		91,547,099	116,890,578	328,157,341	-
Commitments	-	9,381,693	9,381,693	35,810	-	-	9,417,503

Ibdar Bank B.S.C (c)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2013

34 RISK MANAGEMENT (continued)

Risk Management and Governance Structure (continued)

(b) 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 USD	3 months to 1 year USD	**Sub total USD**	1 to 5 years USD	5 to 10 years USD	No fixed maturity USD	Total USD
Assets							
Cash and balances with banks	12,986,997	-	**12,986,997**	-	-	-	12,986,997
Due from financial institutions	30,547,075	4,536,313	**35,083,388**	-	-	-	35,083,388
Financing receivables	1,326,386	12,372,062	**13,698,448**	-	-	-	13,698,448
Musharaka financing	776,521	770,395	**1,546,916**	355,804	-	-	1,902,720
Receivable from ijarah investors	-	11,407,546	**11,407,546**	-	-	3,393,303	14,800,849
Investment in ijarah asset	4,961,974	-	**4,961,974**	-	-	-	4,961,974
Ijarah muntahia bittamleek	-	30,822	**30,822**	1,875,000	-	-	1,905,822
Investment in securities	9,788,909	-	**9,788,909**	33,840,582	28,751,762	159,686,007	232,067,260
Investment in associates	-	-	**-**	-	-	5,046,963	5,046,963
Investment in real estate	-	-	**-**	-	-	38,441,871	38,441,871
Development properties	-	-	**-**	-	-	16,173,111	16,173,111
Non-current asset held for sale	-	1,326,260	**1,326,260**	-	-	-	1,326,260
Fixed assets	-	-	**-**	-	-	433,070	433,070
Other assets	1,968,864	1,054,610	**3,023,474**	355,729	-	559,363	3,938,566
Total assets	62,356,726	31,498,008	**93,854,734**	36,427,115	28,751,762	223,733,688	382,767,299

34 RISK MANAGEMENT (continued)

Risk Management and Governance Structure (continued)

(b) Liquidity risk (continued)

2012	Up to 3 months USD	3 months to 1 year USD	**Sub total USD**	1 to 5 years USD	5 to 10 years USD	No fixed maturity USD	Total USD
Liabilities							
Due to financial institutions	14,529,316	8,082,867	**22,612,183**	16,424,740	-	-	39,036,923
Due to non financial institutions	-	-	**-**	435,408	-	-	435,408
Other liabilities	11,058,014	1,838,591	**12,896,605**	1,920,580	86,934	737,764	15,641,883
Total liabilities	25,587,330	9,921,458	**35,508,788**	18,780,728	86,934	737,764	55,114,214
Equity of investment accountholders	1,263,634	-	**1,263,634**	-	-	-	1,263,634
Total liabilities and equity of investment accountholders	26,850,964	9,921,458	**36,772,422**	18,780,728	86,934	737,764	56,377,848
Net liquidity gap	35,505,762	21,576,550	**57,082,312**	17,646,387	28,664,828	222,995,924	326,389,451
Cumulative net liquidity gap	35,505,762	57,082,312		74,728,699	103,393,527	326,389,451	
Commitments	6,344,051	7,876,023	**14,220,074**	57,388	-	-	14,277,462

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 10 years.

34 RISK MANAGEMENT (continued)

Risk Management and Governance Structure (continued)

(c) Market Risk

Market risk is the risk that changes in market prices, such as profit rates, equity prices, foreign exchange rates and commodity prices will affect the Group's income or the value of its holdings of financial instruments. Market risk comprises equity position risk, profit rate risk, commodities risk, currency risk and other price risk.

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

The Group does not have a trading portfolio and hence is not exposed to market risk in relation to such instruments. The Group is not exposed to commodities or price risk as there is no commodity holding either in the banking or trading book. Market risk for the Group arises only on account of its foreign exchange exposure in the banking book.

The Group manages its market risk exposures by evaluating each new product and activity with respect to the market risk introduced by it.

Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Most of the transactions completed by the Group are in US Dollar. However, in the normal course of business certain non-trading monetary assets and liabilities are in other currencies and give rise to currency risk.

Positions are monitored regularly to ensure that they are maintained within established limits and guidelines. The Group is not exposed to any significant currency risk.

Equity price risk
Equity price risk is the risk that the fair value of equity investments decreases as a result of fluctuations in the respective stock market indices. The Group has investments at fair value through equity quoted on stock exchanges. Based on the values at 31 December 2013, a change in the quoted price of plus or minus 5% would change the value of these investments by plus or minus USD 1,782 thousand (2012: USD 683) with a corresponding increase or decrease in equity, except in case of impairment which will result in loss being taken to consolidated statement of income.

The Group also has unquoted investments carried at fair value using either net asset value or valuations from independent valuers. Based on the values at 31 December 2013, a change in the valuation of 5% would change the value of these investments by plus or minus USD 4,745 thousand (2012: USD 6,284) with a corresponding increase or decrease in equity, except in case of further decline on impaired investments which will result in loss being taken to consolidated statement of income.

Prepayment risk
Prepayment risk is the risk that the Group will incur a financial loss because its counterparties repay or request repayment earlier or later than expected. The Group is not exposed to any significant prepayment risk.

Profit rate risk in banking book
Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of return of the sources of finance. The table below analyses the Group's profit rate risk exposure on non-trading financial assets and liabilities. The Group's assets and liabilities are included at carrying amount and categorised based on contractual repayment arrangements:

34 RISK MANAGEMENT (continued)

(c) Market Risk (continued)

Profit rate risk in banking book (continued)

2013	Up to 3 months USD	3 months to 1 year USD	1 to 5 years USD	Above 5 years USD	Total USD
Assets					
Due from financial institutions	**11,055,014**	**4,536,313**	**-**	**-**	**15,591,327**
Financing receivables	**12,232,440**	**-**	**-**	**-**	**12,232,440**
Investment securities	**-**	**-**	**53,614,887**	**26,248,083**	**79,862,970**
Total profit rate sensitive assets	**23,287,454**	**4,536,313**	**53,614,887**	**26,248,083**	**107,686,737**
Liability					
Due to financial institutions	**6,595,590**	**16,189,243**	**-**	**-**	**22,784,833**
Total profit rate sensitive liabilities	**6,595,590**	**16,189,243**	**-**	**-**	**22,784,833**
Profit rate sensitivity gap	**16,691,864**	**(11,652,930)**	**53,614,887**	**26,248,083**	**84,901,904**

2012	Up to 3 months USD	3 months to 1 year USD	1 to 5 years USD	Above 5 years USD	Total USD
Assets					
Due from financial institutions	30,547,075	4,536,313	-	-	35,083,388
Financing receivables	1,326,386	12,372,062	-	-	13,698,448
Investment securities	9,788,909	-	33,840,582	28,751,762	72,381,253
Total profit rate sensitive assets	41,662,370	16,908,375	33,840,582	28,751,762	121,163,089
Liability					
Due to financial institutions	14,529,316	8,082,867	16,424,740	-	39,036,923
Total profit rate sensitive liabilities	14,529,316	8,082,867	16,424,740	-	39,036,923
Profit rate sensitivity gap	27,133,054	8,825,508	17,415,842	28,751,762	82,126,166

(d) Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. It is an inherent risk faced by all business and covers a large number of operational risk events including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets.

The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

(d) Operational Risk (continued)

Risk and Control Self Assessment ("RCSA") is an annual exercise as per Bank's policy and is a requirement by Central Bank of Bahrain based on Basel II principles related to operational risk management. During the year 2013 the Group decided to postpone the RCSA exercise to 2014 due to the merger process.

The Group has developed a Disaster Recovery and Business Continuity Plan ("DR&BCP") to enable the Group to survive a disaster and to reestablish normal business operations. The DR&BCP will enable the Group to minimize interruptions to business service operations, resume critical operations within a specified time after a disaster, minimize financial loss due to disruptions, limit the severity of the disruption, expedite the restoration of services and maintain a positive public image of the Bank.

35 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

	Amortised Cost USD	Fair value through equity USD	Fair value through statement of income USD
Financial assets:			
Financing receivables	12,232,440	-	-
Musharaka financing	786,630	-	-
Receivable from ijarah investors	14,800,849	-	-
Investment in securities	79,862,970	131,732,880	17,271,262
Other assets (excluding prepaid expenses)	2,912,539	-	-
Total	110,595,428	131,732,880	17,271,262
Financial liabilities:			
Due to financial institutions	22,784,833	-	-
Due to non financial institutions	164,576	-	-
Other liabilities (excluding provision for employee benefits)	7,752,038	-	-
Total	30,701,447	-	-

The fair values of financial instruments are not materially different from their carrying values at the consolidated statement of financial position date, except as disclosed in note 10.

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 fair values of financial assets by valuation technique:

35 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

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

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

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

The following table shows an analysis of financial assets recorded at fair value by level of the fair value hierarchy:

2013	**Level 1 USD**	**Level 2 USD**	**Level 3 USD**	**Total USD**
Quoted shares	**34,802,682**	**-**	**-**	**34,802,682**
Unquoted shares	**-**	**-**	**114,201,460**	**114,201,460**
	34,802,682	**-**	**114,201,460**	**149,004,142**

2012	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
Quoted shares	13,665,212	-	-	13,665,212
Unquoted shares	-	-	146,020,795	146,020,795
	13,665,212	-	146,020,795	159,686,007

36 SHARI'AH SUPERVISORY BOARD

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

37 EARNINGS PROHIBITED BY SHARI'AH

Earnings prohibited by Shari'ah, if earned are set aside for charitable purposes or otherwise dealt with in accordance with directions of the Shari'ah Supervisory Board.

38 SOCIAL RESPONSIBILITY

The Group discharges its social responsibilities through donations to charitable causes and organisation.

39 COMPARATIVES

Certain prior year amounts have been regrouped to conform to the current year's presentation. Such reclassification did not affect previously reported consolidated statement of income or consolidated owners' equity.

Basel II, Pillar III Disclosures
31 December 2013
Un-audited

Ibdar Bank B.S.C (c)
Basel II, Pillar III Disclosures
For the year ended 31 December 2013 un-audited

1 INTRODUCTION

The Central Bank of Bahrain (the "CBB") Basel II Guidelines, based upon the Bank for International Settlements ("BIS") Revised Framework – 'International Convergence of Capital Measurement and Capital Standards', were introduced on 1 January 2008. Basel II is structured around three 'pillars': Pillar I - Minimum Capital Requirements; Pillar II – the Supervisory Review Process and the Internal Capital Adequacy Assessment Process ("ICAAP"); and Pillar III - Market Discipline.

The public disclosures under this section have been prepared in accordance with the CBB requirements outlined in its Public Disclosure Module ("PD"), Section PD–1: Annual Disclosure requirements, CBB Rule Book, Volume II for Islamic Banks. Rules concerning the disclosures under this section are applicable to Ibdar Bank B.S.C. (c) (the "Bank") being a locally incorporated Bank with a wholesale Islamic Investment banking license, and its branch and subsidiaries (together known as "the Group").

1.1 Pillar I – Minimum Capital Requirements

Pillar I deals with the rules for the computation of regulatory capital requirements in respect of credit, market and operational risk. It defines the various classes of assets and the calculation of Risk Weighted Assets (RWAs) in respect of each class of assets. The capital adequacy ratio is calculated as the ratio of the Bank's regulatory capital to its total risk weighted assets. All Bahrain incorporated banks are currently required to maintain a minimum capital adequacy ratio of 12%. In addition, the CBB requires banks to maintain an additional 0.5% buffer above the minimum capital adequacy ratio.

1.1.1 Credit risk

Basel II provides three approaches to the calculation of credit risk regulatory capital. The Bank has adopted the standardised approach under which on and off-balance sheet credit exposures are assigned to exposure categories based on the type of counterparty or underlying exposure. Under the standardised approach, the risk weightings are provided by the CBB and are determined based on the counterparty's external credit rating. The external credit ratings are derived from eligible external rating agencies approved by the CBB.

1.1.2 Market risk

The Bank has adopted the Standardised approach for determining the market risk capital requirement.

1.1.3 Operational risk

The Bank has adopted the basic indicator approach for operational risk. It is calculated by applying a co-efficient of 15 percent to the average gross income for the preceding three financial years.

1.2 Pillar II – The Supervisory Review and Evaluation Process

Pillar II involves the process of supervisory review of Bank's risk management framework and capital adequacy. It requires banks to hold additional capital for risks not covered by Pillar 1. Other risk types which are not covered by the minimum capital requirements in Pillar 1 include liquidity risk, interest rate risk in the banking book, business risk and concentration risk.

1 INTRODUCTION (continued)

1.2 Pillar II – The Supervisory Review and Evaluation Process (continued)

Pillar II comprises of an Internal Capital Adequacy Assessment Process (ICAAP) and supervisory review and evaluation process.

The ICAAP incorporates a review and evaluation of risk management and capital relative to the risks to which the Bank is exposed. The Bank has established an ICAAP which quantifies the capital requirements for the key risks that the Bank is exposed to including credit, investment, liquidity, strategic, reputation, operational, and concentration risks. The Bank also conducts comprehensive stress tests for various portfolios and assesses the impact on the capital and profitability. In addition, the Bank's stress testing frameworks and models allow for forward looking scenarios, which are considered for business growth strategies. The ICAAP of the Bank is driven by the Board through the Capital Adequacy Strategy and the ICAAP Policy. In case a plausible stress scenario is identified which may severely affect the capital adequacy of the Bank, the senior management decides an appropriate corrective action to be taken under such a scenario.

As part of the CBB's Pillar II guidelines, each bank is required to be individually reviewed and assessed by the CBB with the intention of setting individual minimum capital adequacy ratios. The CBB is currently in the process of individually assessing the financial strength and risk management practices of each institution. Until finalised, we will be required to continue to maintain a 12 percent minimum capital adequacy ratio.

1.3 Pillar III – Market Discipline

Pillar III is related to market discipline and requires the Bank to publish detailed qualitative and quantitative information of its risk management and capital adequacy policies and processes to complement the first two pillars and the associated supervisory review process. The disclosures in this report are in addition to the disclosures set out in the audited consolidated financial statements of the Bank for the year ended 31 December 2013.

1.3.1 Pillar II quantitative and qualitative disclosures

For the purpose of computing regulatory minimum capital requirements, the Bank follows the rules as laid out under the CBB Rulebook module PCD: Prudential Consolidation and Deduction Requirements, PCD-1 & PCD-2 and the Capital Adequacy (CA) Module. Accordingly,

a) Unrealized gains arising from fair valuing equities is reported only to the extent of 45%; and
b) Properties revaluation reserve is included under Tier 2 capital to the extent of 45%.

There are no restrictions on the transfer of funds or regulatory capital within the group and all investments are made fully complying with the CBB approval instructions.

1.4 Overall Risk and Capital Management

The consolidated financial statements of the Bank and its subsidiaries have been prepared in accordance with the Financial Accounting Standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions ("AAOIFI"), the Shari'ah Rules and Principles as

Ibdar Bank B.S.C (c)
Basel II, Pillar III Disclosures
For the year ended 31 December 2013 un-audited

1 INTRODUCTION (continued)

1.4 Overall Risk and Capital Management (continued)

determined by the Shari'ah Supervisory Board of the Bank, the Bahrain Commercial Companies Law, CBB and Financial Institutions Law.

For the purpose of computing the Capital Adequacy Ratio ("CAR") the Bank is not consolidating subsidiaries that are Commercial Entities, thus all subsidaries are not consolidated.

In the consolidated financial statements, subsidiaries are fully consolidated from the date of acquisition, being the date on which the Bank obtains control, and continues to be consolidated until the date that control ceases.

The Bank does not hold any interest in insurance entities.

1.5 Compliance with Module (HC) high level control (PD-1.3.10(x))

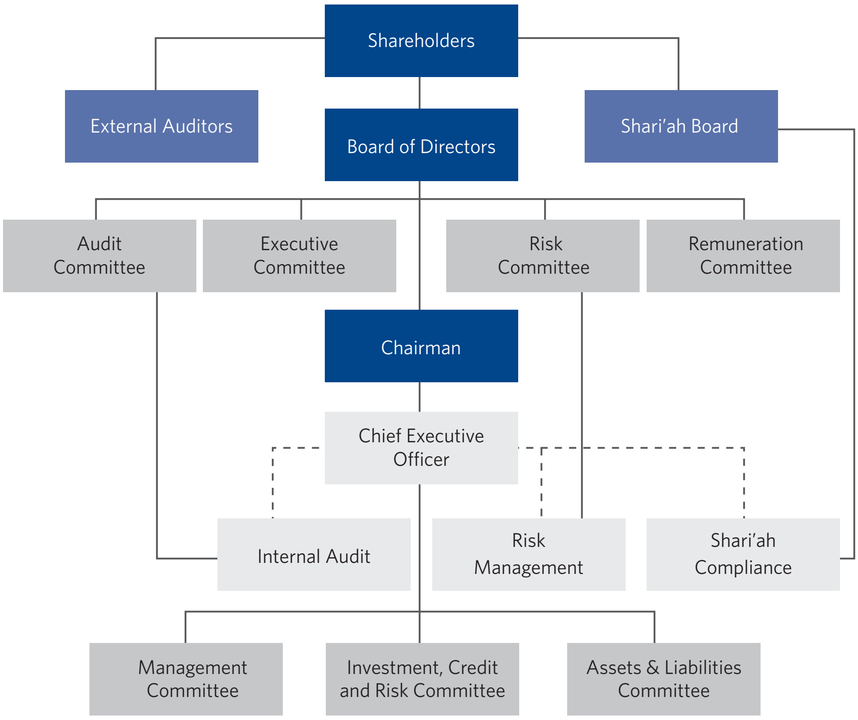
In October 2010, CBB introduced new requirements to Module HC that have to be met by all licensees with respect to, corporate governance principles to be in line with the Principles relating to the Corporate Governance Code issued by the Ministry of Industry and Commerce; International best practice corporate governance standards set by bodies such as the Basel Committee for Banking Supervision; and related high-level controls and policies. The Group made detailed self-assessments on the revised content of Module HC to ensure compliance with the new requirements with specific milestones for implementation of any shortfalls. The Group's Board of Directors and senior management were fully apprised the subject amendments.

2 RISK MANAGEMENT STRUCTURE

The Board has the ultimate responsibility for understanding the nature and level of risk taken by the Bank. The Board is responsible for reviewing the strategy and objectives of the Bank with respect to various risks and ensures that there is a clear guidance regarding the level of risks acceptable to the Bank.

2 RISK MANAGEMENT STRUCTURE (continued)

Figure 1 Group Organisation Structure (PD-1.3.10(a))



As at 31 December 2013 Chief Executive Officer, Chief Financial Officer and Chief Risk Officer positions are vacant.

2.1 Board of Directors (PD - 1.3.10 (n) and PD - 1.3.10 (o))

The Board is responsible for establishing objectives for the Bank and developing the strategies that direct the ongoing activities of the Bank to achieve those objectives. The Board is in process of reviewing and approving the Bank's strategy document which demonstrates that it is able to proactively identify and understand the risks that the Bank faces in achieving its business objectives through its business strategies and plans.

As part of its strategy review process, the Board at the minimum shall: (PD-1.3.10(n, o)):

a. Review major strategy papers and business plans;
b. Set performance objectives;
c. Oversees major capital expenditures and acquisitions;
d. Reassesses annually the Bank's objectives, strategies and plans;
e. Demonstrates its responsibility to supervisors, shareholders, employees & other stakeholders; and
f. Monitors the control environment and risk profile of the Bank.
g. Approved financial statements of the Bank.

Detailed responsibilities of the Board are provided in the Bank's Articles of Associations.

The Board has approved an authority matrix which authorises the executive management and senior management committees to approve certain transactions. However, transactions which are beyond the authority matrix require Board or Excom approval.

2 RISK MANAGEMENT STRUCTURE (continued)

2.1 Board of Directors (PD - 1.3.10 (n) and PD - 1.3.10 (o)) (continued)

The Board of Directors has delegated the management of the Bank to the Executive Management, comprising of Mr. Paul Mercer - Chairman Board of Directors, Mr. Mohamed Aljasim - Chief Investment Officer and Mr. Sameeh Al Khan - Chief Operating Officer, which meets on a regular basis to discuss any issues and updates regarding operations and business of the Bank. The following committees are involved in managing the risk and ensuring the compliance with the Bank's policies and risk management framework.

2.2 Board Committees

Board committees with their respective objectives and members are as follows:

2.2.1 Executive Committee

2.2.1.1 Objective/Function

Consider specific matters delegated to it by the full Board and make recommendations thereon to the Board or decisions based on authorities specifically delegated by the Board.

2.2.1.2 Members	Independent / Non Independent
Khalid Najibi	Independent / Non-Executive
Saleh AlAfaleq	Independent / Non-Executive
Mohamed AlAdsani	Non-Independent / Executive
Zeyad AlMukhaizeem	Non-Independent / Executive
Abdullah AlMarzouq	Non-Independent / Executive

2.2.2 Audit Committee

2.2.2.1 Objective/Function

To review the Banks financial reporting process, internal controls, and process for monitoring compliance with policies, procedures, laws and regulations and the Bank's own Code of Business Conduct.

2.2.2.2 Members	Independent / Non Independent
Abdulhakim Aladhamy	Independent / Non-Executive
Khalid AlBassam	Independent / Non-Executive
Mishari AlKhalid	Non-Independent / Non-Executive

2.2.3 Remuneration & Nomination Committee

2.2.3.1 Objective/Function

The Remuneration Committee reviews and approves (according to the guidelines set by the Board) policies and procedures for the remuneration of Board members, Committees members, executive and non-executive employees.

2 RISK MANAGEMENT STRUCTURE (continued)

2.2 Board Committees (continued)

2.2.3 Remuneration & Nomination Committee (continued)

2.2.3.2 Members	Independent / Non Independent
Khalid AlAboodi	Independent / Non-Executive
Khalid Najibi	Independent / Non-Executive
Mishari AlKhalid	Non-Independent / Non-Executive

2.2.4 Risk Committee

2.2.4.1 Objective/Function

To assist the Board of Directors in discharging its accountability and responsibility for risk management of the Bank-wide risk management systems, practices, and procedures including Credit, Market, and Operational Risk, and providing recommendations for improvement.

2.2.4.2 Members	Independent / Non Independent
Abdulhakim Aladhamy	Independent / Non-Executive
Khalid AlBassam	Independent / Non-Executive
Paul Mercer	Non-Independent / Executive

2.3 Management Committees

The following committees are the two management committees at Ibdar that support the Executive Management Committee in managing and overseeing the Bank's activities, and in proposing new strategies, policies, and procedures to the Board. These Committees are:

2.3.1 Asset and Liability Committee

2.3.1.1 Objective/Function

The Asset and Liability Committee determines the appropriate levels of liquidity, and ensures that all future commitments are funded in the most appropriate and cost-efficient manner. The Committee also ensures that the Bank fully adheres to the requirements of the CBB regarding capital, liquidity, and mismatched risk. It ascertains that approved investment deposits limits are not exceeded, and Treasury management and dealing activities are within the policy guidelines set by the Board. Furthermore, it monitors and supervises the overall balance sheet structure.

2.3.1.2 Members

Chairman until the appointment of CEO	Chairman
Chief Operating Officer	Member
Chief Investment Officer	Member
Head of Financial Control	Member
Head of Treasury and Capital Market	Member
Head of Risk Management	Member

Ibdar Bank B.S.C (c)
Basel II, Pillar III Disclosures
For the year ended 31 December 2013 un-audited

2 RISK MANAGEMENT STRUCTURE (continued)

2.3 Management Committees (continued)

2.3.2 Investment, Credit and Risk Committee

2.3.2.1 Objective/Function

The Investment, Credit and Risk Committee is a senior management committee responsible for managing and supervising all activities related to investments, credit and risk management.

2.3.2.2 Members

Chairman until the appointment of CEO	Chairman
Chief Operating Officer	Member
Chief Investment Officer	Member
Head of Risk Management	Non Voting Member
Head of Legal	Non Voting Member

3 CAPITAL ADEQUACY

The primary objective of the Group's capital management is to ensure that the Group maintains adequate risk capital, complies with the capital requirements laid down by the CBB and maintains a healthy capital ratio in order to support its business and maximise shareholder value.

The Group manages the capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the CBB in supervising the Bank.

Regulatory capital consists of Tier 1 capital (core capital) and Tier 2 capital (supplementary capital). The Group's Tier 1 comprises share capital, general reserve , statutory reserves, share premium retained profit/losses brought forward and unrealised gross losses arising from fair valuing equity securities. Tier 2 capital includes unrealised gains arising from fair valuing equities (45% only) and asset revaluation reserve (45% only).

The Group's approach to assessing capital adequacy has been in line with its risk appetite aligned with its current and future activities. To assess its capital adequacy requirements in accordance with the CBB requirements, the Group adopts the Standardised Approaches for its Credit Risk and Market Risk, and the Basic Indicator Approach for its Operational Risk.

The Group's capital adequacy policy is to maintain a strong capital base to support the development and growth of the business. Current and future capital requirements are determined on the basis of expectations for each business group, expected growth in future sources and uses of funds. "

Further, the Bank monitors the CAR against an Internal Trigger Ratio of 167% of the CBB minimum required capital adequacy ratio of 12 % (which will currently be 20 %). If the CAR touches the Internal Trigger Ratio, the Bank will initiate action to reduce its risk or increase capital before the Internal Target Ratio is breached.

3 CAPITAL ADEQUACY (continued)

Basis of Consolidation for Accounting and Regulatory Purposes

The Bank consolidates all subsidiaries which are fully owned or exercises significant control over them. These subsidiaries are consolidated from date of acquisition being the date on which the Group obtains control and continues until the control ceases. Control is achieved when the group has the power to govern the financial and operating policy of an entity to obtain benefits from its activities. For regulatory reporting purposes and according to the CBB rule book the Bank should consolidate all banking and other relevant financial entities which are considered to be subsidiaries of the Bank. However, the Bank de-consolidates non financial entities for Capital adequacy ratio calculation. The Bank does not have any financial or banking subsidiaries thus all subsidiaries are de-consolidated.

For regulatory purposes and as instructed by CBB the Bank consolidates Ijara 9 in the PIRI.

The Bank does not hold any interest in insurance entities.

Table – 1. Capital structure (PD-1.3.12, PD-1.3.13, PD-1.3.14 and PD-1.3.15)

The following table summarises the eligible capital after deductions for Capital Adequacy Ratio (CAR) calculation as of:

	2013 December 31	
Components of capital	**Tier 1 (USD '000)**	**Tier 2 (USD '000)**
Core Capital - Tier 1		
Issued and fully paid ordinary shares	300,000	
General reserves	4,618	
Legal / statutory reserves	676	
Share Premium	16,385	
Others	22,145	
Retained profit brought forward	(3,815)	
Total Tier 1 Capital	**340,009**	
Deductions from Tier 1		
Unrealized gross losses arising from fair valuing equity securities	618	
Tier 1 Capital before PCD deductions	**339,391**	
Supplementary Capital - Tier 2		
Current interim profits		-
Asset revaluation reserve - Property, plant, and equipment (45% only)		940
Unrealized gains arising from fair valuing equities (45% only)		1,785
Tier 2 Capital before PCD deductions		2,725
Total Available Capital before PCD deductions (Tier 1 and Tier 2)		**342,116**
Deductions		
Capital shortfall of non-consolidated entities subsidiaries *	3	3
Excess amount over maximum permitted large exposure limit **	932	932
Additional deduction from Tier 1 to absorb deficiency in Tier 2	-	
Total Deductions	**935**	935
Net Available Capital (1.10 and 2.9 less 3.11) (Tier 2 up to 100% of Tier 1)		1,790
Total Eligible Capital	**338,456**	**340,246**

* This represents capital shortfall in Medical Management Group SPC.
** This represents aggregate exposure to connected counterparty exceeding 25%.

3 CAPITAL ADEQUACY (continued)

Table – 2. Capital requirement by type of Islamic financing contracts (PD - 1.3.17)

The following table summarises the capital requirements by type of Islamic financing contracts:

	31 December 2013	
	Risk Weighted Amount (USD '000)	Capital requirements (USD '000)
Type of Islamic financing contracts		
Due from financial institutions	**15,591**	**1,871**
Financing receivables	**12,232**	**1,468**
Musharaka financing	**787**	**94**
Ijarah muntahia bittamleek	**1,283**	**154**
Investment in securities - Sukuk	**79,863**	**9,584**
	109,756	**13,171**

	31 December 2013	
	Risk Weighted Amount (USD '000)	Capital requirements (USD '000)
Notes and Coins	**-**	**-**
Claims on Sovereigns	**-**	**-**
Claims on PSE	**-**	**-**
Claim on banks	**16,262**	**1,951**
Claim on Corporations	**27,071**	**3,249**
Investment in securities	**107,492**	**12,899**
Holding of Real Estate	**353,106**	**42,373**
Other assets	**63,986**	**7,678**
	567,917	**68,150**

Table – 3. Capital requirement for Market risk (PD-1.3.18)

The following table summarises the amount of exposures subject to the standardized approach of market risk and related capital requirements:

	31 December 2013 (USD '000)
Market Risk - Standardised Approach Foreign exchange risk	**1,325**
Total of market risk - standardised approach	**1,325**
Multiplier	**12.5**
Total Market Risk Weighted Exposures	**16,563**
Minimum capital requirement (12%)	**1,988**

3 CAPITAL ADEQUACY (continued)

Table - 4. Capital Requirements for Operational risk (PD-1.3.19 and PD-1.3.30)

The following table summarises the amount of exposures subject to the basic indicator approach of operational risk and related capital requirements:

	31 December 2013 (USD '000)
Indicators of operational risk	
Average gross income	**11,660**
	12.5
	145,750
Eligible Portion for the purpose of the calculation	**15%**
Total operational RWE	**21,863**
Minimum capital requirement (12%)	**2,624**

Table - 5. Capital Adequacy Ratios (PD-1.3.20)

The following are capital adequacy ratios for total capital and tier 1 capital as of:

	31 December 2013	
	Total capital ratio	**Tier 1 capital ratio**
Top consolidated group in Bahrain	**56.11%**	**56.11%**

4 RISK MANAGEMENT

4.1 Overview

4.1.1 Bank-wide Risk Management Objectives

The risk management objective for each area of risk is to adopt the industry best practices and adhere to Basel II and CBB requirements. The Bank identifies, captures, monitors and manages different dimensions of risk with the aim to protect asset values and income streams, and to optimise the Bank's shareholder return, while maintaining its risk exposure within defined parameters. The Bank's management believes in the proactive management of risk in the full cycle of a financial transaction including its operating circumstances from the origination stage to its final disposal from the books of the Bank.

The Bank reviews and redefines its risk appetite according to the evolving business plan of the Bank, which includes fluctuations in economic and market conditions and future forecasts.

4.1.2 Strategies Processes and Internal Controls

The Bank's risk strategy, backed by appropriate limit structures, is articulated through risk management policies and procedures. These policies and procedures are an integral part of an enterprise-wide integrated risk management framework at the

Ibdar Bank B.S.C (c)
Basel II, Pillar III Disclosures
For the year ended 31 December 2013 un-audited

4 RISK MANAGEMENT (continued)

4.1 Overview (continued)

4.1.2 Strategies Processes and Internal Controls (continued)

Bank. These policies and procedures identify risk objectives, processes, strategies and risk governance both at the board and the management level. The capital management policy is aimed at ensuring financial stability by allocating enough capital to cover unexpected losses. Limit structures serve as a key component in articulating risk strategy in quantifiable risk appetite. In addition, the Bank intends to implement various risk systems to help quantify not just the regulatory capital but also the economic capital allocated to various portfolios.

The Bank is exposed to various types of risk, such as market, credit, profit rate, liquidity and operational, all of which require the comprehensive controls and ongoing oversight. The risk management framework encapsulates the spirit behind Basel II, which includes management oversight & control, risk culture & ownership, risk recognition & assessment, control activities, adequate information & communication channels, monitoring risk management activities and correcting deficiencies.

Credit Risk

The Bank manages its credit risk exposures by assessing the credit worthiness of all customers & counterparties. For each new product & activity, the Bank evaluates credit risk introduced by it. The Bank has established a limit structure to avoid concentration of risks for counterparty, sector and geography.

Market Risk

The Bank is not exposed to significant market risk due to the nature of its activities and its limited market risk exposure is managed through combination of limits, internal controls & processes. The Group manages its market risk exposures by evaluating each new product and activity with respect to the market risk introduced by it.

Operational Risk

The Bank has established a Risk Control and Self Assessment (“RCSA”) process necessary for identifying and measuring and controlling its operational risks. This exercise covers the Bank’s business lines and associated critical activities, exposing the Bank to operational risks.

Equity Risk in the Banking Book

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group’s investment portfolio. The Group manages and monitors its equity risk using sector, geography and investment type limits.

The strategy used has been effective throughout the reporting period.

4 RISK MANAGEMENT (continued)

4.1 Overview (continued)

4.1.2 Strategies Processes and Internal Controls (continued)

Profit Rate Risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Group manages its profit rate risk using various risk management tools and methodologies.

Displaced Commercial Risk

Displaced Commercial Risk ("DCR") refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitor's rates.

The Bank manages DCR through the Asset and Liability Committee ("ALCO"). The Bank is currently in the process of developing written policies and procedures for Displaced Commercial Risk. The Bank will forego its fee in case DCR arises. The Bank benchmarks its rates with other leading banks in the market.

4.1.3 Risk Measurement and Reporting System

The Group identifies, measures, controls and monitors its material risks on a periodic basis. The Group has established relevant risk limit structures to quantify its risk appetite. Risk Committee ("RC") reviews and recommends the limits, suggested by the Investment, Credit and Risk Committee ("ICRC") to the Board which is ultimately responsible for the final approval of the limit. The monitoring and controlling of risks is managed through limits approved by the Board. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept.

The Risk Management Department ("RMD") presents reports to the Board of Directors through ICRC and RC. These reports include risk and investment review of Group's portfolio and its impact on Group's capital adequacy.

As part of the Risk Management reporting framework, tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information. A periodic briefing is given to the Executive Management Committee on the utilisation of market limits, proprietary investments, and liquidity, plus any other risk developments.

4.2 Credit risk

4.2.1 Introduction

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. The Group controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties.

The Bank manages and controls credit risk by setting limits on the amount of risk

4 RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

4.2.1 Introduction (continued)

it is willing to accept in terms of counterparties, product types, geographical and industry. The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions.

Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision by the Bank.

All credit proposals undergo a comprehensive risk assessment which examines the customer's financial condition, performance, nature of the business, quality of management, and market position, etc. The credit approval decision is then made and terms and conditions are established.

Exposure limits are based on the aggregate exposure to counterparty and any connected entities across the group. Investments are reviewed on regular basis by the respective departments and ICRC.

4.2.2 Types of Credit Risk

Financing receivables mainly comprise of Murabaha (International Commodity), Mudaraba and Musharaka.

4.2.2.1 Murabaha (International Commodity)

A commodity Murabaha is a contract between the Bank and its client for the sale of goods at a price plus an agreed profit margin for the Bank. The instrument is called an international commodity Murabaha because the profits are made on the international buying and selling of a commodity, usually metal, such as copper, aluminum or lead.

4.2.2.2 Mudaraba

The Group enters into Mudaraba contracts by investing in funds operated by other banks and financial institutions for a definite period of time.

4.2.2.3 Musharaka

Musharaka financing is partnership in which the Group contributes capital. These are stated at the fair value of consideration given less impairment.

4.2.3 Past Due and Impaired Islamic Financing

The Group defines non-performing facilities as the facilities that are overdue for a period of 90 days or more. These exposures are placed on a non-accrual status with income being recognised to the extent that it is actually received. It is the Group's

4 RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

4.2.3 Past Due and Impaired Islamic Financing (continued)

policy that when an exposure is overdue for a period of 90 days or more, the whole financing facility extended is considered as past due, not only the overdue installments and payments.

As a policy, the Group has placed on a non-accrual status any facility where there is reasonable doubt about the collectability of the receivable irrespective of whether the customer concerned is currently in arrears or not.

Islamic financing assets are stated at cost less impairment allowances. Specific provisions are created for impairment where losses are expected to arise on non-performing contracts. These assets are written off when they are considered to be uncollectable to reduce all impaired assets to their expected realisable values. Deferred income and provision for impairment are netted off against the related receivables. The Group assesses at each financial position date whether there is objective evidence that a financial asset is impaired. In the case of equity-type instruments at fair value through equity, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired.

If any such evidence exists for equity-type instruments at fair value through equity, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in consolidated statement of income) is removed from owners' equity and recognised in the consolidated statement of income. Impairment losses recognised in the consolidated statement of income on equity instruments are not subsequently reversed through the consolidated statement of income.

Impairment losses on murabaha receivables and debt-type instruments at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses, if any, are recognised in the consolidated statement of income and reflected in an allowance account against murabaha receivables and debt-type instruments at amortised cost. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the consolidated statement of income.

As of 31 December 2013, an amount of USD 12,232,440 has been outstanding for over 6 months. This amount is receivable from various individuals and corporates based in the GCC region.

4.2.4 External Credit Assessment Institutions

To assess the creditworthiness of Financial Institutions ("FI") the Group relies on external ratings by external credit assessment institutions like Standard & Poor's, Fitch and Moody's. In case of unrated FIs, the Group will assess the credit risk on the basis of its internally developed approach & methodology. The Bank uses ECAI's for due from financial institutions and its sukuk portfolio.

4 RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

4.2.5 Definition of Geographical Area

The Group allocates exposures to a particular geographical area based on the risk domicile concept, which could be either the location of the asset or on the location of the counterparty.

4.2.6 Concentration Risk

Concentration risk is the credit risk stemming from not having a well diversified credit portfolio, i.e. being overexposed to a single customer, industry sector or geographic region. As per CBB's single obligor regulations, Banks incorporated in Bahrain are required to obtain the CBB's approval for any planned exposure to a single counterparty, or group of connected counterparties, exceeding 15% of the regulatory capital base.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. In case any exposure exceeds the CBB's prescribed limits, Group obtains approval from the CBB.

4.2.7 Credit Risk Mitigation

Credit risk mitigation is defined as the utilisation of a number of techniques, such as collaterals and guarantees to mitigate the credit risks that the Group is exposed to. The Group's first priority when establishing Islamic financing is to determine the borrower's capacity to repay and not to rely principally on security or collateral. Nonetheless, the Group is in the process of developing its collateral management policy which would be in line with its business activities.

4.2.8 Counterparty Credit Risk

4.2.8.1 Introduction

A counterparty is defined as an obligor (individual, company, other legal entity), a guarantor of an obligor, or person receiving funds from the Group. It also includes the issuer of a security in case of a security held by the Group, or a party with whom a contract is made by the Group for financial transactions.

The measure of exposure reflects the maximum loss that the Group may suffer in case the counterparty fails to fulfill its commitments. Group exposure is defined as the total exposure to all counterparties closely related or connected to each other. Large exposure is any exposure whether direct, indirect or funded by restricted investment accounts to a counterparty or a group of closely related counterparties which is greater than or equal to 10% of the Group's Capital Base. The Group has adopted Standardised Approach to allocate capital for counterparty credit risk.

4 RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

4.2.8 Counterparty Credit Risk (continued)

4.2.8.2 Credit Limit Structure

The Bank has put in place an internal counterparty limit structure which is based on internal or external ratings for different types of counterparties. The Bank has also set concentration limits as a percentage of shareholders equity. In case of a counterparty rating degrade, the Bank may require further collateral or advise the counter party to reduce its exposure on a case by case basis.

Reporting

The Bank reports large counterparty exposures to CBB and senior management on periodic basis. The Bank reports the exposures on a gross basis without any offset. However, debit balances on accounts may be offset against credit balances where both are related to the same counterparty, provided the Bank has a legally enforceable right to do so.

Early warning indicators

The Bank maintains a strong focus on identification of signs of deterioration in credit quality at an early stage in order to take remedial measures before the facility becomes substandard or doubtful.

4.2.8.3 Connected counterparties

Connected counterparties are companies or individuals connected with the Bank or its subsidiaries and associated companies (whether such association is due to control or shareholding or otherwise), Directors and their associates (whether such association is due to control, family links or otherwise), members of the Shari'ah Supervisory Board, management and other staff and shareholders holding more than 10% or more of the equity voting rights in the Bank.

As a Bank's strategy exposure to connected counterparties may be undertaken only when negotiated and agreed on an arm's length basis. The Bank shall not assume any exposure to its external auditors or members of Shari'ah Supervisory Board. The disclosure relating to related party transactions has been made in the consolidated financial statements. All related party transactions have been made on arm's length basis.

4.2.8.4 Highly Leverage Counterparties

The Bank assess counterparties through financial and non-financial due diligence and uses CBB's definition of Highly Leveraged Counterparties to determine exposure to them. As per CBB's definition the Bank is not exposed to any Highly Leveraged Counterparties.

4 RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

4.2.8 Counterparty Credit Risk (continued)

4.2.8.5 Restructuring of Credit Facilities (continued)

PT. Indonesia Air Transport, Tbk. ijara financing facility amounting to USD 4,792 thousand was restructured during 2013 till June 2014. There is no significant impact of the restructured facilities on the provision and present and future earnings.

4.2.8.6 Recourse Transactions

The Bank does not currently have any obligations with respect to recourse transactions.

4.2.9 Credit risk mitigation

The credit exposure information presented in table 6 of this report represents gross exposures prior to the application of any credit risk mitigation techniques. Collateral items and guarantees which can be used for credit risk mitigation under the capital adequacy framework are referred to as eligible collateral. However, extending credit facilities is not a part of the Bank's core business activities. The Bank's credit risk mainly arises from its investment transactions.

Nonetheless, the Bank intends to develop its collateral management policy and provisioning policy which would be in line with its business activities.

Table - 6. Credit Risk Exposure (PD-1.3.23(a))

The following table summarises the amount of gross funded and unfunded credit exposure and average gross funded and unfunded exposure as of:

	31 December 2013	
	Total gross credit exposure (USD '000)	***Average gross credit exposure over the year (USD '000)**
Funded exposure		
Balances with banks	16,239	14,501
Due from financial institutions	15,591	21,330
Financing receivables	12,232	12,232
Musharaka financing	787	1,099
Receivable from Ijara investors	14,801	14,801
Investment in securities	79,863	78,084
Other assets	2,913	3,327
Unfunded exposure		
Uncalled capital commitments in respect of investment	9,169	10,253
Promise to purchase foreign currency commitment	-	112
Operating lease commitments - expiring within one year	80	90
Operating lease commitments - expiring in one to three years	36	25
Commitment related to project developments	133	133
	151,844	**155,988**

* operning + closing divided by 2.

4 RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

Table - 7. Credit Risk - Geographic Breakdown (PD-1.3.23(b))

The following table summarises the geographic distribution of funded and unfunded exposures, broken down into significant areas by major types of credit exposure as of:

	31 December 2013				
	Middle East USD (USD '000)	Europe USD (USD '000)	Africa USD (USD '000)	South East Asia USD (USD '000)	Total USD (USD '000)
Funded exposure					
Balances with banks	6,956	7,576	-	1,707	16,239
Due from financial institutions	15,591	-	-	-	15,591
Financing receivables	12,232	-	-	-	12,232
Musharaka financing	-	-	-	787	787
Receivable from Ijara investors	14,801	-	-	-	14,801
Investment in securities	71,980	7,883	-	-	79,863
Other assets	2,107	67	53	686	2,913
Unfunded exposure					
Uncalled capital commitments in respect of investment	9,169	-	-	-	9,169
Promise to purchase foreign currency commitment	-	-	-	-	-
Operating lease commitments - expiring within one year	-	-	-	80	80
Operating lease commitments - expiring in one to three years	-	-	-	36	36
Commitment related to project developments	133	-	-	-	133
	132,969	**15,526**	**53**	**3,296**	**151,844**

The Group allocates exposures to a particular geographical area based on the risk domicile concept, which could be either the location of the asset or on the location of the counterparty.

Ibdar Bank B.S.C (c)
Basel II, Pillar III Disclosures
For the year ended 31 December 2013 un-audited

4 RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

Table - 8. Credit risk - Industry Sector Breakdown (PD-1.3.23(c))

The following table summarises the distribution of funded and unfunded exposure by industry type broken down by major types of credit exposure as of:

	31 December 2013				
	Trading and manufacturing (USD '000)	Banks and financial institutions (USD '000)	Real Estate (USD '000)	Others (USD '000)	Total (USD '000)
Funded exposure					
Balances with banks	-	16,239	-	-	16,239
Due from financial institutions	-	15,591	-	-	15,591
Financing receivables	-	-	-	12,232	12,232
Musharaka financing	-	-	-	787	787
Receivable from Ijara investors	-	-	-	14,801	14,801
Investment in securities	6,696	15,751	30,696	26,720	79,863
Other assets	72	206	512	2,123	2,913
Unfunded exposure					
Uncalled capital commitments in respect of investment	-	-	-	9,169	9,169
Promise to purchase foreign currency commitment	-	-	-	-	-
Operating lease commitments - expiring within one year	-	-	-	80	80
Operating lease commitments - expiring in one to three years	-	-	-	36	36
Commitment related to project developments	-	-	-	133	133
	6,768	47,787	31,208	66,081	151,844

4 RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

Table – 9. Credit Risk – Concentration of Risk

The Group follows the CBB's guidelines with respect to the definition and measurement of large exposures at the consolidated level as stipulated in the CBB Rulebook for Islamic Banks.

The following are the balances representing the concentration of risk to individual counterparties as of 31 December 2013:

Counterparties	Own capital and current account Concentration risk %
Counterparty # 1	**11.27%**
Counterparty # 2	**6.31%**

No penalties were charged to customers with regards to defaults during the year.

Ibdar Bank B.S.C (c)
Basel II, Pillar III Disclosures
For the year ended 31 December 2013 un-audited

4 RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

Table - 10. Maturity breakdown of credit exposures (PD-1.3.23(g))

The following table summarises the residual contractual maturity breakdown of the whole credit portfolio, broken down by major types of credit exposure as of 31 December 2013:

	Up to 1 month (USD '000)	1 month to 3 months (USD '000)	3 months to 1 year (USD '000)	1 to 5 years (USD '000)	5 to 10 years (USD '000)	No fixed maturity (USD '000)	Total (USD '000)
Funded exposure							
Balances with banks	-	16,239	-	-	-	-	16,239
Due from financial institutions	-	11,055	4,536	-	-	-	15,591
Financing receivables	-	-	12,232	-	-	-	12,232
Musharaka financing	-	-	-	787	-	-	787
Receivable from Ijara investors	-	-	14,801	-	-	-	14,801
Investment in securities	-	-	-	54,519	25,344	149,004	79,863
Other assets	-	836	1,700	377	-	212	2,913
Unfunded exposure							
Uncalled capital commitments in respect of investment	-	-	-	9,169	-	-	9,169
Promise to purchase foreign currency commitment	-	-	-	-	-	-	-
Operating lease commitments - expiring within one year	-	-	80	-	-	-	80
Operating lease commitments - expiring in one to three years	-	-	-	36	-	-	36
Commitment related to project developments	-	-	-	133	-	-	133
	-	**28,130**	**33,349**	**65,021**	**25,344**	**149,216**	**151,844**

4 RISK MANAGEMENT (continued)

4.2 Credit risk (continued)

Table – 11. Breakup of provision by geographic area (PD-1.3.23(h & i)) and (PD-1.3.24(c))

	Specific impairment provision (USD '000)	Collective impairment (USD '000)	Total (USD '000)
South East Asia	1,904	291	**2,195**

Breakup of provision by counterparty (PD-1.3.23(h & i)) and (PD-1.3.24(c))

	Specific		
	OPENING (USD '000)	**Charged during the year** (USD '000)	**Closing** (USD '000)
Corporate	56	222	**278**

Only an amount of USD 222 thousand of musharaka financing was impaired as of 31 December 2012) 2013: USD 56 thousand).

4.3 Market risk

4.3.1 Introduction

Market risk is defined as the risk of losses in on-balance sheet and off-balance-sheet positions arising from movements in market prices. The risks subject to this requirement are:

- The risks pertaining to profit rate related instruments and equities in the trading book; and
- Foreign exchange risk and commodities risk throughout the Bank.

The Group manages its market risk exposures by evaluating each new product and activity with respect to the market risk introduced by it.

4.3.2 Market Risk Factor

For the Bank, market risk may arise from movements in foreign exchange rates.
A single transaction or financial product may be subject to foreign exchange risk.

4.3.3 Market Risk Strategy

The Board is responsible for approving and reviewing the market risk strategy. The Bank's senior management is responsible for implementing the market risk strategy approved by the Board, and continually enhancing the market policies and procedures for identifying, measuring, monitoring and controlling market risks.

In line with the Bank's Risk Management objectives and risk tolerance levels, the specific strategies for market risk management include:

4 RISK MANAGEMENT (continued)

4.3 Market risk (continued)

4.3.3 Market Risk Strategy (continued)

- The Bank will proactively monitor and manage the market risk in its portfolio using a Board approved limit structure;
- The Bank will establish a market risk appetite which will be quantified in terms of a market risk limit structure for monitoring its market risk. This will be approved by the RC and the Board;
- The Bank will at all times hold sufficient capital in line with the Pillar 1 regulatory capital requirements of the CBB
- The Bank will carry out stress testing periodically to assess the effect of extreme movements in market variables which may expose the Bank to high risks;
- The Bank will clearly identify the foreign currencies in which it wishes to deal in. The Bank will manage its market risk in all foreign currencies in which it has significant exposure; and
- The Bank will manage its market risk exposure by evaluating each new product or activity with respect to the market risk introduced by it.

4.3.4 Market Risk Measurement Methodology

The Group is not exposed to significant market risk due to the nature of its activities and hence uses measurements involving a combination of limits to control market risk exposures. For calculating the market risk capital charge, the Group applies the Standardised Approach.

4.3.5 Market Risk Monitoring & Reporting and Limits Structure

The Bank uses a combination of limits to control its market risk exposures. Positions are monitored on a regular basis to ensure risk is maintained within established limits.

Table – 12. Market Risk Capital Requirements

The following table summarises the capital requirement for each category of market risk as of:

	31 December 2013	
	Weighted risk exposures (USD '000)	**Market risk capital requirement (USD '000)**
Capital requirements - Foreign Exchange Risk	**16,563**	**1,988**
Maximum value of RWE	45,066	5,408
Minimum value of RWE	16,563	1,988

4 RISK MANAGEMENT (continued)

4.4 Operational risk

4.4.1 Introduction

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. It is an inherent risk faced by all business and covers a large number of operational risk events including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets.

The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

The Board has the ultimate responsibility for operational risk. Oversight rests with the RC, ICRC and RMD. Risk and Control Self Assessment ("RCSA") is an annual exercise as per Bank's policy and is a requirement by CBB based on Basel II principles related to operational risk management. During the year 2013 the Group decided to postpone the RCSA exercise to 2014 due to the merger process.

The Group has developed a Disaster Recovery and Business Continuity Plan ("DR&BCP") to enable the Group to survive a disaster and to re-establish normal business operations. The DR&BCP will enable the Group to minimize interruptions to business service operations, resume critical operations within a specified time after a disaster, minimize financial loss due to disruptions, limit the severity of the disruption, expedite the restoration of services and maintain a positive public image of the Bank.

4.4.2 Sources of Operational Risk

The different sources of operational risks faced by the Bank can be classified broadly into the following categories:

People Risk which arise due to staffing inadequacy, unattractive remuneration structure, lack of staff training, lack in procedures for appointment, unhealthy professional working relationship and unethical environment;

Processes Risk which arise due to inadequate general controls, inadequate application controls, improper business and market practices and procedures, inappropriate or inadequate monitoring and reporting; and

Systems (Technology) Risk which arise due to the Integrity of information, hardware failures due to power surge, obsolescence, low quality and software failure due to unauthorized or incorrect modifications to software programs, computer virus, programming bug.

4 RISK MANAGEMENT (continued)

4.4 Operational risk (continued)

4.4.3 Operational Risk Management Strategy

The Bank's Board is responsible for approving and reviewing (at least annually), the operational risk strategy and significant amendments to the operational risk policies. The Bank's senior management is responsible for implementing the operational risk strategy approved by the Board to identify, measure, monitor and control the risks faced by the Bank. The Bank continuously monitors the process and controls framework surrounding all business units to assess their effectiveness and efficiency.

As a strategy the Bank will identify the sources of operational risks in coordination with each business unit.

Management and Reporting of KRIs

The Bank plans to integrate the process of KRIs into the RCSA process and then start reporting KRIs to senior management.

Incident reporting

An incident is the occurrence of an operational risk event that has caused, or has the potential to cause a financial, reputation or regulatory impact on the Bank. It includes credit or market risk events, which have been caused by an operational risk event, and non-compliance with any legal or regulatory requirement, license, internal policy or procedure or code.

Operational Loss Database

The Operational Loss Database (OLD) is a key component to quantify past operational risk exposures. The OLD contains a subset of the information captured by the incident reporting process since all incidents involving an actual or potential financial impact (including near misses) is captured.

4.4.4 Operational Risk Monitoring and Reporting

The internal monitoring and reporting process ensures a consistent approach for providing pertinent information to Senior Management and the RC for the quick detection and correction of deficiencies in the policies, processes and procedures for managing operational risk through ongoing, periodic reviews.

The objective of the reporting process is to ensure relevant information is provided to senior management and the Board to enable the proactive management of operational risk. The process ensures a consistent approach for providing information that enables appropriate decision making and action taking.

Control activities are necessary to address the specific operational risks that the Bank has identified through the RCSA process. For the material risks identified by the Bank, the Bank decides whether to use procedures to control, mitigate, transfer, or accept the risks.

4 RISK MANAGEMENT (continued)

4.4 Operational risk (continued)

4.4.5 Operational Risk Mitigation and Control

The Bank has several options for controlling and/or mitigating these risks:

- Decline to accept the risk (i.e. by avoiding certain business strategies or customers)
- Accept and retain the risk but introduce mitigating internal or external controls
- Accept the risk and transfer it in part or in whole.

Key controls

The Bank aims to control the operational risks it is exposed to by strengthening its internal controls, continuing its efforts to identify, assess, measure and monitor its risks, evolving in its risk management sophistication and promoting a strong control culture within the Bank.

Each business unit head is responsible for ensuring that the internal controls relevant to its operations are complied with on a day to day basis in spirit as well as in letter. The Bank will furthermore establish control processes and procedures and implement a system for ensuring compliance with these internal risk control processes and procedures.

4.4.6 Disaster Recovery and Business Continuity Plan

The Bank has developed a Disaster Recovery and Business Continuity Plan ("DR&BCP") based on risk review of the banks activities. The Bank ensures that business recovery & contingency plans are reviewed and updated periodically. The DR&BCP is in the implementation stage.

In particular, the DR&BCP will satisfy the following:

- it will cover incidents related to IT, communication and premises;
- testing will include critical business processes; and
- testing will cover critical types of plausible scenarios to which the Bank may be vulnerable.

4.5 Equity price risk

4.5.1 Equity price risk management

Equity price risk is the risk that the fair value of equities decreases as the result of adverse changes in equity prices or indices, or fair value in the case of unquoted equities. Equity price risk arises from the Bank's investment portfolio. The Bank does not have an active trading book and all its equities are in the banking book. A 100% risk weight is assigned to listed equities. Unlisted equities and unrated funds are risk weighted at 150%.

The accounting policies, including valuation methodologies and their related key assumptions, are disclosed in the consolidated financial statements.

4 RISK MANAGEMENT (continued)

4.5 Equity price risk (continued)

4.5.1 Equity price risk management (continued)

An assessment is made at each year-end to determine whether there is any objective evidence that equity investments may be impaired. Any impairment for significant and prolonged decline in the value of investments is reflected as a write down of investments. Any subsequent increase in their fair value is recognised directly in equity. Investments are managed within maximum concentration risk limits, approved by the Board of Directors of the Bank.

Table - 13. Equity Position Risk in the Banking Book (PD-1.3.31(b), (c) & (f))

The following table summarises the total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 31 December 2013:

	Total gross exposure (USD '000)	* Average gross exposure over the period (USD '000)	Publicly Traded (USD '000)	Privately held (USD '000)	Capital requirement (USD '000)
Amortized cost	79,863	78,084	79,863	-	9,310
Fair value through statement of income	17,271	19,579	-	17,271	4,717
Fair value through equity	131,733	134,425	34,803	96,930	25,495
Investment in associates	11,372	8,136	-	11,372	1,877
	240,239	240,224	114,666	125,573	41,399

*Average balances are computed based on quarter-end balances.

Table - 14. Equity gains or losses in the Banking Book (PD-1.3.31(d) to (e))

The following table summarises the cumulative realised and unrealised gains or (losses) during the year ended:

	31 December 2013 USD ('000)
Cumulative realised gains arising from sales or liquidations in the reporting year	-
Total unrealized gains recognised in the consolidated statement of financial position but not through consolidated statement of income	-
Unrealised gross losses included in Tier 1 Capital	618
Unrealised gains included in Tier 2 Capital (45% only)	1,785

4.6 Rate of return risk

4.6.1 Rate of return risk management

Profit rate risk is the potential impact of the mismatch between the rate of return on assets and the expected rate of return of the sources of finance. The table below analyses the Group's profit rate risk exposure on non-trading financial assets and liabilities. The Group's assets and liabilities are included at carrying amount and categorised based on contractual repayment arrangements:

4 RISK MANAGEMENT (continued)

4.6 Rate of return risk (continued)

4.6.1 Rate of return risk management (continued)

Table – 15. Rate of return risk

2013	Up to 3 Months (USD '000)	3 months to 1 year (USD '000)	1 to 5 years (USD '000)	Above 5 Years (USD '000)	No fixed maturity (USD '000)	Total (USD '000)
Assets						
Due from financial institutions	11,055	4,536	-	-	-	15,591
Financing receivable	12,232	-	-	-	-	12,232
Investments in securities	-	-	53,615	26,248	-	79,863
Total profit rate sensitive assets	23,287	4,536	53,615	26,248	-	107,686
Liabilities						
Due to financial institutions	6,596	16,189	-	-	-	22,785
Total profit rate sensitive liabilities	6,596	16,189	-	-	-	22,785
Profit rate sensitivity gap	16,691	(11,653)	53,615	26,248	-	84,901

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) on floating rate non trading financial assets and liabilities, would be an increase (decrease) of profit by USD 1,242 thousand (2012:USD 862 thousand).

The rate of return risk is generally associated with overall balance sheet exposures where mismatches arise between assets and balances from fund providers. The Group is not exposed to any significant rate of return risk and is aware of the factors that give rise to rate of return risk. Factors that possibly will affect rate of return may include an increase in long-term fixed rates in the market. The Bank is also aware of the fact that in general, profit rates earned on assets reflect the benchmark of the previous period and do not correspond immediately to changes in increased benchmark rates.

The Bank uses a combination of mismatch gap limits to measure and control its rate of return risk. Mismatched positions are regularly monitored to ensure that mismatch is maintained within established limits.

The profit rate shock will have a negative impact in the case of a downward movement. Displaced commercial risk ("DCR") refers to the market pressure to pay returns that exceed the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitor's rates.

The Bank manages DCR through the Asset Liability Committee ("ALCO"). The Bank is currently in the process of developing written policies and procedures for Displaced Commercial Risk. The bank will forego its fee in case DCR arises. The bank benchmarks its rates with other leading banks in the market.

4 RISK MANAGEMENT (continued)

4.7 Liquidity risk

4.7.1 Introduction

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances.

The main action to manage the Group's liquidity is through the adherence to limits on liquidity mismatches. These include the limits of the cumulative excess of maturing liabilities over assets in the short-term and limits on dependence on short-dated funds.

Treasury department is overall responsible for ensuring that the limits enacted are adhered to, on a day-to-day basis and managing excess liquidity of the Group through short term placements and investments. Treasury maintains a constant communication with the banks. The Treasury provides a monthly report to the ALCO regarding the market conditions and the volatilities of the asset prices and as such the exogenous liquidity risk the Group is exposed to.

4.7.2 Sources of Liquidity Risk

Broadly, sources of liquidity risk can be listed as:

Funding Risk – Inability to replace net outflows due to unanticipated withdrawal of capital or deposits;
Call Risk – Crystallisation of a contingent liability; and
Event Risk – Rating downgrades or other negative news leading to a loss of market confidence in the Bank.

Liquidity risk may also arise if certain inter-bank funding lines are withdrawn or assets do not realise cash as expected and when anticipated.

4.7.3 Liquidity Risk Strategy

The Board is overall responsible for approving and reviewing (at least annually), the liquidity risk strategy and significant amendments to the liquidity risk policies. The Bank's senior management is responsible for implementing the liquidity risk strategy to identify, measure, monitor and control the risks faced by the Bank.

The Bank monitors the liquidity positions by comparing maturing assets and liabilities in different time buckets.

To mitigate the liquidity risk, the Group works with diversified funding sources, manages its assets with liquidity in mind and closely monitors periodic cash forecasts which take into account the Group's maturity profile.

4.7.4 Liquidity Risk Measurement Tools

The Bank has developed risk management policies and procedures including liquidity risk management framework. The Bank will use a combination of techniques for measurement of its liquidity risk. These would include Liquidity Gap Analysis and monitoring of liquidity ratios.

4 RISK MANAGEMENT (continued)

4.7 Liquidity risk (continued)

4.7.4 Liquidity Risk Measurement Tools (continued)

Table – 16. Liquidity ratios (PD1.3.37-)

The following table summarises the liquidity ratios as of:

	31 December 2013
Liquid assets to total assets	**8.84%**
Short term assets to short term liabilities	**232.99%**

Formula is as follows:

Liquid Assets to total assets = (Cash and bank balances + due from financial institutions) / total assets

Short term assets to short term liabilities = Assets with up to one year maturity/liabilities with up to one year maturity

Table – 17. Quantitative indicators of financial performance and position (PD–1.3.9)

	Dec 2013	Dec 2012	Dec 2011*	Dec 2010*	Dec 2009*
Return on average equity (ROAE)	**0.01%**	-5.14%	-2.66%	-11.92%	-14.43%
Return on average assets (ROAA)	**0.01%**	-4.55%	-2.60%	-11.88%	-14.36%
Total cost to Income ratio	**83.32%**	76.73%	92.66%	90.39%	133.02%

* Ratios are based on pre-merger financials

Formula is as follows:
ROAE = Net Income / Average Equity
ROAA= Net profit / Average Assets

4.7.5 Bank's Financial Performance (PD1.3.9- (a))

2013 was a year of weak economic growth for the global economy with the sovereign debt crisis in Europe and policy uncertainties in the U.S impacting investment and business sentiment. The general challenging environment made it very difficult for the Group to achieve rewarding financial returns. Although the net income stood at USD 23 thousand compared to USD 12.4 million loss in 2012, the total revenues stood at USD 13.3 million compared to USD 11.9 million in 2012, while total assets summed up to USD 360 million compared to USD 382.8 million in 2012. Moreover, Shareholders' equity recorded USD 328.2 million compared to USD 326.4 million in 2012.

With an authorized capital of USD 500 million and paid up capital of USD 300 million, the Group is strengthened with a total equity of approximately USD 328 million and total assets in excess of USD 360 million as at 31 December 2013 spanning the Middle East and North Africa (Mena), Europe and Asia.

4 RISK MANAGEMENT (continued)

4.8 Legal Contingencies

The following are the material* current or pending legal actions which involve potential liability to the Bank:

1. Ali Iskandar Ansari and Partners - We are defendants to a claim in a private equity in Qatar whereby the local promoter is claiming approximately USD 1 million due as fees for establishing the joint venture. The local promoter also raised 3 other claims in court and all three cases have ended in our favour. Our expectation is this will like wise result in our favour. Additionally, we may be pursuing our own claim against the promoter in the near future to recover our investment in the joint venture.

2. Transweld - Our Libyan investment vehicle TAB Energy's subsidiary Etelaf was sued by a service provider relating to the oil rigs owned by the company. A judgment in the amount of USD 600,000 was obtained, and is currently in the process of being executed upon.

3. Ensign – Our Libyan investment vehicle TAB Energy's subsidiary Etelaf has been served with a claim by a lessor of a rig in the amount of USD 700,000.

*Materiality involves disputes involving potential liabilities in excess of USD 300,000 or 0.1% of our capital.

4.8.1 Managing and Controlling Legal Risks

As a general policy, the Bank seeks to resolve any potential conflict amicably to the extent practicable. In cases where we are faced with circumstances in which resolution may not be reached for a variety of reasons, we attempt to mitigate the risks involved by ensuring at the outset that we are fully aware of the risks involved and obtain an expert legal opinion on the matter and expected outcome. The bank also attempts to ensure that disputes are handled efficiently and expeditiously by sophisticated capable arbiters. As such, and in accordance with the guidance of the CBB, our preferred venue for dispute resolution is mediation followed by arbitration and lastly litigation in the traditional courts.

4.9 Equity of Investment Account Holders

The CBB requires the Group to maintain capital to cover the price risk arising from 30% of the assets funded by equity of investment account holders on a pro-rata basis. The Group is currently in the process of developing written policies and procedures applicable to equity of investment account holders. Funds are intended to be invested and managed in accordance with Shari'ah requirements.

The total equity of investment account holders deposit as of December 31, 2013 is USD 497 thousand. The Group does not maintain PER and IRR for equity of investment account holders. No profit was distributed to equity of investment account holders. No management fee or other administrative expenses was charged during the year 2013 from the equity of investment account holders. No financing was provided to equity of investment account holders. No assets related to equity of investment account holders were pledge during the year 2014. The equity of investment account holders funds have not been invested.

4 RISK MANAGEMENT (continued)

4.10 Off Balance Sheet Equity of Investment Account Holders

The Group holds Investments of portfolio customers under fiduciary relationship and thus RIA assets and liabilities, are held Off- Balance sheet and separate portfolio accounts are maintained for each client.

Although the underlying investments are held in the name of the Bank, these assets are not consolidated in the Group's financial statements and the aggregated exposures as at 31 December 2013 is USD 112,413 thousand. The Group is currently in the process of developing written policies and procedures applicable to Restricted Investment Accounts.

Ibdar Bank B.S.C (c)

Basel II, Pillar III Disclosures

For the year ended 31 December 2013 un-audited

4 RISK MANAGEMENT (continued)

Table – 18. Maturity Profile (PD-1.3.38)

The maturity profile of the Group's assets and liabilities are based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the financial position date to the contractual maturity date. The consolidated maturity profile at 31 December 2013 was as follows:

2013	Up to 3 months USD	3 months to 1 year USD	Sub total USD	1 to 5 years USD	5 to 10 years USD	No fixed maturity USD	Total USD
Assets							
Cash and balances with banks	16,239,464	-	16,239,464	-	-	-	16,239,464
Due from financial institutions	11,055,014	4,536,313	15,591,327	-	-	-	15,591,327
Financing receivables	-	12,232,440	12,232,440	-	-	-	12,232,440
Musharaka financing	-	-	-	786,630	-	-	786,630
Receivable from ijarah investors	-	14,800,849	14,800,849	-	-	-	14,800,849
Investment in ijarah asset	174,111	4,617,609	4,791,720	-	-	-	4,791,720
Ijarah muntahia bittamleek	208,333	625,000	833,333	449,201	-	-	1,282,534
Investment in securities	-	-	-	54,519,491	25,343,479	149,004,142	228,867,112
Investment in associates	-	-	-	-	-	11,372,412	11,372,412
Investment in real estate	-	-	-	-	-	44,079,522	44,079,522
Development properties	-	-	-	-	-	6,164,051	6,164,051
Fixed assets	-	-	-	-	-	726,393	726,393
Other assets	836,646	1,700,290	2,536,936	377,527	-	211,527	3,125,990
Total assets	**28,513,568**	**38,512,501**	**67,026,069**	**56,132,849**	**25,343,479**	**211,558,047**	**360,060,444**
Liabilities							
Due to financial institutions	6,595,590	16,189,243	22,784,833	-	-	-	22,784,833
Due to non financial institutions	-	164,576	164,576	-	-	-	164,576
Other liabilities	1,361,485	3,958,759	5,320,244	2,844,631	-	291,284	8,456,159
Total liabilities	**7,957,075**	**20,312,578**	**28,269,653**	**2,844,631**	**-**	**291,284**	**31,405,568**
Equity of investment accountholders	497,535	-	497,535	-	-	-	497,535
Total liabilities and equity of investment accountholders	8,454,610	20,312,578	28,767,188	2,844,631	-	291,284	31,903,103
Net liquidity gap	20,058,958	18,199,923	38,258,881	53,288,218	25,343,479	211,266,763	328,157,341
Cumulative net liquidity gap	20,058,958	38,258,881		91,547,099	116,890,578	328,157,341	-
Commitments	-	9,381,693	9,381,693	35,810	-	-	9,417,503

5 CORPORATE GOVERNANCE AND TRANSPARENCY

The Bank is committed to adopting the best international standards and global leading practices in corporate governance. The Bank has established a strong corporate governance framework that is designed to protect the interests of all stakeholders, ensure compliance with regulatory requirements, and enhance organisational efficiency.

The Bank has established a concrete organisational structure that clearly segregates functions and responsibilities, and reflects a division of roles and responsibilities of the Board of Directors and Management. Clear mandates exist for the Board, Chairman of the Board, Board Committees, Chief Executive Officer, the Management, and Senior Management Committees.

The Bank has only one class of equity shares and the shareholders are from the following nationalities (PD1.3.10-(i)):

Country	Percentage
1- State of Kuwait	50.52%
2- Kingdom of Bahrain	23.48%
3- Kingdom of Saudi Arabia	15.06%
4- Qatar	4.71%
5- United Arab Emirates	4.00%
6- Oman	2.03%
7- Jordan	0.13%
8- Yemen	0.05%
9- Sri Lanka	0.01%
10- Canada	0.01%

The distribution of ownership of shares by size of shareholder is provided below (PD1.3.10-(l)):

Size of Ownership	No. of Shareholders
Less than 5 %	228
5 - 10 %	1
20% to less than 50%	1
	230*

*Based on EGM held on 5th September 2013, the number of shareholders became 230 pending regesteration completion with the Ministry of Industry and Commerce.

5.1 Board Members' Profile

The primary responsibility of the Board is to provide effective governance over the Bank's affairs and promote and achieve sustainable performance that has long-term growth potential for the benefit of its shareholders. The Board also has the duty of balancing interest of all its stakeholders, including its clientele, business partners, correspondents, employees, suppliers and local communities, all the time maintaining standards of transparency and accountability.

In all actions taken by the Board, the Directors are expected to exercise their business judgment in what they reasonably believe to be in the Bank's best interest. In discharging this obligation, they may rely on the professional integrity of the Bank's Senior Executives, as well as its external advisors and auditors. The Board of Directors members are:

Ibdar Bank B.S.C (c)
Basel II, Pillar III Disclosures
For the year ended 31 December 2013 un-audited

5 CORPORATE GOVERNANCE AND TRANSPARENCY (continued)

5.1 Board Members' Profile (continued)

Table – 19. Corporate Governance and Transparency – Board Members' Profile (PD-1.3.10(b,c,p,q))

Ibdar's Board of Directors' structure constitutes of 10 members as of December 31, 2013.

The following table summarises the information about the profession, business title, experience in years, start date and the qualifications of the current Board members;

Name of Board Member	Profession	Business Title	Executive / Non Executive Independent / Non Independent»	Experience in years	Start date and term	Qualification
Paul Mercer	Lawyer	Executive Manager, Kuwait Finance House – Bahrain	Non-Independent / Executive	Over 19	July 2011, 3 years from January 2013	M.A. Law - Cambridge University
Mohammad Khalifa Al Adsani	Accountant	CEO, Aref Investment Group	Non-Independent / Executive	Over 22	July 2011, 3 years from January 2013	MBA - University of Leicester
Abdulla A. Al Marzouq	Banker	Deputy Dept Manager, International Investments, Kuwait Finance House - Kuwait	Non-Independent / Executive	Over 18	July 2011, 3 years from January 2013	MBA - MIT Sloan School of Management
Zeyad Tareq Al Mukhaizeem	Banker	Executive Director - International Investments, Aref Investment Group	Non-Independent / Executive	Over 11	January 2013, 3 years	MBA - Depaul University
Mishari Z. Al Khalid	Banker	Deputy Chairman - Kuwait Investment Company	Non-Independent / Non-Executive	Over 37	January 2013, 3 years	Bachelor of Commerce-Business Management - Cairo University
Khalid Mohammed Najibi	Accountant	Executive Director - Najibi Investment Company	Independent / Non-Executive	Over 23	January 2013, 3 years	Bachelor - Schiller International, CPA
Khalid Abdullah Al Bassam	Banker	Chairman - AlBassam Investment Company	Independent / Non-Executive	Over 25	January 2013, 3 years	Bachelor - Eastern New Mexico University
Khalid Mohammed Al Aboodi	Banker	CEO - Islamic Corporation for the Development of the Private Sector	Independent / Non-Executive	Over 30	January 2013, 3 years	Masters - Economics - Northeastern University
Saleh Hassan Al Afaleq	Banker	CEO - AlKifah Holding	Independent / Non-Executive	Over 23	January 2013, 3 years	Masters - Human Resource Development - Seattle University
Abdulhakim Al Adhamy	Accountant	Retired	Independent / Non-Executive	Over 35	September 2013, 3 years	Bachelors - Commerce - Baghdad University, ICA

5 Corporate Governance and Transparency (continued)

5.1 Board Members' Profile (continued)

The Board shall meet on a quarterly basis, or otherwise at least four times in every financial year. During the year ended 31 December 2013, 7 Board meetings were held. The following table summarises the information about Board of Directors meeting dates and attendance of directors at each meeting;

Table – 20. Corporate Governance and Transparency – Board of Directors meetings in 2013 (PD-1.3.10(t and u))

Date	Names of Directors Present (Physical)	Names of Directors who participated by phone/ video link	Names of Directors not Present
29-Jan-13	Paul Mercer Mohamed AlAdsani Abdullah AlMarzouq Mishari AlKhalid Khalid Najibi Khalid AlBassam Saleh AlAfaleq Nasser AlMutawa	Zeyad AlMukhaizeem	Khalid AlAboodi
7-Mar-13	Paul Mercer Zeyad AlMukhaizeem Abdullah AlMarzouq Mishari AlKhalid Khalid Najibi Khalid AlBassam Khalid AlAboodi Saleh AlAfaleq		Nasser AlMutawa Mohamed AlAdsani
14-May-13	Paul Mercer Mohamed AlAdsani Zeyad AlMukhaizeem Abdullah AlMarzouq Mishari AlKhalid Khalid Najibi Khalid AlBassam Saleh AlAfaleq Nasser AlMutawa		Khalid AlAboodi
18-Jul-13	Paul Mercer Abdullah AlMarzouq Mishari AlKhalid Khalid Najibi Khalid AlAboodi Khalid AlBassam Saleh AlAfaleq Nasser AlMutawa		Mohamed AlAdsani Zeyad AlMukhaizeem

5 Corporate Governance and Transparency (continued)

5.1 Board Members' Profile (continued)

Table - 20. Corporate Governance and Transparency - Board of Directors meetings in 2013 (PD-1.3.10(t and u)) (continued)

Date	Names of Directors Present (Physical)	Names of Directors who participated by phone/ video link	Names of Directors not Present
12-Sep-13	Paul Mercer Mohamed AlAdsani Zeyad AlMukhaizeem Abdullah AlMarzouq Mishari AlKhalid Khalid Najibi Khalid AlBassam Saleh AlAfaleq		Khalid AlAboodi
31-Oct-13	Paul Mercer Mohamed AlAdsani Zeyad AlMukhaizeem Abdullah AlMarzouq Mishari AlKhalid Khalid Najibi Khalid AlBassam Saleh AlAfaleq Khalid AlAboodi Abdulhakim AlAdhamy		
4-Dec-13	Paul Mercer Mohamed AlAdsani Zeyad AlMukhaizeem Khalid Najibi Khalid AlBassam Saleh AlAfaleq Khalid AlAboodi Abdulhakim AlAdhamy	Abdullah AlMarzouq	Mishari AlKhalid

5.2 Changes in Board Structure

The Board was elected on January 29, 2013 during the Ordinary General Meeting. At the Extraordinary General Meeting on September 5, 2013, the shareholders appointed Mr. AbdulHakim AlAdhamy to serve on the Board. On September 10, 2013, Mr. Nasser AlMutawa resigned from the Board.

The following table summarises the information about the directorships held by the directors in other boards:

5 Corporate Governance and Transparency (continued)

5.2 Changes in Board Structure (continued)

Table – 21. Information on the directorships held by the directors on other boards

Name of Board Member	Directorship in other companies - based outside Bahrain	Directorship in other companies - based in Bahrain
Paul Mercer	Baytik International Investments Advisory Ltd Fernas Investors Ltd Liberty Aerospace, Inc. Liberty Aerospace Holdings, Inc. Liberty Assets, LLC. Liberty XL2 Holdings LLC Motherwell Bridge Group Limited Motherwell Bridge Limited	Themar Baytik B.S.C. (c) Turkapital Holdings B.S.C. (c) Menatelecom WLL Menatelecom Holdings B.S.C. ©
Mohammad Khalifa Al Adsani	Al Masar for Leasing & Investment Company Kuwait International Fair Company Kuwait Investment Company	-
Abdulla A. Al Marzouq	Hayat Investment Company	-
Zeyad Al Mukhaizeem	Munshaat Real Estate Projects Company Bank of London and Middle East EURX Fund	-
Mishari Al Khalid	Kuwait Investment Company	National Hotels Company
Saleh Al Afaleq	AlKifah Holding Al-Ahsa Amusement and Tourism Company Arbah Capital Noor Capital Saudi Industrial Property Authority General Authority of Civil Aviation Council of Saudi Chambers of Commerce National Cenre of Palm and Dates Al-Ahsa Irrigation and Drainage Authority	-
Khalid Najibi	Arbah Capital Tab Energy	Najibi Investment Company Skaugen Gulf Petchem Carriers
Khalid Al Bassam	Gulf Investment Corporation Islamic Bank of Asia	AlBassam Investment Company WLL Foulath Holding BSC Sulb BSC Bahrain Steel BSC Skaugen Gulf Petchem Carriers
Khalid Al Aboodi	Africa Finance Corporation Anfaal Capital Arab Fisheries Company Bosna Bank International's Real Estate Company Burj Bank Mauritania Investment Group	
Abdulhakim Al Adhamy	Amwaj Property Limited BVI Commercial Bank of Dubai PSC	Ebrahim Khalil Kanoo BSC Kuwait Finance House BSC

5 Corporate Governance and Transparency (continued)

5.3 Board Committees

The minimum number of Board Committee meetings per year, per committee, is specified by the respective committee charter. However, as the committes were approved by the CBB during the second half of the year so the minimum number of meetings during the year may not have been complied with. The following tables summarises the information about Board Committee meeting dates and attendance of directors at each meeting;

Table - 22. Corporate Governance and Transparency - Audit Committee meetings in 2013 (PD-1.3.10(w))

Date	Names of Directors Present	Names of Directors Not Present
25-Jul-13	Abdulhakim Aladhamy Khalid AlBassam Mishari AlKhalid	None
22-Oct-13	Abdulhakim Aladhamy Khalid AlBassam Mishari AlKhalid	None
1-Dec-13	Abdulhakim Aladhamy Khalid AlBassam Mishari AlKhalid	None

Table - 23. Corporate Governance and Transparency - Executive Committee meetings in 2013 (PD-1.3.10(w))

Date	Names of Directors Present	Names of Directors Not Present
30-May-13	Mohamed AlAdsani Zeyad AlMukhaizeem Abdullah AlMarzouq Khalid Najibi Saleh AlAfaleq	None
18-Jun-13	Mohamed AlAdsani Zeyad AlMukhaizeem Khalid Najibi Saleh AlAfaleq	Abdullah AlMarzouq
18-Jul-13	Mohamed AlAdsani Zeyad AlMukhaizeem Abdullah AlMarzouq Khalid Najibi Saleh AlAfaleq	None
12-Sep-13	Mohamed AlAdsani Zeyad AlMukhaizeem Abdullah AlMarzouq Khalid Najibi Saleh AlAfaleq	None
4-Dec-13	Mohamed AlAdsani Zeyad AlMukhaizeem Abdullah AlMarzouq Khalid Najibi Saleh AlAfaleq	None

5 Corporate governance and transparency (continued)

5.3 Board Committees (continued)

Table – 24. Corporate Governance and Transparency – Risk Committee meetings in 2013 (PD-1.3.10(w))

Date	Names of Directors Present	Names of Directors Not Present
10-Sep-13	Abdulhakim Aladhamy Paul Mercer Khalid AlBassam	None
23-Oct-13	Abdulhakim Aladhamy Paul Mercer Khalid AlBassam	None

Table – 25. Corporate Governance and Transparency – Remuneration and Nomination Committee meetings in 2013 (PD-1.3.10(w))

Date	Names of Directors Present	Names of Directors Not Present
20-May-13	Nasser AlMutawa	None
29-May-13	Nasser AlMutawa Khalid AlAboodi Mishari AlKhalid	None
8-Jul-13	Nasser AlMutawa Khalid AlAboodi Mishari AlKhalid	None
17-Jul-13	Nasser AlMutawa Khalid AlAboodi Mishari AlKhalid	None
9-Oct-13	Khalid AlAboodi Mishari AlKhalid	None
30-Oct-13	Khalid AlAboodi Mishari AlKhalid	None
21-Nov-13	Khalid AlAboodi Mishari AlKhalid	None

5.4 Changes in the Corporate Governance Structures (PD-1.3.10(g))

No changes to the Corporate Governance Structures occurred in 2013.

5.5 Remuneration Policy and Aggregate Remuneration Paid to Senior Management and Board (PD-1.3.10(d, ii, jj and kk))

The Bank's remuneration policy for Senior Management is to provide competitive remuneration structure to attract and retain highly skilled personnel.

Aggregate remuneration paid to senior management during 2013 was USD 935 thousand (this includes salaries, allowances, other benefit and bonuses for the year ended 31 December 2013 that were disbursed after the closing of the financial year).

5 Corporate governance and transparency (continued)

5.5 Remuneration Policy and Aggregate Remuneration Paid to Senior Management and Board (PD-1.3.10(d, ii, jj and kk)) (continued)

The Bank's remuneration policy for Board Members is to appropriately compensate and remunerate board members for their active participation in board meetings. Based on this policy the Board of Directors remuneration was structured to comprise the following:

(a) Sitting fees
(b) Perdiem for members attending Board and sub-committee meetings
(c) Daily Allowance
(d) First class air tickets

Aggregate remuneration paid to Board Members during 2013 was USD 655 thousand.

5.6 A. Ownership of Shares by government (PD-1.3.10(m))

Name of Government Authority	Country	No. of Shares	Percentage %
Social Insurance Organization	Kingdom of Bahrain	4,693,951	1.565%
The Public Authority for Minor Affairs	State of Kuwait	1,642,877	0.548%
Awqaf Public Foundation	State of Kuwait	1,642,877	0.548%
Directorate of Minors Affairs	Kingdom of Bahrain	259,880	0.087%

B. Director's trading of the bank's shares during the year (PD–6.1.1 (c))

Directors have not made any trade of the Group's shares during the year.

5.7 Ownership of Shares by Directors / Senior Managers (PD-1.3.10(k))

Name of Director / Senior Manager	On Behalf of	No. of Shares	Percentage%
Khalid AlBassam	Al-Bassam Investment Company	11,601,431	3.867%
Saleh AlAfaleq	Al-Kifah Holding Company	6,804,413	2.268%
Khalid Najibi	Najibi Investment Co. W.L.L.	5,223,800	1.741%
Mohamed AlJasim	Individual	646,631	0.216%
Sameeh AlKhan	Individual	291,561	0.097%

5.8 Type of Material Transactions that require Board approval (PD-1.3.10(o))

The following types of material transactions require Board approval if suggested by the approved policies:

(a) Conclude loan agreements with certain limit;
(b) Sell the company's assets;
(c) Mortgage the Company's properties;
(d) Grant guarantees to third parties;
(e) Discharge the Company's debts; and
(f) Engage in any other acts which may be integral to the company's objects as set out in the Memorandum of Association.

5 Corporate governance and transparency (continued)

5.9 Induction, Education and Orientation of New Directors (PD-1.3.10(r))

All new Directors participate in an orientation exercise that is administered by the Directors and members of the Management at Ibdar. This orientation includes presentations by the Chairman and senior management to familiarize new Directors with Ibdar's strategic plans, significant financial, accounting and risk management issues, compliance programs, the Code of Conduct, its principal officers, and internal and independent auditors. In addition, the orientation includes visits to Ibdar headquarter and, to the extent practical, Ibdar's significant facilities. It is emphasized that Directors stay up-to date in relation to matters relevant to the Bank, the industry and the particular areas of expertise for which they have been invited on to the BOD in the first place. In particular the induction/orientation process will aim for a Director to have:

(a) An appropriate level of knowledge of the industry Ibdar operates in.
(b) A clear understanding of Ibdar's business operations.
(c) A clear understanding of Ibdar's financial circumstances.
(d) A clear understanding of Ibdar's strategy and direction.
(e) A high level knowledge of the business risks that may affect its success.
(f) Access to relevant background information on key employees and the other members of the BOD.
(g) In addition, new Directors are provided an Induction Package

The process of director induction is critical to having the new directors effectively and efficiently contributing to the Board of Directors. As part of this process, specifically, the new director shall:

(a) Be welcomed formally by the Chairman of the Board, who shall brief him generally on the Bank, the Board, the other directors, and the culture and operation of the Board.
(b) Meet with the Chief Executive Officer onsite at the Bank office to discuss the Bank strategy and plan and be introduced to key management staff.
(c) Be briefed on the history and legacy of the Bank and its key shareholders, clients, and partners by the Chief Operating Officer.
(d) Be briefed by the Board Secretary on the general operations of the Board.
(e) Be provided all of the pertinent documentation, including but not limited to:

    i. Applicable laws and regulations, including the Commercial Companies Law, the CBB Rulebook and regulations
    ii. The Memorandum and Articles of Association
    iii. The Corporate Governance Manual
    iv. Organization Chart
    v. Business Plan
    vi. Schedule for Upcoming Board and Committee Meetings
    vii. The Board Minutes for the last 12 months (including the audio recording of the last meeting, if available)
    viii. The Board Packs for the last 12 months
    ix. The Board Committee Minutes for the respective committee he will be appointed to for the last 12 months (including the audio recording of the last meeting, if available)
    x The Annual Reports for the last 2 years
    xi. The Quarterly Financials for the last 12 months

(f) Be provided any other documentation on the Bank, its products, services, market or competition, upon his request.
(g) Be afforded the opportunity to meet with any staff, consultants, or advisors, including the external auditor, upon his request.

5 Corporate governance and transparency (continued)

5.10 Executive Members' Profile

Delegated by the Board with the authority for managing the Bank's operations, the Executive Management Team of the Bank are responsible for implementing decisions, policies, procedures, and strategies approved by the Board of Directors. The Executive Management Team comprises:

Table - 26. Corporate Governance and Transparency - Executive Members' Profile (PD-1.3.10(b))

The following table summarises the information about the profession, business title, experience in years and the qualifications of each Executive member;

Name of Executive Member	Designation	Profession	Business Title	Experience in year	Qualification
Paul Mercer	Chairman	Lawyer	Non Executive	Over 19	M.A. Law - Cambridge University
Mohamed AlJasim	Chief Investment Officer	Banker	Executive	Over 14	B.A. (Hons) Accounting
Sameeh AlKhan	Chief Operating Officer	Banker	Executive	Over 30	Advanced Management Diploma

5.11 Bank's Performance Linked Incentive Structure (PD-1.3.10(d))

The remuneration & incentive structure of the Board Members and Shari'ah Members is discussed at the Board level. Remuneration of Board Members is approved in the Annual General Meeting ("AGM"). Bonuses are based on Bank's performance, division or department performance and individual staff performance. The board approves all performance bonus schemes for staff.

5.12 Related Party Transactions (PD-1.3.10(f))

Related party transactions are governed by the Group corporate governance policy. All related party transactions were concluded at arm's length.

Where the Bank proposes to enter into a related party transaction the following procedures apply:

1- The relevant responsible officer involved in the transaction makes appropriate disclosure to the Compliance Officer of the bank. The Compliance Officer will review the transaction and send his/her comments to the Investment, Credit & Risk Committee ("ICRC" or the "Committee") about the proposed transaction. This disclosure should include the following:

5 Corporate governance and transparency (continued)

5.12 Related Party Transactions (PD-1.3.10(f)) (continued)

(a) Details of the proposed transaction;
(b) Proposed transaction parties and how they are related;
(c) How arm's length may be evidenced

2- The committee will consider the information provided in order to determine whether and how to proceed with the proposed transaction. The Committee may confer with risk management and legal department or may take external legal advice, in reaching this determination.

3- The Committee shall review the material facts of the transactions that require the Committee's approval and either approve or disapprove of the entry into the related party transaction.

5.13 Assessment of Board of Directors Effectiveness & Contribution (PD-1.3.10(aa))

The Board and the management of the Bank are committed to the highest standards of corporate governance and risk management, therefore the Bank has developed a methodology which incorporates a process to self-assess the performance of the Board by the Board members on ongoing basis. This methodology and performance criteria is developed and recommended in line with the Board approved corporate governance policy and terms of reference. Self assessment shall help the board to establish clear expectations and goals to measure against these standards. The areas covered by the self assessment process are:

- Objective and strategy
- Selecting and retaining competent management
- Monitoring and assessing operations
- Efficient operations
- General assessment

5.14 Review of internal control processes and procedures (PD-1.3.10(y))

Internal control processes and procedures are regularly reviewed by the Bank's Internal Auditor in line with the internal audit plan approved by the Board's Audit Committee.

5.15 Governance arrangements, systems and controls employed by the bank to ensure Shari'ah compliance (PD-1.3.10(ff))

Shari'ah compliance department conducts review of all business financing and investment proposals together with audit of all executed transactions of Ibdar Bank and its affiliates to confirm compliance with Shari'ah rules and principles, and also with specific rulings and guidelines issued by the Shari'a Supervisory Board.

The Shari'ah review and audit are conducted internally by the Shari'ah Compliance Department, which includes examining all transactions without exception, with all its the relevant documentation and execution procedures adopted by Ibdar Bank.

5 Corporate governance and transparency (continued)

5.15 Governance arrangements, systems and controls employed by the bank to ensure Shari'ah compliance (PD-1.3.10(ff)) (continued)

The Shari'ah review and audit are planned and performed after obtaining all the information and explanations which are considered necessary to provide sufficient evidence and give reasonable assurance that Ibdar Bank and its affiliates are in compliance with Islamic Shari'ah rules and principles.

The findings are reported to the Shari'ah Supervisory Board during the periodic meeting, which is held on quarterly basis or at any other time as the case may require. The Shari'ah Supervisory Board reviews the review and audit reports of the Shari'ah Compliance Department and provides the necessary recommendations in this regard, if needed, and issues the official opinion by means of the Shari'ah Compliance Certificate after each meeting.

5.16 Handling of Non Shari'ah compliance earnings and expenditures (PD-1.3.10(gg))

Any amount that has been identified as being non Shari'ah compliant are fully reimbursed to a charity organisation or a Bahraini Non-Profit organization.

5.17 Information on mediation, advise and complaint procedures at the bank (PD-1.3.10(dd))

The investors may use the Bank's website for logging a query or a complaint, which is managed by the Corporate Communications Department ("CCD") through the "Contact Us" page including a drop-down menu of all the Bank's divisions/departments available on the website. After receiving a query or a complaint through the email address associated with the "Contact Us" page, CCD channels the query or a complaint to the concerned department to follow up with a response. The investor's query is addressed accordingly by the appropriate department or person who was asked to handle the issue.

5.18 Election system of directors and any termination arrangements (PD-1.3.10(s))

As per the Memorandum and Articles of Association of the Bank, the Board shall be elected by the shareholders for a period of three years. The Board shall meet and elect its Chairman and Vice Chairman for a period equivalent to the term of the Board. The termination arrangements of the Board of Directors are as stated in the Memorandum and Articles of Association (Articles 24, 25 & 27).

5.19 Bank's Communication Strategy (PD-1.3.10(h and cc))

The CCD is responsible for preparing marketing materials in liaison with other Business Departments, which are used to communicate new product information and inform the investors of the Bank's activities. The various channels of communication may include corporate publications, website, direct mailers, electronic mail and local & regional media (through press releases). All marketing materials & corporate documents are approved by Senior Management prior to disclosing to the public.

The Bank adopted an open policy for communication where it uses all available suitable channels to communicate with its stakeholders, in line with the principle of transparency and

5 Corporate governance and transparency (continued)

5.19 Bank's Communication Strategy (PD-1.3.10(h and cc)) (continued)

disclosure that is integral to good corporate governance. This includes wide use of the media for the purposes of providing information on the Bank's progress.

Furthermore, the Bank provides information on all events that merit announcement, either on its website or through other communication channels. The Bank's annual report and previous years financial statements are also published on the website, as well as the Corporate Governance reports. The Bank's quarterly results are also published in both Arabic and English newspapers, and are posted on the Bank's website.

The Board attaches a high degree of importance to continuous communication with shareholders, especially direct dialogue with them at the Bank's annual general meetings. Shareholders are therefore encouraged to actively participate at such meetings.

5.20 Bank's Code of Ethical Business Conduct and Conflict of Interest (PD-1.3.10(v) & PD–6.1.1 (j))

The Board establishes corporate values for itself, senior management, and employees. These values have been communicated throughout the Bank, so that the Board and senior management and staff understand their accountabilities to the various stakeholders and fulfill their fiduciary responsibilities to them.

Bank's ethics dictate that a Board Member should:

1 - Not enter competition with the Bank;
2 - Not demand or accept substantial gifts for himself or his associates;
3 - Not take advantage of business opportunities to which the Bank is entitled for himself or his associates;
4 - Report to the Board any conflict of interest in their activities with, and commitments to other organizations. In any case, all Board Members declare in writing all of their other interest in other enterprises or activities (whether as a shareholder, manager, or other form of participation) to the Board (or the Audit Committees / Corporate Officer) on an annual basis;
5 - Absent themselves from any discussions or decision-making that involves a subject where they are incapable of providing objective advise, or which involves a subject or proposed transaction where a conflict of interest exists; and
6 - Ensure, collectively with the Board, that systems are in place to ensure that necessary client confidentiality is maintained and the privacy or the organization itself is not violated, and that clients' rights and assets are properly safeguarded.

During 2013, there has not been any cases of conflict of interest in the Bank.

5.21 Monitoring Compliance to and Enforcement of Code of Conduct

The matters covered in the Code of Conduct are of the utmost importance to the Bank, its stakeholders and its business partners and are essential to the Bank's ability to conduct its business in accordance with its stated values. The Bank clearly communicates to all of its employees that they are expected to adhere to these rules in carrying out their duties for the Bank.

Ibdar Bank B.S.C (c)
Basel II, Pillar III Disclosures
For the year ended 31 December 2013 un-audited

5 Corporate governance and transparency (continued)

5.21 Monitoring Compliance to and Enforcement of Code of Conduct (continued)

The Board, through independent evaluators (i.e. Internal Auditor) and Senior Management, continuously monitor adherence to the set Code of Conduct and take appropriate action against any employee whose actions are found to violate these policies or any other policies of the Bank. Disciplinary actions may include immediate termination of employment or business relationship at the Bank's sole discretion. Employees are prohibited from participating in or concealing criminal activity or illegal behavior. Periodic reports and assessments of compliance to Code of Conduct will be presented to the board to report any incident of non compliance.

5.22 Auditor's Fees and Non-Audit Services (PD-6.1.1 (g), (h) & (i))

Disclosed below are the fees charged by the external auditor, in compliance with CBB's requirement to disclosure additional information to the shareholders:

Service	Fees in USD
Annual fees	84,881
Public disclosure-semi annual	11,538
Public disclosure-annual	15,915
PIRI review	44,562
Quarter review	41,379
Money laundry	10,610
CBB license fees	1,326
Total of Bank fees	210,212
Total Subsidiaries Fees	38,064

The Auditors for 2014 were changed in line with good corporate governance practice.

5.23 Social Functions and Charitable contributions of the Bank

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

5.24 Penalties or Fines by Central Bank of Bahrain

In 2013 the bank paid a financial penalty amounting to BHD 500 for submitting the annual report five days late and BHD 700 for submitting the audited financials statements of the bank's subsidiaries seven days late due to the merger process that took longer than expected.

5.25 Penalties charged to Customers for Default

No penalties were charged to customers with regards to defaults during 2013.