GULF FINANCE HOUSE BSC

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2013

Commercial registration	:	44136 (registered with Central Bank of Bahrain as a Islamic wholesale investment Bank)
Registered Office	:	Bahrain Financial Harbour Office 2901, 29th Floor, Building 1398, East Tower, Block 346, Road 4626 Manama, Kingdom of Bahrain Telephone +973 17538538
Directors	:	Ahmed Al Mutawa, *Chairman* Mosabah Saif Al Mautairy, *Vice Chairman* Dr. Esam Janahi (resigned on 3 October 2013) Azzam Al Felaij (resigned on 23 January 2014) Bashar Muhammad Almutawa (w.e.f. 4 April 2013) Mohammed Ali Talib (w.e.f. 4 April 2013) Sheikh Mohammed Bin Duaij Al Khalifa (w.e.f. 4 April 2013) Khalid Alkhazraji (w.e.f. 4 April 2013)
Chief Executive Offcer	:	Hisham Alrayes
Auditors	:	KPMG Fakhro

GULF FINANCE HOUSE BSC

CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013

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CHAIRMAN'S REPORT
for the year ended 31 December 2013

IN THE NAME OF ALLAH, THE BENEFICIENT, THE MERCIFUL, PRAYERS AND PEACE BE UPON THE LAST APOSTLE AND MESSENGER, OUR PROPHET MOHAMMED.

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present the financial results of Gulf Finance House (GFH) for the financial year ended 31st December 2013.

The year was once again marked by sound performance and further progress across the Bank and its subsidiaries despite challenging economic conditions and continued geo-political tensions both internationally as well as in MENA markets.

Having returned to profitability in 2012, GFH continued to build upon positive momentum, effectively executing our strategy, which aims at maximizing the Bank's existing investments and strong assets base as well as developing new opportunities to generate income and create long term value for investors and shareholders.

For the year 2013, GFH reported a net profit of US$6.3 million compared to US$10.03 million in 2012. Operating profit for 2013, before provisions, was US$ 9.3 million compared to an operating profit of US$ 20.43 million in 2012.The Bank also continued to make progress in enhancing efficiency across the business with a 20% reduction in operating costs for 2013. This is in line with restructuring plans launched in 2010 to streamline operations and bolster the balance sheet, which at year-end 2013 stood strengthened following successful cost management, new income generation and the effective restructuring of all GFH's debts including the successful restructuring during the year of a Murabaha Facility for US$60 million till 2018.

In the second half of the year 2013, Capital Intelligence, the credit analysis and rating agency issued GFH with a sound credit rating of BB- with a positive outlook. We are especially pleased with this development as it affirms the strengthened financial position of the bank as well as strengthens the market and investment community confidence in GFH's future prospects.

During the year, the Bank also completed a number of new strategic transactions across key sectors and geographies. Importantly, these included the successful acquisition by GFH Capital, a fully owned subsidiary of the Bank, of a prime central residential property. Located in Kensington's Queens Gate Gardens, this Grade II listed building is situated in a highly desirable location, where the Bank expects above average capital appreciation and returns over the medium term. Similar transactions across carefully selected jurisdictions are also being explored due to a renewed appetite from our investors in such properties and in income generating opportunities.

Furthermore, progress was also made in 2013 on the Bank's strategy to build and extract value from its existing investments. Considerable effort continued to be made to support growth of key ventures and to set the stage for profitable exits for the Bank and our investors from a number of investments held by the Bank and its subsidiaries.

Notably, the year saw GFH Capital attract a number of strategic investors into Leeds United Football Club, one of English football's best known and supported clubs, which GFH Capital had acquired in 2012. Significant progress was made on the sale of 75% shareholding to a strategic investor, which we believe can support the elevation of Leeds to the English Premiership, thus enhancing the Club's value and earnings power. This strategic sale, planned for completion in early 2014 and pending English Football League approval , would not only result in a further profitable partial exit for GFH Capital, it would also ensure that its planned remaining 10% stake in Leeds continues to deliver sound returns for the Bank and the co-investors.

In the second quarter of the year, the GFH's majority owned commercial bank, Khaleeji Commercial Bank B.S.C "KHCB", signed a Memorandum of Understanding with Bank Al Khair B.S.C.(c), an Islamic Bank incorporated in Bahrain, to evaluate the feasibility of merging the two institutions into a larger financial institution. A steering committee with members from both banks was established to conduct the due diligence and to pursue the transaction, subject to obtaining the respective shareholder approval and seeking the necessary regulatory consents.

CHAIRMAN'S REPORT *(continued)*
for the year ended 31 December 2013

Additionally, impressive strides were made at Cemena Holding, a company founded and developed by GFH in 2008 for the purpose of investing in the industrial and building materials sector across the MENA region. During the year, Bahrain based Falcon Cement, in which Cemena has a major shareholding, continued to build steady market share and achieved a 95% sales rate for its cement produced during in 2013. Balexco, the first aluminum extrusion production plant in the Gulf region in which Cemena also holds a significant stake, similarly advanced during 2013, successfully completing the installation and deployment of a new production line.

Milestones were also reached during 2013 at other mainstay projects, investments and infrastructure developments of the Bank.

First, the Mumbai Economic Development Zone (MEDZ) project advanced. During the year a partnership agreement for joint development of the project was furthered with Wadhwa Group. It has been later signed in February 2014 following which the Bank will receive proceeds of US$30 million. Movement was also made on the transaction with AsiaStar City Holdings (ACH), the Singapore based company. ACH will bring into the project the Adani Group, a top 10 Indian business house with group revenues in excess of US$ 8 billion, to partner in the project's Energy City. We expect to complete the agreement for Energy City at an offshore level during first quarter of 2014. Once development work for the above two areas of the project come online, the Bank expects that the value for the lands within the MEDZ will appreciate significantly providing us and our investors with enhanced financial options.

Further, there was positive news on the Tunis Financial Harbor (TFH) project during the year with the signing of an MOU with a Turkish party interested in joint development of the project. Moreover, land allotment of the project's land parcels for phases I and II are also on target to resume following the finalization of Stage 2 gas study findings which have been completed. The infrastructure works should commerce first quarter in 2014 and the land allotment of phases I and II will be finalized by mid 2014; providing added value and marketability to the project.

During 2013, restructuring of the Royal Ranches Marrakesh (RRM) project was also begun. We have engaged advisors to renegotiate loan agreements with financiers and source possible opportunities for new investor participation. Several scenarios are under discussed and a rescheduling agreement for RRM's loans is anticipated for March 2014 subject to local counselors facilitating the extension of the Investment Agreement with the government as a prerequisite. Additionally, in the latter part of 2013, we have seen increased interest in RRM from potential European and local investors and as a result we are in discussion with two potential European investors.

We are pleased with the progress made throughout 2013 in each of these areas. We have now long talked about extracting value from our assets for the benefit of our investors and shareholders and we are confident our efforts over the past year have indeed paved the way for GFH to deliver on this promise in the year ahead and beyond. At the same time, we are equally focused on continuing to identify and complete new transactions, much like those in 2013, which can provide for strong, steady income streams for the Bank, our investors and shareholders.

We have already developed a healthy pipeline of income generating opportunities for 2014. Areas of focus for the coming year will continue to be our core GCC markets and in particular the Kingdom of Saudi and the UAE, where growth opportunities exist in a number of key sectors.

The Bank is also actively pursuing additional opportunities in UK real estate, where it believes the prime central London residential market will continue to perform strongly. Similarly, GFH also sees value and upside potential in other real estate markets such as the US and will look closely in 2014 at making investments in these markets as well.

CHAIRMAN'S REPORT *(continued)*
for the year ended 31 December 2013

In concluding, and on behalf of the Board of Directors, I would like to express our deep appreciation to the Rulers and the Government of the Kingdom of Bahrain for their vision and continued support of Gulf Finance House.

I would also like to thank the leadership and respective governments of the Kingdom of Saudi Arabia, Kuwait, Oman, Qatar, United Arab Emirates, United Kingdom, India, Tunisia and Morocco for their strong economic policies and governance, which sustains our presence and investments in each of these strategic markets.

Additionally, I would like to thank the individual regulators in each of these geographies, especially the Central Bank of Bahrain for their continued support and assistance of GFH and the broader financial sector overall.

Lastly, I would like to take this opportunity to extend my gratitude to all of our shareholders, investors and strategic partners for their continued support and cooperation. The value of your belief and loyalty to GFH is immeasurable. I would also like to acknowledge the dedication and hard work of the Bank's management team and employees. It is their ongoing commitment and contributions to GFH that truly form the cornerstone of our success now and for the future.

We enter 2014 with stronger foundations, greater confidence and a strategy that is honed to deliver enhanced performance and profitability over the course of the ahead. We look forward to keeping you apprised of our continued progress and of our results throughout 2014.

Best Regards,

Ahmed Al Mutawa
Chairman
23 February 2014

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS
GULF FINANCE HOUSE BSC
Manama, Kingdom of Bahrain

23 February 2014

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Gulf Finance House BSC (the "Bank") and its subsidiaries (together the "Group") which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statements of income, changes in owners' equity, cash flows, changes in restricted investment accounts and sources and uses of charity and zakah fund for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Respective responsibilities of board of directors and auditors

These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a rules and principles are the responsibility of the board of directors of the Bank. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by Accounting and Auditing Organisation for Islamic Financial Institutions. 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2013, and of the consolidated results of its operations, its consolidated cash flows, consolidated changes in owners' equity, consolidated changes in restricted investment accounts and consolidated sources and uses of charity and zakah fund for the year then ended in accordance with Financial Accounting Standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and the Shari'a rules and principles as determined by the Shari'a Supervisory Board of the Bank.

Report on other regulatory requirements

As required by the Bahrain Commercial Companies Law and the Volume 2 of the Central Bank of Bahrain (CBB) Rule Book, we report that: the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; the financial information contained in the chairman's report 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, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets Regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association having occurred during the year that might have had a material adverse effect on the business of the Bank or on its financial position; and satisfactory explanations and information have been provided to us by the management in response to all our requests.

KPMG

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2013 US$ 000's

	note	31 December 2013	31 December 2012
ASSETS			
Cash and bank balances	4	21,847	3,216
Placements with financial institutions		-	14,767
Investment securities	5	196,141	174,017
Equity-accounted investees	6	73,417	231,946
Investment property	7	259,404	259,404
Assets held-for-sale	8	184,076	88,139
Other assets	9	172,968	115,531
Total assets		**907,853**	**887,020**
LIABILITIES			
Investors' funds	10	19,166	31,428
Placements from financial and other institutions	11	93,511	126,017
Financing liabilities	12	207,767	232,827
Liabilities related to assets held-for-sale	8	-	42,655
Other liabilities	13	60,408	70,434
Total liabilities		**380,852**	**503,361**
Equity of investment account holders	14	**2,155**	**2,353**
OWNERS' EQUITY			
Share capital	15	972,281	595,087
Treasury shares		(912)	(2,995)
Share premium		-	13,235
Statutory reserve		68,146	66,356
Accumulated losses		(515,911)	(291,280)
Other reserves	16	1,242	903
Total owners' equity (page 7)		**524,846**	381,306
Total liabilities, equity of investment account holders and owners' equity		**907,853**	887,020

The consolidated financial statements consisting of pages 5 to 62 were approved by the Board of Directors on 23 February 2014 and signed on its behalf by:

Ahmed Al Mutawa	Mosabah Saif Al Mautairy	Hisham Alrayes
Chairman	*Vice Chairman*	*Chief Executive Officer*

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2013

US$ 000's

	note	**2013**	2012
Continuing operations			
Income from investment banking services		1,862	-
Management and other fees		7,316	2,985
Income from placements with financial institutions	20	473	130
Share of profits of equity-accounted investees	6	1,723	4,941
Gain on acquisition of assets held-for-sale	8	-	10,369
Income from investment securities, net	17	1,433	2,050
Foreign exchange gain, net		1,018	5,466
Other income, net	18	23,565	37,639
Total income		**37,390**	63,580
Staff cost	19	8,597	8,245
Investment advisory expenses		1,575	4,309
Finance expense	20	16,270	19,267
Other expenses	21	8,147	11,332
Total expenses		**34,589**	43,153
Profit from continuing operations before impairment allowances		**2,801**	20,427
Impairment allowances	22	(3,000)	(10,400)
(Loss) / profit from continuing operations		**(199)**	10,027
Gain from discontinued operations and assets held-for-sale, net	8	6,466	-
Profit for the year		**6,267**	10,027
Earnings per share	25		
Basic earnings per share (US cents)		**0.24**	0.68
Diluted earnings per share (US cents)		**0.24**	0.67
Earnings per share – continuing operations	25		
Basic earnings per share (US cents)		**(0.01)**	0.68
Diluted earnings per share (US cents)		**(0.01)**	0.67

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the year ended 31 December 2013

US$ 000's

2013	**Share capital**	**Treasury shares**	**Share premium**	**Statutory reserve**	**Accumulated losses**	**Other reserves** (note 16)	**Total**
Balance at 1 January 2013	595,087	(2,995)	13,235	66,356	(291,280)	903	381,306
Profit for the year (page 6)	-	-	-	-	6,267	-	6,267
Total recognised income and expense	**-**	**-**	**-**	**-**	**6,267**	**-**	**6,267**
Transfer to statutory reserve (note 15)	-	-	-	1,630	(1,630)	-	-
Conversion of Murabaha to capital (notes 12 &15)	377,194	(8,528)	(13,235)	-	(229,656)	-	125,775
Purchase of treasury shares	-	(1,192)	-	-	-	-	(1,192)
Sale of treasury shares	-	10,997	-	-	-	-	10,997
Gain on sale of treasury shares	-	-	-	286	-	-	286
Share grants vesting expense, net of forfeitures (note 19)	-	806	-	(126)	-	339	1,019
Gain on partial disposal of assets of subsidiary held-for-sale (note 8)	-	-	-	-	388	-	388
Balance at 31 December 2013	**972,281**	**(912)**	**-**	**68,146**	**(515,911)**	**1,242**	**524,846**

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY
for the year ended 31 December 2013 *(continued)* US$ 000's

2012	Share capital	Treasury shares	Share premium	Statutory reserve	Accumulated losses	Investments fair value reserve	Other reserves (note 16)	Total
Balance at 1 January 2012	321,031	(12,852)	145,708	79,408	(301,687)	403	1,377	233,388
Profit for the year (page 6)	-	-	-	-	10,027	-	-	10,027
Changes in fair value of investment securities	-	-	-	-	-	(403)	-	(403)
Total recognised income and expense	-	-	-	-	10,027	(403)	-	9,624
Conversion of Murabaha to share capital (notes 12 &15)	274,056	(37,876)	(132,473)	-	-	-	-	103,707
Transfer to retained earnings on settlement of convertible murabaha	-	-	-	-	380	-	(380)	-
Sale of treasury shares	-	47,733	-	-	-	-	-	47,733
Loss on sale of treasury shares	-	-	-	(13,052)	-	-	-	(13,052)
Share grants vesting expense, net of forfeitures (note 19)	-	-	-	-	-	-	(94)	(94)
Balance at 31 December 2012	595,087	(2,995)	13,235	66,356	(291,280)	-	903	381,306

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2013 US$ 000's

	2013	2012
OPERATING ACTIVITIES		
Placements with financial institutions, net	(18,116)	(1,264)
Disbursement of financing to projects, net	(22,167)	(4,475)
Movement on investors' funds, net	-	(1,220)
Management fees received	4,632	860
Income received from placements with financial institution	473	130
Payments for expenses, charity and project costs	(29,615)	(19,547)
Other receipts	2,934	-
Net cash used in operating activities	**(61,859)**	(25,516)
INVESTING ACTIVITIES		
Acquisition of investment securities	(30,153)	(460)
Net cash received on disposal / (paid) for acquisition of subsidiary held-for-sale (note 8)	9,776	(33,226)
Proceeds from sale of investment securities	3,546	6,285
Dividends received	156	956
Advance for investment	(1,954)	-
Net cash used in investing activities	**(18,629)**	(26,445)
FINANCING ACTIVITIES		
Movement on financing liabilities, net	(20,345)	(24,772)
Finance expense paid	(15,039)	(19,824)
Proceeds from issue of convertible murabaha	115,775	60,210
Payment to Investment account holders	(198)	-
Proceeds from sale of treasury shares	11,283	34,681
Dividends paid	(1,748)	(50)
Net cash generated from financing activities	**89,728**	50,245
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR	**9,240**	(1,716)
Cash and cash equivalents at 1 January	5,105	6,821
CASH AND CASH EQUIVALENTS at 31 December	**14,345**	5,105
Cash and cash equivalents comprise:		
Cash and bank balances (note 4)	14,345	3,216
Cash and bank balances included in assets held-for-sale	-	1,889
	14,345	5,105

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the year ended 31 December 2013

2013	**Balance at 1 January 2013**			**Movements during the year**						**Balance at 31 December 2013**		
Company	No of units (000)	Average value per share US$	Total US$ 000's	Investment/ withdrawal / impairment US$ 000's	Revalua-tion US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Bank's fees as an agent US$ 000's	Administration expenses US$ 000's	No of units (000)	Average value per share US$	Total US$ 000's
Mena Real Estate Company KSCC	150	0.35	53	-	-	-	-	-	-	150	0.35	53
Al Basha'er Fund	93	6.69	650	-	142	-	-	(12)	-	93	8.39	780
Oman Development Company	522.50	3.115	1,628	(1,628)	-	-	-	-	-	-	-	-
			2,331	**(1,628)**	**142**	**-**	**-**	**(12)**	**-**			**833**

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN RESTRICTED INVESTMENT ACCOUNTS
for the year ended 31 December 2013 *(continued)*

2012	Balance at 1 January 2012			Movements during the year						Balance at 31 December 2012		
Company	No of units (000)	Average value per share US$	Total US$ 000's	Impairment US$ 000's	Revalua-tion US$ 000's	Gross income US$ 000's	Dividends paid US$ 000's	Bank's fees as an agent US$ 000's	Administration expenses US$ 000's	No of units (000)	Average value per share US$	Total US$ 000's
Mena Real Estate Company KSCC	150	0.35	53	-	-	-	-	-	-	150	0.35	53
Al Basha'er Fund	93	6.63	617	-	(267)	-	-	300	-	93	6.69	650
Pan European Fund	35.85	797.67	28,597	(28,597)	-	-	-	-	-	-	-	-
Oman Development Company	522.50	3.115	1,628	-	-	-	-	-	-	522.50	3.115	1,628
			30,895	(28,597)	(267)	-	-	300	-			2,331

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF SOURCES AND USES OF CHARITY AND ZAKAH FUND
for the year ended 31 December 2013

US$ 000's

	2013	2012
Sources of charity and zakah fund		
Non-Islamic income (note 27)	4	1
Total sources	**4**	1
Uses of charity fund and zakah fund		
Utilisation of charity fund (note 13)	(7,659)	(77)
Total uses	**(7,659)**	(77)
Deficit of uses over sources	**(7,655)**	(76)
Undistributed charity and zakah fund at 1 January	10,427	10,503
Undistributed charity and zakah fund at 31 December (note 13)	**2,772**	10,427
Represented by:		
Charity fund	-	7,652
Zakah payable	2,772	2,775
	2,772	10,427

The accompanying notes 1 to 37 form an integral part of these consolidated financial statements.

1 REPORTING ENTITY

Gulf Finance House BSC ("the Bank") was incorporated in 1999 in the Kingdom of Bahrain under Commercial Registration No. 44136 and operates as an Islamic Wholesale Investment Bank under a license granted by the Central Bank of Bahrain ("CBB"). The Bank's shares are listed on the Bahrain, Kuwait and Dubai Financial Market Stock Exchanges. The Bank's Global Depository Receipts ('GDR') are listed in the London Stock Exchange.

The Bank's activities are regulated by the CBB and supervised by a Religious Supervisory Board whose role is defined in the Bank's Memorandum and Articles of Association. The principal activities of the Bank include investment advisory services and investment transactions which comply with Islamic rules and principles according to the opinion of the Bank's Shari'a Supervisory Board.

Consolidated financial statements

The consolidated financial statements for the year comprise the results of the Bank and its subsidiaries (together referred to as "the Group"). The principal subsidiaries of the Bank include GFH Sukuk Limited, KHCB Asset Company and GFH Capital Limited, which are wholly owned / consolidated.

The Bank has other SPE holding companies and subsidiaries which are set up to supplement the activities of the Bank and its principal subsidiaries.

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting polices applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been applied consistently to all periods presented in the consolidated financial statements, and have been consistently applied by Group.

Standard issued and effective for adoption from 1 January 2013

FAS – 26 *'Investment in Real estate'*

The Group has adopted Financial Accounting Standard 26 ("FAS 26") "Investment in real estate" issued by AAOIFI during 2012, which is effective from 1 January 2013. The new standard replaces the requirements of FAS 17 which was applied for investments in real estate. The significant requirement of the standard is that for investment in real estate held-for-use, the entity shall choose either fair value model or cost model as its accounting policy. Where the entity adopts fair value model, then fair value changes should be directly recognised in equity under 'property fair value reserve'. The standard has to be applied retroactively. The Group uses the cost model and the adoption of the new standard did not have any material impact on the Group.

New standards, amendments and interpretations issued but not yet effective for adoption

There are no AAOIFI accounting standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2014 that would be expected to have a material impact on the Group.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the Financial Accounting Standards ('FAS') issued by the Accounting and Auditing Organisation for Islamic Financial Institutions and in conformity with Bahrain Commercial Companies Law. In line with the requirement of AAOIFI and the CBB Rule Book, for matters that are not covered by FAS, the Group uses guidance from the relevant International Financial Reporting Standard (IFRS).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation

The consolidated financial statements are prepared on the historical cost basis except for the measurement at fair value of certain investment securities. The Group classifies its expenses in the consolidated income statement by the nature of expense method. The consolidated financial statements are presented in United States Dollars (US$), being the functional currency of the Group's operations. All financial information presented in US$ has been rounded to the nearest thousands, except when otherwise indicated.

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Management believes that the underlying assumptions are appropriate and the Group's consolidated financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

Going concern

In 2012 the Group successfully restructured its financial liabilities by extending the tenure of its obligations (refer note 12). To improve its liquidity position, the Group has raised additional capital through the issue of convertible murabaha instruments (refer notes 12 and 15). The Board of Directors' have reviewed the Group's future plans and are satisfied with the appropriateness of the going concern assumption used in the preparation of the consolidated financial statements.

(c) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interest in the acquiree; plus
- if the business combination achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the consolidated income statement.

The consideration transferred does not include amounts related to settlement of pre-existing relationships. Such amounts are generally recognised in the consolidated income statement.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted within equity. Otherwise subsequent changes in the fair value of the contingent consideration are recognised in the consolidated income statement.

(ii) Subsidiaries

Subsidiaries are those enterprises (including special purpose entities) controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control commences until when control ceases.

(iii) Special purpose entities

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or investment transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the risks and rewards transferred by the SPE, the Group concludes that it controls the SPE. The assessment of whether the Group has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Group and the SPE.

Where the Group's voluntary actions, such as lending amounts in excess of existing liquidity facilities or extending terms beyond those established originally, change the relationship between the Group and an SPE, the Group performs a reassessment of control over the SPE.

The Group in its fiduciary capacity manages and administers assets held in trust and other investment vehicles on behalf of investors. The financial statements of these entities are usually not included in these consolidated financial statements. Information about the Group's fiduciary assets under management is set out in note 23.

(iv) Loss of control

When the Group losses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity. Any surplus or deficit arising on the loss of control is recognised in consolidated income statement. Any interest retained in the former subsidiary, is measured at fair value when control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for investment securities depending on the level of influence retained.

(v) Investment in associates (Equity-accounted investees)

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exits when the Group holds between 20% and 50% of the voting power of another entity.

On initial recognition of an associate, the Group makes an accounting policy choice as to whether the associate shall be equity accounted or designated as at fair value through income statement. The Group makes use of the exemption in FAS 24 – Investment in Associates for venture capital organisation and designates certain of its investment in associates, as 'investments carried at fair value through income statement'. These investments are managed, evaluated and reported on internally on a fair value basis (refer to note 2 (f)).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

If the equity accounting method is chosen for an associate, these are initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investees after the date of acquisition. Distributions received from an investees reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investees arising from changes in the investee's equity. When the Group's share of losses exceeds its interest in an equity-accounted investees, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the equity-accounted investees. Equity accounting is discontinued when an associate is classified as held-for-sale (note 2 q)

(vi) Transactions eliminated on consolidation and equity accounting

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency translation gains or losses) from intra-group transactions with subsidiaries are eliminated in preparing the consolidated financial statements. Intra-group gains on transactions between the Group and its equity-accounted investees are eliminated to the extent of the Group's interest in the investees. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Accounting policies of the subsidiaries and equity- accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Foreign currency transactions

(i) Functional and presentation currency

Items included in the consolidated financial statements 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.

(ii) Transactions and balances

Transactions in foreign currencies are translated into the functional currency using the spot exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at the date. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date 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 income statement. Translation differences on non-monetary items carried at their fair value, such as certain equity securities measured at fair value through equity, are included in investments fair value reserve.

(iii) Other group companies

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

2 *SIGNIFICANT* ACCOUNTING POLICIES (continued)

(iv) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition are translated into US$ at exchange rates at the reporting date. The income and expenses of foreign operations are translated into US$ at the exchange rates at the date of the transactions.

Foreign currency differences are accumulated into foreign currency translation reserve.

When foreign operation is disposed of in its entirety such that control is lost, cumulative amount in the translation reserve is reclassified to consolidated income statement as part of the gain or loss on disposal.

(e) Offsetting of financing instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expense are presented on a net basis only when permitted under AAOIFI, or for gains and losses arising from a group of similar transactions.

(f) Investment securities

Investment securities may comprise of debt and equity instruments, but exclude investment in subsidiaries and equity-accounted investees (note 2 (c) v)).

(i) Classification

The Group segregates its investment securities into debt-type instruments and equity-type instruments.

Debt-type instruments:

Debt-type instruments are investments that provide fixed or determinable payments of profits and capital. Investments in debt-type instruments are classified in the following categories:

At fair value through income statement (FVTIS)

These investments are either not managed on contractual yield basis or designated on initial recognition to FVTIS to avoid any accounting mismatch that would arise on measuring the assets or liabilities or recognising the gains or losses on them on different bases. Currently, the Group does not have any investment under this category.

At amortised cost

This classification is for debt-type instruments which are not designated as FVTIS and are managed on contractual yield basis.

Equity-type instruments:

Equity-type instruments are investments that do not exhibit features of debt-type instruments and include instruments that evidence a residual interest in the assets of an entity after deducting all its liabilities. Investments in equity type instruments are classified in the following categories:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2013 US$ 000's

2 *SIGNIFICANT* ACCOUNTING POLICIES (continued)

(f) Investment securities (continued)

At fair value through income statement (FVTIS)
Equity-type instruments classified and measured at FVTIS include investments held-for-trading or designated on initial recognition at FVTIS.

Investments are classified as held-for-trading if acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealers margin or that form part of a portfolio where there is an actual pattern of short-term profit taking. The Group currently does not have any of its investments classified as investments held-for-trading purposes.

On initial recognition, an equity-type instrument is designated as FVTIS only if the investment is managed and its performance is evaluated and reported on internally by the management on a fair value basis. This category currently includes investment in private equity and funds.

At fair value through equity (FVTE)
Equity-type instruments other than those designated at FVTIS are classified as at fair value through equity. These include investments in certain quoted and unquoted equity securities.

(ii) Recognition and de-recognition
Investment securities are recognised at the trade date i.e. the date that the Group commits to purchase or sell the asset, at which date the Group becomes party to the contractual provisions of the instrument. Investment securities are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risk and rewards of ownership.

(iii) Measurement
Investment securities are measured initially at fair value plus for an item not at fair value through income statement, transaction cost that are directly attributable to its acquisition or issue.

Subsequent to initial recognition, investments carried at FVTIS and FVTE are re-measured to fair value. Gains and losses arising from a change in the fair value of investments carried at FVTIS are recognised in the consolidated income statement in the period in which they arise. Gains and losses arising from a change in the fair value of investments carried at FVTE are recognised in the consolidated statement of changes in equity and presented in a separate fair value reserve within equity. The fair value gains / (losses) are recognised taking into consideration the split between portions related to owners' equity and equity of investment account holders. When the investments carried at FVTE are sold, impaired, collected or otherwise disposed of, the cumulative gain or loss previously recognised in the statement of changes in equity is transferred to the income statement.

Investments at FVTE where the entity is unable to determine a reliable measure of fair value on a continuing basis, such as investments that do not have a quoted market price or there are no other appropriate methods from which to derive reliable fair values, are stated at cost less impairment allowances.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Investment securities (continued)

(iv) Measurement principles

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus capital repayments, plus or minus the cumulative amortisation using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction (directly or through use of an allowance account) for impairment or uncollectibility. The calculation of the effective profit rate includes all fees and points paid or received that are an integral part of the effective profit rate.

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), discounted cash flow analyses and other valuation models with accepted economic methodologies for pricing financial instruments.

(g) Placements with and from financial and other institutions

These comprise inter-bank and non bank placements made or received under shari'a compliant contracts. Placements are usually short term in nature and are stated at their amortised cost.

(h) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise notes and coins on hand, bank balances and short-term highly liquid assets (placements with financial institutions) with original maturities of three months or less when acquired that are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Bank balances that are restricted and not available for day to day operations of the Group are not included in cash and cash equivalents.

(i) Investment property

Investment property comprises land plots. Investment property is property held to earn rental income or for capital appreciation or both but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes. Investment property is measured initially at cost, including directly attributable expenses. Subsequent to initial recognition, investment property is carried at cost less accumulated depreciation (where applicable) and accumulated impairment allowances (if any).

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the period in which the property is derecognised.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Equipment

Equipment is measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is computed using the straight-line method to write-off the cost of the assets over their estimated useful lives ranging from 1 to 5 years for furniture, fixtures and equipments, motor vehicles and computers. The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Group.

(k) Impairment of assets

The Group assesses at each reporting date whether there is objective evidence that a asset is impaired. Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, impairment is measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective profit rate. Losses are recognised in consolidated income statement and reflected in an allowance account. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the consolidated income statement.

Investments carried at fair value through equity (FVTE)

In the case of equity type instruments carried at fair value through equity, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in recognition of an impairment loss. If any such evidence exists for equity type instruments, the unrealised re-measurement loss shall be transferred from equity to the consolidated income statement. Impairment losses recognised in consolidated income statement for an equity investment are reversed directly through equity.

For equity type instruments carried at cost due to the absence of reliable fair value, the Group makes an assessment of whether there is an objective evidence of impairment for each investment by assessment of financial and other operating and economic indicators. Impairment is recognised if the expected recoverable amount is assessed to be below the carrying amount of the investment. All impairment losses are recognised through the consolidated income statement and is not reversed.

Other non-financial assets

The carrying amount of the Group's assets or its cash generating unit, other than financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other asset and groups. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset or a cash generating unit is the greater of its value in use or fair value less costs to sell. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the consolidated income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Impairment of assets (continued)

Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. Separately recognised goodwill is not amortised and is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on separately recognised goodwill are not reversed.

(l) Financing liabilities

Financing liabilities comprise shari'a compliant financing facilities from financial institutions, and financing raised through Sukuk. Financing liabilities are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective profit rate method. Financing cost, dividends and losses relating to the financial liabilities are recognised in the consolidated income statement as finance expense. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

If any financing liability is extinguished by issuing the Bank's ordinary shares, the Group recognises the difference between the carrying amount of the financing liability extinguished and fair value of the shares issued in the consolidated income statement.

Financing liabilities include compound financial instrument in the form of 'convertible murabaha' issued by the Group that can be converted to share capital at the option of the holder. The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of the convertible murabaha is measured at amortised cost using the effective profit rate method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

(m) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised from the date of its issue. The liability arising from a financial guarantee contract is recognised at the present value of any expected payment to settle the liability, when a payment under the guarantee has become probable. The Group has issued financial guarantees to support its development projects (refer note 34 for details).

(n) Dividends and board remuneration

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

(o) Share capital and reserves

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Equity instruments of the group comprise ordinary shares and equity component of share-based payments and convertible instruments. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Share capital and reserves (continued)

Treasury shares
The amount of consideration paid including all directly attributable costs incurred in connection with the acquisition of the treasury shares are recognised in equity. Consideration received on sale of treasury shares is presented in the financial statements as a change in equity. No gain or loss is recognised on the Group's income statement on the sale of treasury shares.

Statutory reserve
The Bahrain Commercial Companies Law 2001 requires that 10 percent of the annual net profit be appropriated to a statutory reserve which is normally distributable only on dissolution. Appropriations may cease when the reserve reaches 50 percent of the paid up share capital. Appropriation to statutory reserve is made when approved by the shareholders.

(p) Equity of investment account holders
Equity of investment account holders are funds held by the Group, which it can invest at its own discretion. The investment account holder authorises the Group to invest the account holders' funds in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested. The Group charges management fee (Mudarib fees) to investment account holders. Of the total income from investment accounts, the income attributable to customers is allocated to investment accounts after setting aside provisions, reserves and deducting the Group's share of income. The allocation of income is determined by the management of the Group within the allowed profit sharing limits as per the terms and conditions of the investment accounts. Administrative expenses incurred in connection with the management of the funds are borne directly by the Group and are not charged separately to investment accounts. Equity of Investment account holders are carried at their book values and include amounts retained towards profit equalisation and investment risk reserves.

Profit equalisation reserve is the amount appropriated by the Bank out of the Mudaraba income, before allocating the Mudarib share, in order to maintain a certain level of return to the deposit holders on the investments. Investment risk reserve is the amount appropriated by the Bank out of the income of investment account holders, after allocating the Mudarib share, in order to cater against future losses for investment account holders. Creation of these reserves results in an increase in the liability towards the pool of investment accounts holders.

Restricted investment accounts
Restricted investment accounts represents assets acquired by funds provided by holders of restricted investment accounts and their equivalent and managed by the Group as an investment manager based on either a Mudaraba contract or agency contract. The restricted investment accounts are exclusively restricted for investment in specified projects as directed by the investments account holders. Assets that are held in such capacity are not included as assets of the Group in the consolidated financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Assets held-for-sale and discounted operations

i) Classification

The Group classifies non-current assets or disposal groups as held-for-sale if its carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use within twelve months. A disposal group is a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. A subsidiary acquired exclusively with a view to resale is initially recognised at its fair value less costs to sell and is classified as disposal group and income and expense from its operations are presented as part of discontinued operation.

If the criteria for classification as held for sale are no longer met, the entity shall cease to classify the asset (or disposal group) as held for sale and shall measure the asset at the lower of its carrying amount before the asset (or disposal group) was classified as held-for-sale, adjusted for any depreciation, amortisation, equity accounting adjustments or revaluations that would have been recognised had the asset (or disposal group) not been classified as held-for-sale and its recoverable amount at the date of the subsequent decision not to sell.

ii) Measurement

Non-current assets or disposal groups classified as held-for-sale, other than financial instruments, are measured at the lower of its carrying amount and fair value less costs to sell. Financial instruments that are non-current assets and ‘held-for-sale’ continue to be measured in accordance with their stated accounting policies. On classification of equity-accounted investee as held-for-sale, equity accounting is ceased at the time of such classification as held-for-sale.

Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets and investment property carried at fair value, which continue to be measured in accordance with the Group’s other accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognised in the consolidated income statement. Gains are not recognised in excess of any cumulative impairment loss.

iii) Discontinued operations

A discontinued operation is a component of the Group’s business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held-for-sale, if earlier. When an operation is classified as a discontinued operation, the comparative consolidated income statement is re-presented as if the operation had been discontinued from the start of the comparative year.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Revenue recognition

Revenue is recognised to the extent that it is possible that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue earned by the Group and gain / loss on assets are recognised on the following basis:

Management and other fees are recognised as income when earned and the related services are performed.

Income from placements with / from financial institutions are recognised on a time-apportioned basis over the period of the related contract using the effective profit rate.

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

Fair value gain / (loss) on investment securities (unrealised gain or loss) is recognised on each measurement date in accordance with the accounting policy for equity-type instruments carried at fair value through income statement (refer note 2 (f)).

Gain on sale of investment securities (realised gain) is recognised on trade date at the time of derecognition of the investment securities. The gain or loss is the difference between the carrying value on the trade date and the consideration receive or receivable.

Finance income / expenses are recognised using the amortised cost method at the effective profit rate of the financial asset / liability.

(s) Earnings prohibited by Shari'a

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

(t) Zakah

Pursuant to the decision of the shareholders', the Group is required to pay Zakah on its undistributed profits. The Group is also required to calculate and notify, under a separate report, individual shareholders of their pro-rata share of the Zakah payable by them on distributed profits. These calculations are approved by the Group's Shari'a Supervisory Board.

(u) Employees benefits

(i) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

(ii) Post employment benefits

Pensions and other social benefits for Bahraini employees are covered by the Social Insurance Organisation scheme, which is a "defined contribution scheme" in nature under, and to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. Contributions by the Bank are recognised as an expense in consolidated income statement when they are due.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Employees benefits (continued)

Expatriate and certain Bahraini employees on fixed contracts are entitled to leaving indemnities payable, based on length of service and final remuneration. Provision for this unfunded commitment, has been made by calculating the notional liability had all employees left at the reporting date. These benefits are in the nature of a “defined benefit scheme” and any increase or decrease in the benefit obligation is recognised in the income statement.

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

(iii) Share-based employee incentive scheme

The Bank operates a share-based incentive scheme for its employees (the ”Scheme”) whereby employee are granted the Bank’s shares as compensation on achievement of certain non-market based performance conditions and service conditions (the ‘vesting conditions’).

The grant date fair value of equity instruments granted to employees is recognised as an employee expense, with a corresponding increase in equity over the period in which the employees become unconditionally entitled to the share awards.

Non-vesting conditions are taken into account when estimating the fair value of the equity instrument but are not considered for the purpose of estimating the number of equity instruments that will vest. Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value but are considered for the purpose of estimating the number of equity instruments that will vest. The amount recognised as an expense is adjusted to reflect the number of share awards for which the related service and non-market performance vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of share awards that do meet the related service and non-market performance conditions at the vesting date. Amount recognised as expense are not trued-up for failure to satisfy a market condition.

(v) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(w) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from the contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

(x) 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.

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3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that effect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

Judgements

(i) Classification of investments

In the process of applying the Group's accounting policies, management decides on acquisition of an investment whether it should be classified as investments at fair value through income statement or investments carried at fair value through equity or investments carried at amortised cost. The classification of each investment reflects the management's intention in relation to each investment and is subject to different accounting treatments based on such classification (note 2 (f)).

(ii) Special purpose entities

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

(iii) Classification as held-for-sale

The Group classified non-current assets (or disposal group) are held-for-sale when the carrying amount will be recovered principally through a sale transaction rather than continuing use. In such case, the asset is available for immediate sale in its present condition subject to only to terms that are usual and customary for sale of such assets and the sale is highly probable. Further, the asset is actively marketed for sale at a price that is reasonable in relation to its current fair value.

Estimations

(i) Fair value of investments

The Group determines fair value of investments designated at fair value that are not quoted in active markets by using valuation techniques such as discounted cash flows and recent transaction prices. Fair value estimates are made at a specific point in time, based on market conditions and information about the investee companies. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. There is no certainty about future events (such as continued operating profits and financial strengths). It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the investments. In case where discounted cash flow models have been used to estimate fair values, the future cash flows have been estimated by the management based on information from and discussions with representatives of the management of the investee companies, and based on the latest available audited and un-audited financial statements. The basis of valuation have been reviewed by the Management in terms of the appropriateness of the methodology, soundness of assumptions and correctness of calculations and have been approved by the Board of Directors for inclusion in the consolidated financial statements.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

(ii) *Impairment on investments carried at fair value carried through equity*

Equity-type instruments classified as investments at FVTE but carried at cost less impairment due to the absence of reliable measure of fair value are tested for impairment. A significant portion of the Group's equity-type investments comprise investments in long-term real estate and infrastructure development projects. In making an assessment of impairment, the Group evaluates among other factors, liquidity of the project, evidence of a deterioration in the financial health of the project, impacts of delays in execution, industry and sector performance, changes in technology, and operational and financing cash flows. The Group has exposures to investments and projects that operate in countries and geographies where business and political environment are subject to rapid changes. The performance of the investments and recoverability of exposures is based on condition prevailing and information available with management as at the reporting date. It is the management's opinion that the current level of provisions are adequate and reflect prevailing conditions and available information. It is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of the investments within the next financial year due to significant changes in the assumptions underlying such assessments.

(iii) *Investment property*

The Group conducts valuation of its investment property periodically using external independent valuers to assess for impairment. The fair value is determined based on the market value of the property through the residual value basis of valuation to assess the market value of the sites, for the development plan in its current physical condition. All of the Group's investment property is situated in Bahrain. Given the dislocation in the local property market and infrequent property transactions, it is reasonably possible, based on existing knowledge, that the current assessment of impairment could require a material adjustment to the carrying amount of these assets within the next financial year due to significant changes in assumptions underlying such assessments.

(iv) Impairment of receivables

Each counterparty exposure is evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a counterparty's financial situation. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently evaluated by the Risk Management Department.

(v) Impairment of cash generating units

Cash generating units includes the Group's investments in certain subsidiaries and equity-accounted investees that generate cash flows that are largely independent from other assets and activities of the Group. The basis of impairment assessment for such cash generating units is described in accounting policy 2 (k). For equity-accounted investees with indicators of impairment, the recoverable amounts have been determined based on value in use calculations.

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4 CASH AND BANK BALANCES

	31 December 2013	31 December 2012
Cash on hand	21	8
Bank balances	21,826	3,208
	21,847	3,216
Less: Restricted cash	(7,502)	-
Cash and cash equivalents as per consolidated statement of cash flows	**14,345**	3,216

Restricted cash represent payable to a project promoted by the Bank and are not available for Group's day to day operations.

5 INVESTMENT SECURITIES

	31 December 2013	31 December 2012
Equity type investments		
At fair value through income statement		
- Quoted securities	972	2,548
- Managed funds (quoted equities)	30,824	-
- Unquoted funds	3,679	3,868
	35,475	6,416
At fair value through equity		
- Unquoted securities	160,666	167,601
	196,141	174,017

a) At fair value through income statement

	2013	2012
At 1 January	6,416	5,192
Acquisitions during the year	30,000	2,250
Fair value changes	634	(724)
Disposals during the year, at carrying value	(1,575)	(302)
At 31 December	**35,475**	6,416

b) At fair value through equity

	2013	2012
At 1 January	167,601	215,073
Acquisitions during the year	3,503	460
Redemptions during the year	-	(250)
Disposals during the year, at carrying value	(9,438)	(41,282)
Provision for impairment during the year	(1,000)	(6,400)
At 31 December	**160,666**	167,601

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5 INVESTMENT SECURITIES (continued)

Unquoted equity securities classified as fair value through equity are primarily unlisted equities in various real estate and infrastructure development projects in different countries and include private equity investments managed by external investment managers or investments in projects promoted by the Group. Investments carried at fair value through equity of US$ 160,666 thousand (31 December 2012: US$ 167,601 thousand) are carried at cost less impairment in the absence of a reliable measure of fair value. The Group plans to exit these investments principally by means of strategic sell outs, sale of underlying assets or through initial public offerings.

Impairment allowance has been established based on management's assessment of the current market conditions, the marketability of the investments and the assessment of recoverable amounts.

6 EQUITY-ACCOUNTED INVESTEES

Equity-accounted investees represents investments in:

Name	Country of incorporation	% holding	Nature of business
Cemena Investment Company (CIC)	Cayman Islands	38.97%	Investment Holding Company for cement manufacturing

The movement in equity-accounted investees is given below:

	2013	2012
At 1 January	231,946	227,005
Share of profits of equity-accounted investees	1,723	4,941
Transferred to assets held-for-sale (note 8)	(160,252)	-
At 31 December	**73,417**	231,946

The Group's investment in CIC is allocated against the asset pool of the Sukuk certificates (refer note 13).

Summarised financial information of associates that have been equity-accounted not adjusted for the percentage ownership held by the Group (based on most recent audited financial statements):

	2013	2012
Total assets	368,436	1,625,889
Total liabilities	89,728	464,868
Total revenues	89,218	163,410
Total net profits	14,817	15,828

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7 INVESTMENT PROPERTY

In 2010, the Group received plots of land in exchange for the Group's investment in an associate company and settlement of certain receivables. The Group has classified the plots of land as investment property and follows the cost model for measurement. Investment property of carrying amount of US$ 203 million (2012: US$ 203 million) is pledged against a Wakala facility (note 13) and any proceeds from the investment property would be first applied towards the repayment of the facility and the remaining investment property of carrying value US$ 56 million (31 December 2012: US$ 56 million) was pledged towards other financing liabilities (note 12).

The fair value of the Group's investment property at 31 December 2013 was US$ 268,198 thousand (31 December 2012: US$ 261,520 thousand) based on a valuation carried out by an independent external valuer.

8 ASSETS AND LIABILITIES HELD-FOR-SALE

	31 December 2013	31 December 2012
Subsidiary held-for-sale (LCHL)		
- Assets	-	88,139
- Liabilities	-	(42,655)
Net assets	**-**	**45,484**
Associates held-for-sale		
- LCHL	23,824	-
- KHCB	160,252	-

On 21 December 2012, the Group acquired 100% stake in Leeds City Holdings Limited (LCHL), a holding company for a number of trading entities whose activities form the operations of Leeds United Football Club (LUFC) in the United Kingdom. The acquisition was carried out through LUFC Holdings Company, a company incorporated in the Cayman Island and a wholly owned subsidiary of GFH Capital Limited. During the year, based on placement of majority stake in LUFC to strategic investors, the Group de-consolidated LUFC Holdings Company, and accordingly, the previously consolidated asset and liabilities of LUFC Holdings Company were derecognised. As at 31 December 2013, the Group was in negotiations with a prospective buyer to sell 75% of LUFC and thus consolidated the stake of the Group and its investors to make an offer for sale. Subsequent to the year end, the Group signed a binding sale agreement to sell 75% of the club at a price closer to its book value. The Group would retain 10% of LUFC on completion of the transaction. The net gain from the purchase and sale of stake in LUFC during the period of classification as held-for-sale amounted to US$ 6,466 thousand and has been included in the consolidated income statement under "gain from discontinued operations".

Assets held-for-sale also includes the Bank's investment of 46.965% stake in Khaleeji Commercial Bank ("KHCB"). The KHCB Board of Directors is in advance stage of agreeing a merger with a local bank which would divest the Bank's stake in KHCB. Accordingly, the investment in KHCB has been classified as held-for-sale. The Group's investment in KHCB is pledged towards a Murabaha financing facility (note 13).

Both the investments are being carried at the lower of their carrying values and expected fair value less cost to sell.

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9 OTHER ASSETS

	31 December 2013	31 December 2012
Financing to projects *	101,275	67,192
Equipment	299	1,379
Reimbursement right (note 34)	35,000	35,000
Prepayment and other receivables	36,394	11,960
	172,968	115,531

* Financing to projects represents working capital and other funding facilities provided to projects promoted by the Group. The financing is expected to be recovered from the operating cash flows of the underlying project assets (refer note 35 (a) for details of impairment).

10 INVESTORS' FUNDS

These represent funds of projects set-up and promoted by the Group and placed with the Group pending disbursement to the projects concerned.

11 PLACEMENTS FROM FINANCIAL AND OTHER INSTITUTIONS

These comprise placements in the form of murabaha and wakala contracts accepted from financial and other institutions (including corporates) as part of the Group's treasury activities. This includes US$ 84 million of funds placed by a non-financial entity originally in Euro currency in 2010, which is currently subject to regulatory sanctions. Accordingly, the funds have been frozen until such sanctions are formally lifted and are re-denominated into US$.

12 FINANCING LIABILITIES

	31 December 2013	31 December 2012
Murabaha financing	59,987	80,170
Wakala financing	47,739	46,744
Sukuk liability	100,041	105,913
	207,767	232,827

During the year, the Group has repurchased financing liabilities of US$ 17.46 million at a discount resulting in gain of US$ 7.12 million, which is included in "other income" (note 18).

Murabaha financing

Murabaha financing comprise medium-term financing from a syndicate of banks. The financing was repayable in August 2013 (extendable by 1 year provided 25% of the facility is repaid in 2012) and carries a profit rate of 2.50% over the benchmark rate (LIBOR) payable semi annually and an additional profit mark up of 1.25% payable at maturity. In 2012, the Group obtained approval from the syndicate for restructuring of the Murabaha facility to be repaid over 6 years on semi annual basis commencing from August 2014. The revised profit rate on the facility is 6 months LIBOR plus margin (subject to a minimum of 5%).

The Murabaha financing facilities are secured by a pledge over the Group's investment in an associate of carrying value of US$ 163,691 thousand and investment property of carrying value of US$ 24.6 million.

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12 FINANCING LIABILITIES (continued)

Wakala financing

Wakala financing is a syndicate facility from a number of financial institutions. In 2012, the Group renegotiated the facility and as per the revised terms, the balance is repayable over a period of six years till April 2018 at an agreed profit rate of 8%. The Wakala financing facility is secured by a pledge over the Group's investment property of carrying value of US$ 203 million.

Sukuk liability

The Sukuk had an original tenure of 5 years maturing in June 2012 and returns based on an agreed spread of 175 bps over the benchmark rate (LIBOR). The Sukuk are backed by a pool of assets of the Group and has a liquidity facility provided by the Bank to support timely payments of distributions. The Sukuk were traded on the London Stock Exchange's Gilt Edged and Fixed Interest Market. Currently the Sukuk are suspended from trading.

In 2012, the Group obtained approval of the sukuk holders to restructure the facility to 2018. The revised terms include the extension of the tenure for a period of 6 years with periodic repayment starting July 2014, with final installment in July 2018. The revised terms carry a profit rate of LIBOR plus a margin of 3%, (minimum profit rate of 5%).

The Sukuk Certificates are backed by the Group's investment securities with carrying values of US$ 87.56 million (31 December 2012: US$ 86.13 million) and an investment property of carrying value of US$ 31.5 million (31 December 2012: US$ 31.5 million)

Convertible Murabaha (bilateral)

During the year, the Group has entered into bilateral convertible murabaha agreements with certain investors to raise additional capital. The convertible murabaha provide for returns of 12% p.a. to the holder and has a tenure of 42 months from the date of issue, unless converted into ordinary shares of the Bank at the option of the holder, at an exchange price of US$ 0.31 per share. The agreement also provides additional share based incentives on early conversion. During the year, the Bank received subscription of US$ 135,938 thousand and all the note holders have exercised their option to convert the notes to share capital resulting in issue of 1,226,649 thousand number of equity shares as per the terms of the convertible murabaha. In November 2013, the terms of approval of the shareholders had expired and the convertible program stands suspended.

13 OTHER LIABILITIES

	31 December 2013	31 December 2012
Employee related accruals	480	1,992
Unclaimed dividends	5,794	7,542
Provision for employees' leaving indemnities	758	649
Charity and zakah fund (page 12)	2,772	10,427
Provision against financial guarantees (note 34)	35,000	35,000
Accounts payable	13,925	10,547
Accrued expenses and other payables	1,679	4,277
	60,408	70,434

During the year, the Bank utilised the charity fund of US$ 7,659 thousand towards expenses incurred on behalf of projects managed by the Bank after obtaining the necessary approvals of the Bank's Shari'a Supervisory Board.

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14 EQUITY OF INVESTMENT ACCOUNT HOLDERS

Unrestricted investment accounts comprise Mudarabah deposits accepted by the Bank. The average gross rate of return in respect of unrestricted investment accounts was 0.25% for 2013 (2012: 0.57%). Approximately 0.22% / US$ 19.71 thousand (2012: 0.50% / US$ 20 thousand) was distributed to investors and the balance was either set aside for provisions and/or retained by the Bank as a Mudarib fee. Unrestricted investment accounts include profit equalisation reserve of US$ 7 thousand (2012: US$ 6 thousand) and investment risks reserve of US$ 4 thousand (2012: US$ 4 thousand). The funds received from equity of investment account holders have been commingled and jointly invested with the Group in bank balances.

15 SHARE CAPITAL

	31 December 2013	31 December 2012
Authorised:		
4,878,048,780 shares of US$ 0.3075 each (2012: 4,878,048,780 shares of US$ 0.3075 each)	**1,500,000**	1,500,000
Issued and fully paid up:		
3,161,889,967 shares of US$ 0.3075 each (2012: 1,935,241,754 shares of US$ 0.3075 each)	**972,281**	595,087

The movement in the share capital during the year is as follows:

	2013	2012
At 1 January	595,087	321,031
Conversion of murabaha to share capital	377,194	274,056
At 31 December	**972,281**	595,087

During the year, the paid up capital of the Bank was increased from US$ 595,087 thousand to US$ 972,281 thousand as a result of exercise of conversion option by the holders of the convertible murabaha. As per the terms of the convertible murabaha, 1,226,649 thousand shares of par value US$ 0.3075 has been issued on conversion. The effective conversion price is below the par value per share and the resulting difference and the related share issue expenses has been adjusted against the share premium account and retained earnings (note 12).

At 31 December 2013, the Bank held 5,038,033 (31 December 2012: 20,848,870) treasury shares.

Additional information on shareholding pattern

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

(ii) Distribution schedule of equity shares, setting out the number of holders and percentage in the following categories:

Categories*	**Number of shares**	**Number of shareholders**	**% of total outstanding shares**
Less than 1%	2,852,643,380	10,031	90.22
1% up to less than 5%	309,246,587	6	9.78
	3,161,889,967	**10,037**	**100**

* *Expressed as a percentage of total outstanding shares of the Bank.*

(iii) As at 31 December 2013, there were no shareholders who hold more than 5% of the total outstanding shares.

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15 SHARE CAPITAL (continued)

In the annual general meeting held on 4 April 2013, the shareholders approved appropriation for 2012 of US$ 1 million to statutory reserve in accordance with the requirements of the Bahrain Commercial Companies Law which was effected during the year along with appropriation of US$ 627 thousand from current year profit.

16 OTHER RESERVES

	2013			2012		
	Share grant reserve	**Equity component of convertible murabaha**	**Total**	Share grant reserve	Equity component of convertible murabaha	Total
At 1 January	903	-	903	997	380	1,377
Transfer on conversion	-	-	-	-	(380)	(380)
Vesting expense, net of forfeiture (note 19)	339	-	339	(94)	-	(94)
At 31 December	**1,242**	**-**	**1,242**	903	-	903

17 INCOME FROM INVESTMENT SECURITIES

	2013	2012
Dividend income	151	885
Profit on disposal of investment securities	643	1,889
Fair value changes of investments carried at fair value through income statement	639	(724)
	1,433	2,050

18 OTHER INCOME

Other income primarily includes income from buy back of financing liabilities of US$ 7.12 million (note 12), recovery of expenses of US$ 4.5 million incurred in the previous periods, reversal of liabilities / accruals no longer payable of US$ 6 million and recovery of previously impaired receivables of US$ 4 million.

19 STAFF COST

	2013	2012
Salaries and benefits	8,246	7,865
Social insurance expenses	351	380
	8,597	8,245

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19 STAFF COST (*continued)*

The Bank operates a share incentive scheme for its employees. The share awards granted under the scheme have an initial lock-in period of 3 years and shall vest rateably over varied vesting periods of up to 10 years as per the terms of the scheme. Of the cumulative 2.49 million (2012: 16.09 million) share awards granted under the terms of the scheme, 200,000 were forfeited (2012: 13.60 million) due to failure to satisfy service conditions specified at grant date. At 31 December 2013, 2.29 million (31 December 2012: 2.49 million) share awards are outstanding to be exercised at a price of US$ 0.65 per share in future periods on satisfaction of the vesting conditions. A net reversal of vesting charge amounting to US$ 16 thousand (2012: US$ 94 thousand) was recognised during the year primarily due to the forfeitures of share awards on non-satisfaction of service conditions (note 17).

During the year, the Group issued new employee share awards (9,185,391 shares at a share price of US$ 0.125 per share) with vesting conditions over a period of 2 years based on fulfilment of performance and service conditions. Accordingly, the Group had recognised a charge of US$ 897 thousand (2012: Nil) towards the new employee share awards. As at 31 December 2013 4,592 thousand shares were pending vesting under the new employee share awards scheme.

20 TOTAL FINANCE INCOME AND EXPENSE

	2013	2012
TOTAL FINANCE INCOME		
Income from placements with financial institutions	473	130
	473	130
TOTAL FINANCE EXPENSE		
Investors' funds	-	4
Placements from financial and other institutions	2,858	3,797
Financing liabilities	13,392	15,443
Equity of investment account holders (note 15)	20	23
	16,270	19,267
NET FINANCE EXPENSE	**(15,797)**	(19,137)

21 OTHER EXPENSES

	2013	2012
Rent	1,603	2,491
Professional and consultancy fee	763	1,048
Legal expenses	1,110	571
Depreciation	1,164	2,427
Other operating expenses	3,507	4,795
	8,147	11,332

22 IMPAIRMENT ALLOWANCES

	2013	2012
Investment securities (note 5 b)	1,000	6,400
Financing to projects (note 9)	2,000	4,000
	3,000	10,400

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23 ASSETS UNDER MANAGEMENT

The Group provides corporate administration, investment management and advisory services to its project companies, which involve the Group making decisions on behalf of such entities. Assets that are held in such capacity are not included in these consolidated financial statements. At the reporting date, the Group had assets under management of US$ 2,170,601 thousand (31 December 2012: US$ 2,160,929 thousand). During the year, the Group had charged management fees amounting to US$ 7,316 thousand (2012: US$ 2,985 thousand) to its assets under management. .

24 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Group exercises significant influence, major shareholders, directors and executive management of the Group.

A significant portion of the Group's management fees are from entities over which the Group exercises influence (assets under management). Although these entities are considered related parties, the Group administers and manages these entities on behalf of its clients, who are by and large third parties and are the economic beneficiaries of the underlying investments. The transactions with these entities are based on agreed terms.

The significant related party balances and transactions (excluding compensation to key management personnel) included in these consolidated financial statements are as follows:

2013	**Associates**	**Key management personnel**	**Shareholders / entities in which directors are interested**	**Assets under management including special purpose entities and other entities**	**Total**
Assets					
Cash and bank balances	16,681	-	-	-	**16,681**
Equity-accounted investees	73,417	-	-	-	**73,417**
Investment securities	4,651	-	27,382	105,563	**137,596**
Assets held-for-sale	184,076	-	-	-	**184,076**
Other assets	36,380	-	-	80,749	**117,129**
Liabilities					
Investors' funds	-	-	-	16,400	**16,400**
Placements from financial and other institutions	29	-	-	-	**29**
Other liabilities	-	-	5,690	35,000	**40,700**
Income					
Management fees	3,800	-	-	908	**4,708**
Share of profit of equity-accounted investees	1,723	-	-	-	**1,723**
Income from investment securities, net	(189)	-	(189)	-	**(189)**
Other income	226	1,000	-	-	**1,226**
Gain from discontinued operations	-	-	5,690	-	**5,690**
Expenses					
Impairment allowances	-	-	-	3,000	**3,000**

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24 RELATED PARTY TRANSACTIONS (continued)

2012	Associates	Key management personnel	Shareholders / entities in which directors are interested	Assets under management including special purpose entities and other entities	Total
Assets					
Cash and bank balances	279	-	-	-	279
Placements with financial institutions	14,767	-	-	-	14,767
Equity-accounted investees	231,946	-	-	-	231,946
Investment securities	4,840	-	28,957	112,282	146,079
Other assets	69	-	2,003	80,537	82,609
Liabilities					
Investors' funds	-	-	-	25,921	25,921
Placements from financial and other institutions	27	-	10,309	-	10,336
Other liabilities	-	-	-	35,000	35,000
Income					
Management fees	175	-	-	2,510	2,685
Share of profit of equity-accounted investees	4,941	-	-	-	4,941
Income from investment securities, net	66	-	-	-	66
Other income	-	-	2,003	-	2,003
Expenses					
Impairment allowances	-	-	-	10,400	10,400
Commitments					
Commitment to extend finance	-	-	-	77,636	77,636

24 RELATED PARTY TRANSACTIONS (continued)

Key management personnel

Key management personnel of the Group comprise of the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Group.

Details of Directors' interests in the Bank's ordinary shares as at the end of the year were:

Categories*	**Number of Shares**	**Number of Directors**
5% upto less than 10%	-	-
10% upto less than 20%	-	-

* *Expressed as a percentage of total outstanding shares of the Bank.*

Details of material contracts involving directors' or entities where they are interested include:

	2013	2012
Directors' participation in investments promoted by the Group	-	14,000
Directors' participation in convertible murabaha	3,985	6,940

The key management personnel compensation is as follows:

	2013	2012
Board member fees	-	157
Salaries, other short-term benefits and expenses	1,045	1,733
Post employment benefits	186	145

25 EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of equity shares outstanding during the year.

The weighted average number of ordinary equity shares for the comparative periods presented are adjusted for the issue of shares during the year without corresponding change in resources.

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Potential ordinary shares are considered to be dilutive when, and only when, their conversion to ordinary shares would decrease earnings per share or increase the loss per share. The Bank has two categories of dilutive potential ordinary shares: convertible murabaha notes (note 12) and share awards granted to employees (note 19).

	2013	2012
In thousands of shares		
Weighted average number of ordinary shares	**2,624,241**	1,484,548
Effect of shares vesting under new employee scheme (note 19)	4,592	4,592
Weighted average number of ordinary shares (diluted)	**2,628,833**	1,489,140

25 EARNINGS PER SHARE (continued)

During the year, all the note holders of the convertible murabaha have exercised their rights to convert the notes to equity shares of the Bank. Further, in case of the share awards granted to employees, as the average market value of shares during the current year was lower than the assumed issue price of shares under the scheme, the share awards are not considered to be dilutive as at 31 December 2013. Accordingly, no adjustment for dilution has been made for the purposes of computation of diluted earnings per share.

26 ZAKAH

Zakah is directly borne by the shareholders on distributed profits and investors in restricted investment accounts. The Bank does not collect or pay Zakah on behalf of its shareholders and investors in restricted investment accounts. Zakah payable by the shareholders is computed by the Bank on the basis of the method prescribed by the Bank's Shari'a Supervisory Board and notified to shareholders annually. Zakah payable by the shareholders for the year ended 31 December 2013 is US$ Nil (2012: Nil).

27 EARNINGS PROHIBITED BY SHARI'A

The Group is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity account where the Group uses these funds for charitable means. Movements in non-Islamic funds are shown in the statement of sources and uses of charity funds.

The Group receives interest from deposits placed with the Central Bank of Bahrain and other incidental or required deposits. These earnings are utilised exclusively for charitable purposes and amounts to US$ 4 thousand (2012: US$ 1 thousand).

28 SHARI'A SUPERVISORY BOARD

The Group's Shari'a Supervisory Board consists of four Islamic scholars who review the Group's compliance with general Shari'a 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'a principles.

29 SOCIAL RESPONSIBILITY

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

30 MATURITY PROFILE

The table below shows the maturity profile of the Group's assets and liabilities and unrecognised commitments on the basis of their expected realisation/ payment and the Group's contractual maturity and amount of cash flows on these instruments may vary significantly from this analysis. For contractual maturity of financial liabilities refer note 35 (b).

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30 MATURITY PROFILE (continued)

31 December 2013	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash and bank balances	21,847	-	-	-	-	21,847
Equity-accounted investees	-	-	-	73,417	-	73,417
Investment securities	-	30,824	-	165,317	-	196,141
Investment property	-	-	-	259,404	-	259,404
Assets held-for-sale	-	23,824	160,252	-	-	184,076
Other assets	48,227	3,008	50,131	68,703	2,899	172,968
Total assets	**70,074**	**57,656**	**210,383**	**566,841**	**2,899**	**907,853**

31 December 2013	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Total
Financial liabilities						
Investors' funds	19,166	-	-	-	-	19,166
Placements from financial and other institutions	7,696	29	785	85,001	-	93,511
Financing liabilities	3,000	3,375	30,350	136,226	34,816	207,767
Other liabilities	23,978	-	-	36,430	-	60,408
Total liabilities	**53,840**	**3,404**	**31,135**	**257,657**	**34,816**	**380,852**
Equity of Investment account holders	2,155	-	-	-	-	**2,155**
Off-balance sheet items						
Restricted investment accounts	-	-	-	833	-	833

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30 MATURITY PROFILE (continued)

31 December 2012	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Total
Assets						
Cash and bank balances	3,216	-	-	-	-	3,216
Placements with financial institutions	14,767	-	-	-	-	14,767
Equity-accounted investees	-	-	-	231,946	-	231,946
Investment securities	-	-	-	174,017	-	174,017
Investment property	-	-	-	259,404	-	259,404
Assets held-for-sale	-	-	88,139	-	-	88,139
Other assets	-	43,505	-	70,081	1,945	115,531
Total assets	17,983	43,505	88,139	735,448	1,945	887,020

31 December 2012	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Total
Financial liabilities						
Investors' funds	9,944	-	21,484	-	-	31,428
Placements from financial and other institutions	10,799	14,994	15,621	84,603	-	126,017
Financing liabilities	265	-	2,718	85,000	144,844	232,827
Liabilities related to assets held-for-sale	-	-	42,655	-	-	42,655
Other liabilities	29,275	35,000	-	6,159	-	70,434
Total liabilities	50,283	49,994	82,478	175,762	144,844	503,361
Equity of Investment account holders	2,353	-	-	-	-	2,353
Off-balance sheet items						
Restricted investment accounts	-	-	-	2,331	-	2,331
Commitments	153	-	-	77,636	-	77,789

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31 CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT ACCOUNT HOLDER

(a) Industry sector

31 December 2013	Trading and manufacturing	Banks and financial institutions	Development Infrastructure	Technology	Others	Total
Assets						
Cash and bank balances	-	21,844	-	-	3	21,847
Placements with financial institutions	-	-	-	-	-	-
Equity-accounted investees	73,417	-	-	-	-	73,417
Investment securities	-	38,861	147,554	3,679	6,047	196,141
Investment property	-	-	259,404	-	-	259,404
Assets held-for-sale	-	160,252	-	-	23,824	184,076
Other assets	297	4,655	128,753	-	39,263	172,968
Total assets	**73,714**	**225,612**	**535,711**	**3,679**	**69,137**	**907,853**
Liabilities						
Investors' funds	160	-	19,006	-	-	19,166
Placements from financial and other institutions	-	7,745	-	-	85,766	93,511
Financing liabilities	-	207,767	-	-	-	207,767
Liabilities related to assets held-for-sale	-	-	-	-	-	-
Other liabilities	-	2,983	35,684	-	21,741	60,408
Total liabilities	**160**	**218,495**	**54,690**	**-**	**107,507**	**380,852**
Equity of Investment account holders	-	-	-	-	2,155	**2,155**
Off-Balance sheet items						
Restricted investment accounts	-	-	-	-	833	**833**
Commitments	-	-	-	-	-	**-**

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31 Concentration of assets, liabilities and equity of investment account holders (continued)
(a) Industry sector (continued)

31 December 2012	Trading and manufacturing	Banks and financial institutions	Development Infrastructure	Technology	Others	Total
Assets						
Cash and bank balances	-	3,205	-	-	11	3,216
Placements with financial institutions	-	14,767	-	-	-	14,767
Equity-accounted investees	71,818	160,128	-	-	-	231,946
Investment securities		6,262	161,114	3,867	2,774	174,017
Investment property	-	-	259,404	-	-	259,404
Assets held-for-sale	-	-	-	-	88,139	88,139
Other assets	88	1,299	108,213	-	5,931	115,531
Total assets	71,906	185,661	528,731	3,867	96,855	887,020
Liabilities						
Investors' funds	970	5,650	24,808	-	-	31,428
Placements from financial and other institutions	-	10,336	29,841	-	85,840	126,017
Financing liabilities	-	232,827	-	-	-	232,827
Liabilities related to assets held-for-sale	-	-	-	-	42,655	42,655
Other liabilities	-	4,301	39,000	-	27,133	70,434
Total liabilities	970	337,714	93,649	-	155,628	503,361
Equity of Investment account holders	-	-	-	-	2,353	2,353
Off-Balance sheet items						
Restricted investment accounts	-	-	2,331	-	-	2,331
Commitments	-	-	77,789	-	-	77,789

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31 Concentration of assets, liabilities and equity of investment account holders (continued)

(b) Geographic region

31 December 2013	GCC countries	Other MENA	Other Asia	UK	Europe (excluding UK)	USA	Total
Assets							
Cash and bank balances	20,958	3	-	190	-	696	21,847
Placements with financial institutions	-	-	-	-	-	-	-
Equity-accounted investees	73,417	-	-	-	-	-	73,417
Investment securities	91,102	46,178	36,572	-	22,289	-	196,141
Investment property	259,404	-	-	-	-	-	259,404
Assets held-for-sale	160,252	-	-	23,824	-	-	184,076
Other assets	65,273	30,429	29,099	48,167	-	-	172,968
Total assets	**670,406**	**76,610**	**65,671**	**72,181**	**22,289**	**696**	**907,853**
Liabilities							
Investors' funds	1,319	17,847	-	-	-	-	19,166
Placements from financial and other institutions	8,509	85,002	-	-	-	-	93,511
Financing liabilities	147,780	-	-	59,987	-	-	207,767
Liabilities related to assets held-for-sale	-	-	-	-	-	-	-
Other liabilities	60,408	-	-	-	-	-	60,408
Total liabilities	**218,016**	**102,849**	**-**	**59,987**	**-**	**-**	**380,852**
Equity of investment account holders							
Off-Balance sheet items							
Restricted investment accounts	833	-	-	-	-	-	**833**
Commitments	-	-	-	-	-	-	**-**

Concentration by location for financial assets is measured based on the location of the underlying operating assets, and not based on the location of the investment (which is generally based in tax efficient jurisdictions).

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31 Concentration of assets, liabilities and equity of investment account holders (continued)
(b) Geographic region (continued)

31 December 2012	GCC countries	Other MENA	Other Asia	UK	Europe (excluding UK)	USA	Total
Assets							
Cash and bank balances	3,078	3	-	-	32	103	3,216
Placements with financial institutions	14,767	-	-	-	-	-	14,767
Equity-accounted investees	231,946	-	-	-	-	-	231,946
Investment securities	89,789	46,024	36,572	-	1,632	-	174,017
Investment property	259,404	-	-	-	-	-	259,404
Assets held-for-sale	-	-	-	88,139	-	-	88,139
Other assets	54,085	32,350	29,096	-	-	-	115,431
Total assets	653,069	78,377	65,669	88,139	1,664	103	887,020
Liabilities							
Investors' funds	9,710	21,662	-	-	56	-	31,428
Placements from financial and other institutions	41,415	84,602	-	-	-	-	126,017
Financing liabilities	152,657	-	-	80,170	-	-	232,827
Liabilities related to assets held-for-sale	-	-	-	42,655	-	-	42,655
Other liabilities	70,434	-	-	-	-	-	70,434
Total liabilities	274,216	106,264	-	122,825	56	-	503,361
Equity of investment account holders	2,353	-	-	-	-	-	-
Off-Balance sheet items							
Restricted investment accounts	2,331	-	-	-	-	-	-
Commitments	77,789	-	-	-	-	-	77,789

32 OPERATING SEGMENTS

The Group has two distinct operating segments, Development infrastructure and Banking, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different strategies for management and resource allocation within the Group. For each of the strategic business units, the Group's Board of Directors (chief operating decision makers) review internal management reports on a quarterly basis.

The following summary describes the operations in each of the Group's operating reportable segments:

- **Development infrastructure:** This business unit primarily is involved in origination and management of large scale economic infrastructure projects. The business unit also covers the Group's investment in real estate and related assets.

- **Banking:** The Banking segment of the Group is focused on private equity, commercial and investment banking domains. The private equity activities include acquisition of interests in unlisted or listed businesses at prices lower than anticipated values. The commercial banking activities focuses on establish new banks in the MENA region, and exploring external partnerships or acquisitions to extend GFH's capabilities. The investment banking activities focuses on providing structuring capabilities in Islamic asset-backed and equity capital markets, Islamic financial advisory and mid-sized mergers and acquisition transactions.

The performance of each operating segment is measured based on segment results and are reviewed by the management committee and the Board of Directors on a quarterly basis. Segment results is used to measure performance as management believes that such information is most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing, if any is determined on an arm's length basis.

The Group classifies directly attributable revenue and cost relating to transactions originating from respective segments as segment revenue and segment expenses respectively. Indirect costs is allocated based on cost drivers/factors that can be identified with the segment and/ or the related activities. The internal management reports are designed to reflect revenue and cost for respective segments which are measured against the budgeted figures. The unallocated revenues, expenses, assets and liabilities related to entity-wide corporate activities and treasury activities at the Group level.

The Group has primary operations in Bahrain and the Group does not have any significant overseas branches/divisions. The geographic concentration of assets and liabilities is disclosed in note 32 (b) to the consolidated financial statements.

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33 OPERATING SEGMENTS (continued)

Information regarding the results of each reportable segment is included below:

2013	**Development infrastructure**	**Banking**	**Unallocated**	**Total**
Segment revenue	13,735	29,137	984	43,856
Segment expenses	11,779	16,373	9,437	37,589
Segment result	1,956	12,764	(8,453)	6,267
Segment assets	535,309	369,452	3,092	907,853
Segment liabilities	249,405	109,520	21,927	380,852
Other material items:				
Finance income	-	473	-	473
Finance expense	1,844	14,426	-	16,270
Share of profit of equity-accounted investees	-	1,723	-	1,723
Depreciation	-	-	1,079	1,079
Impairment allowances	3,000	-	-	3,000
Equity-accounted investees	-	73,417	-	73,417
Commitments	-	-	-	-
Restricted investment accounts	53	780	-	833

Banking segment includes assets, liabilities and results of discontinued operations (refer note 8)

2012	Development infrastructure	Banking	Unallocated	Total
Segment revenue	9,169	45,257	9,154	63,580
Segment expenses	20,329	26,927	6,297	53,553
Segment result	(11,160)	18,330	2,857	10,027
Segment assets	520,687	360,741	5,592	887,020
Segment liabilities	290,923	179,420	33,018	503,361
Other material items:				
Finance income	-	130	-	130
Finance expense	7,929	11,338	-	19,267
Share of profit of equity-accounted investees	-	4,941	-	4,941
Depreciation	-	-	2,427	2,427
Impairment allowances	10,400	-	-	10,400
Equity-accounted investees	-	231,946	-	231,946
Commitments	77,789	-	-	77,789
Restricted investment accounts	2,331	650	-	2,981

33 FINANCIAL INSTRUMENTS

a) FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. This represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms.

As at 31 December 2013 and 31 December 2012, the fair value of bank balances, placements with financial institutions, other financial assets, investors' fund, placements from financial and other institutions and other financial liabilities are not expected to be materially different from their carrying values as these are short term in nature and are re-priced frequently to market rates, where applicable. Investment securities carried at fair value through income statement are carried at their fair values determined using quotes market prices and internal valuation models for unquoted investments. Other investments are carried at cost in the absence of a reliable measure of fair value.

Other than certain investments carried at cost of US$ 160,666 thousand (31 December 2012: US$ 167,601 thousand) (note 5), the estimated fair values of the Group's other financial assets are not significantly different from their book values as at 31 December 2013.

Investments amounting to US$ 166,666 thousand (31 December 2012: US$ 167,601 thousand) in unquoted equity securities are carried at cost less impairment in the absence of a reliable measure of fair value. Such investments are either private equity investments managed by external investment managers or represent investments in development infrastructure projects promoted by the Group for which a reliable estimate of fair value cannot be determined. The Group intends to exit these investments principally by means of strategic sell outs, sale of underlying assets or through initial public offerings.

As at 31 December 2013, the fair value of financing liabilities was estimated at US$ 153,630 thousand (carrying value US$ 207,767 thousand) (31 December 2012: fair value US$ 176,512 thousand (carrying value US$ 232,827 thousand) based on recent transactions for repurchase of liability instruments by the Bank. These may not necessarily represent active market quotes. In a normal (and not stressed) scenario excluding adjustments for own credit risk, the carrying values would approximate fair value of financing liabilities as these are largely floating rate instruments which were re-priced recently as part of the debt restructuring process.

b) FAIR VALUE HIERARCHY

The table below analyses the financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e.as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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33 FINANCIAL INSTRUMENTS (continued)

b) FAIR VALUE HIERARCHY (continued)

31 December 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Investment securities				
- carried at fair value through income statement	30,824	-	4,651	35,475
	30,824	**-**	**4,651**	**35,475**

31 December 2012	Level 1	Level 2	Level 3	Total
Investment securities				
- designated at fair value through income statement	1,575	-	4,841	6,416
	1,575	-	4,841	6,416

The table below shows the reconciliation of movements in value of investments measured using Level 3 inputs:

	2013	2012
At 1 January	4,841	5,192
Total gains or losses		
- In income statement	(190)	(49)
Disposals	-	(302)
At 31 December	**4,651**	4,841

34 COMMITMENTS AND CONTINGENCIES

The commitments contracted in the normal course of business of the Group are as follows:

	31 December 2013	31 December 2012
Commitments to invest	-	153
Commitments to extend finance	-	77,636

The Group potentially has a commitment under a constructive obligation to extend finance to one of its projects of up to US$ 26.5 million (31 December 2012: US$ 26.5 million).

34 COMMITMENTS AND CONTINGENCIES (continued)

The Group had issued a financial guarantee of US$ 35 million to a project promoted by the Group. Based on its assessment of the financial position of the project company, the Group recognised a provision of US$ 35 million (31 December 2012: US$ 35 million) which is included in other liabilities and recognised an equivalent amount of 'reimbursement right' receivable included in 'other assets' (note 9). The Group is currently in discussions with the lenders and in the opinion of the management, as at the reporting date, the guarantee stands expired and it is unlikely that the amounts would need to be funded.

In the opinion of the management, all facilities that are due are being renegotiated and based on the current status of discussions, it is not expected that the Group will have to make payments against any of these guarantees. In the event any payment is required to be made, the Group will repay the existing lenders and the amounts will be recovered from the future cash flows generated from the operation of the relevant project.

Performance obligations
During the ordinary course of business, the Group may enter into performance obligations in respect of its infrastructure development projects. It is the usual practice of the Group to pass these performance obligations, wherever possible, on to the companies that own the projects. In the opinion of the management, no liabilities are expected to materialise on the Group at 31 December 2013 due to the performance of any of its projects.

Litigations, claims and contingencies
Litigations and claims
The Group is a party to number of claims and litigations in connection with projects promoted by the Bank in the past and with certain transactions. Further, claims against the Bank also have been filed by former employees. Based on the advice of the Bank's external legal counsel, it is premature to quantify the amount or timing of liability, if any. The external legal counsels have also confirmed that the Bank has strong grounds to successfully defend itself against these claims and no material claims are expected to arise from those litigations. Accordingly, no provision for these claims has been made in the condensed consolidated interim financial information. No further disclosures regarding contingent liabilities arising from any of such claims are being made by the Bank as the directors of the Bank believe that such disclosures may be prejudicial to the Bank's position.

Contingencies
The Group has contingent claims arising from the decision to not proceed with a project development agreement. The Group is currently negotiating with the counter party for an amicable settlement. While liability is not admitted, if defense against the action is unsuccessful, the claim and associated costs could amount to approximately US$ 36 million. The management do not expect any significant liability to arise on final closure.

35 FINANCIAL RISK MANAGEMENT

Overview

Financial assets of the Group comprise bank balances, placements with financial and other institutions, investment securities and other receivable balances. Financial liabilities of the Group comprise investors' funds, placements from financial and other institutions, financing liabilities and other payable balances. Accounting policies for financial assets and liabilities are set out in note 2.

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

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

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

Risk management framework

The key element of our risk management philosophy is for the Risk Management Department ('RMD') to provide independent monitoring and control while working closely with the business units which ultimately own the risks. The Head of Risk Management reports to the Board Audit and Risk Committee.

The Board of Directors has overall responsibility for establishing our risk culture and ensuring that an effective risk management framework is in place. The Board has delegated its authority to the Board Audit and Risk Committee (ARC), which is responsible for implementing risk management policies, guidelines and limits and ensuring that monitoring processes are in place. However due to lack of quorum during this year the ARC met only once. During the remainder of the year risk management matters were looked into directly by the Board. The RMD, together with the Internal Audit and Compliance Departments, provide independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors.

The RMD submits a quarterly Risk Overview Report along with a detailed Liquidity Risk Report to the Board of Directors. The Risk Overview Report describes the potential issues for a wide range of risk factors and classifies the risk factors from low to high. The Liquidity Risk Report measure the Group's liquidity risk profile against policy guidelines and regulatory benchmarks. An additional report is prepared by the respective investment units that give updated status and impairment assessment of each investment, a description of significant developments on projects or issues as well as an update on the strategy and exit plan for each project. During the year, the Board Audit & Risk Committee was not fully functional due to issues with quorum requirements and its functions were carried out directly by the Board of Directors.

a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's, placements with financial institutions, financing assets and other receivables from project companies. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

35 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Management of investment and credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Board Investment Committee (BIC). This committee establishes operating guidelines and reviews and endorses the Management Investment and Credit Committee recommendations for investment strategies, products and services. Its actions are in accordance with the investment policies adopted by the Board of Directors.

The RMD is responsible for oversight of the Group's credit risk, including:

- Ensuring that the Group has in place investment and credit policies, covering credit assessment, risk reporting, documentary and legal procedures, whilst the Compliance Department is responsible for ensuring compliance with regulatory and statutory requirements.
- Overseeing the establishment of the authorisation structure for the approval and renewal of investment and credit facilities. Authorisation limits are governed by the Board approved Delegated Authority Limits (DAL) Matrix.
- Reviewing and assessing credit risk. Risk Management department assesses all investment and credit exposures in excess of designated limits, prior to investments / facilities being committed. Renewals and reviews of investments / facilities are subject to the same review process.
- Ongoing review of credit exposures. The risk assessment approach is used in determining where impairment provisions may be required against specific investment / credit exposures. The current risk assessment process classifies credit exposures into two broad categories "Unimpaired" and "Impaired", reflecting risk of default and the availability of collateral or other credit risk mitigation. Risk is assessed on an individual basis for each investment / receivable and is reviewed at least once a year. The Group does not perform a collective assessment of impairment for its credit exposures as the credit characteristics of each exposure is considered to be different. Risk profile of exposures are subject to regular reviews.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of investment / credit risk.

The Risk Management Department works alongside the Investment Department at all stages of the deal cycle, from pre-investment due diligence to exit, and provides an independent review of every transaction. A fair evaluation of investments takes place periodically with inputs from the Investment department. Quarterly updates of investments are presented to the Board of Directors or their respective committees. Regular audits of business units and Group credit processes are undertaken by Internal Audit.

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35 FINANCIAL RISK MANAGEMENT (continued)
a) Credit risk (continued)

The Group's maximum exposure to risk at 31 December 2013 is as follows:

Exposure to credit risk

31 December 2013	**Bank balances**	**Placement with financial institutions**	**Other financial assets**
Neither past due nor impaired - Carrying amount	**21,786**	**-**	93,491
Impaired			
Gross amount	-	-	441,976
Allowance for impairment	-	-	(381,473)
Carrying amount – Impaired	**-**	**-**	**60,503**
Carrying amount	**21,786**		**153,994**

Exposure to credit risk

31 December 2012	Bank balances	Placement with financial institutions	Other financial assets
Neither past due nor impaired - Carrying amount	3,208	14,767	41,048
Impaired			
Gross amount	-	-	417,577
Allowance for impairment	-	-	(379,473)
Carrying amount – Impaired			38,104
Carrying amount	3,208	14,767	79,152

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35 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Impaired receivables

Impaired receivables are those for which the Group determines that it is probable that it will be unable to collect all or a portion of payments due according to the contractual terms of the receivables agreement(s). These exposures are graded "Impaired" in the Group's assessment process.

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its receivables. This allowance is a specific loss component that relates to individually significant exposures based on individual assessment for impairment.

The movement in the impairment allowances for equity-accounted investees, investment securities and investment property are given in notes 6, 7 and 8 respectively. The movement in impairment allowance for other financial assets are as given below:

2013	**Financing receivables**	**Financing to projects**	**Receivable from investment banking services**	**Other receivables**	**Total**
At 1 January 2013	70,150	81,382	153,630	74,311	379,473
Impairment allowance during the year	-	2,000	-	-	2,000
At 31 December 2013	**70,150**	**83,382**	**153,630**	**74,311**	**381,473**

2012	Financing receivables	Financing to projects	Receivable from investment banking services	Other receivables	Total
At 1 January 2012	70,150	77,382	153,630	74,311	375,473
Impairment allowance during the year	-	4,000	-	-	4,000
At 31 December 2012	70,150	81,382	153,630	74,311	379,473

Receivables with renegotiated terms

During the year, the Group has renegotiated certain financing receivables and financing to projects due to changes in the financial position of the borrower. The financing receivables were renegotiated for terms and condition similar to original terms. Financing to projects of US$ 65.19 million (31 December 2012: US$ 67.19 million) were renegotiated for an extended period and do not have specified terms of repayment. The Group assesses the recoverability and timing of collection based on underlying stream of cash flows that will be generated by its projects.

35 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Write-off policy

The Group writes off a receivable (and any related allowances for impairment losses) when it is determined that the receivables are uncollectible and after obtaining approval from the CBB where required. This determination is reached after considering information such as the occurrence of significant changes in the payee / issuer's financial position such that the payee / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. No amounts have been written off during the year.

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 affected by changes in economic, political or other conditions. The Group seeks to manage its concentration risk by establishing and constantly monitoring geographic and industry wise concentration limits.

The geographical and industry wise distribution of assets and liabilities are set out in notes 31 (a) and (b).

b) Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then aims to maintain a portfolio of short-term liquid assets, largely made up of short-term placements with financial and other institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business units are met through treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Board of Directors. Daily reports cover the liquidity position of the Bank and is circulated to Executive Committee (ExComm). Moreover, quarterly reports are submitted to the Board of Directors on the liquidity position by RMD.

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35 FINANCIAL RISK MANAGEMENT (continued)

b) Liquidity risk (continued)

The table below shows the undiscounted cash flows on the Group's financial liabilities, including issued financial guarantee contracts, and unrecognised financing commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. The Group's expected cash flows on these instruments vary significantly from this analysis. Refer note 30 for the expected maturity profile of assets and liabilities.

	Gross undiscounted cash flows						
31 December 2013	**Up to 3 months**	**3 to 6 months**	**6 months-1 year**	**1 to 3 years**	**Over 3 years**	**Total**	**Carrying amount**
Financial liabilities							
Investors' funds	19,166	-	-	-	-	19,166	**19,166**
Placements from financial and other institutions	7,753	-	741	85,001	-	93,495	**93,511**
Financing liabilities	3,000	4,965	31,411	86,023	114,966	240,365	**207,767**
Other financial liabilities	23,980	-	-	39,865	-	63,845	**63,845**
Total financial liabilities	53,899	4,965	32,152	210,889	114,966	**416,871**	**384,289**
Equity of investment account holders	2,155	-	-	-	-	**2,155**	**2,155**

To manage the liquidity risk arising from financial liabilities, the Group aims to hold liquid assets comprising cash and cash equivalents, investment in managed funds and treasury shares for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements.

Further, the Group is focussed on developing a pipeline of steady revenues and has undertaken cost reduction exercises that would improve its operating cash flows.

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35 FINANCIAL RISK MANAGEMENT (continued)
b) Liquidity risk (continued)

	Gross undiscounted cash flows						
31 December 2012	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Total	Carrying amount
Financial liabilities							
Investors' funds	9,944	-	21,484	-	-	31,428	31,428
Placements from financial and other institutions	96,278	15,555	16,909	-	-	128,742	126,017
Financing liabilities	3,187	2,587	6,175	103,390	199,168	314,507	232,827
Liabilities related to assets held-for-sale	-	-	42,665	-	-	42,665	42,655
Other financial liabilities	-	25,930	-	12,941	-	38,871	38,871
Total financial liabilities	109,409	44,072	87,233	116,331	199,168	556,213	471,798
Equity of investment account holders	2,353	-	-	-	-	2,353	2,353
Off-balance sheet items							
Commitments	153	-	-	77,636	-	-	

Measures of liquidity

The Group has recently introduced new measures of liquidity. These revised metrics are intended to better reflect the liquidity position from a cash flow perspective and provide a target for the Group. These are liquidity coverage ratio, net stable funding ratio (both based on the consultative paper of Basel 3) and stock of liquid assets.

For this purpose, the liquidity coverage ratio identifies the amount of unencumbered, high quality liquid assets the Group holds that can be used to offset the net cash outflows it would encounter under an acute short-term stress scenario (30, 60 and 90 days time horizon). The net stable funding ratio measures the amount of long-term, stable sources of funding employed by an institution relative to the liquidity profiles of the assets funded and the potential for contingent calls on funding liquidity arising from off-balance sheet commitments and obligations.

Liquidity coverage ratio	**2013**	2012
30 days	1.70	1.35
60 days	1.99	1.31
90 days	2.27	1.32

The Group also holds certain listed equities and treasury shares which can be sold to meet the liquidity requirements.

	2013	2012
Net stable funding ratio	1.28	0.84

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35 FINANCIAL RISK MANAGEMENT (continued)

Details of the ratio of liquid assets to total assets at the reporting date and during the year were as follows:

	Liquid asset / Total asset	
	2013	2012
At 31 December	2.39%	2.01%
Average for the year	4.47%	2.00%
Maximum for the year	8.99%	4.42%
Minimum for the year	2.39%	0.71%

c) Market risks

Market risk is the risk that changes in market prices, such as profit rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Group's income, future cash flows or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

As a matter of general policy, the Group shall not assume trading positions on its assets and liabilities, and hence the entire balance sheet is a non-trading portfolio. All foreign exchange risk within the Group is transferred to Treasury. The Group seeks to manage currency risk by continually monitoring exchange rates. Profit rate risk is managed principally through monitoring profit rate gaps and by having pre-approved limits for repricing bands. Overall authority for market risk is vested in the Board Audit and Risk Committee. RMD is responsible for the development of detailed risk management policies (subject to review and approval of the Board Audit & Risk Committee of Directors).

Exposure to profit rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market profit rates. Majority of the Group's profit based asset and liabilities are short term in nature, except for certain long term liabilities which have been utilised to fund the Group's strategic investments in its associates.

A summary of the Group's profit rate gap position on non-trading portfolios is as follows:

31 December 2013	**Up to 3 months**	**3 to 6 months**	**6 months-1 year**	**1 to 3 years**	**Over 3 years**	**Total**
Liabilities						
Investors' funds	19,166	-	-	-	-	19,166
Placements from financial and other institutions	7,696	29	785	85,001	-	93,511
Financing liabilities	3,000	3,375	30,350	136,226	34,816	207,767
Total liabilities	**29,862**	**3,404**	**31,135**	**221,227**	**34,816**	**320,444**
Equity of investment account holders	**2,155**	**-**	**-**	**-**	**-**	2,155
Profit rate sensitivity gap	**(32,017)**	**(3,404)**	**(31,135)**	**(221,227)**	**(34,816)**	**(322,599)**

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35 FINANCIAL RISK MANAGEMENT (continued)

c) Market risks (continued)

31 December 2012	Up to 3 months	3 to 6 months	6 months-1 year	1 to 3 years	Over 3 years	Total
Assets						
Placements with financial institutions	-	-	14,767	-	-	14,767
Total assets	-	-	14,767	-	-	14,767
Liabilities						
Investors' funds	9,944	-	21,484	-	-	31,428
Placements from financial and other institutions	10,799	14,994	15,622	84,602	-	126,017
Financing liabilities	265	-	2,718	85,000	144,844	232,827
Total liabilities	21,008	14,994	39,824	169,602	144,844	390,272
Equity of investment account holders	2,353	-	-	-	-	2,353
Profit rate sensitivity gap	(23,361)	(14,994)	(25,057)	(169,602)	(144,844)	(377,858)

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard profit rate scenarios. Standard scenarios that are considered include a 100 basis point (bp) parallel fall or rise in all yield curves worldwide. An analysis of the Group's sensitivity to an increase or decrease in market profit rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

100 bps parallel increase / (decrease)	**2013**	2012
At 31 December	±3,226	±3,778
Average for the year	±3,390	±4,030
Maximum for the year	±3,646	±4,561
Minimum for the year	±3,226	±3,688

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

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35 FINANCIAL RISK MANAGEMENT (continued)

c) Market risks (continued)

The effective average profit rates on the financial assets, liabilities and unrestricted investment accounts are as follows:

	2013	2012
Placements with financial institutions	-	2.35%
Placements from financial and other institutions	7.65%	4.34%
Financing liabilities	5.78%	5.83%
Equity of investment account holders	0.22%	2.35%

Exposure to foreign exchange risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Groups major exposure is in GCC currencies, which are primarily pegged to the US Dollar. The Group had the following significant net exposures denominated in foreign currency as of 31 December from its financial instruments:

	2013 US$ '000 Equivalent	2012 US$'000 Equivalent
Sterling Pounds	71,507	807
Euro	963	(2,219)
Jordanian Dinar	2,031	-
Other GCC Currencies (*)	(6,612)	209,102

(*) These currencies are pegged to the US Dollar.

The management of foreign exchange risk against net exposure limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various foreign exchange scenarios. Standard scenarios that are considered include a 5% plus / minus increase in exchange rates, other than GCC pegged currencies. An analysis of the Group's sensitivity to an increase or decrease in foreign exchange rates (assuming all other variables, primarily profit rates, remain constant) is as follows:

	2013 US$ '000 Equivalent	2012 US$'000 Equivalent
Sterling Pounds	±3,575	± 40
Euros	±48	±110
Jordanian Dinar	±101	-

35 FINANCIAL RISK MANAGEMENT (continued)

Exposure to foreign exchange risk (continued)

Exposure to other market risks

Equity price risk on quoted investments is subject to regular monitoring by the Group. The price risk on managed funds is monitored using specified limits (stop loss limit, stop loss trigger and overall stop loss limit cap) set within the portfolio management contract for fund managers. A 5% change in the underlying value of the managed funds would have an impact on the income statement and equity by US$ 1.5 million. The Group's equity type instruments carried at cost are exposed to risk of changes in equity values. The significant estimates and judgements in relation to impairment assessment of fair value through equity investments carried at cost are included in note 3 (ii). The Group manages exposure to other price risks by actively monitoring the performance of the equity securities.

d) Operational risk

Operational risk is the risk of loss arising from systems and control failures, fraud and human errors, which can result in financial and reputation loss, and legal and regulatory consequences. The Group manages operational risk through appropriate controls, instituting segregation of duties and internal checks and balances, including internal audit and compliance. The Risk Management Department facilitates the management of Operational Risk by way of assisting in the identification of, monitoring and managing of operational risk in the Group. The Group had finalized the risk and control assessments for all the departments in 2011 – 2012 and has now reviewed the risk profile again for all its key departments in 2013.

36 CAPITAL MANAGEMENT

The Group's regulator Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Group as a whole. In implementing current capital requirements CBB requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets. The total regulatory capital base is net of prudential deductions for large exposures based on specific limits agreed with the regulator. Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The Group does not have a trading book.

The Group aims to maintain strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The Group is required to comply with the provisions of the Capital Adequacy Module of the CBB (which is based on the Basel II and IFSB framework) in respect of regulatory capital. The Group has adopted the standardised approach to credit risk and market risk and basic indicator approach for operational risk management under the revised framework.

The allocation of capital between specific operations and activities is primarily driven by regulatory requirements. The Group's capital management policy seeks to maximise return on risk adjusted capital while satisfying all the regulatory requirements. The Group's policy on capital allocation is subject to regular review by the Board of Directors.

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36 CAPITAL MANAGEMENT (continued)

The Group's regulatory capital position at 31 December was as follows:

	2013	2012
Total risk weighted assets	**1,934,849**	1,833,157
Tier 1 capital	523,884	343,615
Tier 2 capital	-	10
Total regulatory capital base	**523,884**	343,625
Total regulatory capital expressed as a percentage of total risk weighted assets	**27.08%**	18.74%

The Group has complied with the externally imposed capital requirements set by the regulator for its consolidated capital adequacy ratio throughout the year.

37 COMPARATIVES

Certain prior year amounts have been regrouped to conform to the current year's presentation. Such regrouping did not affect previously reported profit or equity.