بنك المستقبل
futurebank

BETTERMENT THROUGH ENDURANCE

ANNUAL REPORT | 2012

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والله يحب الصابرين

TABLE OF CONTENTS

BUSINESS PHILOSOPHY

Vision

To be recognised as a Bank for its ability to build financial bridges connecting our customers and regional markets.

Mission

To maximise stakeholders' interests by becoming the partner of choice for all those who value personalised attention.

Purpose

To serve the community with care and conscience and make a tangible difference to lives.

Endurance is the crowning quality, and patience all the passion of great hearts

– James Russell Lowell

FINANCIAL HIGHLIGHTS

	2012	2011	2010	2009	2008
Income and Expenses (BD Millions)					
Net interest income	**20.0**	20.9	14.4	13.1	13.7
Other income	**0.4**	(0.7)	1.0	1.0	0.8
Total Income	**20.4**	20.2	15.4	14.1	14.5
Operating expenses	**4.2**	4.0	4.0	3.5	3.3
Profit before provisions	**16.2**	16.2	11.4	10.6	11.2
Net provision / write-back	**(6.4)**	(6.7)	(1.3)	2.4	(0.5)
Impairment of Goodwill	**(1.9)**	(1.0)	(1.0)	-	-
Net profit/(Loss)	**7.9**	8.4	9.1	8.2	10.7
Financial Position (BD Millions)					
Total assets	**546.4**	532.3	524.3	547.5	547.5
Net loans	**112.8**	141.3	151.7	118.4	113.1
Due from Banks	**330.2**	302.8	276.8	358.9	381.0
Investments	**54.1**	36.5	50.3	12.4	8.8
Total deposits	**375.8**	372.4	371.1	421.5	446.4
Medium Term Borrowings	**59.9**	58.6	60.0	48.8	31.9
Customer deposits	**142.1**	140.8	131.7	108.7	95.9
Shareholder›s equity	**104.5**	96.6	88.2	73.7	63.3
Ratios (percentage)					
Profitability					
Net income/Average equity	**7.9**	9.1	11.3	12.2	17.8
Net income/Average assets	**1.5**	1.6	1.7	1.5	2.1
Operating expenses/Total income	**20.7**	19.8	26.1	24.8	23.0
Earning per share (BD)	**0.095**	0.105	0.128	0.152	0.237
Liquidity					
Customer deposits/Net loan and advances	**126.0**	99.6	86.8	91.8	84.7
Loans and advances/Total assets	**20.6**	26.5	28.9	21.6	20.7
Liquid assets/Total assets	**46.5**	41.7	38.3	44.6	39.1
Capital Adequacy					
Capital Adequacy	**21.5**	20.2	25.7	21.0	15.6
Equity/Total Assets	**19.1**	18.1	16.8	13.5	11.6

CHAIRMAN'S STATEMENT

Throughout the year under review, Futurebank focused on relevant key strategic initiatives which would enhance its current position and enable it to sustain financial momentum.

On behalf of the Board of Directors of Futurebank, it is with distinct pleasure that I announce the audited financial results for the year ended 31 December, 2012. The period under review witnessed Futurebank facing a host of challenges and making significant progress towards the implementation of both effective short term, as well as sustainable long-term measures, aimed at ensuring its stability and future growth potential.

Futurebank's overall steady financial performance for the year 2012, resulted in a net profit of BD 7.9 million, as compared to last year's net profit of BD 8.4 million. This minor decline of 6 % was the result of higher impairment provisioning carried out by the Bank, which served throughout the year to effectively strengthen and protect its financial assets. The decline also reflected upon the Bank's adopted and proven conservative approach. Futurebank's Balance Sheet witnessed a minimal growth of 2.6%, from BD 532.3 million in 2011 to BD 546.4 million.

As a positive outcome of its cautionary approach, Futurebank's total shareholders' equity rose to BD 104.5 million in 2012, as compared to BD 96. 6 million achieved in the previous year. This increase signified nothing less than the solid trust and firm commitment of Futurebank's shareholders. The Bank's Capital Adequacy Ratio was also bolstered, and echoed an optimistic and stable outlook, increasing from 20.2% in 2011 to 21.5% as at the end of the year.

Futurebank's establishment can be traced back to a joint venture between three highly reputed financial institutions- namely Bank Saderat (Iran), Bank Melli (Iran) and Ahli United Bank (Bahrain). In alignment with its strategic mission, Futurebank continued to build upon the inherent strength of each of its constituents in 2012 and remained committed to facilitating meaningful financial exchanges that would benefit the national economies within the region.

Throughout the year under review, Futurebank focused on relevant key strategic initiatives which would enhance its current position and enable it to sustain financial momentum. At the forefront of this strategy, a new Executive Risk Committee of the Board was set up, aimed at overseeing and assessing all processes and structures, which determine the effectiveness of the risk functions within the Bank. This initiative followed in line with the Bank's firm intent to serve out its mission with the highest levels of integrity, accountability and transparency, in order to protect and serve the best interest of its shareholders.

In 2012, Futurebank also faced operational obstacles, directly caused by the economic sanctions placed from Western Governments (US and EU) upon Iran. A number of strategic revisions were sought and adopted, towards keeping the Bank solvent and firmly on its strategic course. Adding to this adversity, volatile local market conditions within Bahrain and the wider region also compelled Futurebank's management to embrace a heightened sense of conservatism. As a natural outcome, previously envisioned expansion plans into other potential geographies outside of Bahrain, were also curtailed for the time being.

Futurebank's previously envisioned board approved strategy of aggressively addressing growth opportunities within Bahrain was also revisited, and it was decided, in light of the prevalent market stresses, that all such plans be placed on hold. The Bank did however; continue to participate successfully in Bahraini Government investments, including Treasury Bills and Sukuks, raising its exposure by 125%, from BD 13.3 million in 2011 to BD 30 million in the current year.

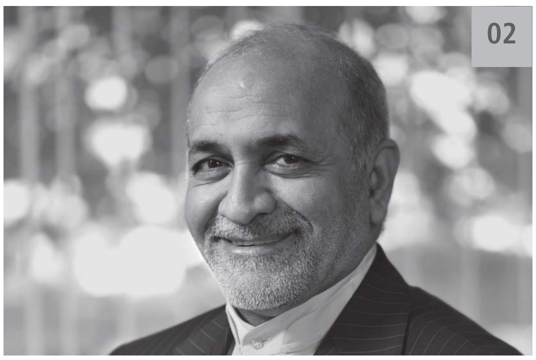
On the infrastructure front, Futurebank's new Head Office building situated in the prestigious Seef area was successfully completed, with all construction works finalized and plans underway to shift the Bank's Headquarter to this high profile state-of-art property.

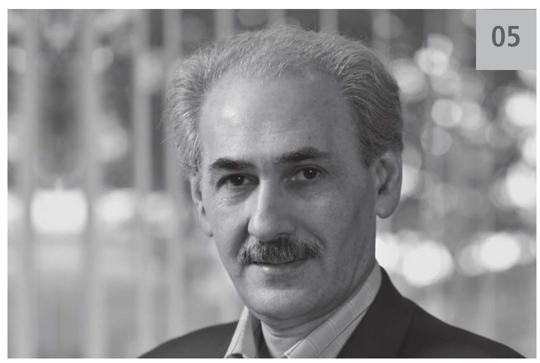
The events of the recent past have culminated in a transformed and highly liberalized economic landscape, where financial markets have felt the strong impact of competition and uncertainty quite like never before. With this in mind, the Board of Directors on behalf of Futurebank's shareholders wishes to extend its fullest appreciation and credit to the dedicated contributions of Futurebank's management and dedicated staff, who have upheld the highest standards of operational excellence throughout these challenging times. We also extend our fullest gratitude to all our shareholders, clients and correspondents for their very valuable association, while thanking the authorities in Bahrain, especially the Central Bank of Bahrain, for their highly valued and ongoing support and guidance.

By the grace of Almighty Allah, Futurebank's Board of Directors remains optimistic about the Bank's enduring market position and share a great sense of pride in having achieved a host of positive results for the Bank's shareholders. In light of the various challenges which the Bank has already overcome with poise, the Board of Directors is confident that the ongoing measures which it continues to place into effect will ensure Futurebank's ongoing future viability.

The events of the recent past have culminated in a transformed and highly liberalized economic landscape, where financial markets have felt the strong impact of competition and uncertainty quite like never before. With this in mind, the Board of Directors on behalf of Futurebank's shareholders wishes to extend its fullest appreciation and credit to the dedicated contributions of Futurebank's management and dedicated staff, who have upheld the highest standards of operational excellence throughout these challenging times

BOARD OF DIRECTORS





BOARD COMMITTEE MEMBERS

01

Dr. Valiollah Seif
Chairman

Board Member since 2004
Appointed as chairman w.e.f. November 2012

Board Member & Managing Director
Karafarin Bank - Iran

PhD in Accounting & Finance from Allameh Tabatabaei University. Over 30 years of banking experience as Finance Director, Board Member of Bank Sepah, Chairman of the Board and Managing Director of Bank Mellat, Bank Saderat, Bank Sepah and Bank Melli, Iran.

02

Dr. Hamid Borhani
Deputy Chairman

Board Member since 2006

CEO of Bank Saderat plc. - UK

PhD in Business Management & Accounting from Azad University. Over 30 years of banking experience holding various managerial & directorial positions in Bank Saderat Iran as: Chairman & Managing Director; BSI Board member; BSI Regional Manager; Chairman of Bank Saderat PLC - London and Vice Governor of Bank Markazi Jomhuri Islami Iran.

03

Mr. Abdulaziz Ahmed Abdul Malek
Deputy Chairman

Board Member effective 2007

Board Member - Taib Bank, Bahrain

Gulf Executive Management & Strategic Leadership Programme from Colombia University, New York. Executive Programme from INSEAD, Paris. BSC in Physics & Pure Mathematics from Riyadh University. Over 25 years of banking experience holding various managerial positions in Chemical Bank, New York. BMB Bank, Bahrain.

04

Mr. Adel Al Mannai
Director

Board Member effective 2007

Board Member & CEO - Taib Bank, Bahrain

Master of Business Administration- University of Glamorgan. UK. Over 30 years of overall banking experience.

05

Mr. Gholam H. Zaferani
Director

Board Member since 2004

Chief Executive Officer & MD - Arian E-Bank
Over 35 years of experience holding various managerial positions. Earlier served as Director General of Regional Office - Dubai, Eastern European, Far East and Central Asian Countries of Bank Melli Iran From 1996-2001.
Board Member covering International Division of Bank Melli Iran from 2001-2006
CEO - Saman Bank from 2006-2010

06

Mr. Gholam Souri
CEO & Managing Director

Board Member since 2004

MBA in Banking from Iranian Banking Institution. Over 27 years of international banking experience holding various senior managerial positions in Bank Saderat Iran as : General Manager of International Division & Regional Office Dubai; General Manager Bank Saderat Iran branches.

07

Mr. Abbas Fatemi Torshezi
Deputy CEO & Director

Board Member since 2004

BA in English Language, Tehran University. Over 42 years of overall banking experience. Holding senior managerial positions in Bank Melli Iran as Assistant Director of Bank Melli Iran, International Division, Tehran; Manager of Bank Melli Iran, Dubai Main Branch.

CORPORATE GOVERNANCE REPORT

THE BANK'S PHILOSOPHY ON CODE OF GOVERNANCE

Future Bank is committed to the best practices in the area of corporate governance, in letter and in spirit. The Bank believes that good corporate governance is much more than complying with legal and regulatory requirements. Good governance facilitates effective management and control of business, enables the Bank to maintain a high level of business ethics and to optimize the value for all its stakeholders. The objectives can be summarized as:

- To protect and enhance shareholder value.
- To protect the interest of all other stakeholders such as customers, employees and society at large.
- To ensure transparency and integrity in communication and to make available full, accurate and clear information to all concerned.
- To ensure accountability for performance and customer service and to achieve excellence at all levels.
- To provide corporate leadership of highest standard for others to emulate.

The above Corporate Governance philosophy is supplemented by our Corporate Governance Guidelines which have been written in a manner that they comply with the High Level Controls (HC) module of the CBB Rulebook.

The Bank is committed to:

- Ensuring that the Bank's Board of Directors meets regularly, provides effective leadership and insights in business and functional matters and monitors Bank's performance.
- Establishing a framework of strategic control and continuously reviewing its efficacy.
- Establishing clearly documented and transparent management processes for policy development, implementation and review, decision-making, monitoring, control and reporting.
- Providing free access to the Board to all relevant information, advices and resources as are necessary to enable it to carry out its role effectively.
- Ensuring that the Chairman has the responsibility for all aspects of executive management and is accountable to the Board for the ultimate performance of the Bank and implementation of the policies laid down by the Board. The role of the Chairman and the Board of Directors are also guided by the CBB rule book High Level control module, with all relevant amendments.
- Ensuring that a senior executive is made responsible in respect of compliance issues with all applicable statutes, regulations and other procedures, policies as laid down by the Government of Kingdom of Bahrain/CBB and other regulators and the Board, and reports deviations, if any.

BOARD OF DIRECTORS INFORMATION

Board Composition

The Board's composition is based on the Bank's Memorandum of Association and Articles of Association. The bank shall be managed by six to nine directors. The Directors shall be appointed by the shareholders. Each shareholder shall appoint a minimum of two Directors subject to each shareholder having an equal number of directors. The Board of directors may also appoint by unanimous approval, a Managing Director and two Deputy Managing Directors who may be appointed additional members of the Board of directors as recommended by them and subject to Ordinary General Assembly's approval.

The appointment of the Board of Directors is subject to the prior approval of the Central Bank of Bahrain. The classification of executive, non-executive, independent, non-independent Directors is as per the definitions stipulated by the CBB.

As on 31st December 2012, there were seven directors on the Board including eminent professionals representing various walks of life. The Composition of the Board complies with the provisions laid down in the Articles of Association. Each Director is appointed for a period of three years after which he must present himself to the Annual General meeting of shareholders for renewal and re-appointment.

The Board is supported by the Board secretary who provides professional and administrative support to the Board, its committees and members. The appointment of the Board secretary is subject to the approval of the Board.

Board of Director's – Role and Responsibilities

Future Bank was formed in 2004 as a closed joint stock company in accordance with the provisions of Legislative Decree No. 21/2001 in respect of Commercial Companies Law, the Implementation Regulations issued by Resolution No. 6/2002, the Articles of Association and the Memorandum of Association of the bank.

The Bank's board draws its powers from and carries out its functions in compliance with the provisions of Articles of Association and High level control Module of Central Bank of Bahrain rule book. Its major role, among others includes:

- The adoption and annual review of strategy;
- The adoption and review of management structure and responsibilities;
- The adoption and review of the systems and controls framework;
- Monitoring the implementation of strategy by management;
- Responsible for the preparation and fair presentation of the financial statements;
- Monitoring management performance;
- Monitoring conflicts of interest and preventing abusive related party transactions.

A formal Board Charter is in place through which the Board exercises control & judgment in establishing and revising the delegation of authority for its committees and the management. This delegation could be for authorization of expenditure, approval of credit facilities and for other corporate actions which are approved and expressed under various policies of the bank. The thresholds for the identified authorities will depend upon the operating requirements of the Bank. In addition, strategic investments and major capital expenditure would be within the Board's authority.

As per the approved Board charter, any new Board member has to now go through a tailored induction programme. The induction is not restricted to but would include meetings with executive management, visit to the bank's facilities, presentation regarding strategic plans. This would foster a better understanding of the business environment and markets in which the bank operates.

Remuneration of Directors

As per the Board charter, the nomination, remuneration and the corporate governance committee shall make specific recommendations to the board on the remuneration of Board members. Currently no specific remuneration is paid to any Board member except for the CEO & Managing Director and the Deputy CEO & Dy Managing Director who are executive Board members. All other Directors are paid sitting fees for the participation in the Board meetings. Participation in a meeting via telephone/video conferencing shall be considered an attendance in meetings.

Code of Conduct and Conflict of Interest

The members of the Board should ensure that they conduct their affairs with a high degree of integrity, taking note of the applicable laws codes and regulations. The Board has an approved code of conduct for the Directors. The Board has also approved the Code of conduct of all the members of the staff of the bank. A separate "Whistle Blowing" policy covering all the staff of the bank is adopted. The code of conduct binds the signatories to the highest standard of professionalism and due diligence in discharging their duties. The Board has a documented procedure for dealing with situations involving "conflict of interest" of Directors. In the event of the Board or its committees considering any issues involving "conflict of interest" of Directors, the decisions are taken by the full Board/committee. The particular Director abstains from the discussion and voting/approval process. The concerned Director is also required to inform the Board of the potential conflict of interest in their activity and abstain from voting on the matter.

MEETINGS OF THE BOARD

The Bank's Board meets a minimum of four times a year and during the year 2012, four Board meetings were held. The dates of the meetings and the attendance of the directors are given as under:

Dates and attendance of directors at the Quarterly Board meetings during 2012

Names of the Board Members	4 Feb	28 April	14 July	10 Nov
Dr Valiollah Seif (Independent & Non- Executive)	•	•	•	•
Dr Hamid Borhani (Non- Independent & Executive)*	•	•	•	•
Mr. Abdul Aziz Abdul Malik (Independent & Non- Executive)	•	•	•	•
Mr. Gholam Hussain Zafarani (Independent & Non- Executive)	•	•	•	•
Mr. Adel Mannai (Independent & Non- Executive)	•	•	•	•
Mr. Gholam Souri (Non- Independent & Executive)	•	•	•	•
Mr. Abbas Fatemi (Non- Independent & Executive)	•			•

* Although Dr Borhani has been shown as "Non- Independent & Executive" Director as per the HC guidelines, the bank considers him as a "Non-Independent & Non-Executive " Director as he is not involved in the day-to-day functioning of the bank, nor is he an employee of BSI Tehran. During year-end 2011 he was appointed as MD of BSI plc. London (which is incorporated under laws of United Kingdom (UK) and regulated by the Financial Services Authority of UK) and a subsidiary of BSI-Tehran.

Mr Ravi Prakash- Internal Auditor was also appointed as the Board secretary with effect from 10th November 2012.

BOARD LEVEL COMMITTEES

In terms of the Article 21(5) of the Bank's Articles of Association and in line with the High level controls Module of CBB rule book (HC-1.8), the Board constituted three committees namely (a) The Audit Committee (b) The Nomination, Remuneration and Corporate Governance Committee and (c) The Executive Risk Committee of the Board. These Committees provide effective professional support in the conduct of Board level business in key areas like Audit, Accounts, Risk, Compliance, Corporate Governance and Nomination & payment of remuneration to Directors/ Senior Management.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE OF THE BOARD

The Audit committee was first constituted on 07.07.2004 and last reconstituted on 29.01.2011. The Audit committee functions as per CBB guidelines and complies with the provisions of Audit Committee Charter.

Functions and Responsibilities of Audit Committee

The Audit Committee's major functions include the following:

- Consider the major findings of audit and compliance reports as well as any special investigations, particularly in relation to high-risk items, and management responses thereto, and monitor the implementation of agreed action points within stipulated deadlines.
- Review the arrangements established by the Management for compliance with regulatory and financial reporting requirements contained in statute and with the requirements of supervisors and the implementation of such arrangements.
- Review annual and periodic financial statements of the Bank and the external auditors report thereon and report to the Board on their completeness and accuracy.
- Review regulators and external auditor's comments in the context of inspections and audits.
- Review all correspondence with regulatory authorities

A formal audit committee charter, duly approved by the Board is in place.

Composition and Attendance during 2012

The Audit Committee has three members of the Board of Directors with each Shareholder nominating one director. Meetings of the Audit committee are chaired by an Independent director. The constitution and quorum requirements, as per CBB guidelines/Audit Committee Charter, are complied with meticulously. During the year, four meetings of Audit committee were held to discharge the roles and responsibilities assigned to the Committee.

Dates and attendance of directors at Audit committee meetings during 2012

The Board Audit committee meets a minimum of four times a year

Names of the Board Members	4 Feb	28 April	14 July	9 Nov
Dr Valiollah Seif – Chairman of the Committee	•	•	•	•
Mr. Abdul Aziz Abdul Malik	•	•	•	•
Mr. Gholam Hussain Zafarani	•	•	•	•

NOMINATION, REMUNERATION & CORPORATE GOVERNANCE COMMITTEE OF THE BOARD

The Remuneration committee was first constituted in December 2007 and last reconstituted as Nomination, Remuneration and Corporate Governance Committee in 2011. The Nomination, Remuneration and Corporate Governance committee functions as per CBB guidelines and complies with the provisions of Nomination, Remuneration and Corporate Governance committee Charter.

Functions of Nomination, Remuneration & Corporate Governance Committee

The Nomination, Remuneration & Corporate Governance committee's major functions include the following:

- Assisting the Board to ensure that it is comprised of Directors with the appropriate mix of skills, experience and expertise to discharge its mandate effectively.
- Assisting the Board in ensuring that the Bank has in place appropriate remuneration policies designed to meet the needs of the Bank and to enhance corporate and individual performance.
- Overseeing the development and the regular assessment of the Bank's approach to corporate governance issues and ensuring that such approach supports the effective functioning of the Bank and overseeing the process, structure and effective system of accountability by management to the Board of Directors and by the Board to the shareholders.

A formal Nomination, Remuneration & Corporate Governance committee charter, duly approved by the Board is in place.

Composition and Attendance during 2012

The Nomination, Remuneration & Corporate Governance Committee has three non-executive directors as members as determined by the Board. The constitution and quorum requirements, as per CBB guidelines/Nomination, Remuneration & Corporate Governance Committee Charter, are complied with meticulously. During the year, two meetings of Nomination, Remuneration & Corporate Governance committee were held to discharge the roles and responsibilities assigned to the Committee.

Dates and attendance of directors at Nomination, Remuneration & Corporate Governance committee meetings during 2012

The Board Nomination Remuneration & Corporate Governance committee meets a minimum of two times during the year.

Names of the Board Members	4 Feb	10 Nov
Mr. Abdul Aziz Abdul Malik - Chairman of the Committee	•	•
Dr. Hamid Borhani	•	•
Dr. Valiollah Seif	•	•

EXECUTIVE RISK COMMITTEE OF THE BOARD

The Executive Risk committee of the Board (ERCB) was first constituted in January 2012 and functions as per the provisions of Executive Risk Committee Charter.

Functions of Executive Risk Committee

The Executive Risk committee's major functions include the following:

- Ensuring implementation of the risk management framework and maintenance of adequate and capable infrastructure to support the framework.
- Approving and periodic review of the risk strategy and risk appetite of the Bank.
- Reviewing periodically the risk management policies and any significant risk issues.
- Ensuring maintenance of adequate capital required for carrying out business activities under various business lines and products, under normal as well as stressed conditions.
- Recommend to the Board suitable amendments to the risk management framework including risk strategy and policies.

A formal Executive Risk committee charter, duly approved by the Board is in place.

Composition and Attendance during 2012

The ECRB shall be comprised of three directors wherein the majority shall be independent and its members shall be determined by the Board. The ERCB may invite non-directors to participate in, but not vote at, the committee's meetings so that the committee may gain the benefit of their advice and expertise in Risk or other areas. Head of Risk shall function as Secretary to this committee.

The committee shall meet at least once every quarter. The constitution and quorum requirements, as per Committee Charter, are complied with meticulously. During the year, four meetings of ERCB were held to discharge the roles and responsibilities assigned to the Committee.

Dates and attendance of directors at Executive Risk committee meetings during 2012

The committee meets a minimum of four times a year

Names of the Board Members	1 April	14 July	6 Sept	9 Nov
Mr. Adel Al Mannai - Chairman of the Committee	•	•	•	•
Dr Valiollah Seif	•	•	•	•
Mr. Gholam Souri	•	•	•	•

ANNUAL GENERAL MEETING

The Annual General Meeting for the year 2011 was held on the 17th April 2012 marking a new term for the Board of Directors. The bank discloses/reports to the shareholders in the AGM the details under the public disclosure module of the rule book. Such disclosures include the amount paid to the Board of Directors and the executive management, which are included in the Annual financial statements.

Besides the above, conflict of interest matters involving the directors, fees paid to the external auditors, performance evaluation of directors carried out annually through a self-appraisal system adopted by the bank are also disclosed in the AGM.

COMMUNICATION STRATEGY

The bank has an open policy on communication with its stakeholders. The bank has an approved "Disclosure policy" which is consistent with Basel II requirements and with the requirements of the CBB rule book. The Board will ensure that the Annual General meeting (AGM) is conducted in an efficient manner and serves as a crucial mechanism in active shareholder communications. The bank is at all times mindful and conscious of its regulatory and statutory obligations regarding dissemination of information to its stakeholders. The bank requires its statutory auditors to attend the annual shareholders meeting and be available to answer shareholder's questions concerning the conduct & conclusion of the audit.

The bank provides information on all events that merit announcement, either on its website i.e. www.futurebank.com.bh or through newspapers and other channels. The bank's four year financials are posted on the website through the annual reports. The bank internally communicates with its staff on general matters and share information on general interest and concern.

REMUNERATION POLICY

The remuneration policy of the bank enumerates the framework which provides for a competitive level of compensation to attract and retain talented personnel in the senior management. The level of compensation is commensurate with the relative seniority, experience and the responsibilities. The bank's reward policy is performance based and goal oriented which is based on a performance based appraisal system across the organization.

MAJOR SHAREHOLDERS, VOTING RIGHTS & DIRECTORS' INTERESTS

Major Shareholders (5% and above)

Name	Nationality	No. of Shares
Ahli United Bank through its Trustee arrangements with Dana Trust	Bahraini	27,700,000
Bank Saderat Iran	Iranian	27,700,000
Bank Melli Iran	Iranian	27,700,000

Distribution schedule of each class of equity security, setting out the number of holders and percentage in the following categories:

Categories	No. of Shares	No. of Shareholders	% of Outstanding Shares
Less than 1%	------	------	------
1% up to less than 5%	------	------	------
5% up to less than 10%	------	------	------
10% up to less than 20%	------	------	------
20% up to less than 50%	83,100,000	3	100
50% and above	------	------	------
Total	**83,100,000**	**3**	**100**

Class of Equity

Class Type	No. of Holders	Voting Rights
Ordinary shares 83,100,000	3	83,100,000

Directors' Interest and details of shareholding by Directors and their related parties:
None of the Directors or their related parties had any shareholding in the Bank as at 31 December, 2012

CEO'S STATEMENT & MANAGEMENT REVIEW

Having weathered a host of challenges this year, Futurebank has emerged as a resilient challenger of adversity and embraces this role with a firm resolve towards its future course of action. Our endurance and solid intent is rooted in duty and integrity, virtues which drive us to deliver on our promises and achieve steadfast results.

Future bank has delivered a steady and consistent performance during 2012 in a difficult economic environment.

I am pleased to announce that Futurebank ended the year 2012 with a Net Profit BD 7.9 million. Despite a marginal decline of 6% when compared with the Bank's Net Profit achievement of BD 8.4 million in the previous year, this result served as direct reflection of the Bank's adopted strategy of operational caution and conservatism. This was mainly attributed to the complete write off of the balance amount of Goodwill and the increase in levels of provisioning on the loan portfolio during the current year in order to effectively strengthen Futurebank's financial structure and its core business assets. Overall, the year 2012 witnessed the Bank's operations being challenged by a mix of highly volatile market conditions. With Bahrain's economy and businesses registering only a sluggish improvement, regional and international capital markets experiencing unprecedented fluctuations, Futurebank worked diligently throughout the year to protect its interests and redirected numerous priorities in order to achieve its broader strategic mission.

OPERATING ENVIRONMENT

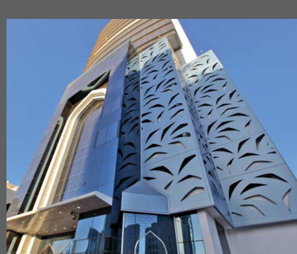
As progress towards a genuine recovery was limited 2012 only proved to be a year of consolidation for Bahrain's economy. The prevalent situation along with certain international pressures impacted the Bank's operational activity especially during the first quarter of the year resulting in loss of few high value customer deposits. Our strong liquidity position however enabled us not only to endure this fall out but to regain the customer confidence in no time resulting in a marginal increase (year on year basis) of overall customer deposits in the current fiscal year. Despite being tested to its limits, the bank withstood on all fronts and is well on its way to charting a stable course.

The escalating impact of the sanctions placed on Iran by the Western Governments (US and EU), continued to hinder the Bank's operations, having previously deterred a host of local and international businesses and their activities. The disconnection of the Bank's Swift code registry, and the diminishing asset values rendered by currency depreciation pushed back progress on Futurebank's Iranian Riyal and Trade Finance businesses.

Responding to these obstacles with great determination, and in keeping with its revised strategy, Futurebank curtailed its geographic and segment related expansion plans, shifting its focus throughout the year towards protecting the quality and viability of its asset base. In addition, the Bank's longer term growth and profitability framework was also taken up as a core priority.

As a testament to its unwavering determination and endurance, Futurebank overcame numerous challenges during the year 2012, to post a stable Balance Sheet, which registered a marginal increase of 2.6% from the previous year's position of BD 532.3 million to BD 546.4 million in 2012. This increase was largely attributed to the rise in the Investments portfolio by BD 17.6 million and the Interbank portfolio which increased by BD 27.4 million, compensating for a nearly similar drop in the Loans & Advances portfolio necessitated towards the Bank's phased reduction of its non Bahrain exposure.

Several key initiatives were successfully realized during the course of the year, beginning with the automation and improvement of Futurebank's customer services platform. A new state-of -art ATM with direct cash / currency deposit facility was installed and made operational at Futurebank's main branch.



Adhering to global financial services advancements and best practices, the Bank also followed through with the implementation of IBAN, now a necessity for all inter-bank fund transfers. A highly effective BCTS (Bank Cheque Truncation System) was also successfully operationalized during this year as required by the Central Bank of Bahrain guidelines. Both developments are envisioned to facilitate greater ease and higher levels of services to Futurebank's customers.

A strengthened and persistent focus on improving the quality of Futurebank's asset portfolio in 2012 resulted in enhanced recoveries made on the Non-Performing Assets (NPA), to the extent of BD 6.6 million. This achievement is largely credited to the efforts of the Special Assets Management team. This drive brought the Bank's actual Non Performing Assets figure down from BD 30.7 million to BD 25.5 million, as on December, 2012 Provision coverage ratio improved from 54 % last year to 92.7 % during 2012. Consequently the Bank's Net NPA ratio improved from 10 % last year to 1.7 %, as of December 2012.

CORPORATE, COMMERCIAL & RETAIL BANKING

Futurebank aims to provide a comprehensive range of client-centric banking solutions, services and products, designed to satisfy the diverse needs of both large and medium sized corporate clients and currently include working capital, trade finance and term loan products and facilities. The Bank's offerings are also primed to facilitate the more discerning needs of high net worth Individuals in Bahrain.

The Bank's corporate banking activities focus on institutional banking in Bahrain, as well as across the Gulf region. These range from the origination of syndication deals for large corporate organizations, small & medium enterprises, banks and financial institutions to participation in syndication deals arranged by other reputed banks. To enhance the quality of decision making and to strengthen its credit business process as also to have an optimum usage of our capital, the bank follows the RAROC model for pricing which is aimed towards effectively infusing a proper risk reward system into our relationship banking.

Despite the current market condition, Futurebank extended support to its prime customers to help them withstand the financial crisis. In keeping with the prudent credit policies, gradual increments in the facilities were offered to credit worthy customers. The bank continues to focus on the small and medium sized enterprises to grow and seek quality business in the coming years.

Also the strategy of enhancing its Retail Banking presence and base in the Kingdom of Bahrain has resulted in an increase in retail loans disbursement during the year, despite a drop in the Bank's overall loans portfolio during 2012. Futurebank continued to extend a wide spectrum of retail banking products centered on mortgage finance, personal loans and auto financing. In the years to come, Futurebank will remain focused on expanding its bouquet of product offerings, cross selling, and strengthening the effectiveness of its customer services platform, to gain a respectable share of the local retail banking scene.

INFORMATION TECHNOLOGY

Technology was leveraged to enhance service levels and make transactions easier and more secure. New controls were built around the core banking system not only towards making it more robust but also user friendly. Online generation of reports was made possible by the IT team towards enhancing back office operations and providing efficient customer service. Thus IT remains at the forefront of Futurebank's strategy and is employed as a strategic business tool for a competitive advantage. We intend to harness our technology in an effective and cost-efficient manner, to achieve superior standards of customer service. In 2012, Futurebank's Data Replication Site received an upgrade, and now operates as a hot DR (Disaster Recovery) site, rendering comprehensive and real time duplication of the Bank's core primary IT operations.

RISK MANAGEMENT

In order to align ourselves with the changing business environment, the Bank's organization structure was changed with the formation of an Executive Risk Committee of the Board. The primary objective of setting up a separate risk committee at the highest level is to ensure Board oversight /review of the risk management framework, risk strategy and the risk appetite of the Bank. During 2012, Futurebank continued to upgrade its risk mitigation policies, beginning with the creation of higher provisioning levels on its non-performing portfolio, notwithstanding the collateral held by it. Thus the Bank significantly increased its provision requirements during the year towards a healthier and a stronger financial structure.

This degree of greater stringency comes in the wake of unprecedented levels of volatility in regional and international capital markets and the resultant depressed economic outlook which prevailed in much of the region. Bahrain in particular also witnessed a decline in business activity for much of the period under review.

In light of these circumstances, Futurebank initiated a comprehensive Risk Awareness Program, which involved questionnaires, staff training and action plan to determine the current levels of understanding and then to rectify any shortcomings, all undertaken towards improving the risk culture. An internal Training Program was also launched, focused on the concepts of "Whistle Blowing" and related code of ethics. This timely acumen was delivered to all employees and effectively enhanced their grasp on positive, modern day Corporate Governance practices. A focused campaign of enhancing provisions, witnessed the Bank raising the bar throughout the year. This push resulted in higher provisioning levels amounting to BD 8.3 million, and a write back of BD 1.9 million. Thus a net overall provision of BD 6.4 million was taken to the statement of comprehensive income. This figure included the collective impairment provisions made by the Bank to the extent of BD 4.7 million.

HUMAN RESOURCES

Futurebank's business strategy continues to mandate major organizational changes, aimed at revamping its banking operations and building a world class banking institution. This ongoing requirement calls upon the Bank's HR department to consistently lead and contribute to the infusion of higher levels of employee knowledge, skills and professional conduct. In 2012, the Bank's HR function successfully developed and implemented a highly robust payroll software platform. This tool will effectively streamline a variety of processes, including employee compensations.

During the year, the HR undertook a number of initiatives to increase the efficiency and effectiveness of the bank's training system which include conducting training sessions on Systems and Procedures, Anti-Money Laundering, Know Your Customers, Core Banking solution, Whistle Blowing, Code of Conduct, Conflict of Interest procedures etc. This will be continued on an ongoing basis with our focus on converting the bank into a learning organization.

FUTURE OUTLOOK

Looking ahead, Futurebank will continue to generate value for its customers and shareholders, while striving to deliver to the evolving needs of its stakeholders in Bahrain.

As the economic and business environment stabilizes we remain confident in the Bank's continued ability to deliver strong and steady growth in the years ahead. We are optimistic about the opportunities that are available in Bahrain and in the Middle East wherein reforms are underway. All necessary revisions to our evolving business strategy continue to be analyzed and reassessed, with enhancements being implemented throughout the 2012- 2014 period. We remain committed to ensuring that the Bank's banking products and services will continue to gain recognition and acceptance within the Bahraini market.

Having weathered a host of challenges this year, Futurebank has emerged as a resilient challenger of adversity and embraces this role with a firm resolve towards its future course of action. Our endurance and solid intent is rooted in duty and integrity, virtues which drive us to deliver on our promises and achieve steadfast results.

I take this opportunity to thank everyone who comprises Futurebank's professional team, our valued clients and our esteemed shareholders, for their unrelenting support during these most testing of times. Together we have succeeded to maintain Futurebank as a source of enduring pride and a lasting symbol of prosperity. I also extend my fullest gratitude to the gracious authorities in Bahrain for their thorough guidance and unwavering support.

Endurance is not just the ability to bear a hard thing, but to turn it into glory.

- William Barclay

GROUP MANAGEMENT

MR. GHOLAM SOURI
Chief Executive Officer & Managing Director

MBA in Banking from Iranian Banking Institution. Over 27 years of international banking experience holding various senior managerial positions in Bank Saderat Iran as: General Manager of International Division & Regional Office Dubai; General Manager, Bank Saderat Iran Branches. Joined the Bank in 2004. Appointed as CEO w.e.f. July 2010.

MR. ABBAS FATEMI
Deputy Chief Executive Officer & Deputy Managing Director Finance, IT & Operations

BA in English Language, Tehran University. Over 43 years of banking experience in Bank Melli Iran. Assistant Director of Bank Melli Iran, International Division, Tehran; Manager of Bank Melli Iran, Dubai Main Branch for 7 years. Joined the Bank in 2004.

MR. VISTASP BURJOR SOPARIWALLA
Head of Finance

B.Com, Chartered Accountant. Over 23 years of banking experience spanning Financial Control, Operations & Treasury services holding successively senior managerial positions. Prior work experience primarily with BNP PARIBAS, Bank of Bahrain & Kuwait and Bahraini Saudi Bank. Joined the Bank in 2006.

MR. PRIYAN MELEDATH
Head of Information Technology and Systems

Over 16 years of enriching experience in Banking - IT Sector, qualified in IT and Accounting. Prior to joining Future bank, was the Regional Head of Information Technology Department of Bank Melli Iran, Dubai, UAE. Joined Future bank in January 2007.

MR. K. SURESH KUMAR
Head of Corporate Banking

CAIIB from Indian Institute of Bankers, Mumbai. Over 27 years of banking experience mainly in Corporate Credit-Marketing, Appraisal, Risk & Remedial Management at United Bank of India, Oman International Bank, IDBI Bank and as Senior Vice President at Mizuho Corporate Bank. Joined the Bank in 2005.

MR. MOHAN SHENOY YARMAL
Head of Treasury & Investment

Master's Degree in Commerce (M.Com) from the University of Mysore, India. Over 35 years of wholesale banking experience holding various senior positions in Bank Saderat Iran, OBU, Bahrain. Joined the bank since inception.

MR. MILIND VINAYAK KAMAT
Head of Risk

B.Com, Chartered Accountant. Over 26 years of banking experience holding various positions in various banks; Union Bank of India, Bank of Bahrain & Kuwait, Mumbai and as Vice President at Calyon Bank. Joined the Bank in 2005.

MR. JALIL AL-SHEHABI
Head of Compliance & MLRO

Advanced Banking Diploma. Over 31 years of banking experience holding various senior managerial positions mainly Banking Operations, Internal control, Internal Audit and compliance / MLRO at various Banks in Bahrain. Joined the Bank in March 2007.

MR. U.P.RAVIPRAKASH
Head of internal Audit

B.Sc. in Maths from Chennai University, India, CAIIB from Indian Institute of Bankers. Over 29 years of banking experience mainly in Internal Audit, Corporate Banking/SME Credit and Retail Banking with State Bank of India. Held senior managerial positions in State Bank of India and worked as Assistant General Manager. Joined the bank in November 2008

MR. RAMGOPAL SUNDRAM
Head of Operations Department

Bachelor's Degree in Commerce. Over 28 Years of banking experience mainly in banking operations, trade finance and retail banking with Syndicate Bank, ING Bank, Centurion Bank and HDFC Bank Limited as Assistant Vice President. Joined the Bank in January 2010.

MR. ALI GHULOOM HASSAN MALALLA
Head of Credit Department

Bachelor's Degree in Accounting and MBA holder in Finance. Over 10 Years of banking experience in both conventional and Islamic banks within the Kingdom of Bahrain. Joined the Bank in December 2010.

MRS. MAHA MURAD ALI
Head of HR & Administration

Diploma in HRP from the Chartered Institute of Personnel Development (CIPD).Advanced Diploma in Insurance, Diploma in Computer Engineering. Over 13 years of work experience, of which 7 years of experience was in the HR & Administration field and holding various managerial positions. Joined Future Bank in August 2005.

Mr. MEHDI HABIBOLAH RASHIDI
Head of Tehran Representative Office

Master of Business Administration from Oklahoma State University; Oklahoma, USA. Over 32 years of international banking experience holding various managerial positions at Central Bank of Iran till May 2004. Foreign exchange expert and Director of Treasury Department in ECO Trade and Development Bank, Turkey. Joined the Bank in March 2010.

GROUP MANAGEMENT COMMITTEES

TERMS OF REFERENCE OF THE VARIOUS MANAGEMENT COMMITTEES

All the below mentioned meetings are chaired by the CEO and the Managing Director. All the meetings are held on a monthly basis, except for the Senior Management Committee meeting which is held on a fortnightly basis and the Senior Credit Committee meeting which is held on a weekly basis.

Senior Management Committee

Reviews and monitors progress on strategic initiatives, including regulatory, financial, operational and compliance issues.

Asset Liability Committee

Sets guidelines for the overall management of the liquidity risk and interest rate risk; determines the funding strategy of the Bank in order to maximise net interest income at minimal risk.

Senior Credit Committee

Implements the Credit Policy as authorised by the Board (inclusive of approval of the credit-related proposals) renewal of facilities, business services and reviews new credit-related products.

Risk Management Committee

Oversees the implementation, interpretation and follow-up of the risk policy and establishes guidelines for all lending activities to promote a sound risk culture within the Bank.

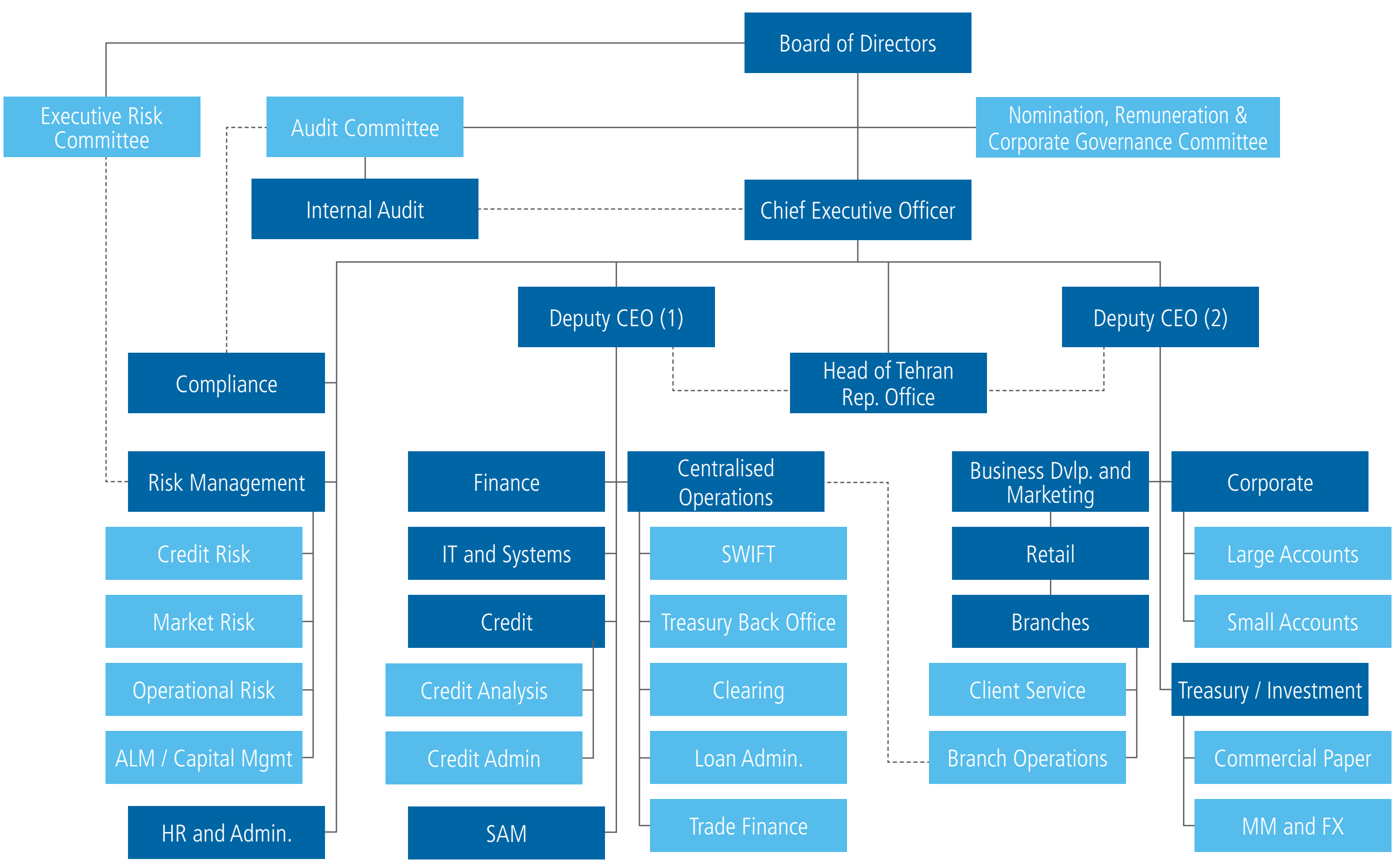
Information Technology Committee

Reviews and manages the overall IT strategy, with a focus on the projects under implementation and provides a forum for user-IT interface.

Disclosure Committee

Enables the Bank to adhere to the disclosure requirements and provides guidelines to be followed for the relevant disclosures required as per regulation.

ORGANISATION CHART



FINANCIAL REVIEW

INCOME STATEMENT

The Bank achieved a net profit of BD 7.9 million, 6.0 percent lower than its net profit achievement of BD 8.4 million in the previous year. This lower net profit was attributable mainly to the complete write off of the balance amount of Goodwill and the increase in levels of provisioning done on its loan portfolio during the current year. Against this back drop Futurebank's performance in key areas sustained quite commendably, with its fundamentals remaining resiliently sound.

The return on average assets was almost on par with the previous year at 1.5 percent against 1.6 percent in the previous year 2011.

In spite of the challenging operating environment witnessed throughout the year 2012, the Bank's operating income remained steady and grew marginally by 1.4 percent from BD 20.2 million to BD 20.4 million in the current year. This indicates a firm resilience in the operating income of the Bank and its ability to sustain itself. Overall, this financial performance reflected upon the Bank's continued resilience across its principal business activities and its ability to retain substantial liquidity, with cash and placements with the Central Bank of Bahrain (including investments in sukuks & financial instruments) aggregating to BD 49.7 million as at the year-end 2012.

The Bank's net interest income also remained steady at BD 20.0 million as compared to BD 20.9 million in the previous year showing a reduction by 4.0 percent over the previous year. The recent regulatory changes taking shape across global financial markets served well to inspire optimism, encouraging individual markets to overcome the ongoing financial crisis.

Taking a closer look at the markets which Futurebank operates in, margins remained under pressure, as the Bank's interest earnings were principally sustained on the strength of the interbank portfolio and the loan portfolio with increased focus on the local market and a selection of large corporate clients in Iran, seeking to finance major Iranian projects. This portfolio, along with the prudent utilization of liquidity positions and the deployment of net available funds, resulted in a net interest margin of 3.7 percent on average assets, as compared to 4.1 percent in the previous year. This sustainability in earnings was principally due to the increased focus on the local market to finance their working capital requirements and their start-up projects within the Kingdom.

The bank was also significantly successful in its efforts of reducing its exposures to the IRR(Iranian Rial) currency during the year. Thus the net foreign exchange loss reported by the bank was a much lower amount of BD 0.3 million only, as against a net loss of BD 1.4 million in foreign exchange in the previous year. The ongoing financial crisis in the Euro zone deepens the impact of such losses.

The fee and commission income together with other operating income was slightly higher at BD 0.8 million as compared to the previous year of BD 0.7 million, i.e. an 11 percent rise in 2012, on a year-on-year basis. This was mainly derived from commission income, earned on the trade finance portfolio, together with a few fresh financing deals carried out by the Bank on some note-worthy corporate deals finalized within Bahrain with major clients.

Although the Bank's operating expenses increased from BD 4.0 million to BD 4.2 million, for a comparative 5.9 percent increase over the previous year, they were mainly related to the rising costs of other operating expenditure due to inflationary increases in the maintenance costs. Notably the bank was able to control its staff costs during the period which remained at BD 2.3 million which was almost at the same level as that of previous year. Despite the increase, the cost to income ratio stood at only 20.7%, as compared to 19.8% in 2011 - notably one of the lowest figures in the industry, and a true testament to the Bank's operational efficiency and ability to contain revenue expenditures.

Futurebank follows the International Accounting Standard (IAS) 39 for the provisioning requirements of its non-performing portfolio. Provisions for individually significant credit exposures are determined by discounting expected future cash flows.

Following a more prudent approach during the year, the Bank now follows a policy of maintaining a minimum of 20 percent provision on all non-performing exposures over BD 100 thousand classified as sub-standard and a minimum of 50 percent provision on all non-performing exposures over BD 100 thousand classified as doubtful, besides making a 100 percent provision on all non-performing exposures classified as bad accounts; irrespective of the collateral. Thus the Bank significantly increased its provision requirements during the year which has led towards a healthier and a stronger balance sheet.

Increase in levels of provisioning was done on the loan portfolio to ensure prudent mitigation of identified risks given the continuing uncertainty in the operating environment which is further affected by regional credit events. Consequently the Bank continued to provide for additional provisions to the extent of BD 8.3 million in the current year, as compared to BD 9.4 million in the previous year. Simultaneously, it has also pursued an aggressive approach on recoveries resulting in provision write backs of BD 1.9 million (previous year BD 2.7 million). Thus in addition to the specific provision the Bank now holds collective impairment provision to the extent of BD 7.4 million, up from BD 2.7 million in the previous year. Thus the provision coverage ratio increased substantially as at the year-end 2012 and stood at 92.7 percent when compared to 54 percent recorded in the previous year. This is in addition to the fact that the Bank holds significant assets as collateral with regard to many of these facilities. Also there was significant improvement in the net non performing ratio which fell from 10 percent in the previous year to 1.7 percent only as at the end of December 2012.

Keeping in line with the prudent accounting principles and in line with the International Financial Reporting Standards requirement, the Bank recognized the remaining goodwill impairment to the extent of BD 1.9 million (2011: BD 1.0 million) during the current year of 2012. With this write-off, the entire amount of Goodwill has been taken care of by the bank and there is no further outstanding balance of goodwill left.

BALANCE SHEET

The Bank's balance sheet remained stable, registering a marginal growth of 2.6 percent from BD 532.3 million shown in the previous year to BD 546.4 million.

This increase was mainly due to the increase in the Interbank portfolio which increased by BD 27.4 million as compared to the previous year up by 9.1 percent when compared to the previous year. Throughout the year, Futurebank adopted a flexible approach to its asset mix which was instrumental in yielding better returns. The Bank's asset allocation model had earlier focused on the highly lucrative Bills discounted portfolio and the loans & advances portfolio. However a gradual reduction was witnessed in the portfolio during the current year due to decline in the international trade in the markets in which the bank operates. Consequently the share of Loans & Advances now comprised of 20.6 percent of the balance sheet, as compared to 26.5 percent in the previous year.

The main reasons for the drop in the Loans & Advances portfolio was the combined effects of the scheduled repayment of the Iranian assets, the excellent recovery efforts done by the Special Asset Management team within the bank who were instrumental in recovering BD 6.6 million of the non-performing portfolio and also due to the continued higher provisioning made by the Bank on its non performing category. Thus the gross loans of the Bank dropped from BD 157.8 million to BD 136.4 million, i.e. by 13.6 percent as compared to previous year, and the Bank's net loans and advances reduced by 20.2 percent from BD 141.3 million to BD 112.8 million.

Whilst there was a decline in its primary market in Iran, during the year the Bank continued to focus on booking loans within the Bahraini and GCC markets. This strategy will continue to be utilized towards achieving further growth in loans and advances.

To counter the fall in the Bills Discounted portfolio the bank increased its share in the inter-bank & the investment portfolios. The inter-bank portfolio now comprises of almost 59.6 percent of the Bank's total assets, compared to 33.8 percent in the previous year.

In its efforts towards reducing its exposures to the IRR currency, the Bank made a conscious decision of liquidating the high yielding Iranian Government Bonds designated in IRR, during the year. The Bank now holds a good mix of Corporate bonds, Treasury bills & sukuks under its investments portfolio classified under the "Available for Sale" (AFS) category as per IAS 39, to the extent of BD 53.7 million as compared to BD 36.5 million in the previous year. The Bank does not foresee any risks associated with these securities.

Inter-bank deposits continue to form major source of funding for the Bank towards its Inter-bank portfolio. The ratio of Inter-bank deposits to total liabilities and the shareholders fund stood at 53.7 percent, as compared to 54.5 percent in the previous year. For the year ended 2012, the loans to customer deposit ratio stood at 79.4 percent, in line with the Central Bank of Bahrain (CBB) requirement, compared to 100.4 percent in the previous year.

Customer Deposits showed stability and grew marginally by BD 1.3 million or 0.9 percent to BD 142.1 million as at year end 2012 from BD 140.8 million at the end of 2011 with all segments of business showing growth with emphasis on generating core low cost deposits.

Due to the lower net profit earned by the Bank during the year and the continuous increase in its Shareholder's Equity, Futurebank, saw its Return on Average Equity ratio rendering a marginal decline as compared to the previous year. Consequently, the Return on Average Equity ratio stood at 7.9 percent on a higher capital base for the full year, as compared to 9.1 percent in the previous year 2011.

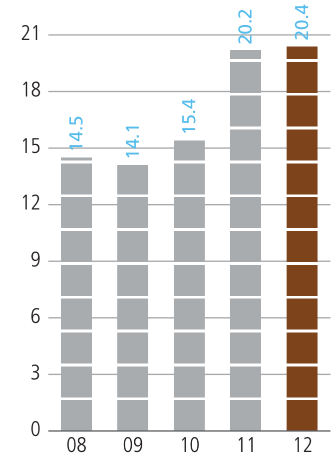
Equity before appropriation increased to BD 104.5 million at the end of 2012, up from BD 96.6 million at the end of the previous year. Equity to total assets accounted for 19.1 percent of the total assets of the Bank, as compared to 18.1 percent in the previous year.

Taking stock of the prevailing conditions, Futurebank will strengthen its focus towards sectoral funding and has been proactively ensuring the maintenance of strong liquidity and capital positions to grow and expand both its business, as well as its customer base. Measures to ensure stringent adherence to the capital requirements regulations are in place, and compliance with the capital adequacy standards towards the new Basel-III requirement, along with its Pillar III disclosures are also are being enforced.

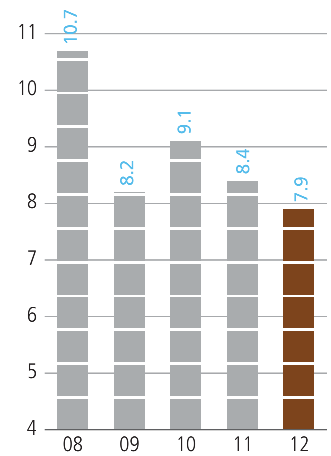
The Bank's capital adequacy ratio stood at a much higher figure of 21.5 percent during year end 2012, as compared to 20.2 percent in the previous year. This ratio exceeds the minimum requirement of 12 percent prescribed by the CBB for banks operating within the Kingdom of Bahrain. The above ratio is based on the guidelines issued by the CBB, in line with the Basel committee standard for measuring risk weighted assets.

FINANCIAL REVIEW

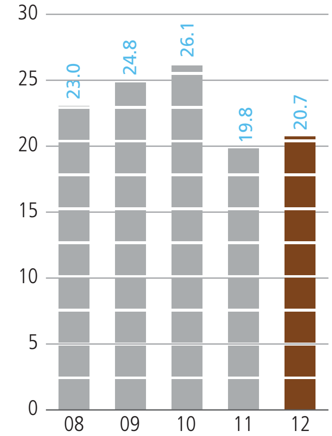
Total Income (BD millions)



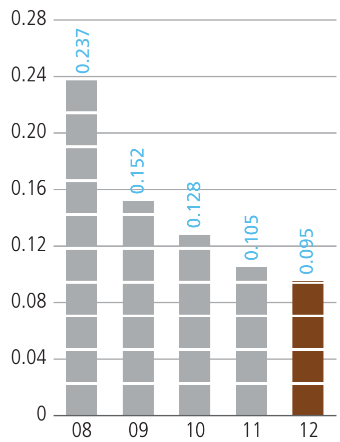
Net Profit (BD millions)



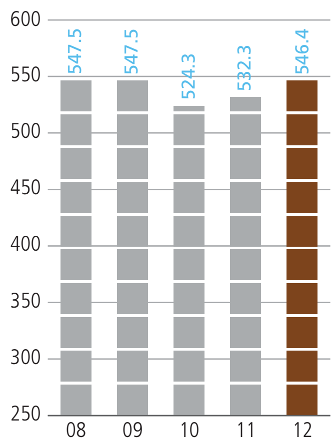
Cost / Income Ratio (Per cent)



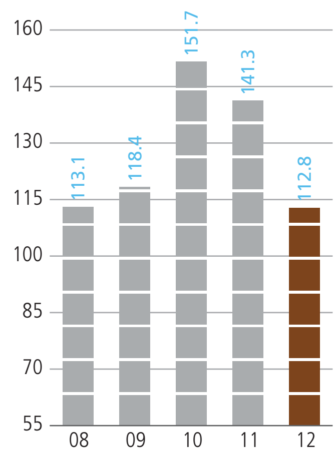
Earning per Share (BD)



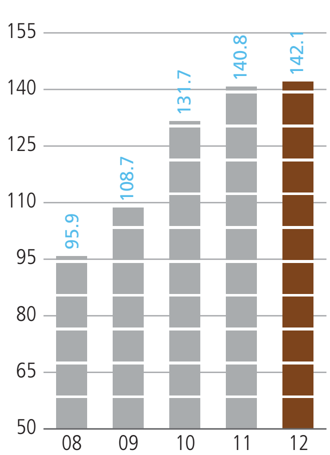
Total Assets (BD millions)



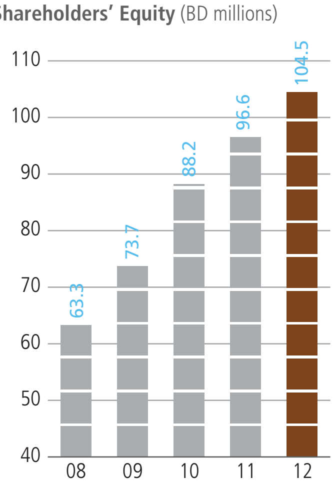
Loans and Advances (BD millions)



Customer Deposits (BD millions)



Shareholders' Equity (BD millions)



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

Report on the financial statements

We have audited the accompanying financial statements of Future Bank B.S.C. (c), ("the Bank"), which comprise the statement of financial position as at 31 December 2012, and the statements of comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as the Board of Directors determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2012, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other Regulatory Requirements

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

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

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

We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and CBB directives, or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2012 that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests.

Ernst & Young

28 February 2013

Manama, Kingdom of Bahrain

FINANCIAL STATEMENT

STATEMENT OF COMPREHENSIVE INCOME Year ended 31 December 2012

	Note	2012 BD'000	2011 BD'000
Interest and similar income	5	31,183	32,309
Interest expense and similar charges	6	11,110	11,408
Net interest income		20,073	20,901
Net fees and commissions income	7	691	617
Net losses from foreign currencies		(337)	(1,395)
Write off of property and equipment		(15)	-
Other operating income		66	65
		405	(713)
OPERATING INCOME		20,478	20,188
Provision for loan losses - net	11	6,419	6,722
Impairment of goodwill	15	1,892	1,031
NET OPERATING INCOME		12,167	12,435
Staff expenses		2,293	2,224
Depreciation		396	363
Other operating expenses		1,546	1,414
OPERATING EXPENSES		4,235	4,001
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		7,932	8,434

(Chairman)

(CEO and Managing Director)

The attached notes 1 to 32 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION At 31 December 2012

	Note	2012 BD'000	2011 BD'000
ASSETS			
Cash and balances with central banks	9	36,033	39,772
Due from banks	10	330,193	302,785
Loans and advances to customers	11	112,762	141,267
Non-trading investments	12	54,070	36,511
Other assets	13	3,536	2,777
Property and equipment	14	9,785	7,295
Goodwill	15	-	1,892
TOTAL ASSETS		546,379	532,299
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks		233,775	231,643
Customers' deposits	16	142,063	140,769
Medium term borrowings	17	59,875	58,613
Other liabilities	18	6,122	4,662
Total liabilities		441,835	435,687
EQUITY			
Share capital	19	83,100	83,100
Statutory reserve	20	6,639	5,846
Retained earnings		14,805	7,666
Total equity		104,544	96,612
TOTAL LIABILITIES AND EQUITY		546,379	532,299

(Chairman)

(CEO and Managing Director)

The attached notes 1 to 32 form part of these financial statements.

STATEMENT OF CASH FLOWS Year ended 31 December 2012

	Note	2012 BD'000	2011 BD'000
OPERATING ACTIVITIES			
Profit for the year		7,932	8,434
Adjustments for non-cash items:			
Depreciation		396	363
Provision for loan losses - net	11	6,419	6,722
Write off of property and equipment		15	-
Impairment of goodwill	15	1,892	1,031
Operating profit before changes in operating assets and liabilities		16,654	16,550
Changes in operating assets and liabilities:			
Mandatory reserve deposit with Central Bank of Bahrain		15	(851)
Due from banks		38,899	18,139
Loans and advances to customers		22,086	3,735
Other assets		(759)	2,927
Due to banks		2,132	(7,851)
Customers' deposits		1,294	9,116
Other liabilities		1,460	(334)
Net cash from operating activities		81,781	41,431
INVESTING ACTIVITIES			
Purchase of non-trading investments		(75,697)	(27,363)
Proceeds from maturity of non-trading investments		58,138	41,176
Purchase of property and equipment		(2,901)	(2,689)
Net cash (used in) from investing activities		(20,460)	11,124
FINANCING ACTIVITIES			
Proceeds from rights issue	19	-	8,100
Medium term borrowings	17	1,262	(1,366)
Dividend paid	21	-	(8,100)
Net cash used in from financing activities		1,262	(1,366)
INCREASE IN CASH AND CASH EQUIVALENTS		62,583	51,189
Cash and cash equivalents at beginning of the year		249,752	198,563
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	22	312,335	249,752

The attached notes 1 to 32 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY Year ended 31 December 2012

	Share capital BD'000	Statutory reserve BD'000	Retained earnings BD'000	Total BD'000
Balance at 31 December 2010	75,000	5,003	8,175	88,178
Proceeds from rights issue (note 19)	8,100	-	-	8,100
Dividend paid during the year for 2010 (note 21)	-	-	(8,100)	(8,100)
Total comprehensive income for the year	-	-	8,434	8,434
Transfer to statutory reserve (note 20)	-	843	(843)	-
Balance at 31 December 2011	83,100	5,846	7,666	96,612
Total comprehensive income for the year	-	-	7,932	7,932
Transfer to statutory reserve (note 20)	-	793	(793)	-
Balance at 31 December 2012	83,100	6,639	14,805	104,544

The attached notes 1 to 32 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2012

1 ACTIVITIES

Future Bank B.S.C. (c) ("the Bank") is a closed Bahrain Joint Stock Company incorporated on 1 July 2004 when the Bank acquired the Bahrain commercial branches of Bank Melli Iran (BMI) and Bank Saderat Iran (BSI) and the offshore banking unit of BSI. The Bank operates in the Kingdom of Bahrain under a retail banking license issued by the Central Bank of Bahrain and is engaged in commercial banking activities through its three branches in the Kingdom of Bahrain. The address of the Bank's registered office is P O Box 785, Manama, Kingdom of Bahrain.

The financial statements for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the directors on 9 February 2013.

2 BASIS OF PREPARATION

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and in conformity with the Bahrain Commercial Companies Law and the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 1 and applicable provisions of Volume 6) and the relevant CBB directives.

Accounting convention

The financial statements are prepared under the historical cost convention. The financial statements have been presented in Bahraini Dinars (BD) being the functional currency of the Bank and all values are rounded to the nearest thousand BD (BD '000) except when otherwise indicated.

New standards and amendments issued but not yet effective

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

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time would be presented separately from items that will never be reclassified (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets). The amendment affects presentation only and has no impact on the Bank's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 19 Employee Benefits (Revised)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amended standard will impact the net benefit expense as the expected return on plan assets will be calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Bank's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

2 BASIS OF PREPARATION (continued)

New standards and amendments issued but not yet effective (continued)

IFRS 9 *Financial Instruments*

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39.

It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the statement of income, unless this creates an accounting mismatch.

It also includes those paragraphs of IAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of IFRIC 9 Reassessment of Embedded Derivatives.

IFRS 13 Fair value measurement

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs. IFRS 13 does not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013 and earlier application is permitted. The Bank is currently assessing the full impact of this new standard.

New and amended standards and interpretations effective as of 1 January 2012

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2012:

- IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets;
- IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters IFRS 7 Financial Instruments: Disclosures (Amendments); and
- IFRS 7 Financial Instruments : Disclosures – Enhanced Derecognition Disclosure Requirements.

The adoption of the above amendments did not have any material impact on the Bank's financial position, performance or disclosures.

Improvements to IFRSs

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

- IFRS 1 First-time Adoption of International Financial Reporting Standards;
- IAS 1 Presentation of Financial Statements;
- IAS 16 Property Plant and Equipment;
- IAS 32 Financial Instruments, Presentation; and
- IAS 34 Interim Financial Reporting.

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

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2012

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Bank's accounting policies, management has used its judgement and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates are as follows:

Going concern

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

Impairment losses on loans and advances

The Bank reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the statement of income. In particular, judgement by the Bank's management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in possible future changes to such allowance.

Collective impairment provisions on loans and advances

In addition to specific allowances against individually significant loans and advances, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal rating of the loan or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence as well as identified structural weaknesses or deterioration in cash flows.

Impairment of goodwill

The annual impairment testing of goodwill involves significant judgements and assumptions relating to the Bank's future operations and the economic environment in which it operates.

4 SIGNIFICANT ACCOUNTING POLICIES

Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the statement of financial position date. All differences are taken to the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Financial instruments

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are initially measured at their fair value plus, any directly attributable incremental costs of acquisition or issue.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2012

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on trade date, i.e. the date that the Bank commits to purchase or sell the asset.

(ii) Initial recognition and subsequent measurement

a) Available-for-sale investments

Available-for-sale investments are financial assets that are held for an indefinite period of time, but may be sold in response to need for liquidity or that are not classified as loans and receivables, held to maturity or at fair value through statement of comprehensive income.

Available-for-sale investments are initially recognised at fair value including any transaction costs. After initial recognition, available-for-sale investments are remeasured at fair value. For investments in equity instruments, where a reasonable estimate of the fair value cannot be determined, the investment is carried at cost less impairment provision. Unless unrealized gains and losses on remeasurement to fair value are part of an effective hedging relationship, they are reported as a separate component of equity until the investment is sold, settled or otherwise disposed of, or the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the statement of comprehensive income for the period.

b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities and which the Bank has the intention and ability to hold to maturity. Held-to-maturity financial investments are initially recorded at fair value including transaction cost and are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'Interest and similar income' in the statement of comprehensive income. The losses arising from impairment of such investments are recognised in the statement of comprehensive income.

c) Due from banks and loans and advances to customers

Due from banks and loans and advances are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale. This accounting policy relates to the statement of financial position captions 'Due from banks' and 'Loans and advances to customers'. These are initially measured at fair value which is the cash consideration to originate the loan. After initial measurement, these are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in 'Interest and similar income' in the statement of comprehensive income. The losses arising from impairment of such loans and advances are recognised in the statement of comprehensive income as 'Provision for loan losses - net'.

d) Derivatives

Derivatives are recorded at fair value and carried as assets when the fair value is positive and as liabilities when the fair value is negative. Changes in fair value of derivatives held for trading are included in the statement of comprehensive income.

e) Medium term borrowings

Medium term borrowings are stated at amortised cost using the effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2012

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets and financial liabilities

(i) Financial assets

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

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

(ii) Financial liabilities

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

Fair value

For investments quoted in an active market, fair value is calculated by reference to quoted bid prices. The fair value of forward exchange contracts is calculated by using the forward exchange rate at the statement of financial position date, with the resulting value discounted to present value.

Impairment of financial assets

An assessment is made at the date of each statement of financial position to determine whether there is objective evidence that a financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss is recognised for changes in its carrying amount as follows:

Impairment of financial assets held at amortised cost

A financial asset is considered impaired when there is an objective evidence of credit-related impairment as a result of one or more loss event(s) that occurred after the initial recognition of the asset and those loss events have an impact on the estimated future cash flows of the financial asset or group of financial assets and can be reliably estimated.

A specific provision for credit losses, due to impairment of a loan or any other financial asset held at amortised cost, is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the specific provision is the difference between the carrying amount and the estimated recoverable amount. The estimated recoverable amount is the present value of expected cash flows, including amounts estimated to be recoverable from guarantees and collateral, discounted based on the original effective yield basis.

In addition to a specific provision for credit losses, a provision for collective impairment is made on a portfolio basis for credit losses where there is an objective evidence that unidentified losses exist at the reporting date. These are based on any deterioration in the risk rating (i.e. downward migration of risk ratings) of the financial assets since it was originally granted. This provision is estimated based on various factors including credit ratings allocated to a borrower or Bank of borrowers, the current economic conditions, the experience the Bank has had in dealing with a borrower or Bank of borrowers and available historical default information.

The carrying amount of the asset is adjusted through the use of a provision for impairment account and the amount of the adjustment is included in the statement of comprehensive income.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets held at fair value

In the case of debt instruments classified as available-for-sale, the Bank assesses individually whether there is an objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss on debt instruments decreases upon subsequent increase in the fair value and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the issuer's credit rating), the previously recognised impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognised in the statement of comprehensive income as provision for impairment on investment.

Where a loss has been recognised directly under equity, the cumulative net loss recognised in equity is transferred to the statement of comprehensive income when the asset is considered to be impaired.

The Bank writes off its financial assets when the respective business units together with Risk Management determine that the financial assets are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/ issuer's financial position such that the borrower/issuer can no longer pay the obligations, or that proceeds from collateral will not be sufficient to pay back the entire exposure. The financial assets are, then, written off only in circumstances where effectively all possible means of recovery have been exhausted. For consumer loans, write off decisions are generally based on a product specific past due status. When a financial asset is uncollectible, it is written off against the related provision for impairment, if any, and any amounts in excess of available provision are directly charged to the statement of comprehensive income.

Once a financial asset has been written down to its estimated recoverable amount, interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

Loans whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. Restructuring policies and practices are based on indicators or criteria which indicate that payment will most likely continue. The loans continue to be subject to an individual or collective impairment assessment.

Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and then its recoverable amount is assessed as part of the cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount.

Offsetting financial instruments

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

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2012

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

(i) Interest and similar income

For all financial instruments measured at amortised cost, interest-income or expense is recorded at the effective interest rate.

(ii) Fees and commissions income

Credit origination fees are treated as an integral part of the effective interest rate of financial instruments and are recognised over their lives, except when the underlying risk is sold to a third party at which time it is recognised immediately. Other fees and commission income are recognised when earned.

(iii) Dividend income

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

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment in value.

Depreciation is calculated using the straight-line method to write down the cost of equipment to their residual values over their estimated useful life of 5 years. Land is not depreciated.

An item of equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognised.

Goodwill

Goodwill arising on acquisition is measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised, but reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash generating unit, to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised in the statement of comprehensive income.

Provisions

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

Employees' end of service benefits

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

With respect to its national employees, the Bank makes contributions to the Social Insurance Organisation scheme calculated as a percentage of the employees' salaries. The Bank's obligations are limited to these contributions, which are expensed when due.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash, balances with central banks (excluding mandatory reserve deposits) and deposits with banks with original maturities of less than ninety days.

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the statement of financial position date are dealt with as an event after the statement of financial position date.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortised premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of comprehensive income in 'Provision for loan losses - net'. The premium received is recognised in the statement of comprehensive income in 'Net fees and commissions income' on a straight line basis over the life of the guarantee.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of the new loan conditions. Once the term have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

5 INTEREST AND SIMILAR INCOME

	2012 BD'000	2011 BD'000
Loans and advances to customers	11,329	23,438
Due from banks	17,562	4,900
Non-trading investments	2,292	3,971
	31,183	32,309

6 INTEREST EXPENSE AND SIMILAR CHARGES

	2012 BD'000	2011 BD'000
Due to banks	6,100	6,252
Customers' deposits	4,180	3,939
Medium term borrowings	830	1,217
	11,110	11,408

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2012

7 NET FEES AND COMMISSIONS INCOME

	2012 BD'000	2011 BD'000
Fees and commissions income	700	632
Fees and commissions expense	(9)	(15)
	691	617

8 CLASSIFICATION OF FINANCIAL INSTRUMENTS

As at 31 December, financial instruments have been classified for the purpose of measurement under IAS 39 Financial Instruments: Recognition and Measurement as follows:

As at 31 December 2012	Available-for-sale BD'000	Held to maturity BD'000	Loans and receivables amortised cost BD'000	Total BD'000
Financial assets				
Balances with central banks	-	-	34,307	34,307
Due from banks	-	-	330,193	330,193
Loans and advances to customers	-	-	112,762	112,762
Non-trading investments	53,662	408	-	54,070
Other assets	-	-	3,444	3,444
	53,662	408	480,706	534,776
Financial liabilities				
Due to banks	-	-	233,775	233,775
Customers' deposits	-	-	142,063	142,063
Medium term borrowings	-	-	59,875	59,875
Other liabilities	-	-	6,122	6,122
	-	-	441,835	441,835

8 CLASSIFICATION OF FINANCIAL INSTRUMENTS (continued)

As at 31 December 2011	Available-for-sale BD'000	Held to maturity BD'000	Loans and receivables amortised cost BD'000	Total BD'000
Financial assets				
Balances with central banks	-	-	38,297	38,297
Due from banks	-	-	302,785	302,785
Loans and advances to customers	-	-	141,267	141,267
Non-trading investments	36,511	-	-	36,511
Other assets	-	-	2,595	2,595
	36,511	-	484,944	521,455
Financial liabilities				
Due to banks	-	-	231,643	231,643
Customers' deposits	-	-	140,769	140,769
Medium term borrowings	-	-	58,613	58,613
Other liabilities	-	-	4,662	4,662
	-	-	435,687	435,687

9 CASH AND BALANCES WITH CENTRAL BANKS

	2012 BD'000	2011 BD'000
Cash	1,726	1,475
Balances with the Central Bank of Bahrain:		
Current account	459	840
Mandatory reserve deposit	4,587	4,602
Time deposit	13,000	28,700
Current account with the Central Bank of Iran	16,261	4,155
	36,033	39,772

Mandatory reserve deposit is not available for use in the day-to-day operations of the Bank.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2012

10 DUE FROM BANKS

	2012 BD'000	2011 BD'000
Placements	325,804	179,878
Bills discounted	4,389	122,907
	330,193	302,785

Placements include a Euro blocked deposit equivalent to BD 17.53 million (31 December 2011: BD 17.16 million) with the Bank's shareholder, Bank Saderat Iran ("BSI"), Paris. This deposit is, however, secured by a deposit of an equivalent amount placed with the Bank by BSI, Tehran.

11 LOANS AND ADVANCES TO CUSTOMERS

	2012 BD'000	2011 BD'000
Retail	15,743	14,267
Corporate	120,625	143,582
	136,368	157,849
Less: Provision for loan losses	(19,366)	(12,987)
Suspended interest	(4,240)	(3,595)
	112,762	141,267

The movements in provision for credit losses were as follows:

	2012			2011		
	Retail BD'000	Corporate BD'000	Total BD'000	Retail BD'000	Corporate BD'000	Total BD'000
At 1 January	995	11,992	12,987	1,022	5,264	6,286
Charge for the year	123	8,169	8,292	161	9,277	9,438
Recoveries	(126)	(1,747)	(1,873)	(167)	(2,549)	(2,716)
Net provision	(3)	6,422	6,419	(6)	6,728	6,722
Amounts written off	(40)	-	(40)	(21)	-	(21)
At 31 December	952	18,414	19,366	995	11,992	12,987
Specific provision	952	10,987	11,939	995	9,316	10,311
Collective provision	-	7,427	7,427	-	2,676	2,676
Total provision	952	18,414	19,366	995	11,992	12,987
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	1,829	23,649	25,478	2,238	28,453	30,691

11 LOANS AND ADVANCES TO CUSTOMERS (continued)

The fair value of collateral that the Bank holds relating to loans individually determined to be impaired at 31 December 2012 amounts to BD 40.5 million (31 December 2011: BD 51.2 million). The collateral consists of cash, securities and properties. The Bank also obtains guarantee from banks and corporates. The utilisation of the above collaterals will be on a customer by customer basis and will be limited to the customer's total exposure.

12 NON-TRADING INVESTMENTS

	2012			2011		
Unquoted	Available-for-sale BD'000	Held to maturity BD'000	Total BD'000	Available-for-sale BD'000	Held to maturity BD'000	Total BD'000
Iranian Corporate bonds	23,701	408	24,109	23,201	-	23,201
Treasury bills	22,641	-	22,641	2,000	-	2,000
Sukuks	7,310	-	7,310	11,300	-	11,300
Equity	10	-	10	10	-	10
	53,662	408	54,070	36,511	-	36,511

The Iranian Corporate bonds are issued by Iranian companies and are denominated in Euro.

Treasury bills and Sukuks are issued by the Ministry of Finance of the Kingdom of Bahrain and are denominated in Bahraini Dinars.

The fair value of all non-trading investments approximates cost as all the investments are short-term in nature and are redeemable at face value.

13 OTHER ASSETS

	2012 BD'000	2011 BD'000
Interest receivable	3,385	2,310
Sundry debtors and prepayments	151	303
Other	-	164
	3,536	2,777

14 PROPERTY AND EQUIPMENT

Property and equipment includes the cost of freehold land in the Seef District in the Kingdom of Bahrain of BD 1.3 million (31 December 2011: BD 1.3 million) and Building of BD 6.99 million (31 December 2011: BD 4.1 million relating to the construction of the Bank's new head office premises). The Bank's management performed an impairment review of the land by seeking an independent professional valuation as of 31 December 2012. Based on such review no indication of impairment was observed.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2012

15 GOODWILL

The goodwill had arisen from the Bank's acquisition of the offshore banking unit of BSI in Bahrain in 2004 (refer note 1). The Bank's management has allocated the goodwill entirely to a single cash generating unit (CGU) - International Trade Finance and Treasury Unit.

The recoverable amount of the CGU was determined based on value in use calculation using cash flow projections from financial budgets approved by the Bank's senior management covering a five year period. Management determined budgeted spreads based on the CGU's past performance and its expectation of market development. The discount rates used is pre-tax and reflect specific risks relating to the segment in which the CGU operates. The key assumptions used in the value in use calculation included a perpetuity growth rate of 0.5% (2011: 0.5%) and discount factor of 22.8% (2011: 22.8%).

As a result of expectation of possible decrease in the activities of the CGU under the current political environment coupled with increasing inflation risk expectations of the segment in which the CGU operates, management has assessed the goodwill to be fully impaired. Accordingly, an impairment loss of BD 1.89 million (2011: BD 1.03 million) has been recognised during the year resulting in the carrying value of goodwill to be nil as of 31 December 2012.

16 CUSTOMERS' DEPOSITS

	2012 BD'000	2011 BD'000
Current and call accounts	14,404	16,680
Savings accounts	7,576	7,726
Term deposit accounts	120,083	116,363
	142,063	140,769

17 MEDIUM TERM BORROWINGS

	2012		2011	
	Interest rate	BD'000	Interest rate	BD'000
Bank Saderat Iran (Euro 30 million) (repayable in bullet in January 2015)	Libor + 25 basis points	14,969	Libor + 25 basis points	14,653
Bank Melli Iran (Euro 30 million) (repayable in bullet in November 2015)	Libor + 25 basis points	14,969	Libor + 25 basis points	14,653
Bank Melli Iran (Euro 30 million) (repayable in bullet in August 2015)	Libor + 150 basis points	14,969	Libor + 81 basis points	14,653
Bank Tejarat Iran (Euro 30 million) (repayable in bullet in May 2015)	Libor + 150 basis points	14,968	Libor +125 basis points	14,654
		59,875		58,613

18 OTHER LIABILITIES

	2012 BD'000	2011 BD'000
Interest payable	886	1,283
Staff related accruals	856	765
Accounts payable	1,922	1,309
Other	2,458	1,305
	6,122	4,662

19 SHARE CAPITAL

	2012 BD'000	2011 BD'000
Authorised:		
100 million (31 December 2011: 100 million) ordinary shares of BD 1 each	100,000	100,000
Issued and fully paid:		
83.1 million (31 December 2011: 83.1 million) ordinary shares of BD 1 each	83,100	83,100

At the Bank's Extraordinary General meeting held on 10 April 2011, the Bank's shareholders resolved to increase the Bank's paid up share capital from BD 75,000 thousand to BD 83,100 thousand through a rights issue of 8,100 thousand shares of BD 1 each, which was fully subscribed by the shareholders.

20 STATUTORY RESERVE

As required by the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net profit for the year has been transferred to a statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equates to 50% of the paid up share capital. This reserve is non distributable, except in circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the Central Bank of Bahrain.

21 DIVIDEND PAID AND PROPOSED

	2012 BD'000	2011 BD'000
Dividend paid during the year:		
Final dividend for 2011 - Bahraini Fils: NIL per share (for 2010 - Bahraini Fils: 108 per share)	-	8,100

Following the approval of the 2010 proposed dividend by the Bank's shareholders at the Annual General Meeting on 10 April 2011, the dividend was paid.

No dividends were proposed for the year 2011 and 2012.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2012

22 CASH AND CASH EQUIVALENTS

	2012 BD'000	2011 BD'000
Cash and balances with central banks excluding mandatory reserve deposit	31,446	35,170
Due from banks with an original maturity of less than ninety days	280,889	214,582
	312,335	249,752

23 RELATED PARTY TRANSACTIONS

The Bank enters into transactions with shareholders, directors, senior management and their related entities in which these parties have control, joint control or significant influence in the ordinary course of business at normal commercial terms.

Details of balances and transactions with related parties are as follows:

	2012 BD'000	2011 BD'000
Statement of financial position		
Shareholders and related parties		
Placements and Bank balances with shareholders (included in due from banks) *	164,726	79,700
Loans and advances to shareholders (included in due from banks) *	-	31,155
Loans and advances to other related parties (included in loans and advances) **	766	3,650
Deposits from shareholders (included in due to banks) *	25,724	18,948
Medium term borrowings *	44,907	43,960
Directors and key management personnel		
Loans and advances	29	37
Deposits	203	126

	2012 BD'000	2011 BD'000
Statement of comprehensive income		
Shareholders and related parties		
Interest income from shareholders*	4,966	5,388
Interest income from other related parties**	113	302
Fees and commissions income from shareholders*	-	-
Fees and commissions income from other related parties **	-	19
Interest expense *	1,156	1,430

* These relate to two of the Bank's shareholders.

** These relate to two affiliates of the Bank's shareholders.

23 RELATED PARTY TRANSACTIONS (continued)

Key management compensation

The compensation for key management personnel, including executive directors, comprises the following:

	2012 BD'000	2011 BD'000
Salaries and other short term benefits	619	581
End of service benefits	24	19
	643	600

In 2012 Directors' sitting fees amounted to BD 53.8 thousand (2011: BD 38.5 thousand).

All the loans and advances to related parties are performing and are free of any provision for possible credit losses.

24 COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments

Credit-related commitments include commitments to extend credit, standby letters of credit, guarantees and acceptances which are designed to meet the requirements of the Bank's customers.

Letters of credit, guarantees (including standby letters of credit) and acceptances commit the Bank to make payments on behalf of customers.

The Bank has the following credit related commitments:

	2012 BD'000	2011 BD'000
Commitments on behalf of customers:		
Letters of credit	-	1,256
Guarantees	4,511	2,939
	4,511	4,195

Other Commitments:

The Bank's commitments in respect of operating leases were as follows:

	2012 BD'000	2011 BD'000
Within one year	252	185
One to five years	40	102
	292	287

As of 31 December 2012 the Bank did not have any capital commitment for Bank's new head office building as the construction of the building was completed. (2011: BD 2.4 million).

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2012

25 CAPITAL ADEQUACY

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios.

In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders, or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

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

	2012 BD'000	2011 BD'000
Capital base:		
Tier 1 capital	104,544	96,612
Goodwill	-	(1,892)
Total capital base (a)	104,544	94,720
Risk weighted assets (b)	485,766	469,631
Capital adequacy (a/b * 100)	21.5%	20.2%
Minimum requirement	12.0%	12.0%

Since 2008 the Bank has adopted the Basle II guidelines as adopted by the Central Bank of Bahrain for calculation of the capital adequacy ratio.

26 RISK MANAGEMENT

Introduction

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk. It is also subject to operational risk.

Risk management framework

The risk management framework is summarised through the risk charter of the Bank which was approved by the board of directors in December 2007 and last reviewed in February 2012. The objective of the risk charter is to define the board framework consisting of policies and procedures for the management of credit, operational, market and liquidity risks. It also defines the roles and responsibilities of various committees, such as board, executive risk committee of the Board (ERCB), asset liability management committee (ALCO), risk committee (RMC) , and the risk management department (RMD). The board of directors is ultimately responsible for identifying and controlling risks; however, there are separate independent committees responsible for managing and monitoring risks. The overall control for risks lies with the Risk Committee.

Board of directors

The board of directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Executive Risk Committee of the Board (ERCB)

The ERCB, set up in February 2012, is responsible for assisting the Board in implementation of the risk management framework and maintenance of adequate and capable infrastructure to support the framework. ERCB is also responsible for Reviewing regularly any significant risk issues highlighted by Head of Risk or the RMC and to recommend to the Board suitable amendments to the risk management framework including risk strategy and policies .

26 RISK MANAGEMENT (continued)

Audit committee

The audit committee is responsible for ensuring the Bank's internal controls and systems are properly tested. The audit committee is also responsible for ensuring that the Bank meets various regulatory guidelines and undertakes continuous disclosure in line with the accounting and regulatory standards.

Risk management committee

The risk management committee has overall responsibility of day to day supervision and management of risks and reports to the Board level ERCB.

Risk management department

The risk management department is responsible for implementing and maintaining risk related procedures to ensure that independent reporting and control processes exist.

Asset liability management committee

The asset liability management committee (ALCO) is the management's governing committee mainly responsible for market and liquidity risks pertaining to on statement of financial position and off statement of financial position items by optimising liquidity constraints, profitability expectations, foreign exchange exposures, income and asset volatility and capital adequacy requirements.

Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify risks on a timely basis. This information is presented and explained to the board of directors, the executive risk committee , and the head of each business division. The reports include aggregate credit exposure, analysis of lending portfolio by sectors, ratings and security as well as country exposure. The liquidity and interest rate risk related ratios are reported and discussed in the monthly ALCO meetings. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis. The Head of Risk submits detailed report to the ERCB in addition to analysis of portfolio with particular focus on the quality of the lending portfolio. The Board receives a comprehensive overview through the minutes of ERCB and other reports produced by Risk Management Department (RMD) such as ten largest watch listed borrower accounts, ten largest non-performing borrower accounts.

Risk mitigation

Significant risk mitigation techniques are applied in the area of credit and operational risk. The Bank actively uses collateral to reduce its credit risks.

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For commercial lending in Bahrain, charges over real estate properties; and
- For lending outside Bahrain (mainly Iran) collateral of shares listed on the Tehran Stock Exchange.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2012

26 RISK MANAGEMENT (continued)

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

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

Operational risk is mitigated through a set of internal controls which are part of the Bank's Standard Operating Procedures (SOPs). The Bank has implemented dedicated software to monitor key risk indicators (KRI) and loss events. The data is gathered by business coordinators and validated by respective supervisors before it is loaded into the software. Threshold breaches, if any, are reported to the operational risk sub-committee for suitable action. The entire operational risk management process was also recently reviewed by the Bank's internal audit function.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business 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. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines and limits to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. These are also reported to the Board.

27 CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank manages credit risk by setting limits for individual borrowers, and groups of borrowers and for geographical and industry segments. The Bank also monitors credit exposures, and continually assesses the creditworthiness of counterparties. In addition, the Bank obtains security where appropriate, (refer note 10) and collateral arrangements with counterparties, and limits the duration of exposures.

(a) Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral but after impairment allowance, if any.

	Gross maximum exposure 2012 BD'000	Gross maximum exposure 2011 BD'000
Balances with central banks	34,307	38,297
Due from banks	330,193	302,785
Loans and advances to customers	112,762	141,267
Non-trading investments	54,060	36,501
Other assets	3,477	2,595
Total on statement of financial position exposures	534,799	521,445
Commitments and contingent liabilities	4,511	4,195
Total credit risk exposure	539,310	525,640

27 CREDIT RISK (continued)

(b) Risk concentrations of the maximum exposure to credit risk

The distribution of assets (excluding goodwill), liabilities and off-statement of financial position items by geographic region and industry sector was as follows:

	2012			2011		
	Assets BD'000	Liabilities BD'000	Credit related commitments BD'000	Assets BD'000	Liabilities BD'000	Credit related commitments BD'000
Geographic region:						
Domestic (Bahrain)	129,992	98,894	4,511	135,489	98,401	2,939
Iran and Middle East countries*	416,330	342,921	-	394,429	337,266	1,256
Europe and North America	57	20	-	489	20	-
	546,379	441,835	4,511	530,407	435,687	4,195
Industry sector:						
Trading and manufacturing	38,293	1,012	131	48,375	1,131	1,590
Banks and financial institutions	431,742	300,115	3	394,308	291,353	3
Construction and real estate	43,262	2,345	4,049	47,299	3,075	1,396
Other	33,082	138,363	328	40,425	140,128	1,206
	546,379	441,835	4,511	530,407	435,687	4,195

* A substantial part of these exposures relate to Iran.

As of 31 December 2012, the five largest customers accounted for 28% (2011: 23%) of the net loans and advances to customers.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2012

27 CREDIT RISK (continued)

(c) Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality by class of assets, based on the Bank's credit rating system.

	31 December 2012				
	Neither past due nor impaired				
	High grade BD'000	Standard grade BD'000	Past due but not impaired BD'000	Individually impaired BD'000	Total BD'000
Balances with central banks	34,307	-	-	-	34,307
Due from banks					
Placements	-	325,804	-	-	325,804
Loans and advances	-	4,389	-	-	4,389
Loans and advances to customers					
Retail	6,316	6,753	845	1,829	15,743
Corporate	12,434	48,613	35,929	23,649	120,625
Non-trading investments	54,060	-	-	-	54,060
	107,117	385,559	36,774	25,478	554,928

	31 December 2011				
	Neither past due nor impaired				
	High grade BD'000	Standard grade BD'000	Past due but not impaired BD'000	Individually impaired BD'000	Total BD'000
Balances with central banks	38,297	-	-	-	38,297
Due from banks					
Placements	-	179,878	-	-	179,878
Loans and advances	-	122,907	-	-	122,907
Loans and advances to customers					
Retail	3,816	4,932	3,281	2,238	14,267
Corporate	10,326	66,869	37,934	28,453	143,582
Non-trading investments	36,501	-	-	-	36,501
	88,940	374,586	41,215	30,691	535,432

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2012

27 CREDIT RISK (continued)

(d Aging analysis of past due but not impaired loans per class of financial assets

31 December 2012

	Less than 30 days BD'000	31 to 60 days BD'000	61 to 90 days BD'000	Total BD'000
Loans and advances to customers				
Retail	504	-	341	845
Corporate*	12,345	8,852	14,732	35,929
	12,849	8,852	15,073	36,774

* Subsequent to the year end, BD 8.109 Million (2011: BD 16.593 million) of the corporate loans and advances portfolio have been transferred from the past due but not impaired loans category to high or standard grades upon collection of the related over dues.

31 December 2011

	Less than 30 days BD'000	31 to 60 days BD'000	61 to 90 days BD'000	Total BD'000
Loans and advances to customers				
Retail	1,283	1,388	610	3,281
Corporate	23,848	7,525	6,561	37,934
	25,131	8,913	7,171	41,215

The above past due loans and advances include those that are only past due by a few days.

(e) Carrying amount per class of financial assets whose terms have been renegotiated

	2012 BD'000	2011 BD'000
Loans and advances to customers		
Retail	1,752	1,748
Corporate	21,607	20,734
Total renegotiated loans	23,359	22,482

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2012

28 MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices.

28.1 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank's management believe that the Bank is not exposed to material interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities as the repricing of assets and liabilities occur at similar intervals.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates by major currencies, with all other variables held constant, of the Bank's statement of comprehensive income. The Bank's equity is not sensitive to changes in interest rates as at 31 December 2012 and 2011.

	31 December 2012		31 December 2011	
	Increase in basis points	Impact on net interest income BD'000	Increase in basis points	Impact on net interest income BD'000
US Dollars	100	105	100	93
Bahraini Dinars	100	115	100	160
Euro	100	(210)	100	(150)
Iranian Rials	100	6	100	6

The impact of a similar decrease in basis points will be approximately opposite to the impact disclosed above.

28.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Board has set limits on positions by currency. Positions are monitored on a daily basis and strategies are used to ensure positions are maintained within established limits.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2012 and 2011. The analysis calculates the effect of a reasonably possible movement of the currency exchange rate against the Bahrain Dinar with all other variables held constant on the statement of comprehensive income. A negative amount in the table reflects a potential net reduction in statement of comprehensive income, while a positive amount reflects a net potential increase.

	31 December 2012		31 December 2011	
Currency	Change in currency rate in %	Effect on profit 2012 BD'000	Change in currency rate in %	Effect on profit 2011 BD'000
Euro	10	216	10	166
Swiss Francs	10	(2)	10	(2)
Iranian Rials	20	154	20	123

29 LIQUIDITY RISK

Liquidity risk is the risk that the Bank will be unable to meet its liabilities when they fall due. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a daily basis.

The Bank has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains a statutory deposit with the Central Bank of Bahrain equal to 5% of customer deposits denominated in Bahraini Dinars. The Bank also maintains limits on the ratio of net liquid assets to customer liabilities, set to reflect market conditions. Net liquid assets consist of cash, short term bank deposits and liquid debt securities available for immediate sale, less deposits for banks and other issued securities and borrowings due to mature within the next month. The liquidity profile of customer deposits has been determined on the basis of the effective maturities indicated by the Bank's deposit retention history.

The maturity profile of management's best estimate of expected maturities of the assets and liabilities at 31 December 2012 was as follows:

	Up to 1 month BD'000	1 to 3 months BD'000	3 to 6 months BD'000	6 months to 1 year BD'000	Total up to 1 year BD'000	1 to 3 years BD'000	Over 3 years BD'000	No fixed maturity BD'000	Total BD'000
Assets									
Cash and balances with central banks	31,446	-	-	-	31,446	-	-	4,587	36,033
Due from banks	186,330	127,676	14,968	1,219	330,193	-	-	-	330,193
Loans and advances to customers	7,078	8,163	7,675	34,951	57,867	21,436	33,459	-	112,762
Non-trading investments	818	32,113	14,250	2,729	49,910	4,150	-	10	54,070
Other assets	1,714	1,011	64	303	3,092	145	299	-	3,536
Property and equipment	-	-	-	-	-	-	-	9,785	9,785
Total assets	227,386	168,963	36,957	39,202	472,508	25,731	33,758	14,382	546,379
Liabilities									
Due to banks	183,281	32,900	-	17,594	233,775	-	-	-	233,775
Customers' deposits	10,825	10,447	-	-	21,272	120,791	-	-	142,063
Medium term borrowings	-	-	-	-	-	59,875	-	-	59,875
Other liabilities	5,585	206	38	91	5,920	196	6	-	6,122
Total liabilities	199,691	43,553	38	17,685	260,967	180,862	6	-	441,835
Net liquidity gap	27,695	125,410	36,919	21,517	211,541	(155,131)	33,752	14,382	
Cumulative liquidity gap	27,695	153,105	190,024	211,541	211,541	56,410	90,162	104,544	

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2012

29 LIQUIDITY RISK (continued)

The maturity profile of management's best estimate of expected maturities of the assets and liabilities at 31 December 2011 was as follows:

	Up to 1 month BD'000	1 to 3 months BD'000	3 to 6 months BD'000	6 months to 1 year BD'000	Total up to 1 year BD'000	1 to 3 years BD'000	Over 3 years BD'000	No fixed maturity BD'000	Total BD'000
Assets									
Cash and balances with central Banks	35,170	-	-	-	35,170	-	-	4,602	39,772
Due from banks	167,645	64,099	35,681	35,360	302,785	-	-	-	302,785
Loans and advances to customers	10,944	11,764	9,493	30,063	62,264	37,081	41,922	-	141,267
Non-trading investments	-	-	-	36,501	36,501	-	-	10	36,511
Other assets	1,455	399	238	344	2,436	138	203	-	2,777
Property and equipment	-	-	-	-	-	-	-	7,295	7,295
Goodwill	-	-	-	-	-	-	-	1,892	1,892
Total assets	215,214	76,262	45,412	102,268	439,156	37,219	42,125	13,799	532,299
Liabilities									
Due to banks	4,937	175,952	33,529	17,225	231,643	-	-	-	231,643
Customers' deposits	10,782	10,395	-	-	21,177	119,591	-	-	140,768
Medium term borrowings	-	-	-	-	-	58,613	-	-	58,613
Other liabilities	3,336	740	151	116	4,343	320	-	-	4,663
Total liabilities	19,055	187,087	33,680	17,341	257,163	178,524	-	-	435,687
Net liquidity gap	196,159	(110,825)	11,732	84,927	181,993	(141,305)	42,125	13,799	
Cumulative liquidity gap	196,159	85,334	97,066	181,993	181,993	40,688	82,813	96,612	

29 LIQUIDITY RISK (continued)

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2012 based on contractual undiscounted repayment obligations. Repayments which are subjected to notice are treated as if notice were to be given immediately.

	On demand BD'000	less than 3 months BD'000	3 to 6 months BD'000	6 to 12 months BD'000	1 to 3 years BD'000	Total BD'000
Financial liabilities						
As at 31 December 2012						
Due to banks	44,137	172,912	112	17,722	-	234,883
Customers' deposits	23,657	77,549	16,383	20,983	4,991	143,563
Medium term borrowings	-	753	753	1,506	66,037	69,049
	67,794	251,214	17,248	40,211	71,028	447,495
Contingencies and commitments	139	398	66	304	3,604	4,511
Total undiscounted financial liabilities	67,933	251,612	17,314	40,515	74,632	452,006

	On demand BD'000	less than 3 months BD'000	3 to 6 months BD'000	6 to 12 months BD'000	1 to 3 years BD'000	Total BD'000
Financial liabilities						
As at 31 December 2011						
Due to banks	4,952	177,212	33,814	17,370	-	233,348
Customers' deposits	25,446	78,909	14,149	19,680	4,723	142,907
Medium term borrowings	-	737	737	1,474	64,737	67,685
	30,398	256,858	48,700	38,524	69,460	443,940
Contingencies and commitments	785	1,621	237	382	1,170	4,195
Total undiscounted financial liabilities	31,183	258,479	48,937	38,906	70,630	448,135

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2012

30 LEGAL RISK AND CLAIMS

Legal risk is the risk arising from the potential that unenforceable contracts, lawsuits or adverse judgments can disrupt or otherwise negatively affect the operations of the Bank. The Bank has developed controls and procedures to identify legal risks and believes that losses will be avoided.

31 OPERATIONAL RISK

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a self assessment and control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

32 FAIR VALUE OF FINANCIAL INSTRUMENTS

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and saving accounts without specific maturity and variable rate financial instruments.

The estimated fair values of other financial assets and financial liabilities are not materially different from their carrying values as stated in the statement of financial position.

PILLAR III QUALITATIVE DISCLOSURES - BASEL II 31 December 2012

RISK MANAGEMENT

Management of risk involves the identification, measurement, ongoing monitoring and control of all financial and non financial risks to which the Bank is potentially exposed. It is understood that risks cannot be eliminated but can be effectively controlled and mitigated. This involves continuous monitoring of the political, economic and market conditions as also the creditworthiness of the Banks' counterparts. To achieve this objective the Bank has decided to use the best management practices supported by skilled and experienced people and appropriate technology.

The Board of Directors of the Bank assumes ultimate responsibility for the risk management function through a comprehensive set of policies and strategies which are subject to periodic review. The Board defines the risk appetite of the Bank through such policies and strategies which ultimately provide necessary direction and framework for all activities undertaken by the Bank. In order to assist the Board in its overview function a Board level Risk Committee (ERCB) , chaired by an independent director was formed in April 2012.The Senior Management, under the direct supervision of the Board is responsible for establishing procedures for implementation of these policies and strategies.

The Risk function at Future Bank was formally set up in September 2005. Over a span of a more than seven years the Bank has managed to cover various areas of risk management. The overall risk management activity is enunciated through a Risk Charter which lays down the overall framework of strategies, infrastructure, policies and procedures. It also summarizes the committee structure adopted by the Bank for management of risk. The Risk Management Committee (RMC) set up with the representation of Senior Management, reports to the Board Level Risk Committee (ERCB). The RMC is chaired by the CEO and is responsible for day to day implementation, interpretation and follow up of the risk policies. The terms of reference of the RMC broadly include the implementation of all policies relating to management of Credit, Market, liquidity and Operational risks on an ongoing basis. There are three sub committees to specifically monitor Operational Risk, Credit Risk (Performing loans) and SAM (Special Assets Management or Non Performing Loans). These sub committees report to the RMC. The Head of Risk reports to the CEO with a dotted line to the Board.

Based on Central Bank of Bahrain's (CBB) guidelines, a risk profiling audit of the Bank was conducted by an independent external auditor and the report was sent to the CBB. Based on the gaps identified in the report, the Bank had submitted a time bound action plan to the CBB. The Basel Steering Committee followed up on this action plan and all gaps pointed out in the report since stand closed.

The Risk Management Department (RMD) is responsible for the day-to-day management of risk which includes setting up and maintenance of various portfolio based limits, monitoring of these limits, reporting all excesses and anomalies to RMC and follow up with respective front office representatives for regularization.

Internal audit assesses whether the policies and procedures are complied with and if necessary, suggest ways of improving internal controls. A separate internal control function in place under the Finance Department and looks after various internal control issues.

The risks associated with the Banks' business are broadly categorized into credit, market, liquidity and operational risks. These are discussed in following sections.

CREDIT RISK

Credit risk is the potential financial loss arising due to counterpart default or counterpart failure to perform as per agreed terms. The objective of credit risk management is to ensure that all credit exposures are undertaken and managed within the parameters defined in the credit risk policy and the risk reward relationship is maintained. The Bank has adopted a RAROC model for credit decision making. All credit activities of the Bank are guided by a set of principles and procedures as described in this policy document.

The credit approval process follows the well accepted principle of joint signatories under which the credit proposal is marketed by front office and processed by Credit Department. The approval levels are well defined with clear delegations in terms of amount and tenor. In case of relatively risk free exposures such as cash collateralized loans, sub delegations are permitted under the policy.

The Bank has adopted an elaborate rating system separately for retail, corporate and bank customers with appropriate weight age to quantitative and qualitative factors. Rating is mandatory for all credit decisions. The entire portfolio of the Bank has been segregated into three broad categories namely; the investment grade assets (Ratings A to D minus); the judgmental grade (Weak list E + and Watch list E); and the classification grade assets (Ratings X, Y and Z) which are the Non Performing Assets (NPA). For external classifications, where available the Bank relies on **FITCH** ratings for counterparties and country risk.

PILLAR III QUALITATIVE DISCLOSURES - BASEL II 31 December 2012

The Bank follows an elaborate procedure for approval of connected party transactions. All connected party limits are subject to the same ceilings as proposed by CBB. On taking office, board members disclose to the Bank all interests and relationships which could or might be seen to affect his ability to perform his duties as a Board member. The Compliance department ensures that the directors, on an annual basis, disclose and update information on his actual and potential conflicts of interest and maintains such records. Further, the directors inform the entire Board of (potential) conflicts of interest in their activities with, and commitments to other organizations as they arise and abstain from voting on the matter in accordance with the relevant provisions contained in our Conflict of interest policy. This disclosure includes all material facts in the case of a contract or transaction involving the director.

Limits are also in place to monitor various credit concentrations by counterpart / group, country, sector, ratings, products etc. The day-to-day monitoring of individual borrowers or counterparty exposures is the responsibility of the respective business units. The Credit Administration unit (CAD) ensures that credit facilities are released after proper approval and against proper documentation and is in charge of activating the customer limits. The CAD ensures that other parameters such as ratings, sector codes etc. are properly maintained in the system. It also monitors past dues, expired credits and any other exceptions and ensures proper classification of assets and reports to Credit Monitoring Committee. Bank's credit risk policy incorporates detailed guidelines on acceptability of various types of collaterals, haircuts, frequency of valuation and guidelines on selection of external valuers. Collaterals are valued on daily basis in case of shares and in case of Title Deeds with a minimum frequency of one year. The main types of guarantors currently accepted by the Bank are corporate and quasi-government entities. The creditworthiness of these guarantors is assessed by the Bank through the same credit rating model as used for borrowers.

A remedial unit is in place to manage the NPA accounts and follow up of loans on which legal action has been taken. The Bank follows the Basel II norm of 90 days default for classifying a loan as non performing / impaired category. Interest / other income is immediately suspended upon classification of an asset as NPA. The Bank follows IAS – 39 guidelines for making specific provisions in respect of its impaired assets. In addition to specific provision, a collective impairment is held, which is based on higher of 1% of the performing portfolio or the probability of default (PD) of external rating agencies which have been mapped to the Bank's internal rating categories on a best effort basis. The SAM accounts are managed by the SAM unit and monthly progress reports are provided to the SAM committee. All provisions are recommended by the Risk Department and approved by the Risk Committee.

The Bank has adopted standardized approach for capital computation under credit risk.

LIQUIDITY, INTEREST & CURRENCY RISK (BANKING BOOK)

Liquidity risk is the risk of the Bank failing to meet its commitments unless it raises funds at unreasonable prices or is forced to sell its assets at whatever price. It arises out of funding mismatch.

At Future Bank the liquidity and interest risks are managed through the mechanism of Assets Liability Management Committee (ALCO). The Bank uses the maturity ladder (time buckets) approach for managing its liquidity. For interest rate risks the Bank considers the interest reset dates. The limits for each time bucket of the maturity ladder, the cumulative outflow of cash for each time bucket and limits on each gap as approved by the Board are reviewed and monitored by ALCO. It is the Bank's policy to keep its assets in high quality liquid assets such as inter-bank placements to ensure that funds are available to meet maturing liabilities, undrawn facilities and deposit withdrawals. As part of this policy Bank has started investing in T-Bills and Sukuks issued by Central Bank of Bahrain. A substantial portion of Bank's deposits is made up of retail, current and fixed deposit accounts which, though payable on demand or at short notice, have traditionally formed part of a stable deposit base and a source of stable funds. For the purpose of Interest Rate Risk in the Banking book Loan prepayments are not considered unless the borrower has notified the bank about his intention to prepay. Similarly the non interest bearing deposits such as saving / current account are classified under Non interest sensitive bucket. The Bank has also adopted a liquidity contingency plan which was tested.

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. As the Bahraini Dinar is pegged to the US Dollar, the currency risk is minimized. The Board has approved limits for open positions which are monitored by the RMD on daily basis.

The Bank does not have trading portfolios and therefore not exposed to interest and / or currency risk on that count. The Treasurer is responsible for day-to-day management of liquidity, interest and FX risk arising in the banking book with direct reporting to Senior Management and ALCO.

PILLAR III QUALITATIVE DISCLOSURES - BASEL II 31 December 2012

MARKET RISK

Market Risk is defined as the risk of potential losses in the on and off balance sheet positions, arising out of adverse movements in interest rates, equity prices, exchange rates, commodity prices and derivatives. This risk arises from the asset–liability mismatch, changes in yield curve, and changes in the volatilities in the market value of derivatives.

The magnitude of market risk carried on the balance sheet is minimal. At present the Bank does not trade in foreign exchange for its own account nor does it carry open positions except for its nostros. The Bank is also not trading in commodities.

The Bank currently holds no trading portfolio and therefore application of Value at Risk (VaR) techniques is not relevant for the time being. The Bank has invested certain amounts in Euro Bonds issued by Iran government owned corporations. The FX risk relating to these bonds is already covered. In addition, the Bank is also indirectly exposed to loss on account of depreciation of Iranian Rial as it has granted loans designated in BD in Bahrain against Iranian Rial deposits issued in Iran. The exchange risk is being monitored on a regular basis. In view of the volatility of Iranian Rial, during 2012 a specific provision was allocated to cover any FX losses.

In Bahrain, the Bank is indirectly exposed to the Real Estate sector as major portion of its lending portfolio in Bahrain (65%) is secured by real estate mortgage.

Bank is indirectly exposed to market risk on Iranian equities as major portion of its offshore credit portfolio (37%) is secured by listed Iranian stocks. A policy is in place to diversify this risk into various stocks to avoid concentrations, to obtain adequate cushion to protect against possible fall in prices, regular monitoring, with top up and sell down thresholds.

OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss resulting from failed processes, technology, people or external events. It includes reputation risk. The Bank has put in place standard operating procedures which comply with the high standards of internal control. In the process, the activities have been segregated into back office and front office in accordance with international best practices. During 2010 the SOPs were re engineered in order to reflect the changes required through implementation of a new Core Banking module. Based on the revised SOPs a fresh RCSA review was conducted .

The IT security processes were re-engineered and streamlined through an ISO audit. The management information system (MIS) is being strengthened with particular focus on exception management. The Internal Audit Department is considered as the final layer of internal control which reports directly to the Audit Committee of the Board.

A Business Continuity plan is in place to ensure continuity of essential services to customers in case of occurrence of any calamity resulting in disruption of normal business activity. Similarly, a disaster recovery plan is also in place. The Bank has set up disaster recovery site at one of its branches as a back up site in case of any disaster.

An operational risk management policy and procedure framework has been functional which defines key operational risk areas, key control standards and key risk indicators in line with the Basel II recommendations. The Bank currently follows the basic indicator approach for operational risk. The operational risk sub committee is in charge of implementation of the operational risk policy and reports to the RMC. The RMD implements operational risk procedures. A dedicated software is in place to monitor operational risk.

The bank paid a nominal amount of BD 500 only as penalty during the year to Central Bank of Bahrain due to errors in records submitted to Bahrain Credit Reference Bureau (BCRB).

CAPITAL ADEQUACY ASSESSMENT PROCESS AND PILLAR II RISKS (ICAAP)

The Bank follows standardized approach for credit and market risks and the basic indicator approach for operational risk. A capital management policy has been approved by the Board under which the Bank has defined threshold limits for capital adequacy ratio with a minimum capital requirement ratio of 12% (same as required by the CBB) and a maximum threshold level. Within this range, 3 trigger ratios are defined i.e. internal target ratio, lower trigger ratio, and ICAAP capital adequacy ratio to enable the Bank to assess the adequacy of the capital to support current and future activities.

PILLAR III QUALITATIVE DISCLOSURES - BASEL II 31 December 2012

Action points are triggered in case of breach of any of the lower trigger ratios. The ICAAP capital adequacy ratio represents the capital position which the Bank will maintain as buffer over 12% to accommodate any capital requirements under Pillar II and effects of stress test on the level of capital required. In order to manage the Pillar II risks the Bank has adopted risk diversification policies by geographic, sector, rating classifications. Stress tests are performed at quarterly intervals and reported to the Board.

For example the geographic areas are broken into six categories under the country risk management policy based on country ratings. Exposure limits have been set up on each category. Similarly sector limits and rating wise limits have been defined under the credit risk policy to avoid concentration risk. Currently the geographic risk is concentrated to one country i.e. Iran apart from Bahrain.

The Bank follows the CBBs definition of large exposure limits and all credit approvals are based on adherence to the maximum limit of 15% of capital base except those specifically approved by the CBB. All large exposures are monitored by the RMD and a report is presented to the Risk Committee on a monthly basis. Certain sensitive exposures such as connected party exposure and Iran exposure are monitored on a daily basis.

The bank is required to appropriate 10% of its annual net profit to the statutory reserve, not exceeding a ceiling of 50% of its share capital. The bank is also required to take the prior approval of the CBB for distribution of dividend. Except for this there are no restrictions on the transfer of funds. Any credit obligation which remains unpaid on the due date is considered as past due on the next succeeding day. All past dues are closely monitored through daily and monthly reports. The rating model adopted by the Bank automatically downgrades an account to weak list (rating E+) or watch list (rating E) depending upon the length of the past dues. An account is downgraded to impaired asset if the past due status extends beyond 90 days. Provisions are made based on IAS 39 requirements.

In addition high value NPAs are subjected to half yearly revaluation of security based on 3 independent valuations and the NPV is based on 4 year discounting of the lowest value in order to ensure that all provisions are made on a conservative basis. The Bank has adopted a policy of minimum 15% provision on all NPAs irrespective of the availability of collaterals or cash flows. In addition 100% provision is made in respect of any NPA with gross exposure up to BD 100,000. The Bank also follows a cooling period of 6 months satisfactory performance before upgrading any restructured asset to performing category.

A collective impairment provision is also maintained as additional cushion based on the PDs for each rating category. Since the Bank does not have its own PDs in the absence of adequate historical data, the PDs of external rating agencies have been mapped to the Bank's internal rating categories on a best effort basis. The CIP so arrived at is subject to a minimum amount of 1% of performing loans portfolio i.e. higher of the two methodologies.

In order to minimize potential legal risks, the Bank has adopted best practices in lending activities especially in the area of consumer lending which includes dissemination of information relating to products, tariffs etc. through various media including website, literature and documentation, complaint disposal mechanism, staff training etc. There were no material legal claims against the Bank as of 31 December 2012. A separate Compliance department is functional which monitors the compliance risk.

The Bank has adopted a policy for conducting stress testing on various portfolios in order to determine additional capital requirements as part of its ICAAP. Bank has already stressed its projected 3 year balance sheet based on 9 stress scenarios and arrived at the regulatory and internal capital ratios. This is an ongoing process whereby the capital will be stressed based on the 3 year business projections.

PILLAR III - DISCLOSURES

In line with CBB guidelines the Bank has put in place a Disclosure Policy approved by its Board. The policy defines a framework for the disclosure obligations and a committee has been established which oversees the entire process.

DEPOSIT PROTECTION SCHEME

Deposits held with the Bank are covered by the Deposit Protection Scheme (the Scheme) established by CBB regulations concerning the establishment of a Deposit Protection Scheme and Deposit Protection Board. No liability is due until one of the member commercial banks associated with the Scheme is unable to meet its deposit obligations.

PILLAR III DISCLOSURES
- BASEL II

TABLE OF CONTENTS

PILLAR III QUANTITATIVE DISCLOSURES - BASEL II 31 December 2012

DISCLOSURE -1 CAPITAL STRUCTURE

	BD '000	
NET AVAILABLE CAPITAL	Tier 1	Tier 2
Paid-up share capital	83,100	-
Reserves:		
Statutory reserve	5,846	-
Retained earnings brought forward	7,666	-
Current profits	-	7,932
NET AVAILABLE CAPITAL	96,612	7,932
TOTAL ELIGIBLE CAPITAL BASE (Tier 1 + Tier 2)		104,544

DISCLOSURE - 2 - A. CAPITAL REQUIREMENT FOR CREDIT, MARKET AND OPERATIONAL RISKS

	BD '000	BD '000
	Risk Weighted Assets*	Capital Requirement
Claims on sovereign	16,260	1,951
Claims on public sector entities	6,892	827
Claims on banks	298,580	35,829
Claims on corporate	58,853	7,062
Regulatory retail portfolios	288	35
Mortgage	49,920	5,991
Past due exposure	8,085	970
Equity investments	15	2
Holding real estate	8,325	999
Other assets	4,997	600
TOTAL CREDIT RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)	452,215	54,266
TOTAL OPERATIONAL RISK CAPITAL REQUIREMENT (BASIC INDICATOR APPROACH)	31,123	3,735
TOTAL MARKET RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)**	2,429	291
TOTAL CAPITAL REQUIREMENT	485,767	58,292

* Exposures post credit risk mitigation and credit conversion.
** Market risk capital requirement only relates to foreign exchange risk.

PILLAR III QUANTITATIVE DISCLOSURES - BASEL II 31 December 2012

DISCLOSURE - 2 - A. CAPITAL REQUIREMENT FOR CREDIT, MARKET AND OPERATIONAL

	BD '000	BD '000
	Risk Weighted Assets	Capital Requirement
Maximum market risk	3,053	366
Minimum market risk	701	84

DISCLOSURE - 2 - B. CAPITAL ADEQUACY RATIOS

Tier 1 Capital Adequacy Ratio (Tier 1 Capital / Risk)	19.89%
Total Capital Adequacy Ratio (Total Capital / Risk weighted exposures)	21.52%

DISCLOSURE - 3 GROSS CREDIT RISK EXPOSURES BEFORE CREDIT RISK MITIGATION

	BD '000	
	As at 31 December 2012	Average monthly balance
Balances with central banks	34,307	26,334
Due from banks	330,193	320,847
Loans and advances to customers	112,762	127,187
Non-trading investments	54,060	49,591
Interest receivable and other assets	3,444	3,238
TOTAL FUNDED EXPOSURES	534,766	527,197
Contingent liabilities	4,511	3,685
Undrawn loan commitments	14,162	18,310
TOTAL UNFUNDED EXPOSURES	18,673	21,995
TOTAL CREDIT RISK EXPOSURE	553,439	549,192

The Bank has calculated the average monthly balance based on the month end balances for the year ended 31 December 2012.

PILLAR III QUANTITATIVE DISCLOSURES - BASEL II 31 December 2012

DISCLOSURE - 4 GEOGRAPHIC DISTRIBUTION OF GROSS CREDIT RISK EXPOSURES

	BD '000			
	GCC countries	Iran and Middle East Countries	Europe	Total
Balances with central banks	18,046	16,261	-	34,307
Due from banks	49	330,087	57	330,193
Loans and advances	86,476	26,286	-	112,762
Non-trading investments	29,951	24,109	-	54,060
Interest receivable and other assets	1,560	1,884	-	3,444
TOTAL FUNDED EXPOSURES	136,082	398,627	57	534,766
Contingent liabilities	4,511	-	-	4,511
Undrawn loan commitments	14,162	-	-	14,162
TOTAL UNFUNDED EXPOSURES	18,673	-	-	18,673
TOTAL CREDIT RISK EXPOSURE	154,755	398,627	57	553,439

DISCLOSURE - 5 SECTORAL CLASSIFICATION OF GROSS CREDIT RISK EXPOSURES

	BD '000		
	Funded	Unfunded	Total
Manufacturing	14,966	-	14,966
Construction	16,132	331	16,463
Financial	420,130	3	420,133
Trade	23,330	6,425	29,755
Personal / Consumer finance	10,236	2,085	12,321
Commercial real estate financing	25,816	7,505	33,321
Government	3,400	-	3,400
Transport	9,858	28	9,886
Other	10,898	2,296	13,194
TOTAL CREDIT RISK EXPOSURE	534,766	18,673	553,439

DISCLOSURE - 6 RELATED PARTY TRANSACTIONS

The Bank enters into transactions with shareholders, directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates. All the loans and advances to related parties are performing and are free of any provision for possible credit losses.

The balances in respect of related parties as of 31 December 2012 are as follows:

	BD '000
Shareholders and related parties	
Placements (included in due from banks) *	**164,726**
Loans and advances to shareholders (included in due from banks) *	-
Loans and advances to other related parties (included in loans and advances) **	**766**
Deposits from shareholders (included in due to banks) *	**25,724**
Medium term borrowings *	**44,907**
Directors and key management personal	
Loans and advances	**29**
Deposits	**203**

	BD '000
Income statement	
Shareholders and related parties	
Interest income from shareholders*	**4,966**
Interest income from other related parties**	**113**
Fees and commissions income from shareholders*	**-**
Fees and commissions income from other related parties **	**-**
Interest expense *	**1,156**

* These relate to two of the Bank's shareholders.
** These relate to two affiliates of the Bank's shareholders.

Key management compensation

Compensation for key management, including executive directors, comprises the following:

	BD '000
Salaries and other short term benefits	**619**
End of service benefits	**24**
	643

PILLAR III QUANTITATIVE DISCLOSURES - BASEL II 31 December 2012

DISCLOSURE - 7 CREDIT CONCENTRATION GREATER THAN 15% INDIVIDUAL OBLIGOR LIMIT

Total credit exposures in excess of 15% individual obligor limit (BD '000)	345,929

None of the individual exposures qualify for capital deductions from tier 1 and tier 2 capital.

DISCLOSURE - 8 RESIDUAL CONTRACTUAL MATURITY

	BD '000				
	Up to one month	One month to three months	Over three months to one year	Over one year to five years	Total
Balances with central banks	29,720	-	-	4,587	34,307
Due from banks	186,330	127,676	16,187	-	330,193
Loans and advances to customers	32,857	5,299	19,710	54,896	112,762
Non-trading investments	53,652	-	-	408	54,060
Interest receivable and other assets	1,722	1,722	-	-	3,444
TOTAL FUNDED EXPOSURES	304,281	134,697	35,897	59,891	534,766
Contingent liabilities	481	56	370	3,604	4,511
Undrawn loan commitments	3,505	4,273	1,112	5,272	14,162
TOTAL UNFUNDED EXPOSURES	3,986	4,329	1,482	8,876	18,673
TOTAL	308,267	139,026	37,379	68,767	553,439

Note: The Bank had no assets, liabilities or off balance sheet items with maturities exceeding five years.

DISCLOSURE - 9 SECTORAL BREAKDOWN OF IMPAIRED LOANS AND PROVISIONS

	BD '000				
	Impaired loans	Specific provision	Recoveries during the period	Written off during the period	Collective impairment provision*
Manufacturing	5,288	3,779	225	-	93
Construction	9,699	3,153	1,470	-	174
Finance	-	-	-	-	298
Trade	826	430	61	-	97
Personal / Consumer finance	1,037	371	88	39	134
Commercial real estate financing	6,322	2,611	7	-	2,828
Residential Real Estate Financing	196	66	1	-	90
Transport	940	702	-	-	3,708
Other	1,170	827	22	1	5
TOTAL	25,478	11,939	1,874	40	7,427

Also refer to table 12 for geographic and sectoral disclosures of impaired and past due loans.

*The collective impairment provision does not relates to the impaired loans.

PILLAR III QUANTITATIVE DISCLOSURES - BASEL II 31 December 2012

DISCLOSURE - 10 GEOGRAPHICAL DISTRIBUTION OF IMPAIRMENT PROVISIONS

BD '000

	GCC countries	Iran and Middle East Countries	Total
Specific impairment provision	8,160	3,779	11,939
Collective impairment provision	4,019	3,408	7,427
TOTAL	12,179	7,187	19,366

DISCLOSURE - 11 MOVEMENT IN PROVISION/INTEREST IN SUSPENSE FOR LOANS AND ADVANCES

BD '000

	Retail				Corporate				
	Specific	Interest in Suspense	Collective	Total retail Provision	Specific	Interest in Suspense	Collective	Total corporate Provision	Total
At 1 January 2012	995	813	-	1,808	9,316	2,782	2,676	14,774	16,582
Charge for the period	123	137	-	260	3,418	1,820	4,751	9,989	10,249
Recoveries	(126)	(30)	-	(156)	(1,747)	(1,216)	-	(2,963)	(3,119)
Net provision	(3)	107	-	104	1,671	604	4,751	7,026	7,130
Amounts written off	(40)	(66)	-	(106)	-	-	-	-	(106)
At 31 December 2012	952	854	-	1,806	10,987	3,386	7,427	21,800	23,606

The provision relates entirely to exposures to non-banks.

PILLAR III QUANTITATIVE DISCLOSURES - BASEL II 31 December 2012

DISCLOSURE - 12 IMPAIRED LOANS - AGE ANALYSIS

i) By Geographical region

	BD '000				
	Three months to one year	One to three years	Over three years	Total	%
GCC Countries	138	15,072	4,980	20,190	79%
Iran and Middle East Countries	-	4,450	838	5,288	21%
TOTAL	138	19,522	5,818	25,478	100%
	1%	76%	23%	100%	

ii) By Industry Sector

	BD '000				
	Three months to one year	One to three years	Over three years	Total	%
Manufacturing	-	4,450	838	5,288	21%
Construction	-	9,162	537	9,699	38%
Trade	21	219	586	826	3%
Personal / Consumer finance	99	1	937	1,037	4%
Commercial real estate financing	18	4,763	1,541	6,322	25%
Residential real estate financing	-	-	196	196	1%
Transport	-	189	751	940	4%
Other	-	738	432	1,170	4%
TOTAL	138	19,522	5,818	25,478	100%
	1%	76%	23%	100%	

PILLAR III QUANTITATIVE DISCLOSURES - BASEL II 31 December 2012

DISCLOSURE - 13 PAST DUE BUT NOT IMPAIRED LOANS - AGE ANALYSIS

i) By Geographical region

	BD '000				
	Less than 30 days	31 to 60 days	61 to 90 days	Total	%
GCC Countries	12,849	2,544	8,181	23,574	64%
Iran and Middle East Countries	-	6,308	6,892	13,200	36%
TOTAL	12,849	8,852	15,073	36,774	100%
	35%	24%	41%	100%	

ii) By Industry Sector

	BD '000				
	Less than 30 days	31 to 60 days	61 to 90 days	Total	%
Construction	4,250	130	306	4,686	13%
Finance	-	5	769	774	2%
Trade	3,113	2,414	294	5,821	16%
Personal / Consumer finance	29	-	77	106	0%
Commercial real estate financing	2,872	-	6,670	9,542	26%
Transport	-	6,303	6,892	13,195	36%
Other	2,585	-	65	2,650	7%
TOTAL	12,849	8,852	15,073	36,774	100%
	35%	24%	41%	100%	

DISCLOSURE - 14 RESTRUCTURED CREDIT FACILITIES

	BD '000
Balance of restructured credit facilities at 1 January 2012	29,975
Amount of loans restructured during the period	26,955
Restructured credit facilities repaid / settled	(20,726)
Balance of restructured credit facilities at 31 December 2012	36,204

Restructured credit facilities have no significant impact on the Bank's present and future earnings. The basic nature of concessions granted is extension of repayment period in order to suit the repayment ability of the customer.

PILLAR III QUANTITATIVE DISCLOSURES - BASEL II 31 December 2012

DISCLOSURE - 15 ELIGIBLE FINANCIAL COLLATERAL AND GUARANTEES

	BD '000	
	Gross exposure	Eligible CRM
Cash	1,726	-
Claims on sovereign	69,281	-
Claims on public sector entities	19,383	12,491
Claims on banks	298,633	-
Claims on corporate	70,951	12,098
Regulatory retail portfolio	533	149
Equity investments	10	-
Mortgage	51,138	52
Past due exposure	9,301	1,216
Holding real estate	8,325	-
Other assets	4,997	-
TOTAL	534,278	26,006

DISCLOSURE - 16 INTEREST RATE RISK

	BD '000				
	Less than three months	Three months to one year	Over one year	Non-interest sensitive	Total
ASSETS					
Cash and balances with central banks	13,000	-	-	23,033	36,033
Due from banks	294,394	16,187	-	19,612	330,193
Loans and advances to customers	48,988	24,656	37,246	1,872	112,762
Non-trading investments	37,082	16,978	-	10	54,070
	393,464	57,821	37,246	44,527	533,058
LIABILITIES					
Due to banks	216,180	17,595	-	-	233,775
Medium term borrowings	44,907	14,968	-	-	59,875
Customers' deposits	78,572	36,956	4,554	21,981	142,063
	339,659	69,519	4,554	21,981	435,713
Total interest sensitivity gap	53,805	(11,698)	32,692	22,546	
Cumulative interest sensitivity gap	53,805	42,107	74,799		

PILLAR III QUANTITATIVE DISCLOSURES - BASEL II 31 December 2012

DISCLOSURE - 17 SENSITIVITY ANALYSIS - INTEREST RATE RISK

	BD '000	
	Increase in Basis points	Impact on net interest income
United States Dollar	200	210
Bahraini Dinar	200	230
Euro	200	(420)
Iranian Rials	200	12

The impact of a 200 basis point decrease in interest rates will be approximately opposite to the impact disclosed above.

DISCLOSURE - 18 EQUITY INVESTMENT

	BD '000	
	Risk weighted assets	Capital requirement
Privately held	15	2
TOTAL	15	2

DISCLOSURE - 19 GAINS (LOSSES) ON EQUITY INVESTMENTS

There were no realised or unrealised gains (losses) from equity investments during the year.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