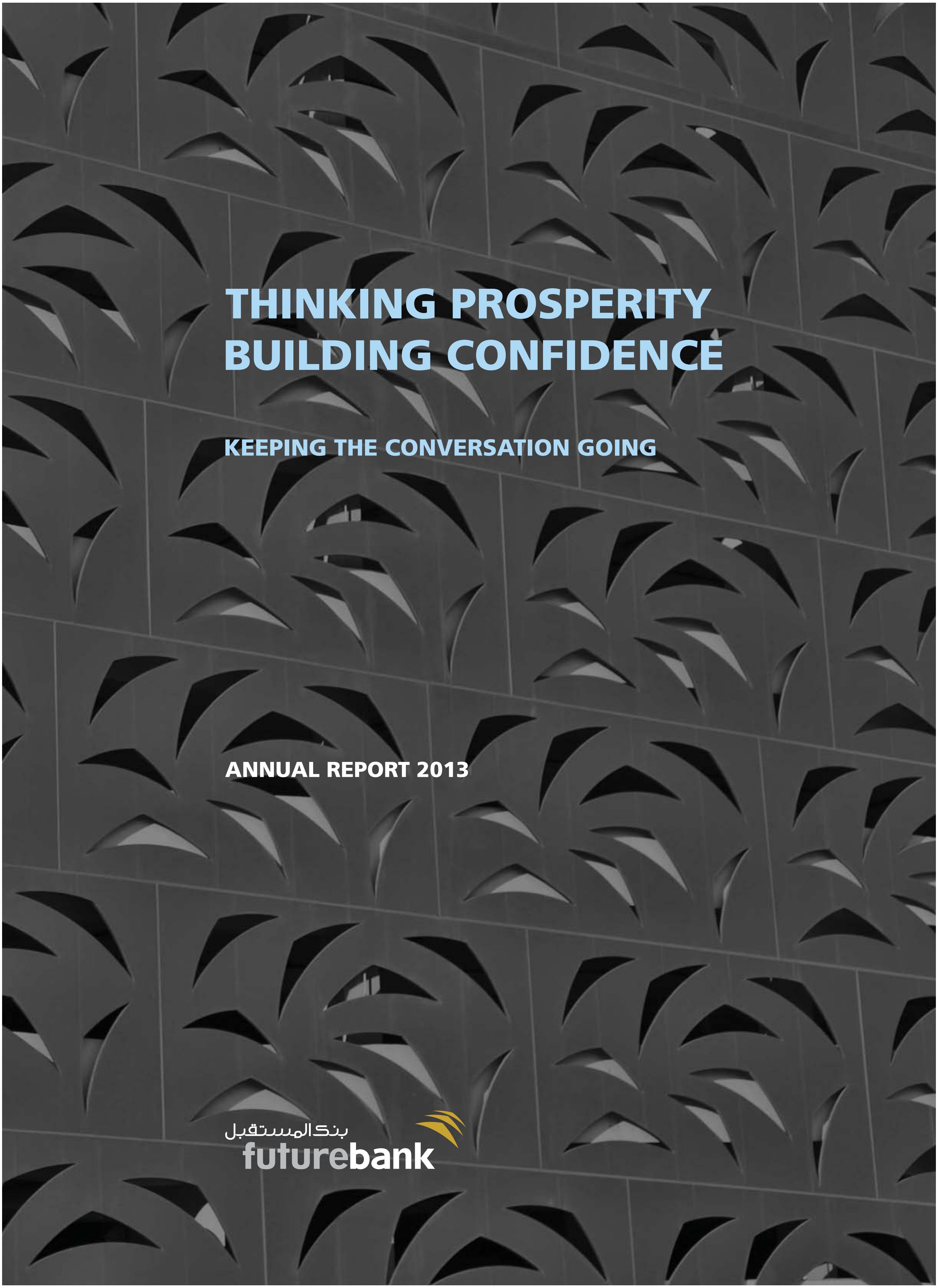

THINKING PROSPERITY BUILDING CONFIDENCE

KEEPING THE CONVERSATION GOING

ANNUAL REPORT 2013

بنك المستقبل
futurebank

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«وَتَوَكَّلْ عَلَى الْعَزِيزِ الرَّحِيمِ»

سورة الشعراء – الآية ٢١٦

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Future Bank has over time earned a considerable position amongst the banking community of Bahrain. Continuing on its steady path of growth, the Bank has upheld its status as a resilient bank enduring the economic challenges of the recent years. A bank that has stayed truly committed to the concept of 'Personalized Banking', Future Bank with a singular focus on driving prosperity, even in trying times, intends to re-enforce its position in Bahrain with the mindset of having customers at the center of its market philosophy.

Driven by a renewed sense of determination, our strategy remains on course - Building confidence, whilst embracing innovative measures to face change.

Thinking Prosperity
Building Confidence

Keeping the Conversation Going

BUSINESS PHILOSOPHY

Vision

To be recognized as a Bank with the ability to build financial bridges, which connect customers and regional markets.

Mission

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

Purpose

To serve the community with care and consciousness and make a tangible difference to people's lives.

Futurebank

still personal

KEEPING THE CONVERSATION GOING

FINANCIAL HIGHLIGHTS

Net Profit of the Bank - BD 11.02 m

38.9%

Growth over 2012

	2013	2012	2011	2010	2009
Income and Expenses (BD Millions)					
Net interest income	**20.3**	20.0	20.9	14.4	13.1
Other income	**0.2**	0.4	(0.7)	1.0	1.0
Total Income	**20.5**	20.4	20.2	15.4	14.1
Operating expenses	**4.5**	4.2	4.0	4.0	3.5
Profit before provisions	**16.0**	16.2	16.2	11.4	10.6
Net provision / write-back	**(5.0)**	(6.4)	(6.7)	(1.3)	2.4
Impairment of Goodwill	**-**	(1.9)	(1.0)	(1.0)	-
Net profit	**11.0**	7.9	8.4	9.1	8.2
Financial Position (BD Millions)					
Total assets	**578.8**	546.4	532.3	524.3	547.5
Net loans	**113.3**	112.8	141.3	151.7	118.4
Due from Banks	**370.4**	330.2	302.8	276.8	358.9
Investments	**47.1**	54.1	36.5	50.3	12.4
Total deposits	**394.8**	375.8	372.4	371.1	421.5
Medium Term Borrowings	**62.5**	59.9	58.6	60.0	48.8
Customer deposits	**157.3**	142.1	140.8	131.7	108.7
Shareholder’s equity	**115.6**	104.5	96.6	88.2	73.7
Ratios (percentage)					
Profitability					
Net income/Average equity	**10.3**	7.9	9.1	11.3	12.2
Net income/Average assets	**2.0**	1.5	1.6	1.7	1.5
Operating expenses/Total income	**21.9**	20.7	19.8	26.1	24.8
Earning per share (BD)	**0.133**	0.095	0.105	0.128	0.152
Liquidity					
Customer deposits/Net loan and advances	**138.9**	126.0	99.6	86.8	91.8
Loans and advances/Total assets	**19.6**	20.6	26.5	28.9	21.6
Liquid assets/Total assets	**39.8**	46.5	41.7	38.3	44.6
Capital Adequacy					
Capital Adequacy	**23.8**	22.7	20.2	25.7	21.0
Equity/Total Assets	**20.0**	19.1	18.1	16.8	13.5

CHAIRMAN'S STATEMENT

"Today, more than ever, Futurebank reaffirms its belief in its core values of embracing change and innovation, to chart a prosperous way forward."

On behalf of the Board of Directors of Futurebank, it is with great pleasure that I present the audited financial statements for the year ended December 31, 2013.

As evident from our year-end financial results, Futurebank emerged as a significantly fortified institution, poised on course to a promising tomorrow. The period under review signified nothing less than another milestone year in the Bank's consistent journey towards building a robust financial structure, enhancing both its profitability and growth prospects. Futurebank's current year performance reflected a record net profit of BD 11.0 million, as compared to BD 7.9 million in the previous year. This achievement has set a positively charged tone for all of Futurebank's operations moving forward, with the newly realized benchmark performance guiding us ahead.

Aligned with our firm commitment to enhancing our presence and viability across our key market, the implementation of various measures to boost Futurebank's business activities within the Kingdom of Bahrain served well to augment our asset base, which witnessed steady growth throughout the year. Futurebank's Balance Sheet grew by 5.9%, rising up from BD 546.4 million in 2012 to BD 578.8 million in 2013, as the Bank continued to enhance its positioning and penetration within various customer segments, by successfully servicing the needs of corporate and consumer finance clients, along with local retail customers.

With the region's smallest economy anticipating economic recovery in 2014, a widely held belief that a sustained recovery is well under way in the Kingdom of Bahrain is beginning to rally growth. Commercial banking activities therefore progressed at a brisk pace throughout the year and the Bank's performance was duly bolstered in line with our expectations and focused towards achieving our long-term goals. New business continued to be developed, aimed at increasing profitability, while solid steps were taken to strengthen new prospects and consolidate existing relationships. On both the financial & commercial fronts a focus on improving Futurebank's asset quality served us well throughout the year. Furthermore, prudent measures have also been taken to increase specific provisions to 100%, covering any non-performing portfolio elements and thereby negating any adverse effects which may impact on the Bank's overall strength in case of any further deterioration.

The year under review also witnessed a number of initiatives taken by the regulator towards strengthening the regulatory framework which is welcomed by the Bank as we believe that regulatory laws are essential to our business, and a crucial factor in maintaining investor confidence and guaranteeing that rights are protected. The financial crisis has forced many financial markets to adopt stricter measures towards financial institutions, centered mainly on liquidity and capital adequacy. Strategic mergers also featured prominently in 2013, and drove up capital requirements, while differentiating risky businesses from the ones deemed less volatile. This served as a necessary ingredient in making the overall financial system more reliable. With this back drop in mind, Futurebank maintained high levels of liquidity with sufficient capitalization. Our shareholders' equity went up to BD 115.6 million in 2013, as compared to BD 104.5 million achieved in the previous year, with a highly robust Capital Adequacy ratio which increased further from 22.7 % to 23.8% 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 2013 and remained committed to facilitating meaningful financial exchanges that would benefit the economies within the region.

Adding on to the year's highlights, another landmark development witnessed Futurebank moving its headquarters to a new state-of-the-art headquarter building in Al Seef area aptly named "Futurebank Tower". The new building's purpose is designed to accommodate our current requirements as well as future prospective growth within the region.

Today, more than ever, Futurebank reaffirms its belief in its core values of embracing change and innovation, to chart a prosperous way forward. Our perseverance and determination has led to a place where we now have much to look forward to. This holds especially true in the wake of the sustained improvements being witnessed across international relations with Islamic Republic of Iran. With these highly positive sentiments at hand, we take this opportunity to thank our esteemed customers and correspondents for their valuable associations, while extending our gratitude to the authorities in Bahrain, especially the Central Bank of Bahrain for their invaluable and ongoing support and guidance.

On behalf of our shareholders, the Board of Directors acknowledges with great appreciation the contributions of Futurebank's management and staff, who have placed in great efforts to maintain the highest standards of operational excellence across the Bank's operations.

By the grace of Allah the Almighty, Futurebank's Board of Directors stand confidently aligned with the Bank's strategic vision and renew the Bank's unique commitment to achieving progress and prosperity. We have taken in the year to achieve many goals and developing a lasting sense of confidence which inspires us to do more than ever before. Our efforts as always remain centered on complimenting the aspirations of our stakeholders and realizing a brighter, more vibrant future...together.

Dr. Abdolnaser Hemmati
Chairman

BOARD OF DIRECTORS

1. DR. ABDOLNASER HEMMATI - CHAIRMAN (Non-Independent and Executive Director)

Board Member since December 2013
Chairman , Managing Director & Board Member of Bank Melli Iran since 2nd December 2013, Chairman of Asian Reinsurance Corporation, Bangkok, Thailand since 2001, Associate Professor, University of Tehran

Ph.D. in Economics from the University of Tehran.

Over 25 years of experience as Vice-President of the Islamic Republic of Iran Broadcasting (IRIB) (1989-1994), President of Bimeh Markazi Iran (BMI) (Head of High Council of Insurance) (1994-2006), Chairman of Asian Reinsurance Corporation, Bangkok, Thailand (since 2001), Managing Director & C.E.O of Sina Bank, Tehran, Iran (2006-2013), and Chairman , Managing Director & Board Member of Bank Melli Iran since 2nd December 2013.

2. DR. HAMID BORHANI - DEPUTY CHAIRMAN (Non-Independent and Executive Director)

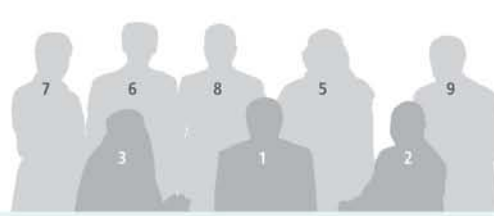
Board Member since 2006
CEO of Bank Saderat plc. – UK

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.

3. MR. A. AZIZ AHMED A. MALEK - DEPUTY CHAIRMAN *(Independent and Non-Executive Director)*

Board Member effective 2007

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.



4. **DR. VALIOLLAH SEIF** - DIRECTOR *(Independent and Non-Executive Director)*

Board Member since 2004 and up to 25.08.2013

Governor, Central Bank of Islamic Republic of 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, Board Member and Managing Director, Karafarin Bank.

5. **MR. ADEL AL MANNAI** - DIRECTOR *(Independent and Non-Executive Director)*

Board Member effective 2007
Board Member & CEO - Taib Bank, Bahrain effective 2011

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

6. **MR. GHOLAM H. ZAFERANI** - DIRECTOR *(Independent and Non-Executive Director)*

Board Member since 2004

Over 40 years of banking 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, CEO & MD of Arian E-Bank.

7. **MR. ABDOLREZA SHABAHANGI** - DIRECTOR (Non-Independent and Executive Director)

Board Member since December 2013
Director of International Division of Bank Sederat Assistant Regional Manager of Bank Saderat, Iran in the UAE.

BA in bank management from Iran's Institute of Banking. Degree in General Banking from American Institute of Banking, Member of Global Association of Risk Professionals.

Over 30 years of banking experience in various markets including Paris, New York, Frankfurt and UAE.

8. **MR. GHOLAM SOURI** - CEO & MANAGING DIRECTOR *(Non-Independent and Executive Director)*

Board Member since 2004

MBA in Banking from Iranian Banking Institution. Over 28 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.

9. **MR. ABBAS FATEMI TORSHEZI** - DEPUTY CEO & DIRECTOR *(Non-Independent and Executive Director)*

Board Member since 2004

BA in English Language, Tehran University. Over 43 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.

Although the Corporate Governance standards treat Dr. Hemmati, Dr. Borhani and Mr. Shabahangi as Non-Independent and Executive directors, the bank considers them as Independent & Non-Executive Directors as they are not involved in the day-to-day functioning of the bank.

CORPORATE GOVERNANCE

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.

On 26th August 2013, Dr. Valiollah Seif resigned as a Director of the bank due to his appointment as Governor of Central Bank of Islamic Republic of Iran. Subsequently on 11th December 2013, two more Directors, Dr. Abdolnaser Hemmati and Mr. Abdolreza Shabahangi were inducted as Directors of the bank. The Board includes eminent professionals representing various walks of life and the composition of the Board of Directors is in compliance 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; and

- 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 2013, 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 2013

Names of the Board Members	9 Feb	28 April	27July	1 Nov
Dr. Valiollah Seif	✓	×	✓	
Dr. Hamid Borhani	×	✓	✓	✓
Mr. Abdul Aziz Abdul Malik	✓	✓	✓	✓
Mr. Gholam Hussain Zafarani	✓	✓	✓	✓
Mr. Adel Mannai	✓	✓	✓	✓
Mr. Gholam Souri	✓	✓	✓	✓
Mr. Abbas Fatemi	✓	✓	✓	✓

Mr. Ravi Prakash- Head of Internal Audit remains 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.

AUDIT COMMITTEE OF THE BOARD

The Audit committee was first constituted on 07.07.2004. 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.

CORPORATE GOVERNANCE

- 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 2013

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 2013

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

Names of the Board Members	8 Feb	27 April	26 July	31 Oct
Dr. Valiollah Seif – Chairman of the Committee	✓	×	✓	
Mr. Abdul Aziz Abdul Malik	✓	✓	✓	✓
Mr. Gholam Hussain Zafarani	✓	✓	✓	✓
Dr. Hamid Borhani		✓		✓

- Dr. Hamid Borhani attended the meetings on 27th April and 31st October 2013 as an invitee.

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 and Corporate Governance Committee

The Nomination, Remuneration and 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 2013

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 and Remuneration committee were held to discharge the roles and responsibilities assigned to the Committee.

Dates and attendance of directors at Nomination, Remuneration and Corporate Governance committee meetings during 2013

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

Names of the Board Members	9 Feb	1 Nov
Mr. Abdul Aziz Abdul Malik - Chairman of the Committee	✓	✓
Dr. Hamid Borhani	×	✓
Dr. Valiollah Seif	✓	
Mr. Gholam Hussain Zafarani		✓

- On 1st November 2013, Mr. Gholam Hussain Zafarani was inducted as a member of the above committee.

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 2013

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 2013

The committee meets a minimum of four times a year

Names of the Board Members	08 Feb	26 April	26 July	31 Oct
Mr. Adel Al Mannai - Chairman of the Committee	✓	✓	✓	✓
Dr. Valiollah Seif	✓	×	✓	
Mr. Gholam Souri	✓	✓	✓	✓
Dr. Hamid Borhani		✓	✓	✓

- Dr. Hamid Borhani attended the meetings on 26th April and 26th July 2013 as an invitee. Subsequently on 27th July 2013, he was inducted as a member of the above committee.

ANNUAL GENERAL MEETING

The Annual General Meeting for the year 2012 was held on the 11th April 2013 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, 2013

"Adding on to the year's highlights, another landmark development witnessed Futurebank moving its headquarters to a new state-of-the-art headquarter building in Al Seef area aptly named "Futurebank Tower."

CEO'S STATEMENT & MANAGEMENT REVIEW

"Our efforts are firmly focused on ensuring that Futurebank's status within the Bahraini market gains the recognition which it deserves and that our customers gain from the trust which they have vested in our products and services."

Futurebank continued upon its journey of progress in 2013, delivering a record-breaking performance which strengthened its capabilities towards achieving its core strategic mission.

I am delighted to announce that Futurebank ended the year 2013 with a Net Profit of BD 11.0 million. This significant achievement marked a record breaking performance, which set a new benchmark for financial success spanning the Bank's entire history. The year witnessed our profits soaring by 38.9 percent, as compared to our Net Profit of BD 7.9 million in the previous year. We firmly believe that this positive outcome is the result of the Bank's prudent approach and resilience. The period under review was therefore underscored by a great deal of optimism and numerous initiatives aimed at strengthening Futurebank's financial structure and its core business assets. Further supporting this rally, the highly volatile market conditions which the Bank had faced in previous years also began to dissipate.

OPERATING ENVIRONMENT

As a more favorable economic outlook for the region in general, and the Kingdom of Bahrain in particular began to arise, Futurebank worked diligently throughout the year to build on this opportune period in light of its broader strategic mission. The year 2013 shaped the recovery of Bahrain's economy, with certain international pressures now also easing up to allow the Bank's operational activities to stabilize and gather momentum.

Futurebank also continued to focus on protecting the quality and viability of its asset base, while accelerating its growth and profitability framework. As a testament to its determination and endurance, Futurebank overcame numerous challenges in the previous years to post a very positive Balance Sheet in 2013, registering an increase of 5.9 percent from the previous year's position of BD 546.4 million in 2012 to BD 578.8 million in the current year, mainly attributable to the interbank portfolio which grew by BD 40.1 million.

Our strong liquidity position continued to enable us to retain customer confidence, as we registered a 10.8 percent increase (year on year basis) on our overall customer deposits in the current fiscal year, which went up from BD. 142.1 million in 2012 to BD. 157.3 million in 2013.

A strengthened and persistent focus on improving the quality of Futurebank's asset portfolio in 2013 resulted in enhanced recoveries made on the Non- Performing Assets (NPA), to the extent of BD 5 million. This achievement is largely credited to the efforts of the Special Assets Management team. As a result of recoveries and specific up-gradation, the gross NPAs dropped substantially by 26.5 percent. Stringent provisioning requirements saw an improvement in the bank's specific Provision Coverage ratio which also went up from 63.5 percent to 100 percent. A notable achievement which is unparalleled in the history of the bank. This ensured that the Bank's NPA's were fully covered, thus strengthening the Balance Sheet creating a robust financial structure.

On the operational side, Futurebank's overall operating expenses for 2013 amounted to BD 4.5 million, a marginal increase of 6.1 percent from the previous year primarily due to higher depreciation expenses attributed to our new head office premises. This costs increase was offset by lower other operating expenses which came down by 12.1 percent in the current year.

The Bank successfully and seamlessly shifted into its new landmark headquarter building aptly named "Futurebank Tower" in the prestigious Al Seef district which was realized without any service interruptions, and we owe a great deal of gratitude to the Central Bank of Bahrain, as well as the entire Futurebank team. The entire facility which is now up and running has redefined the banking experience impeccably combining high technology, efficiency and unparalleled facilities.

The enhanced safety and security of the Bank's physical assets, such as ATM machines, were taken into consideration during the year and additional security measures were initiated to get the highest level of protection.

Adhering to global financial services advancements and best practices, the Bank effectively implemented the Capital Adequacy Ratio automation project during the year and also followed through with the implementation of Compliance Monitoring Tools, acquired from Bench Matrix, a leading consultant. This fully automated, comprehensive tool, which brings all regulatory activities, internal policy and procedures under one compliance framework, will be delivered through a project, which officially commenced during October 2013 and is expected to be completed during this year. An associated e- learning compliance platform will also follow in due course.

CORPORATE, COMMERCIAL & RETAIL BANKING

Futurebank's financial solutions are designed to meet the diverse needs of both large and medium sized corporate clients. This portfolio currently encompasses working capital, trade finance and term loan products and facilities. The Bank's offerings are also geared towards the more discerning needs of high net worth Individuals in Bahrain. Futurebank's corporate banking activities focus on institutional banking inside of the Kingdom of Bahrain and the wider Middle East region.

At the heart of our personal working philosophy is the task of turning a financial product or service into an experience thereby defeating commoditization. Essentially it's about making the right people-product connect, connecting products to people or connecting solutions to problems. By developing a personal equation with our clients and placing great importance on the quality of this relationship, we ensure higher customer loyalty and employee productivity. Futurebank continued to extend corporate banking and retail banking facilities centered on business loan, mortgage finance, personal loans and auto financing that resulted in an increase in the volume of our corporate and retail loans disbursements during the year.

In the years to come, the Bank will continue to concentrate on small and medium sized enterprises to grow and seek quality business besides focusing on expanding its bouquet of product offerings, cross selling and strengthening the effectiveness of its customer services platform, to improve its market share in the local market.

CEO'S STATEMENT & MANAGEMENT REVIEW

INFORMATION TECHNOLOGY

Futurebank's IT infrastructure continued to be enhanced through the latest technological innovations and leveraged to enhance both service levels and safety across the entire spectrum of banking transactions. In 2013, new controls built around the core banking system were tested and thoroughly reviewed for efficiency and user friendliness. The implementation of a Benefit-Direct Debit facility was also finalized. The bank is set to roll out Corporate Credit reference Bureau from 2014 onwards, in coordination with Benefit, which will be a gigantic step towards helping the bank to enhance its efficiency of decision making capabilities by drastically reducing the risk of unknown credit history of corporate. New initiatives were launched to create a "Go-Green" culture in the work place knowing well that going green is the newer, smarter and corporate culture. All technology advancements were in compliance with the Bank's ISO 27001 standards. IT remains at the core of Futurebank's strategy and continues to be employed as a strategic business tool which enables us to achieve superior standards of customer service.

RISK MANAGEMENT

In the face of a rapidly changing business environment, the Bank's focus on its Risk Management framework continued unabated. Throughout the year, Futurebank continued to upgrade its risk mitigation policies.

A Risk and Control Self-Assessment (RCSA) review was duly conducted in September 2013 to ascertain the Bank's health and identify any short comings in its financial structure.

Two new measures were introduced to effectively strengthen Credit policies, namely "Loan Review Mechanism" and "Exception reporting".

Despite the strong emphasis on credit growth, Future bank continued to be pragmatic in its approach. These measures are envisioned to serve the bank well as the economic conditions now seem to be turning around. With lending & liquidity poised to accelerate and support the positive economic outlook across much of the region and Bahrain in particular, the bank is geared up to meet foreseeable business activity.

Futurebank also held formal staff training sessions on Operational Risk and Rating methodology, undertaken with an aim of improving the Bank's overall risk culture. Qualitative improvements in Futurebank's Key Risk Indicators reporting were also focused upon, while a 10 point action plan was launched in order to enhance the quality of loans, as approved by the Executive Risk Committee of the Board.

HUMAN RESOURCES

Futurebank's evolving business strategy and market needs require ongoing organizational changes, aimed at revamping its banking operations and building a world class banking institution. This 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.

During the year, Futurebank's HR function undertook a number of initiatives to increase the efficiency and effectiveness of the Bank's training programs, which included conducting learning sessions on Operational Risk Awareness and Credit processes. Staff training was intensified with the bank providing a total of 1004 training hours towards upgrading the skills of its employees. These programs were initiated successfully in 2013 and will continue on an ongoing basis, with an aim of converting the Bank into a learning-based organization.

Further initiatives included a Standard Operating Procedures test within the departments, along with a dedicated HR Development program which was commissioned and held especially for the Bank's senior executives.

In keeping with its commitment to providing its employees with a nurturing and wholesome work culture, the HR function also launched a birthday recognition program and a complementary healthcare program which is envisioned to benefit all Bank employees.

FUTURE OUTLOOK

In light of the optimistic outlook achieved in 2013, Futurebank strengthens its resolve to deliver greater value and returns to its customers and shareholders, while partnering the ever evolving needs of its stakeholders in Bahrain.

Futurebank remains confident about its capabilities, strengths and willingness to face any challenges which the volatile external environment may present. We stand energized about the opportunities coming online in Bahrain and across the rest of the region. The year under review provided us with a much needed opportunity to

streamline our evolving business strategy, which continues to remain under constant watch and keeps us renewed. A variety of significant improvements has already been made and will continue to be realized well into the upcoming 2014-2015 period. Our efforts are firmly focused on ensuring that Futurebank's status within the Bahraini market gains the recognition which it deserves and that our customers gain from the trust which they have vested in our products and services. We will be keeping the conversation going in order to stay connected to our customers.

As a resilient challenger of adversity, Futurebank proceeds into the future with a keen eye on its mission, driven by an unrivalled sense of duty and integrity.

The Bank aligns its beliefs, expectations and goals with realistic level of optimism, knowing well that thinking prosperity and building confidence remain keys to our success.

I take this opportunity to thank Futurebank's Board members, its entire professional team, our valued clients and our esteemed shareholders for their immense support over the years, while extending my fullest gratitude to the gracious authorities in Bahrain for their thorough guidance and unwavering commitment to Futurebank's sustained success.

Mr. Gholam Souri
Chief Executive Officer & Managing Director

GROUP MANAGEMENT

MR. GHOLAM SOURI
Chief Executive Officer & Managing Director

MBA in Banking from Iranian Banking Institution. Over 28 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 24 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

Over 17 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 28 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 36 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 27 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 32 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 (India). CIA from Institute of Internal Auditors (USA). Over 32 years of banking experience mainly in Internal Audit, Operations, 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 29 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. HOSSEIN REZAEE NICO
Head of Systems, Administration and Services

Master's Degree in Interational Business from Wollonong University, Australia. Over 24 years of banking experience holding various senior managerial positions mainly Information Technology & Systems, Treasury and Investment, Trade Finance, Strategic Planning and Developments.
Joined the bank in August 2013

MR. ALI GHULOOM HASSAN MALALLA
Head of Credit Department

Bachelor's Degree in Accounting and MBA holder in Finance. Over 11 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 15 years of work experience, of which 8 years of experience was in the Human Resources 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 33 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 Disclosure Committee which is held on a half yearly basis, 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.

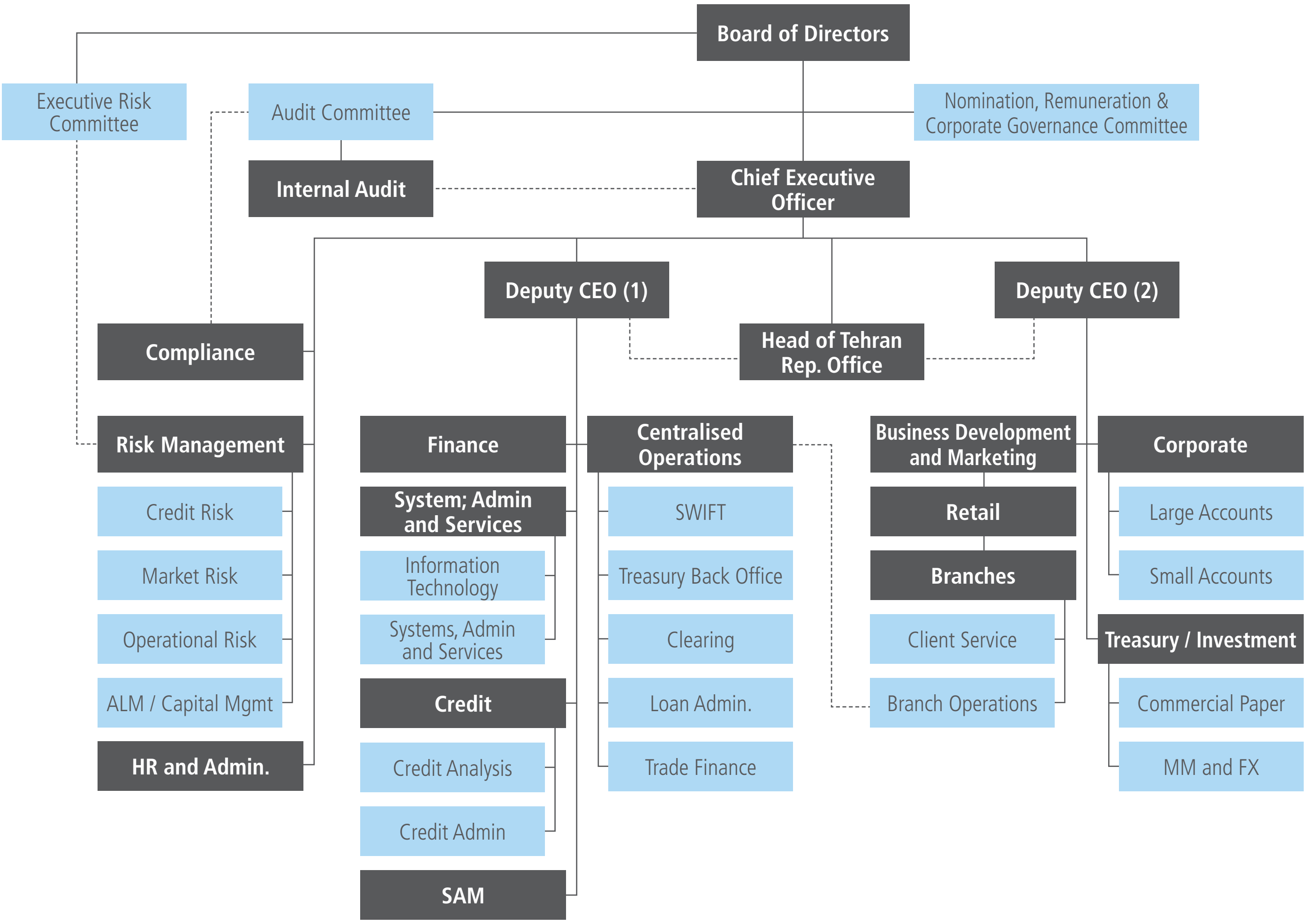
Information Technology Committee

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

Futurebank's robust operating performance has resulted in a record net profit of BD 11.0 million, registering an increment of 38.9 percent over last year's net profit of BD 7.9 million. This exemplary growth is primarily attributable to the steady revenue earned by the bank and the lower provisioning requirement of the bank in the current year as compared to its previous years. In fact 2013 has been quite a year of reflection, considering that the environment within which the bank functioned continued to be volatile.

In spite of the challenging operating environment witnessed by the bank throughout the year, the Bank's net operating income rose to BD 15.5 million during 2013 as compared to BD 12.2 million in the previous year, marking an increase by 27.5 percent over the previous year's level primarily due to the absence of any further goodwill impairment and also lower level of provisioning as compared to the previous 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 all its principal business activities. This was amply reflected in its Return on Average Equity ratio, which increased to 10.3 percent on a higher capital base for the full year, as compared to 7.9 percent in the previous year 2012.

The Bank's net interest income also remained steady at BD 20.4 million as compared to BD 20.1 million in the previous year showing a marginal improvement by 1.4 percent over the previous year. This was achieved mainly due to the lower interest expenditure incurred by the bank on its borrowings costs. The current volumes in loans & advances saw an increased focus on the local regional market during the current year.

Considering the markets within which the Bank operates, the sustainability in its margins helped Futurebank in maintaining its earnings, as well as increasing its profitability to sustainable levels. This prudent use of liquidity positions and the deployment of net available funds resulted in sustaining the net interest margin at 3.7 percent, which was at the same level as in the previous year.

The recent regulatory changes taking shape across global financial markets served well to inspire optimism, encouraging individual markets to overcome the financial hurdles and maintain investor confidence. The bank managed to control its exposure to IRR (Iranian rial) despite its significant drop, which was again at the same level as the previous year. The fees and commission income along with other operating income however witnessed a marginal drop in earnings from BD 0.8 million in the previous year to BD 0.5 million in the current year.

Although the Bank's total operating expenses increased marginally from BD 4.2 million to BD 4.5 million, i.e. by BD 0.3 million for a comparative 6.1 percent increase over the previous year, they were mainly allocated to depreciation costs on the new H.O. building in Seef area. Staff Costs were kept under control with a marginal inflationary increase of 6.5% in the current year; however substantial savings in expenditure was achieved by the bank on its other operating expenditure, which was lower by almost 12.1% during the current year of 2013, as compared to 2012. Thus despite the above increase in depreciation costs, the Cost to Income ratio increased only marginally from 20.7 percent to 21.9 percent during the current year.

The Bank follows stringent norms for the provisioning requirements in line with the International Accounting Standard (IAS) 39 on its non-performing portfolio. Net provisions to the extent of BD 4.5 million were allocated during the year, which when compared to the previous year were lower by 29.7%. Besides, the Bank also made additional collective impairment provision during the year by BD 0.9 million. Thus in addition to the specific provision, the bank now holds significantly higher collective impairment provision to the extent of BD 8.4 million, up from BD 7.4 million in the previous year. Consequent to these additional provisions made during the year, the provision coverage ratio as of year-end 2013 increased to 100 percent when compared to 63.5 percent as recorded in the previous year. Consequently as on 31st December 2013, all the non-performing loans stood fully covered towards making a healthier and a stronger Balance sheet.

BALANCE SHEET

The Bank's balance sheet has grown from BD 546.4 million to BD 578.8 million. This represents a modest but important increase of 5.9 percent in the Bank's total assets, which under the current scenario of restrictions and the global financial crisis is credible.

This growth in the Balance sheet size is attributable mainly to the increase in the interbank portfolio which increased from BD 330.2 million to BD 370.4 million, an increase by BD 40.2 million, up by 12.2 percent as compared to the previous year. The Inter-bank portfolio now comprises of 64 percent of the Bank's total assets, compared to 60.4 percent in the previous year. The Bank 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 46.6 million as compared to BD 53.7 million in the previous year. The Bank does not see any risks associated with these securities.

The bank continues to retain substantial liquidity, with cash and placements with the Central Bank of Bahrain (including investments in sukuks & financial instruments) aggregating to BD 53.3 million as at the year-end 2013 (previous year BD 45.1 million). During the year, the Bank continued to adopt a flexible approach to its asset mix which was instrumental in yielding better returns. The Bank's asset allocation model has continued to focus more on small & medium term business besides the corporate customers which comprises of the core element of its Loans & Advances portfolio.

The gradual reduction in the Net Loans & Advances portfolio in the previous years which was mainly due to the repayment of the Iranian portfolio was reversed in the current year and the portfolio in fact registered a marginal increase of 0.5 percent during the current year as compared to a previous year's drop of 20.2 percent. Thus Net Loans &

Advances remained steady and stood at BD 113.3 million during 2013, as compared to BD 112.8 million in the previous year. This was possible mainly due to the Bank's shifting focus on increasing bilateral loans with other GCC and Bahraini based customers. Loans & Advances now comprises of 19.6 percent of the Balance sheet size, as compared to 20.6 percent in the previous year.

Inter-bank deposits continue to form major sources 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 51.8 percent, as compared to 53.7 percent in the previous year. For the year ended 2013, the loans to customer deposit ratio stood at 72 percent, compared to 79.4 percent in the previous year.

With the increased focus of the bank on its local business, customer deposits grew by BD 15.3 million i.e. by 10.8 percent to stand at BD 157.3 million as at year end 2013, up from BD 142.1 million at the end of 2012. Equity before appropriation increased to BD 115.6 million at the end of 2013, up from BD 104.5 million at the end of the previous year. Equity to Total assets accounted for 20 percent of the Total assets of the Bank, as compared to 19.1 percent in the previous year.

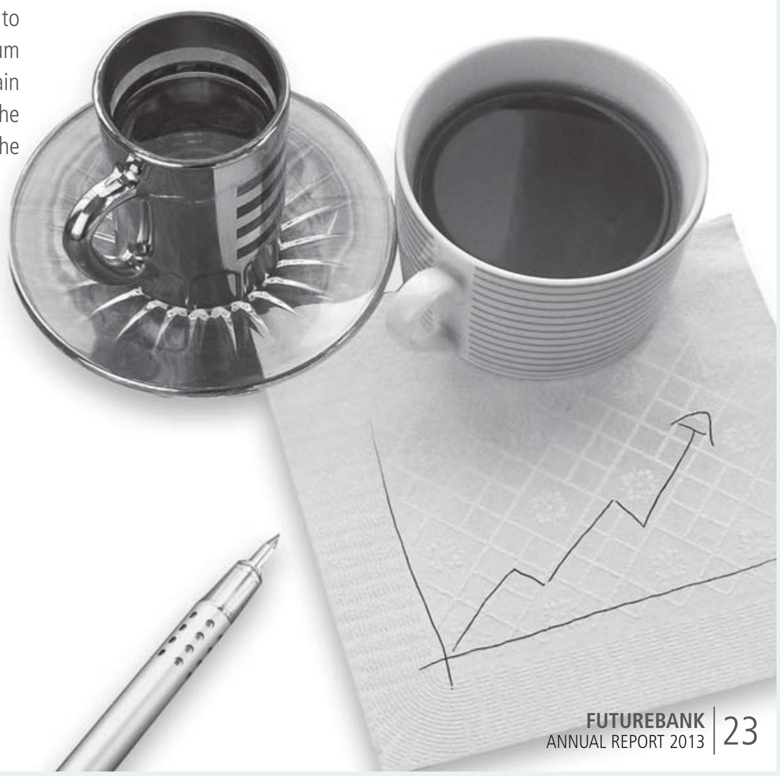
The outlook for the country's banking sector is cautiously optimistic with the wheels of economic growth turning positive. Bahrain's economy is expected to benefit from increased government spending and deployment of the GCC development fund.

With the aforementioned backdrop, Futurebank will strengthen its focus towards sectoral funding and has been proactively ensuring the maintenance of strong liquidity and the capital positions to grow and expand its business and customer base. Towards this goal the Bank has ensured its adherence to the Capital requirements regulations as well as its compliance with the Capital Adequacy standards towards the Basel-II requirement, along with its Pillar III disclosures. The Bank's Capital adequacy ratio stood at a very healthy 23.8 percent as compared to 22.7 percent in the previous year, which is higher than the minimum requirement of 12 percent, as prescribed by the Central Bank of Bahrain (CBB) for banks operating in Bahrain. The above ratio is based on the guidelines issued by the CBB which are in line with those issued by the Basel committee for measuring risk weighted assets.

Futurebank

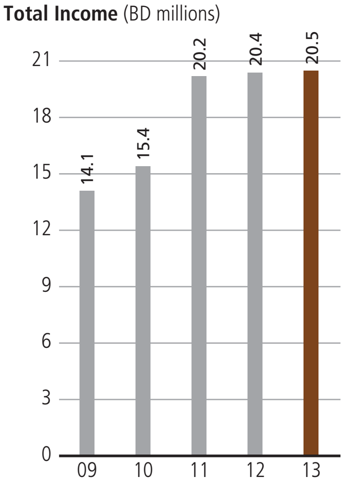
still personal

KEEPING THE CONVERSATION GOING

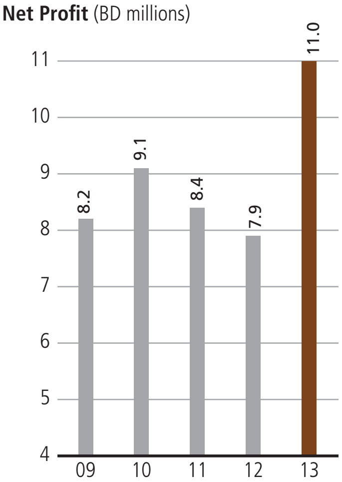


FINANCIAL REVIEW

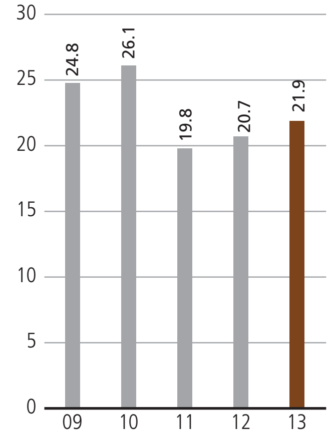
Total Income (BD millions)



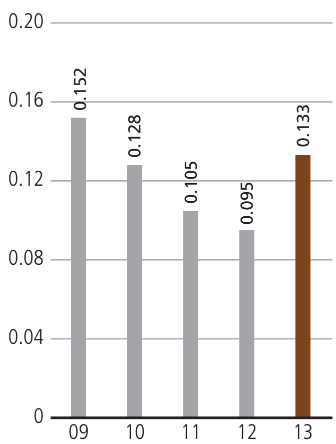
Net Profit (BD millions)



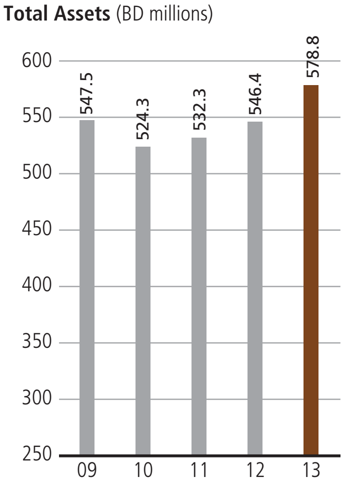
Cost / Income Ratio (Per cent)



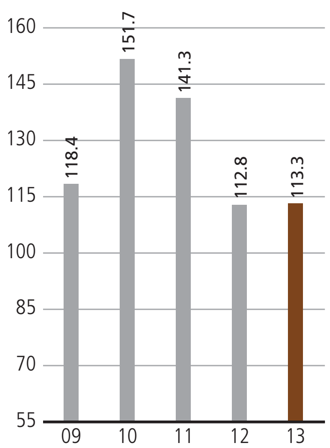
Earning per Share (BD)



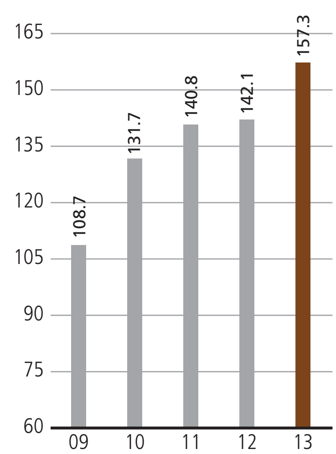
Total Assets (BD millions)



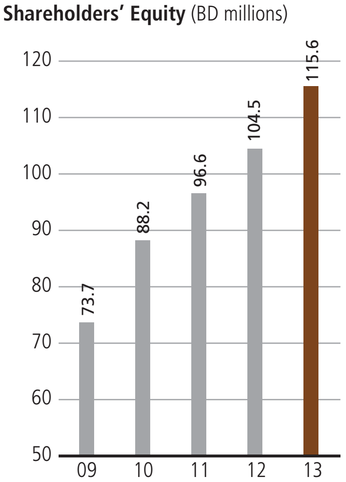
Loans and Advances (BD millions)



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 2013, 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 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 at 31 December 2013, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other regulatory requirements

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

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

b) the financial information contained in the Report of the Board of Directors 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 2013 that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests.

Ernst & Young

30 January 2014

Manama, Kingdom of Bahrain

STATEMENT OF COMPREHENSIVE INCOME Year ended 31 December 2013

	Note	2013 BD'000	2012 BD'000
Interest and similar income	5	29,095	31,183
Interest expense and similar charges	6	8,740	11,110
Net interest income		20,355	20,073
Net fees and commission income	7	472	691
Net losses from foreign currencies		(387)	(337)
Write off of property and equipment		(1)	(15)
Other operating income		67	66
		151	405
OPERATING INCOME		20,506	20,478
Provision for loan losses - net	11	4,515	6,419
Impairment of other assets		479	-
Impairment of goodwill	16	-	1,892
NET OPERATING INCOME		15,512	12,167
Staff expenses		2,442	2,293
Depreciation		694	396
Other operating expenses		1,359	1,546
TOTAL OPERATING EXPENSES		4,495	4,235
NET PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		11,017	7,932

(Chairman)

(CEO and Managing Director)

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

STATEMENT OF FINANCIAL POSITION At 31 December 2013

	Note	2013 BD'000	2012 BD'000
ASSETS			
Cash and balances with central banks	9	35,159	36,033
Due from banks	10	370,371	330,193
Loans and advances to customers	11	113,294	112,762
Non-trading investments	12	47,069	54,070
Other assets	13	3,788	3,536
Property and equipment	15	9,144	9,785
TOTAL ASSETS		578,825	546,379
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks		237,450	233,775
Customers' deposits	17	157,337	142,063
Medium term borrowings	18	62,531	59,875
Other liabilities	19	5,946	6,122
Total liabilities		463,264	441,835
EQUITY			
Share capital	20	83,100	83,100
Statutory reserve	21	7,741	6,639
Retained earnings		24,720	14,805
Total equity		115,561	104,544
TOTAL LIABILITIES AND EQUITY		578,825	546,379

(Chairman)

(CEO and Managing Director)

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

FINANCIAL STATEMENT

STATEMENT OF CASH FLOWS Year ended 31 December 2013

	Note	2013 BD'000	2012 BD'000
OPERATING ACTIVITIES			
Net profit for the year		11,017	7,932
Adjustments for non-cash items:			
Depreciation		694	396
Provision for loan losses - net	11	4,515	6,419
Impairment of other assets	11	479	-
Write off of equipment		1	15
Impairment of goodwill	16	-	1,892
		16,706	16,654
Changes in operating assets and liabilities:			
Mandatory reserve deposit with the Central Bank of Bahrain		(548)	15
Due from banks		30,693	38,899
Loans and advances to customers		(5,047)	22,086
Other assets		(731)	(759)
Due to banks		3,675	2,132
Customers' deposits		15,274	1,294
Other liabilities		(176)	1,460
Net cash from operating activities		59,846	81,781
INVESTING ACTIVITIES			
Purchase of non-trading investments		(85,784)	(75,697)
Proceeds from maturity of non-trading investments		92,785	58,138
Purchase of equipment		(54)	(2,901)
Net cash from (used in) investing activities		6,947	(20,460)
FINANCING ACTIVITY			
Medium term borrowings *	18	2,656	1,262
Net cash from financing activity		2,656	1,262
INCREASE IN CASH AND CASH EQUIVALENTS		69,449	62,583
Cash and cash equivalents at the beginning of the year		312,335	249,752
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	14	381,784	312,335

* The movement in medium term borrowings is a non cash item and represents a foreign currency translation of the medium term borrowings which are denominated in Euro.

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

STATEMENT OF CHANGES IN EQUITY Year ended 31 December 2013

	Share capital BD'000	Statutory reserve BD'000	Retained earnings BD'000	Total BD'000
Balance at 1 January 2013	83,100	6,639	14,805	104,544
Total comprehensive income for the year	-	-	11,017	11,017
Transfer to statutory reserve (note 20)	-	1,102	(1,102)	-
Balance at 31 December 2013	83,100	7,741	24,720	115,561
Balance at 1 January 2012	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 2013

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 four branches in the Kingdom of Bahrain. The address of the Bank's registered office is P. O. Box 785, Al Seef, Kingdom of Bahrain.

The financial statements for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the directors on 30 January 2014.

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 CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association.

Accounting convention

The 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:

IFRS 9 Financial Instruments

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

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Bank, since the Bank does not have equity interest in other entities which would qualify as investment entities.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2013

2 BASIS OF PREPARATION (continued)

IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014.

IFRIC Interpretation 21 Levies (IFRIC 21)

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

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 Impairment of Assets

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

New and amended standards and interpretations effective as of 1 January 2013

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

IFRS 1 First-time Adoption of International Financial Reporting Standards - Government Loans - Amendments to IFRS 1

The amendments did not have any impact on the Bank's financial statements.

IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7

The amendment requires an entity to disclose information about rights to set-off financial instruments and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether the financial instruments are set off in accordance with IAS 32. As the Bank does not set off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have an impact on the Bank's disclosures.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns. IFRS 10 had no impact on the consolidation of investments held by the Bank.

IFRS 11 Joint Arrangements, IAS 31 Interests in Joint Ventures

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

IFRS 11 had no impact on the financial statements of the Bank.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2013

2 BASIS OF PREPARATION (continued)

New and amended standards and interpretations effective as of 1 January 2013 (continued)

IFRS 12 Disclosure of Interests in Other Entities

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

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the fair value measurements carried out by the Bank.

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

The amendments to IAS 1 introduce a Banking of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affected presentation only and had no impact on the Bank's financial position or performance.

IAS 1 Clarification of the requirement for comparative information (Amendment)

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

An opening statement of financial position (known as the 'third balance sheet') must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes. Under IAS 34, the minimum items required for financial statements do not include a third balance sheet.

IAS 19 Employee Benefits

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

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

Improvements to IFRSs (2009-2011 Cycle)

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

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

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2013

2 BASIS OF PREPARATION (continued)

New and amended standards and interpretations effective as of 1 January 2013 (continued)

Improvements to IFRSs (2009-2011 Cycle) *(continued)*

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

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 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 loans and advances portfolio at each reporting date to assess whether an allowance for impairment should be recorded in the statement of comprehensive 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.

4 SIGNIFICANT ACCOUNTING POLICIES

Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency at the rate of exchange prevailing 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 2013

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (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 profit or loss.

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 profit or loss 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, if any. 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, loans and advances to customers and interest receivable

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. 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 profit or loss. 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) Medium term borrowings and due to banks

Medium term borrowings and due to banks are stated at amortised cost using the effective interest rate method.

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 Bank 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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets and financial liabilities (continued)

(i) Financial assets (continued)

- 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.

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 Bank 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 Bank 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.

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 Banks 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 2013

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

Interest and similar income is recognised on a time apportioned basis over the period of the contract based on principal amount outstanding and on the effective interest rate. Interest is suspended when a counterparty is past due for more than 90 days.

(ii) Fees and commission income

Fee and commission income is recognised when earned. Fee and commission income related to syndicated facilities is recognised over the period of the facility.

Property and equipment

Premises and equipment are stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value, if any.

Depreciation is calculated using the straight-line method to write down the cost of premises and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

	Years
Premises	30
Equipment	5
Motor vehicles and office furniture	5

An item of premises and 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 recognised in the consolidated statement of 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 ninety days or less.

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.

5 INTEREST AND SIMILAR INCOME

	2013 BD'000	2012 BD'000
Loans and advances to customers	11,737	11,329
Due from banks	15,387	17,562
Non-trading investments	1,971	2,292
	29,095	31,183

6 INTEREST EXPENSE AND SIMILAR CHARGES

	2013 BD'000	2012 BD'000
Due to banks	4,015	6,100
Customers' deposits	4,169	4,180
Medium term borrowings	556	830
	8,740	11,110

7 NET FEES AND COMMISSIONS INCOME

	2013 BD'000	2012 BD'000
Fees and commissions income	483	700
Fees and commissions expense	(11)	(9)
	472	691

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2013

8 CLASSIFICATION OF FINANCIAL INSTRUMENTS

The Bank's financial instruments have been classified in accordance with the measurement basis as follows:

As at 31 December 2013	Available-for-sale BD'000	Held to maturity BD'000	Amortised cost BD'000	Total BD'000
Financial assets				
Balances with central banks	-	-	33,205	33,205
Due from banks	-	-	370,371	370,371
Loans and advances to customers	-	-	113,294	113,294
Non-trading investments	46,595	474	-	47,069
Other assets	-	-	3,573	3,573
	46,595	474	520,443	567,512
Financial liabilities				
Due to banks	-	-	237,450	237,450
Customers' deposits	-	-	157,337	157,337
Medium term borrowings	-	-	62,531	62,531
Other liabilities	-	-	5,946	5,946
	-	-	463,264	463,264

As at 31 December 2012	Available-for-sale BD'000	Held to maturity BD'000	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

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2013

9 CASH AND BALANCES WITH CENTRAL BANKS

	Note	2013 BD'000	2012 BD'000
Cash in hand		1,954	1,726
Balances with the Central Bank of Bahrain:			
Current account		591	459
Mandatory reserve deposit	9.1	5,135	4,587
Time deposit		20,800	13,000
Current account with the Central Bank of Iran		6,679	16,261
		35,159	36,033

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

10 DUE FROM BANKS

	Note	2013 BD'000	2012 BD'000
Placements	10.1	370,371	325,804
Bills discounted		-	4,389
		370,371	330,193

10.1 Placements include a Euro blocked deposit equivalent to BD 18.31 million (31 December 2012: BD 17.53 million) with a shareholder of the Bank, Bank Saderat Iran ("BSI"). This deposit is, backed by a deposit of an equivalent amount placed with the Bank by BSI.

11 LOANS AND ADVANCES TO CUSTOMERS

	2013 BD'000	2012 BD'000
Retail	14,274	15,743
Corporate	126,110	120,625
	140,384	136,368
Less: Provision for loan losses	(23,703)	(19,366)
Less: Suspended interest	(3,387)	(4,240)
	113,294	112,762

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2013

11 LOANS AND ADVANCES TO CUSTOMERS (continued)

The movements in provision for credit losses were as follows:

	2013			2012		
	Retail BD'000	Corporate BD'000	Total BD'000	Retail BD'000	Corporate BD'000	Total BD'000
At 1 January	952	18,414	19,366	995	11,992	12,987
Charge for the year	36	9,952	9,988	123	8,169	8,292
Recoveries	(164)	(5,309)	(5,473)	(126)	(1,747)	(1,873)
Net (recoveries) provision	(128)	4,643	4,515	(3)	6,422	6,419
Amounts written off	(45)	(133)	(178)	(40)	-	(40)
At 31 December	779	22,924	23,703	952	18,414	19,366
Specific provision	779	14,553	15,332	952	10,987	11,939
Collective provision	-	8,371	8,371	-	7,427	7,427
Total provision	779	22,924	23,703	952	18,414	19,366
Gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance	1,471	17,246	18,717	1,829	23,649	25,478

The estimated value of collateral held by the Bank against individually impaired loans amounted to BD 33.540 million as at 31 December 2013 (31 December 2012: BD 40.5 million). The collateral consists of cash, equity securities and properties. The Bank also obtains guarantees 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.

Collateral repossessed

During the year, the lead arranger of a syndicated facility in which the Bank is a participant had repossessed lands with a carrying value of BD 12.6 million, out of which the Bank has a right towards 12% of the land. The land is currently under the possession of the arranger bank. The Bank has classified the land under other assets at a carrying value of BD 1 million.

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.

12 NON-TRADING INVESTMENTS

	2013			2012		
	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
Unquoted						
Iranian Corporate bonds	16,318	464	16,782	23,701	408	24,109
Government bonds	302	-	302	-	-	-
Treasury bills	12,112	-	12,112	22,641	-	22,641
Sukuks	17,863	-	17,863	7,310	-	7,310
Equity	10	-	10	10	-	10
	46,605	464	47,069	53,662	408	54,070

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

Government bonds are bonds issued by Central Bank of Iran.

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

All available for sale investments are carried at cost as their fair value is estimated to aproximate their cost considering the short term nature of these investments.

13 OTHER ASSETS

	2013 BD'000	2012 BD'000
Interest receivable	2,482	3,385
Sundry debtors and prepayments	276	151
Repossessed asset (land)	1,030	-
	3,788	3,536

14 CASH AND CASH EQUIVALENTS

	2013 BD'000	2012 BD'000
Cash and balances with central banks excluding mandatory reserve deposit (Note 9)	30,024	31,446
Due from banks with original maturities of ninety days or less	351,760	280,889
	381,784	312,335

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2013

15 PROPERTY AND EQUIPMENT

	Land BD'000	Building BD'000	Furniture, Equipment and Vehicles BD'000	Capital work in progress BD'000	Total BD'000
As at 1 January 2013	1,329	-	1,418	7,038	9,785
Addition	-	-	26	30	56
Disposal	-	-	(4)	-	(4)
Transfer	-	6,101	895	(6,996)	-
Depreciation	-	(203)	(490)	-	(693)
As at 31 December 2013	1,329	5,898	1,845	72	9,144
As at 1 January 2012	1,329	-	1,617	4,349	7,295
Addition	-	-	22	3,123	3,145
Disposal	-	-	(260)	-	(260)
Transfer	-	-	434	(434)	-
Depreciation	-	-	(395)	-	(395)
As at 31 December 2012	1,329	-	1,418	7,038	9,785

16 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.

Due to the 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, during the year 2012, management has assessed the goodwill to be fully impaired. Accordingly, an impairment loss of BD 1.89 million has been recognised during the year 2012 resulting in the carrying value of goodwill to be nil as of 31 December 2012 and there after.

17 CUSTOMERS' DEPOSITS

	2013 BD'000	2012 BD'000
Current and call accounts	26,248	14,404
Savings accounts	8,740	7,576
Term deposit accounts	122,349	120,083
	157,337	142,063

18 MEDIUM TERM BORROWINGS

	2013		2012	
	Interest rate	BD'000	Interest rate	BD'000
Bank Saderat Iran (Euro 30 million) (repayable in bullet in January 2016)	Libor + 25 basis points	15,633	Libor + 25 basis points	14,969
Bank Melli Iran (Euro 30 million) (repayable in bullet in November 2016)	Libor + 25 basis points	15,633	Libor + 25 basis points	14,969
Bank Melli Iran (Euro 30 million) (repayable in bullet in August 2016)	Libor + 150 basis points	15,633	Libor + 150 basis points	14,969
Bank Tejarat Iran (Euro 30 million) (repayable in bullet in May 2016)	Libor + 25 basis points	15,632	Libor + 25 basis points	14,968
		62,531		59,875

19 OTHER LIABILITIES

	2013 BD'000	2012 BD'000
Interest payable	742	886
Staff related accruals	996	856
Accounts payable	2,406	1,922
Other	1,802	2,458
	5,946	6,122

20 SHARE CAPITAL

	2013 BD'000	2012 BD'000
Authorised:		
100 million (31 December 2012: 100 million) ordinary shares of BD 1 each	100,000	100,000
Issued and fully paid:		
As at the beginning and end of the year 83.1 million (31 December 2012: 83.1 million) ordinary shares of BD 1 each	83,100	83,100

21 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.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2013

22 RELATED PARTY TRANSACTIONS

Related parties represent shareholders, directors and key management personnel of the Bank, and entities controlled, jointly controlled or significantly influenced by such parties. Transactions with related parties are conducted on an arms length basis. Placements and Loans and advances to related parties are performing and no provision have been booked against these.

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

	2013 BD'000	2012 BD'000
Statement of financial position		
Shareholders and related parties		
Placements and Bank balances with shareholders (included in due from banks) *	174,032	164,726
Loans and advances to other related parties (included in loans and advances) **	-	766
Deposits from shareholders (included in due to banks) *	25,052	25,724
Medium term borrowings *	46,898	44,907
Directors and key management personnel		
Loans and advances	30	29
Deposits	276	203

	2013 BD'000	2012 BD'000
Statement of comprehensive income		
Shareholders and related parties		
Interest income from shareholders*	5,614	4,966
Interest income from other related parties**	-	113
Interest expense *	938	1,156

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

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

22 RELATED PARTY TRANSACTIONS (continued)

Key management compensation

The key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank directly or indirectly. The key management comprises the executive directors and the heads of various departments. The compensation for key management personnel, including executive directors for the year is as follows:

	2013 BD'000	2012 BD'000
Salaries and other short term benefits	655	619
End of service benefits	30	24
	685	643

In 2013 directors' sitting fees amounted to BD 62.2 thousand (2012: BD 53.8 thousand).

23 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:

	2013 BD'000	2012 BD'000
Commitments on behalf of customers:		
Letters of guarantee	4,315	4,511
	4,315	4,511

Other Commitments:

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

	2013 BD'000	2012 BD'000
Within one year	225	252
One to five years	120	40
	345	292

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2013

24 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:

	2013 BD'000	2012 BD'000
Tier 1 capital	115,561	104,544
Tier 2 capital	5,936	5,653
Capital base	121,497	110,197
Credit risk weighted exposure	474,907	452,215
Operational risk weighted exposure	35,084	31,123
Market risk weighted exposure	935	2,428
Total risk weighted exposure	510,926	485,766
Capital adequacy	23.8%	22.7%
Minimum requirement	12.0%	12.0%

The Bank has adopted the Basel II guidelines as adopted by the Central Bank of Bahrain for calculation of the capital adequacy ratio.

25 RISK MANAGEMENT

Introduction

Risk is inherent in the Bank's activities and 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 and 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 2013. 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 Executive Risk Committee of the Board.

Board of directors

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

25 RISK MANAGEMENT (continued)

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 .

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.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2013

25 RISK MANAGEMENT (continued)

Risk mitigation (continued)

The main types of collateral obtained are as follows:

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

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.

26 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 Banks 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, and collateral arrangements with counterparties, and limits the duration of exposures.

26 CREDIT RISK (continued)

(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 2013 BD'000	Gross maximum exposure 2012 BD'000
Balances with central banks	33,205	34,307
Due from banks	370,371	330,193
Loans and advances to customers	113,294	112,762
Non-trading investments	47,059	54,060
Other assets	2,543	3,444
	566,472	534,766
Commitments and contingent liabilities	4,315	4,511
Total credit risk exposure	570,787	539,277

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

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

	2013			2012		
	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)	126,477	110,162	4,315	118,379	98,894	4,511
Iran and Middle East countries*	439,936	353,100	-	416,330	342,921	-
Europe and North America	59	2	-	57	20	-
	566,472	463,264	4,315	534,766	441,835	4,511
Industry sector:						
Trading and manufacturing	39,748	3,424	108	38,293	1,012	131
Banks and financial institutions	451,997	305,686	3	431,742	300,115	3
Construction and real estate	36,873	538	4,174	43,262	2,345	4,049
Other	37,854	153,616	30	21,469	138,363	328
	566,472	463,264	4,315	534,766	441,835	4,511

* A substantial part of these exposures relate to Iran.

As of 31 December 2013, the exposure to a single largest counterparty amounts to BD 130.8 million (2012: BD 126.7 million).

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2013

26 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 2013				
	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	33,205	-	-	-	33,205
Due from banks					
Placements	-	370,371	-	-	370,371
Loans and advances	-	-	-	-	-
Loans and advances to customers					
Retail	2,423	9,654	726	1,471	14,274
Corporate	4,005	99,287	5,572	17,246	126,110
Non-trading investments	47,059	-	-	-	47,059
Other assets	-	2,543	-	-	2,543
Commitments and contingent liabilities	4,315	-	-	-	4,315
	91,007	481,855	6,298	18,717	597,877

	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	61,554	22,988	23,649	120,625
Non-trading investments	54,060	-	-	-	54,060
Other assets	-	3,444	-	-	3,444
Commitments and contingent liabilities	4,511	-	-	-	4,511
	111,628	401,944	23,833	25,478	562,883

26 CREDIT RISK (continued)

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

31 December 2013

	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	600	108	18	726
Corporate*	4,952	431	189	5,572
	5,552	539	207	6,298

* Subsequent to the year end, BD 5.492 Million (2012: BD 8.109 million) of the corporate loans and advances portfolio have been transferred from the past due but not impaired loans category to neither past due nor impaired upon collection of the related over dues.

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	1,791	22,988
	12,849	8,852	2,132	23,833

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

(e) Carrying amount of loans for which terms have been renegotiated during the year are as follows:

	2013 BD'000	2012 BD'000
Loans and advances to customers		
Retail	35	1,752
Corporate	12,075	21,607
Total renegotiated loans	12,110	23,359

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.

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2013

27 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.

27.1 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 2013 and 2012.

	31 December 2013		31 December 2012	
	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	288	100	105
Bahraini Dinars	100	267	100	115
Euro	100	(167)	100	(210)
Iranian Rials	100	3	100	6

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

27.2 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 2013 and 2012. 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 2013		31 December 2012	
Currency	Change in exchange rate in %	Effect on profit 2013 BD'000	Change in exchange rate in %	Effect on profit 2012 BD'000
Euro	10	95	10	216
Swiss Francs	10	(2)	10	(2)
Iranian Rials	20	63	20	154

28 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 2013 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	30,024	-	-	-	30,024	-	-	5,135	35,159
Due from banks	188,108	181,961	-	302	370,371	-	-	-	370,371
Loans and advances to customers	8,178	9,395	11,591	44,476	73,640	35,441	4,213	-	113,294
Non-trading investments	4,900	7,855	3,343	3,000	19,098	21,838	6,123	10	47,069
Other assets	1,265	966	59	226	2,516	1,230	42	-	3,788
Property and equipment	-	-	-	-	-	-	-	9,144	9,144
Total assets	232,475	200,177	14,993	48,004	495,649	58,509	10,378	14,289	578,825
Liabilities									
Due to banks	185,564	33,514	-	18,372	237,450	-	-	-	237,450
Customers' deposits	12,238	11,801	-	-	24,039	133,298	-	-	157,337
Medium term borrowings	-	-	-	-	-	62,531	-	-	62,531
Other liabilities	5,439	160	31	72	5,702	240	4	-	5,946
Total liabilities	203,241	45,475	31	18,444	267,191	196,069	4	-	463,264
Net liquidity gap	29,234	154,702	14,962	29,560	228,458	(137,560)	10,374	14,289	
Cumulative liquidity gap	29,234	183,936	198,898	228,458	228,458	90,898	101,272	115,561	

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2013

28 LIQUIDITY RISK (continued)

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	

28 LIQUIDITY RISK (continued)

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2013 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 2013						
Due to banks	1,862	217,588	72	18,454	-	237,976
Customers' deposits	36,532	74,244	18,133	22,796	8,197	159,902
Medium term borrowings	-	786	786	1,573	68,942	72,087
	38,394	292,618	18,991	42,823	77,139	469,965
Contingencies and commitments	110	137	1,922	433	1,713	4,315
Total undiscounted financial liabilities	38,504	292,755	20,913	43,256	78,852	474,280

	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

NOTES TO THE FINANCIAL STATEMENTS At 31 December 2013

29 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 mitigate any potential losses.

30 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.

31 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.

32 DEPOSIT PROTECTION SCHEME

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

PILLAR III DISCLOSURES - BASEL II For the year ended 31 December 2013

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 eight 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 were closed in 2012.

During 2013 another audit was conducted by KPMG at the behest of CBB which covered Banks control functions. As regards Risk Management KPMG observed certain gaps in Operational risk most of which have been closed during 2013. Few remaining gaps mainly relating the BCP set up are expected to be closed during first quarter of 2014.

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.

PILLAR III DISCLOSURES - BASEL II For the year ended 31 December 2013

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.

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 provision 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.

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 Bahrain, the Bank is indirectly exposed to the Real Estate sector as major portion of its lending portfolio in Bahrain (70%) is secured by real estate mortgage.

Bank is indirectly exposed to market risk on Iranian equities as major portion of its offshore credit portfolio (25 %) 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 in Oct 2013 .

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 and under review, in order 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 infrastructure for system recovery is in place and was also tested.

The Bank is in the process of setting up an alternate BCP site.

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 50 penalty during the year to Central Bank of Bahrain for errors in data transmitted to Bahrain Credit Reference Bureau (BCRB)

PILLAR III DISCLOSURES - BASEL II For the year ended 31 December 2013

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. 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 all NPAs are subjected to yearly revaluation of security based on 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 required to be 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. During 2013, as a conservative measure, the Bank has provided additional specific provision so as to raise the level of specific provisions to 100% of the entire NPA portfolio.

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 2013. An independent 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. The Bank has also conducted impact analysis based on the new Basel 3 guidelines which shall be applicable from 1.1.2015. Based on the analysis there will be no adverse impact of the higher Capital threshold requirements being proposed by CBB as bank is adequately cushioned in terms of Tier 1 capital.

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 disclosure committee is in place which oversees the entire process.

PILLAR III DISCLOSURES - BASEL II

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PILLAR III DISCLOSURES - BASEL II For the year ended 31 December 2013

DISCLOSURE - 1 CAPITAL STRUCTURE

	BD '000	
NET AVAILABLE CAPITAL	Tier 1	Tier 2
Paid-up share capital	83,100	-
Reserves:		
Statutory reserve	6,639	-
Retained earnings brought forward	14,805	-
Current profits	11,017	-
Collective impairment loss provision	-	5,936
NET AVAILABLE CAPITAL	115,561	5,936
TOTAL ELIGIBLE CAPITAL BASE (Tier 1 + Tier 2)		121,497

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

	BD '000	BD '000
	Risk Weighted Assets*	Capital Requirement
Claims on sovereign	6,678	801
Claims on public sector entities	4,982	598
Claims on banks	320,736	38,488
Claims on corporate	89,536	10,744
Regulatory retail portfolios	611	73
Mortgage	38,387	4,607
Past due exposure	2	-
Equity investments	15	2
Holding real estate	9,286	1,115
Other assets	4,674	561
TOTAL CREDIT RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)	474,907	56,989
TOTAL OPERATIONAL RISK CAPITAL REQUIREMENT (BASIC INDICATOR APPROACH)	35,084	4,210
TOTAL MARKET RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)**	935	112
TOTAL CAPITAL REQUIREMENT	510,926	61,311

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

PILLAR III DISCLOSURES - BASEL II For the year ended 31 December 2013

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

	BD '000	BD '000
	Risk Weighted Assets	Capital Requirement
Maximum market risk	8,013	962
Minimum market risk	443	53

DISCLOSURE - 2 - B. CAPITAL ADEQUACY RATIOS

Tier 1	Capital Adequacy Ratio (Tier 1 Capital / Risk weighted exposures)	22.62%
Total	Capital Adequacy Ratio (Total Capital / Risk weighted exposures)	23.78%

DISCLOSURE - 3 CREDIT RISK EXPOSURES BEFORE CREDIT RISK MITIGATION

	BD '000	
	As at 31 December 2013	Average monthly balance
Balances with central banks	33,205	33,533
Due from banks	370,371	360,052
Loans and advances to customers	113,294	107,144
Non-trading investments	47,059	47,307
Interest receivable and other assets	2,543	3,160
TOTAL FUNDED EXPOSURES	566,472	551,196
Contingent liabilities	4,315	5,157
Undrawn loan commitments	16,911	11,842
TOTAL UNFUNDED EXPOSURES	21,226	16,999
TOTAL CREDIT RISK EXPOSURE	587,698	568,195

The Bank has calculated the average monthly balance based on the month end balances for the twelve month period ended 31 December 2013.

PILLAR III DISCLOSURES - BASEL II For the year ended 31 December 2013

DISCLOSURE - 4 GEOGRAPHIC DISTRIBUTION OF CREDIT RISK EXPOSURES

	BD '000			
	GCC countries	Iran and Middle East countries	Europe	Total
Balances with central banks	26,526	6,679	-	33,205
Due from banks	62	370,250	59	370,371
Loans and advances	93,031	20,263	-	113,294
Non-trading investments	28,420	18,639	-	47,059
Interest receivable and other assets	1,144	1,399	-	2,543
TOTAL FUNDED EXPOSURES	149,183	417,230	59	566,472
Contingent liabilities	4,315	-	-	4,315
Undrawn loan commitments	16,911	-	-	16,911
TOTAL UNFUNDED EXPOSURES	21,226	-	-	21,226
TOTAL CREDIT RISK EXPOSURE	170,409	417,230	59	587,698

DISCLOSURE - 5 SECTORAL CLASSIFICATION OF CREDIT RISK EXPOSURES

	BD '000		
	Funded	Unfunded	Total
Manufacturing	9,625	1,000	10,625
Construction	14,814	3,923	18,737
Financial	453,178	3	453,181
Trade	29,704	3,059	32,763
Personal / Consumer finance	9,058	3,541	12,599
Commercial real estate financing	21,722	7,432	29,154
Transport	10,700	304	11,004
Other	17,671	1,964	19,635
TOTAL CREDIT RISK EXPOSURE	566,472	21,226	587,698

PILLAR III DISCLOSURES - BASEL II For the year ended 31 December 2013

DISCLOSURE - 6 CREDIT CONCENTRATION GREATER THAN 15% INDIVIDUAL OBLIGOR LIMIT

	BD '000
Counterparty A	130,805
Counterparty B	54,551
Counterparty C	48,162
Counterparty D	43,228
Counterparty E	29,975
Counterparty F	28,316
Counterparty G	26,526
Total credit exposures in excess of 15% individual obligor limit	361,563

None of the individual exposures qualify for capital deductions from tier 1 and tier 2 capital due to their short term nature.

DISCLOSURE - 7 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	28,070	-	-	5,135	33,205
Due from banks	188,108	181,961	302	-	370,371
Loans and advances to customers	8,178	9,395	56,067	39,654	113,294
Non-trading investments	4,900	7,855	6,343	27,961	47,059
Interest receivable and other assets	1,049	966	285	243	2,543
TOTAL FUNDED EXPOSURES	230,305	200,177	62,997	72,993	566,472
Contingent liabilities	165	82	2,355	1,713	4,315
Undrawn loan commitments	843	1,511	14,550	7	16,911
TOTAL UNFUNDED EXPOSURES	1,008	1,593	16,905	1,720	21,226
TOTAL	231,313	201,770	79,902	74,713	587,698

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

PILLAR III DISCLOSURES - BASEL II For the year ended 31 December 2013

DISCLOSURE - 8 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	2,753	2,694	2,268	-	81
Construction	4,345	2,903	1,070	-	3,082
Trade	683	289	327	119	691
Personal / Consumer finance	865	218	115	45	164
Commercial real estate financing	8,235	7,918	1,341	14	3,249
Residential Real Estate Financing	50	43	46	-	13
Transport	1,019	778	-	-	859
Other	767	489	306	-	232
TOTAL	18,717	15,332	5,473	178	8,371

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

DISCLOSURE - 9 GEOGRAPHICAL DISTRIBUTION OF IMPAIRMENT PROVISIONS

	BD '000		
	GCC countries	Iran and Middle East countries	Total
Specific impairment provision	12,639	2,693	15,332
Collective impairment provision	7,432	939	8,371
TOTAL	20,071	3,632	23,703

DISCLOSURE - 10 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 2013	952	854	-	1,806	10,987	3,386	7,427	21,800	23,606
Charge for the period	36	105	-	141	9,008	3,405	944	13,357	13,498
Recoveries	(164)	(76)	-	(240)	(5,309)	(3,004)	-	(8,313)	(8,553)
Net provision	(128)	29	-	(99)	3,699	401	944	5,044	4,945
Amounts written off	(45)	(122)	-	(167)	(133)	(1,161)	-	(1,294)	(1,461)
At 31 December 2013	779	761	-	1,540	14,553	2,626	8,371	25,550	27,090

The provision relates entirely to non-bank exposures.

DISCLOSURE - 11 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	6,395	299	9,269	15,963	85%
Iran and Middle East Countries	-	2,021	733	2,754	15%
TOTAL	6,395	2,320	10,002	18,717	100%
	34%	12%	54%	100%	

ii) By Industry Sector

BD '000

	Three months to one year	One to three years	Over three years	Total	%
Manufacturing	-	2,020	733	2,753	15%
Construction	-	-	4,345	4,345	23%
Trade	-	240	443	683	4%
Personal / Consumer finance	11	48	806	865	5%
Commercial real estate financing	6,362	12	1,861	8,235	44%
Residential real estate financing	22	-	28	50	0%
Transport	-	-	1,019	1,019	5%
Other	-	-	767	767	4%
TOTAL	6,395	2,320	10,002	18,717	100%
	34%	12%	54%	100%	

PILLAR III DISCLOSURES - BASEL II For the year ended 31 December 2013

DISCLOSURE - 12 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	5,552	539	207	6,298	100%
Iran and Middle East Countries	-	-	-	-	-
TOTAL	5,552	539	207	6,298	100%
	88%	9%	3%	100%	

ii) By Industry Sector

	BD '000				
	Less than 30 days	31 to 60 days	61 to 90 days	Total	%
Trade	35	437	152	624	10%
Personal / Consumer finance	443	102	55	600	10%
Commercial real estate financing	947	-	-	947	15%
Residential real estate financing	131	-	-	131	2%
Other	3,996	-	-	3,996	63%
TOTAL	5,552	539	207	6,298	100%
	88%	9%	3%	100%	

DISCLOSURE - 13 RESTRUCTURED CREDIT FACILITIES

	BD '000
Balance of restructured credit facilities at 1 January 2013	36,204
Amount of loans restructured during the period	15,684
Restructured credit facilities repaid / settled	(14,225)
Balance of restructured credit facilities at 31 December 2013	37,663

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

DISCLOSURE - 14 ELIGIBLE FINANCIAL COLLATERAL AND GUARANTEES

	BD '000 Credit exposure	Eligible CRM
Cash	1,954	-
Claims on sovereign	63,481	-
Claims on public sector entities	14,689	9,707
Claims on banks	320,796	-
Claims on corporate	94,745	5,209
Regulatory retail portfolio	1,038	224
Equity investments	10	-
Mortgage	39,228	-
Past due exposure	2	-
Holding real estate	8,257	-
Other assets	4,675	-
TOTAL	548,875	15,140

DISCLOSURE - 15 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	20,800	-	-	14,359	35,159
Due from banks	349,012	-	-	21,359	370,371
Loans and advances to customers	48,692	42,952	21,650	-	113,294
Non-trading investments	38,029	9,030	-	10	47,069
	456,533	51,982	21,650	35,728	565,893
LIABILITIES					
Due to banks	219,078	18,372	-	-	237,450
Medium term borrowings	62,531	-	-	-	62,531
Customers' deposits	74,787	40,108	7,455	34,987	157,337
	356,396	58,480	7,455	34,987	457,318
Total interest sensitivity gap	100,137	(6,498)	14,195	741	
Cumulative interest sensitivity gap	100,137	93,639	107,834	108,575	

PILLAR III DISCLOSURES - BASEL II For the year ended 31 December 2013

DISCLOSURE - 16 EQUITY INVESTMENT

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

DISCLOSURE - 17 GAINS (LOSSES) ON EQUITY INVESTMENTS

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