2013
ANNUAL REPORT

INVESTING IN GENERATIONS
ENHANCING COMMUNITIES

NBB

PROFILE

Established in 1957 as Bahrain's first locally owned Bank, NBB has grown steadily to become the country's leading provider of retail and commercial banking services.

With a major share of the total domestic commercial banking market and the largest network of 25 branches and 59 ATMs, the Bank plays a key role in the local economy.

At the same time, the Bank continues to diversify and develop capabilities to capture business opportunities in the Gulf region and international markets. Our branches in Abu Dhabi and Riyadh lead the way in this initiative.

Publicly listed on the Bahrain Bourse, the Bank is owned 51% by private shareholders, mainly Bahrainis, and 49% by Bahrain Mumtalakat Holding Company, which is 100% owned by the Government of the Kingdom of Bahrain.

Market driven and customer led, the Bank harnesses the latest technology to people skills, enabling its 560 employees to deliver highly professional services for retail and corporate customers.

His Royal Highness
Prince Khalifa bin Salman
Al Khalifa
Prime Minister

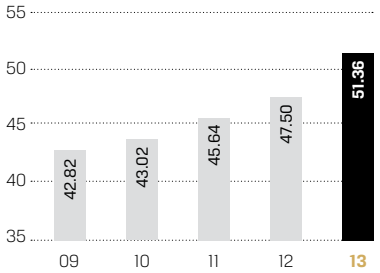
His Royal Majesty
King Hamad bin Isa
Al Khalifa
King of The Kingdom of Bahrain

His Royal Highness
Prince Salman bin Hamad
Al Khalifa
Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister

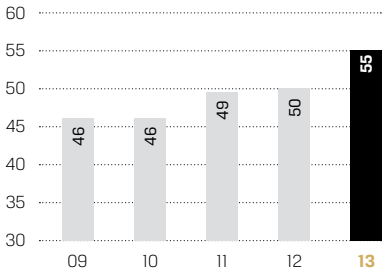
CONTENTS

FINANCIAL SUMMARY

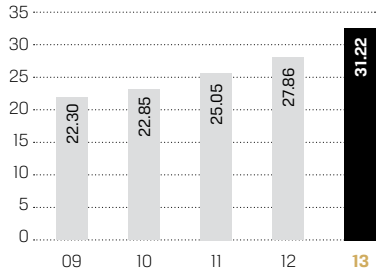
	2013	2012	2011	2010	2009
Earnings (BD millions)					
Net interest income	**59.82**	61.92	55.37	48.70	49.02
Other income	**24.83**	24.69	24.55	23.18	23.26
Operating expenses	**27.45**	27.34	26.61	25.83	25.78
Net income	**51.36**	47.50	45.64	43.02	42.82
Cash Dividend	**32.93**	21.38	25.66	23.33	27.22
Financial Positions (BD millions)					
Total assets	**2,749.23**	2,654.56	2,388.65	2,274.05	2,117.75
Loans and advances	**859.39**	888.25	972.07	950.80	1,151.42
Investment securities	**997.72**	757.83	650.21	656.22	483.12
Earning Assets	**2,596.84**	2,515.83	2,259.50	2,151.00	2,007.20
Total deposits	**2,366.25**	2,321.85	2,103.10	2,000.30	1,865.79
Customers' deposits	**2,083.54**	2,077.90	1,905.49	1,768.47	1,480.39
Shareholders' equity	**363.14**	318.94	274.73	262.97	241.37
Key Performance Indicators					
Earnings					
Return on average equity	**15.06%**	16.00%	16.98%	17.06%	18.67%
Return on average assets	**1.90%**	1.88%	1.96%	1.96%	2.06%
Earnings per share (fils)	**55**	50	49	46	46
Cost-to-income ratio	**32.43%**	31.57%	33.30%	35.93%	35.67%
Earnings per employee (BD 000's)	**92**	85	80	74	72
Capital					
Shareholders' equity as per cent of total assets	**13.21%**	12.01%	11.50%	11.56%	11.40%
Total liabilities to shareholders' equity (times)	**6.43**	7.32	6.61	6.91	7.53
Average total liabilities to average equity (times)	**6.85**	6.99	6.76	7.20	7.92
Capital adequacy (Basel II) before appropriations	**31.22**	27.86%	25.05%	22.85%	22.30%



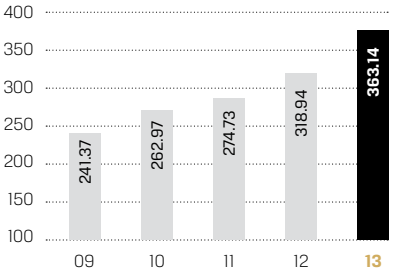
PROFIT FOR THE YEAR
BD Millions



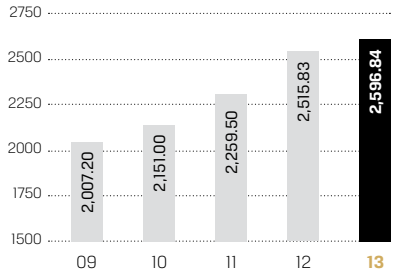
EARNINGS PER SHARE
Bahraini Fils



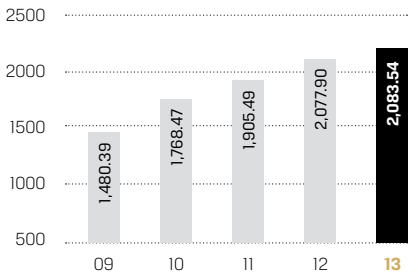
CAPITAL ADEQUACY
Per cent



EQUITY
BD Millions



EARNINGS ASSETS
BD Millions



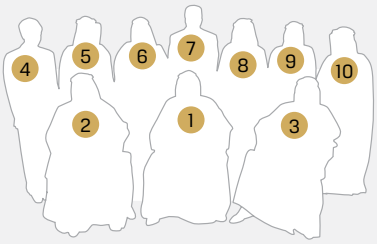
CUSTOMERS' DEPOSITS
BD Millions

RATINGS				
		FOREIGN CURRENCY		
Moody's	FSR	Long Term	Short Term	
	D+	**Baa2**	**P2**	
FITCH	Viability Rating	Long Term	Short Term	Support
	bbb	**BBB**	**F3**	**2**
Capital Intelligence	Financial Strength	Long Term	Short Term	Support
	A	**BBB+**	**A2**	**1**

TOMORROW'S LEADERS

Thanks to NBB's continuous support of the Crown Prince's International Scholarship Programme, Yasmeen has been able to complete her Masters Degree in Economics and Political Science abroad.

BOARD OF DIRECTORS



1. **FAROUK YOUSUF KHALIL ALMOAYYED**
   Chairman
2. **Dr. ESSAM ABDULLA FAKHRO**
   Deputy Chairman
3. **ABDULLA YOUSIF AKBAR ALIREZA**
   Deputy Chairman
4. **ABDUL RAZAK ABDULLA HASSAN AL QASSIM**
   Director
5. **KHALID YOUSIF ABDUL RAHMAN**
   Director
6. **FAWZI AHMED KANOO**
   Director
7. **ALI HUSSAIN YATEEM**
   Director
8. **MOHAMMED MUBARAK AL SULAITI**
   Director
9. **Dr. ABDULLA AHMED MANSOOR RADHI**
   Director
10. **HUSSAIN SULTAN AL GHANEM**
    Director

FAROUK YOUSUF KHALIL ALMOAYYED
Chairman
Non-independent and Non-executive
Appointed to the Board in 1997
Member of Nomination & Remuneration Committee

Chairman: Y. K. Al Moayyed & Sons; Al Moayyed International Group; Ashrafs; Bahrain Duty Free; Bahrain Hotels Company; Ahlia University; National Finance House; Bahrain Insurance Holding Company
Director: Investcorp Bank B.S.C.

DR. ESSAM ABDULLA FAKHRO
Deputy Chairman
Non-independent and Non-executive
Appointed to the Board in 2008
Chairman: Executive Committee

Chairman: Bahrain Chamber of Commerce & Industry; Bahrain Cinema Company
Chairman : Abdulla Yousif Fakhro & Sons Group
Director: Economic Development Board; Bahrain Mumtalakat Holding Company BSC (c).

ABDULLA YOUSIF AKBAR ALIREZA
Deputy Chairman
Independent and Non-executive
Appointed to the Board in 1984
Chairman: Nomination & Remuneration Committee
Chairman: Audit Committee

Chairman: Yousuf Akbar Alireza and Sons.
Director: Bahrain Ship Repair and Engineering Company Co BSC.

ALI HUSSAIN YATEEM
Director
Independent and Non-executive
Appointed to the Board in 1985
Member of Executive Committee
Member of Nomination & Remuneration Committee

Vice Chairman: Ali & Mohamed Yateem Group of Companies W.L.L.

MOHAMMED MUBARAK AL SULAITI
Director
Non-independent and Non-executive
Appointed to the Board in 1993
Member of Executive Committee

DR. ABDULLA AHMED MANSOOR RADHI
Director
Non-independent and Non-executive
Appointed to the Board in 1993

Vice Chairman: Bahrain Flour Mills Company

KHALID YOUSIF ABDUL RAHMAN
Director
Independent and Non-executive
Appointed to the Board in 2001
Deputy Chairman: Audit Committee

Deputy Chairman: Awal Dairy Company
Director and Member of the Executive Committee: Bahrain Ship Repair and Engineering Company
Director: Bahrain Saudi Transport Company

HUSSAIN SULTAN AL GHANEM
Director
Non-independent and Non-executive
Appointed to the Board in 2004
Member of Audit Committee

Undersecretary, Human Resources; Prime Minister's Court

ABDUL RAZAK ABDULLA HASSAN AL QASSIM
Director
Non-independent and Executive
Appointed to the Board in 2009
Member of the Executive Committee

Chairman: Bahrain Islamic Bank (BisB); Benefit Company; Bahrain Association of Banks; Board Member, Chairman of Executive Committee, Member of Donation Committee and Member of Nomination and Remuneration Committee at Bahrain Telecommunication Company (Batelco);
Board Member of Umniah Mobile Company (Jordan); Dhivehi Raajeyge Gulhn plc (Dhiraagu), Maldives; Sure Guernsey Limited; Sure Jersey Limited; Sure Isle of Man Limited; the Crown Prince International Scholarship Programme Board Member of Deposit and URIA Protection Board at Central Bank of Bahrain

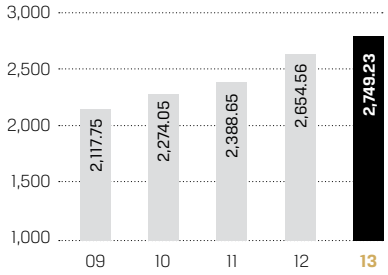
FAWZI AHMED KANOO
Director
Independent and Non-executive
Appointed to the Board in 2010
Member of Executive Committee
Member of Audit Committee

Chairman: Abdulrahman Jassim Kanoo Co WLL
Deputy Chairman: Yusuf Bin Ahmed Kanoo Group, Bahrain
Director: Bahrain Hotels Company, Aluminum Bahrain (Alba).
Executive Director: Bahrain Ship Repairing & Engineering Co BSC.

BOARD OF DIRECTORS' REPORT

FAROUK YOUSUF KHALIL ALMOAYYED
Chairman

The Board of Directors of National Bank of Bahrain takes pleasure in presenting the 57th Annual Report of the Bank together with the financial statements for the year ended 31 December 2013.



TOTAL ASSETS
BD Millions

GENERAL OPERATING ENVIRONMENT

The performance of the global economy is showing signs of improvement with modest recovery expected over the next two years. The growth story is shifting with the US economy strengthening, Euro area crawling out of recession while emerging markets have lost some of their luster. The United States has seen several quarters of growth largely driven by private demand. The core economies of Europe show signs of recovery while the periphery economies are still struggling. Even though growth rates in emerging markets are expected to outperform the advanced economies, the rate of growth has considerably slowed down due to a combination of structural and cyclical factors accompanied by financial market strains.

The GCC economies performed reasonably well as large infrastructure and other development projects continue to be implemented and the future economic outlook for the region remains favourable.

Bahrain's economy has seen favorable trends emerging based on the data available for the first three quarters of 2013 with real GDP growth rate of 4.7 per cent. However, growth has been driven by the oil sector with normalization of output levels in the Abu Sa'afah off shore oilfield which resulted in an impressive growth of 12.4 per cent in oil sector. On the other hand, the non oil sector achieved a muted growth of 2.9 per cent, to an extent the result of the unexpectedly lengthy process of approval for the 2013-14 state budget. The Economic Development Board predicts a pick-up in the non-oil sector activity in the last quarter resulting in an estimated real GDP growth of 4.8 per cent for the year 2013.

OVERALL PERFORMANCE

Against this background, National Bank of Bahrain achieved strong financial results for 2013 with the Net Profit increasing by 8.1 per cent to reach BD 51.36 million (US$ 136.60 million) compared to BD 47.50 million (US$ 126.33 million) for the previous year. These strong results demonstrate successful implementation of the Bank's business strategies in the interest of all our stakeholders. Return on Equity at 15.06 per cent and Return on Assets at 1.90 per cent remains strong by regional and international standards. The Bank is well capitalized with strong liquidity and a diversified asset portfolio.

Customer deposits continue to show steady growth and stands at BD 2,083.54 million (US$ 5,541.33 million) as at 31 December 2013. Total Earning Assets stood at BD 2,596.84 million (US$ 6,906.45 million) as at 31 December 2013 compared to BD 2,515.83 million (US$ 6,691.05 million) as at the previous year end, reflecting a growth of 3.2 per cent. As quality lending opportunities were limited, the Bank invested surplus liquidity in investment grade securities and Treasury bills. Capital Adequacy continues to remain at a healthy level of 31.2 per cent before the proposed appropriations.

NBB's plays an active role in the development of the Kingdom of Bahrain and continues to focus on domestic business opportunities. In meeting with this objective, the Bank took several initiatives during the year. The focus of the Domestic Banking group was to expand the distribution network and offer innovative products and services in line with customer requirements besides strengthening customer relationships. Additionally, the Bank made a strategic investment during the year by acquiring 25.8 % stake in Bahrain

Islamic Bank to establish a footprint in the Islamic banking space. Regionally, the Bank's strategy of selective expansion at Abu Dhabi and Riyadh is progressing as planned with Riyadh branch in particular achieving significant increase in business and profitability. Treasury's concentration during the year was on efficient deployment of liquidity besides participating in several domestic and regional issues.

The prospects for 2014 appear cautiously optimistic with the wheels of economic growth turning positive although there are significant challenges facing the global economy. The Board of Directors take this opportunity to reaffirm their commitment to meet the expectations of all stakeholders while maintaining the highest standards of corporate governance in all its business dealings.

Details of the Bank's financial position and performance are elaborated in the Financial Review section and the Financial Statements.

RECOMMENDED APPROPRIATIONS

Based on the results, the Board of Directors has recommended for approval by the shareholders the following appropriations:

	Bahraini Dinars
Adjusted retained earnings as at 1 January 2013	107,019,263
2012 appropriations	(36,589,362)
2013 Net income	51,363,156
Total	**121,793,057**
Cash Dividend (35%)	32,931,360
Donations and contributions	2,568,158
Retained earnings carried forward after 2013 appropriations	86,293,539
Total	**121,793,057**

DONATIONS AND CONTRIBUTIONS

The Board is recommending the allocation of BD 2.57 million to the Donations and Contributions programme, representing 5 per cent of 2013 profits available for distribution. The cumulative allocation under the programme, since its inception in 1980, is now BD 34.34 million.

Details of the Bank's Donations & Contribution programme are contained in the Corporate Social Responsibility section of the Annual Report.

CORPORATE GOVERNANCE

The Board recognizes that good governance is a vital ingredient in the success of any organization and is fully committed to protect the interest of all its stakeholders. The Bank is in compliance with the requirements of the Code of Corporate Governance issued by the Ministry of Industry and Commerce and the CBB's Rulebook.

A detailed report on the Bank's compliance with the Corporate Governance Code is elaborated in the Corporate Governance Report section of the Annual Report.

ACKNOWLEDGEMENTS

The Directors, on behalf of the shareholders, take this opportunity to express their gratitude and sincere appreciation to His Majesty King Hamad bin Isa Al Khalifa - the King of Bahrain, to His Royal Highness Shaikh Khalifa bin Salman Al Khalifa - the Prime Minister, to His Royal Highness Shaikh Salman bin Hamad Al Khalifa - the Crown Prince, Deputy Supreme Commander and First Deputy Prime Minister, Government ministries and institutions - especially the Ministry of Finance and the Central Bank of Bahrain, for their guidance, kind consideration and support.

The Directors would like to thank Mr. Mohammed Mubarak Al Sulaiti and Dr. Abdulla Ahmed Mansoor Radhi, who left the Board, for their contribution and services during the tenure on the Board. The Directors would like to take this opportunity to welcome Mr. Khaled Omar Mohammed Alromaihi and Mr. Mir Zulfekar Ali as members of the Board of Directors and look forward to their contribution towards the continued success of the Bank.

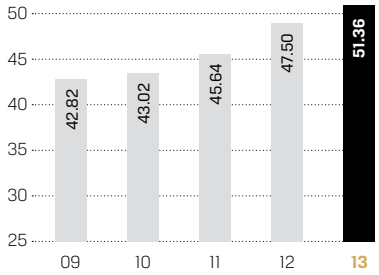
The Directors also extend their thanks and appreciation to the staff of the Bank whose dedicated service and commitment has played a vital role in the achievements of the Bank over the years and to all our valued customers and friends for their continuous support and the confidence reposed by them in the National Bank of Bahrain.

FAROUK YOUSUF KHALIL ALMOAYYED
Chairman
21 January 2014

STATEMENT OF THE CHIEF EXECUTIVE OFFICER

2013 was another successful year for National Bank of Bahrain with record profitability backed by steady progress in the underlying business of the Bank. Key performance indicators continue to be healthy as the Bank progresses with implementation of its strategic plan by offering enhanced products and services to its customers.

ABDUL RAZAK ABDULLA HASSAN AL QASSIM
Chief Executive Officer & Director



PROFIT FOR THE YEAR
BD Millions

Net Profit for the year reached to a record level of BD 51.36 million (US$ 136.60 million) compared to BD 47.50 million (US$ 126.33 million) for the previous year, an increase of 8.1 per cent. Return on Average Equity of 15.06 per cent, Return on Average Assets of 1.90 per cent and Cost to Income Ratio of 32.4 per cent remain healthy by international and regional standards. The results for 2013 is a clear reflection of the Bank's strength in generating steady revenue streams while efficiently managing operating costs in addition to containing loan loss provisions.

The Total Balance Sheet of the Bank increased by 3.6 per cent to BD 2,749.23 million (US$ 7,311.76 million) as at 31st December 2013. Total Earning Assets stood at BD 2,596.84 million (US$ 6,906.45 million) in a well diversified portfolio of loans, investments, Treasury Bills and Bank placements. Liquidity position remains comfortable with Liquid Assets (Cash and balances with central banks, Treasury Bills and Placements) representing 30.0 per cent of Total Assets. Capital Adequacy Ratio at 31.2 per cent before the proposed appropriations is among the strongest and well above the regulatory requirements.

Significant progress was achieved in implementing the medium term strategic plan of the Bank. Several initiatives were undertaken during the year both domestically and at the overseas branches to meet the objectives of the strategic plan.

Personal Banking strengthened its leadership position in the Kingdom of Bahrain by deeper market penetration. In line with customer expectations, existing personal banking products were repackaged besides introduction new card products, technology enhancements, expansion of the distribution network with a new branch at Bukowara and additional ATMs and POS machines. The Bank offers a full suite of products to the retail customers serviced by the largest network of branches and ATMs in the Kingdom.

Business Banking focused on widening the client base besides deepening of relationship with existing customers by better understanding of customer requirements to provide a comprehensive range of products to meet their banking requirements. The Bank introduced Corporate Internet Banking to its customers, which allows customers to transact from the convenience of their offices, and the initial response is very encouraging.

In line with the strategic objective of expanding the scope of operations, the Bank acquired 25.8 per cent stake in Bahrain

Islamic Bank (BisB) during the year which enables NBB to have a footprint in the Islamic banking space. BisB's strengths in Islamic banking and its sound retail franchise will complement NBB's business and provide additional business opportunities in the domestic market.

The Bank's selective regional expansion is progressing as per plan. In Abu Dhabi, the focus is on developing bilateral relationship with strong local corporates. In Riyadh, the focus during the year was on increasing the Loan portfolio and non funded business. In particular, the results of Riyadh branch are very encouraging with a strong growth in business and profitability during the year. In line with our medium term strategic plan, we will strengthen our attention on further developing business in these two largest economies in the GCC.

The Treasury and Investments Group's priority during the year was to efficiently deploy the surplus funds while maintaining a tight focus on liquidity. The Government of Bahrain continued to be very active in the primary bond markets in both Bahraini Dinar and US Dollar allowing the Division to deploy excess liquidity at attractive levels. The Division was also successful in generating capital gains from the tightening of spreads in the GCC markets and increased revenue through gapping activities in GCC / international currencies and higher FX business.

Staff development continues to be a top priority for the Bank. In this regard several initiatives were undertaken during the year viz. career progression opportunities for staff members, Leadership development programme at Darden Business School, executive training programme for high potential employees, numerous training courses to build competencies etc. Human resources constitute one of the most important assets for the Bank and we will continue to invest in their development for the benefit of the employees as well as the Bank.

Looking ahead, the growth prospects for the global and regional economies are cautiously optimistic. Additionally, Bahrain's economy is expected to benefit from increased government spending and deployment of GCC Development Fund. The Economic Development Board forecasts 4.4 per cent non-oil sector growth and 3.7 per cent headline growth in 2014. The increased focus on infrastructure and other social development projects will provide additional lending opportunities for the domestic financial institutions. NBB with a strong capital base, adequate liquidity and the largest distribution network is well positioned to capitalize on increased business opportunities against the backdrop of an anticipated recovery in the global and domestic economy. We reaffirm our strong commitment to meet the expectations of our customers while reassuring our shareholders of continued progress in the years ahead.

ABDUL RAZAK ABDULLA HASSAN AL QASSIM
Chief Executive Officer & Director

CORPORATE GOVERNANCE

The Board of Directors is responsible for the overall governance of National Bank of Bahrain. The Board ensures that high ethical standards are established across the Bank and regularly reviews the Bank's compliance with Central Bank of Bahrain (CBB) regulations regarding corporate governance. The Board recognizes that good corporate governance is a vital ingredient in the creation of sustainable shareholder value and protecting the interests of all stakeholders.

Maintaining the best standards of corporate governance has provided the Bank's customers, counterparties, shareholders, regulators, employees and rating agencies with a high degree of confidence in our institution; achieved an appropriate balance between long-term growth and short-term objectives; created a sound portfolio of assets, a stable customer base, income diversity as well as the ability and resources to face economic cycles and uncertainties. The Board has set the moral tone for the Bank with a high degree of intolerance for any instances of malpractice, fraud and unethical behaviour and ensured the highest degree of adherence to laws, rules and regulations.

BOARD OF DIRECTORS

The Board comprises of ten members and its composition is governed by the Bank's Memorandum and Articles of Association. Four members of the Board of Directors are appointed by Bahrain Mumtalakat Holding Company, which holds 49 per cent of the Bank's share capital. The remaining six members of the Board of Directors are elected by secret ballot at the ordinary general meeting of the shareholders, by a simple majority of valid votes. The six members of the Board of Directors elected by the shareholders remain in office for a term not exceeding three years, which may be renewed. In order to be eligible for being nominated for directorship, the individuals concerned should meet the 'fit and proper' criteria established by the Central Bank of Bahrain and their appointment is subject to prior approval by the Central Bank of Bahrain. The present Board of Directors was elected at the Annual General Meeting in 2012 and their term expires at the Annual General Meeting to be held in 2015.

On joining NBB's Board, all Directors are provided with a "Directors Kit" which includes the Bank's Memorandum and Articles of Association, key policies, terms of reference of the Board and its sub-committees and Corporate Governance guidelines. Induction sessions are also held with the Chairman and Chief Executive Officer which focus on business profile, opportunities, challenges and risks faced by the Bank.

In accordance with the definitions stipulated by the CBB, Directors are categorised as executive, non-executive, independent and non-independent. The Board currently comprises of nine non-executive Directors, out of which four are independent, and one executive director who is designated as the Chief Executive Officer and Director. The roles of the Chairman and the Chief Executive Officer are separate and exercised by different persons.

The Board's primary responsibility is to deliver sustainable value to all stakeholders by charting the strategic direction of the Bank as well as setting the risk appetite and the overall capital structure of the Bank. The Board is also responsible for monitoring Management's running of the business within the agreed framework. The Board seeks to ensure that the Management strikes an appropriate balance between long-term growth and the short-term objectives. The Board is ultimately accountable and responsible for the affairs and performance of the Bank. Accordingly, the main functions of the Board are:

- Maintain an appropriate Board Structure.
- Maintain an appropriate management and organization structure in line with the Bank's business requirements.

- Plan the strategic future of the Bank, approve annual business plans, approve and monitor major initiatives.
- Monitor the operations framework of the Bank and the integrity of internal controls.
- Ensure compliance with laws and regulations.
- Monitor the Bank's performance and approve financial results, ensure transparency and integrity in stakeholders reporting including financial statements.
- Evaluate periodically the Board's own performance including that of Board sub-committees.
- Assure equitable treatment of all shareholders including minority shareholders.

The Chairman is mainly responsible for the leadership of the Board, ensuring that it operates effectively and fully discharges its legal and regulatory responsibilities.

The Board of Directors meets regularly throughout the year and maintains full and effective control over strategic, financial, operational, internal control and compliance issues. As per its terms of reference, the Board shall meet at least once every calendar quarter.

In its role as the primary governing body, the Board of Directors provides oversight for the Bank's affairs and constantly strives to improve and build on the Bank's strong corporate governance practices. The business performance of the Bank is reported regularly to the Board of Directors. Performance trends as well as performance against budget and prior periods are closely monitored. Financial information is prepared using appropriate accounting policies, in accordance with International Financial Reporting Standards as promulgated by the International Accounting Standards Board and are consistently applied. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets.

The Board of Directors has unlimited authority within the overall regulatory framework. The Board has delegated approval authorities to its sub-committees and members of Management; all transactions falling outside the delegated limits are referred to the Board for approval. In addition, the Board approves on a yearly basis the annual budget, risk strategy and operating limits for various activities of the Bank.

COMMITTEES OF THE BOARD OF DIRECTORS

The Board has set up several sub-committees which provide effective support to the full Board in carrying out its responsibilities. These include the Executive Committee, the Audit Committee and the Nomination & Remuneration Committee.

EXECUTIVE COMMITTEE

The Executive Committee comprises of not more than five Board members selected and appointed by the Board, with at least two of the members being independent directors. The Committee shall meet at least four times a year. The role of the Committee is to assist the Board of Directors in fulfilling its responsibilities with regard to lending, investment, as well as any other matters not delegated to a specific Board Committee. Accordingly, the Committee is empowered to approve specific credit and investment proposals, review budgets, plans, major initiatives for eventual submission to the Board for approval and to monitor the Bank's performance against business plan objectives.

AUDIT COMMITTEE

The Audit Committee comprises of four Board members selected and appointed by the Board, three of which are independent directors. The Committee shall meet at least four times a year. The primary function of the Committee is to reinforce the internal and external audit process and assist the Board of Directors in fulfilling its responsibility in ensuring an effective system of internal control and risk management. In addition, the Committee is also responsible for reviewing and recommending changes to the Bank's corporate governance policy framework based on regulatory requirements or industry best practices. The Audit Committee is responsible for overseeing the selection of the external auditors for appointment and approval at the shareholders' meeting, reviewing the integrity of the Bank's financial reporting, reviewing the activities and performance of internal audit function and reviewing compliance with relevant laws, regulations and code of conduct.

The Audit Committee is supported by Internal Audit, which regularly monitors the system of internal controls. Monitoring includes an assessment of the risks and controls in each operating unit and matters arising there are reported to the Audit Committee on a regular basis.

CORPORATE GOVERNANCE

NOMINATION & REMUNERATION COMMITTEE

The Nomination & Remuneration Committee comprises of three Board members selected and appointed by the Board, two of which are independent directors. The Committee shall meet at least twice a year. The role of the Committee is to assist the Board in fulfilling its responsibilities with regard to the nomination and remuneration policy of the Bank. The Nomination & Remuneration Committee has the mandate for identifying persons qualified to become members of the Board, CEO, CFO, corporate secretary, and any other officers as considered appropriate by the Board and recommending them to the Board. The Committee also has the responsibility of reviewing and recommending the remuneration policies for the board of directors and senior management.

BOARD MEETINGS AND ATTENDANCE

The Board of Directors and the sub-committees of the Board meet regularly to effectively discharge their responsibilities. For meeting the requirements of the Corporate Governance Code and the CBB Rulebook, the Bank considers attendance of Directors at Board and sub-committee meetings. A summary of the Board meetings and sub-committee meetings held during the year 2013 and attendance are detailed below:

Name of the Director	Board		Executive Committee		Audit Committee		N & RC		Total		
	Total No. of meetings	Meetings Attended	Total No. of meetings	Meetings Attended	Total No. of meetings	Meetings Attended	Total No. of meetings	Meetings Attended	Total No. of meetings	Meetings Attended	% of Meetings attended
Farouk Yousuf Khalil Almoayyed Chairman	7	6					3	3	10	9	90%
Dr. Essam Abdulla Fakhro Deputy Chairman	7	7	3	3					10	10	100%
Abdulla Yousif Akbar Alireza Deputy Chairman	7	6			4	3	3	2	14	11	79%
Ali Hussain Yateem Director	7	7	3	3			3	3	13	13	100%
Mohammed Mubarak Al Sulaiti Director	7	7	3	2					10	9	90%
Dr. Abdulla Ahmed Mansoor Radhi Director	7	7							7	7	100%
Khalid Yousif Abdul Rahman Director	7	7			4	4			11	11	100%
Hussain Sultan Al Ghanem Director	7	7			4	4			11	11	100%
Abdul Razak Abdulla Hassan Al Qassim Chief Executive Officer & Director	7	7	3	3					10	10	100%
Fawzi Ahmed Kanoo Director	7	7	3	2	4	4			14	13	93%

Includes attendance through conference calls

DATES OF MEETINGS AND ATTENDANCE DETAILS:

Board Meeting: Total number of meetings held: 7

Members	Meeting Dates						
	21/01/2013	13/02/2013	6/03/2012	9/04/2013	9/07/2013	9/10/2013	20/11/2013
Farouk Yousuf Khalil Almoayyed, Chairman	✓	✓	✓	✓		✓	✓
Dr. Essam Abdulla Fakhro, Deputy Chairman	✓	✓	✓	✓	✓	✓	✓
Abdulla Yousif Akbar Alireza, Deputy Chairman	✓	✓	✓		✓	✓	✓
Ali Hussain Yateem, Director	✓	✓	✓	✓	✓	✓	✓
Mohammed Mubarak Al Sulaiti, Director	✓	✓	✓	✓	✓	✓	✓
Dr. Abdulla Ahmed Mansoor Radhi, Director	✓	✓	✓	✓	✓	✓	✓
Khalid Yousif Abdul Rahman, Director	✓	✓	✓	✓	✓	✓	✓
Hussain Sultan Al Ghanem, Director	✓	✓	✓	✓	✓	✓	✓
Abdul Razak Abdulla Hassan Al Qassim Chief Executive Officer & Director	✓	✓	✓	✓	✓	✓	✓
Fawzi Ahmed Kanoo, Director	✓	✓	✓	✓	✓	✓	✓

Includes attendance through conference calls

CORPORATE GOVERNANCE

Executive Committee Meetings: Total number of meetings held: 3*

Members	Meeting Dates		
	21/05/2013	23/09/2013	11/12/2013
Dr. Essam Abdulla Fakhro, Deputy Chairman & Chairman of Executive Committee	✓	✓	✓
Ali Hussain Yateem, Director	✓	✓	✓
Mohammed Mubarak Al Sulaiti, Director	✓	✓	
Abdul Razak Abdulla Hassan Al Qassim, Chief Executive Officer & Director	✓	✓	✓
Fawzi Ahmed Kanoo, Director	✓	✓	

Includes attendance through conference calls
*An additional Board meeting was held on 13 Feb 2013, instead of the Executive Committee Meeting

Audit Committee Meetings: Total number of meetings held: 4

Members	Meeting Dates			
	21/01/2013	9/04/2013	9/07/2013	9/10/2013
Abdulla Yousif Akbar Alireza, Deputy Chairman & Chairman of Audit Committee	✓		✓	✓
Khalid Yousif Abdul Rahman, Director & Deputy Chairman of Audit Committee	✓	✓	✓	✓
Hussain Sultan Al Ghanem, Director	✓	✓	✓	✓
Fawzi Ahmed Kanoo, Director	✓	✓	✓	✓

Includes attendance through conference calls

Nomination & Remuneration Committee Meetings: Total number of meetings held: 3

	Meeting Date	Meeting Date	Meeting Date
	21/01/2013	09/04/2013	20/11/2013
Abdulla Yousif Akbar Alireza, Deputy Chairman & Chairman of N&R Committee	✓		✓
Farouk Yousuf Khalil Almoayyed, Chairman	✓	✓	✓
Ali Hussain Yateem, Director	✓	✓	✓

Includes attendance through conference calls

MANAGEMENT STRUCTURE

The Board has established a management structure that clearly defines roles, responsibilities and reporting lines, the details of which are annexed to this report.

Within the management structure there are separate committees responsible for Business Review, Development and Planning; Credit; Asset/Liability Management; Human Resources; Operational Risk Management and Business Continuity Planning. These committees, comprising of members of the senior management, meet on a regular basis to discuss and decide on the various strategic and tactical issues within their respective areas.

The Compliance Officer reports directly to the CEO and has direct access to the Board of Directors through the Audit Committee. The Corporate Secretary has direct access to the Board of Directors as per the requirements of Corporate Governance.

PERFORMANCE EVALUATION OF BOARD AND SUB-COMMITTEES

The Board of Directors has conducted a self evaluation of the performance of the Board and its sub-committees for the year 2013. This was carried out through the completion of a structured questionnaire on the effectiveness and contribution of each member against certain pre-defined criteria as per the mandate of the Board and each Board sub-committee. The Nomination and Remuneration Committee is responsible for overseeing the process and the findings were presented to the Board of Directors in Jan 2014 which confirms that NBB's Board and its sub-committees continue to operate with a high level of effectiveness.

RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST

Directors have a duty under CBB regulations as well as the Bank's corporate governance policy to avoid situations in which they may have conflicts of interest with those of the Bank, unless they are specifically authorized by the Board of Directors. This includes potential conflicts that may arise when a Director takes up a position with another company or has any material transactions with the Bank.

The Bank has policies and procedures for handling related party transactions including loans and advances to directors, senior management and their related parties, as well as transactions and agreements in which a director or an employee has a material interest. In addition, exposures to directors and senior management are governed by the regulations of the CBB. Details of related party transactions are disclosed in Note 27 of the financial statements.

As per the Bank's policy, the Directors concerned do not participate in decisions in which they have or may have a potential conflict of interest. Having reviewed all such transactions during 2013, it was concluded that there were no transactions involving potential conflict of interest which need to be brought to the attention of the shareholders.

CODE OF CONDUCT

The Board has adopted a comprehensive Code of Conduct that provides a framework for directors, officers and employees on the conduct and ethical decision making integral to their work. All officers and employees subscribe to this Code and are expected to observe high standards of integrity and fairness in their dealings with customers, regulators and other stakeholders.

WHISTLE BLOWER POLICY

The Board has adopted a Whistle blower policy which provides all employees with the opportunity to report in good faith, any instances they observe regarding unethical and improper practices or any other wrongful conduct of a financial or legal nature in the Bank. The policy is available on the website of the Bank.

COMMUNICATION STRATEGY

The Bank has a public disclosure policy approved by the Board of Directors. The Bank is committed to support the timely and accurate disclosure of material information in accordance with the requirements set out in the rules and regulations of the CBB and the Bahrain Bourse as well as other applicable laws, to facilitate efficient capital market activities. The Bank believes in the principle of transparency about its financial performance thus enabling all stakeholders to have access to such information on a timely basis. The external auditors review the system of internal controls considered necessary for them to form an opinion on the financial statements. In addition to the annual audit, the external auditors conduct reviews on the Bank's quarterly financial statements. These statements are subsequently published in the newspapers and posted on the Bank's website in accordance with regulatory requirements. The annual report including the complete financial statements for the current financial year and a minimum of three preceding financial years are provided on the Bank's website.

CORPORATE GOVERNANCE

DIRECTORS AND SENIOR MANAGEMENT INTERESTS

The number of shares held by directors, senior management and their related parties as at 31 December 2013 is as follows:

Name	Type of shares	**31 Dec 2013**	31 Dec 2012
Farouk Yousuf Khalil Almoayyed, Chairman	Ordinary	**15,470,893**	14,064,448
Dr. Essam Abdulla Fakhro, Deputy Chairman	Ordinary	**8,172,620**	7,204,813
Abdulla Yousif Akbar Alireza, Deputy Chairman	Ordinary	**9,993,037**	9,082,520
Ali Hussain Yateem, Director	Ordinary	**32,709,485**	29,735,896
Mohammed Mubarak Al Sulaiti, Director	Ordinary	**78,736**	71,578
Dr. Abdulla Ahmed Mansoor Radhi, Director	Ordinary	**-**	-
Khalid Yousif Abdul Rahman, Director	Ordinary	**14,306,685**	12,096,987
Hussain Sultan Al Ghanem, Director	Ordinary	**-**	-
Abdul Razak Abdulla Hassan Al Qassim, Chief Executive Officer & Director	Ordinary	**139,174**	126,522
Fawzi Ahmed Kanoo, Director	Ordinary	**54,127**	49,207
Total		**80,924,757**	72,431,971
As a % of the total number of shares		**8.6%**	8.5%

31 Dec 2013 includes the 1 for 10 bonus issue which was approved by the shareholders on 6 Mar 2013.

DIRECTORS AND SENIOR MANAGEMENT TRADING DURING THE YEAR 2013

The details of trading in the Bank's shares during the year by Directors, senior management and their related parties are as follows:

Name	**Type of shares**	**Purchase / Sale**	**No of shares**	**Date of transaction**
Khalid Yousif Abdul Rahman, Director	Ordinary	Purchase	1,000,000	15/04/2013
Dr. Essam Abdulla Fakhro, Deputy Chairman	Ordinary	Purchase	160,980	2 ,3 & 4/07/2013
	Ordinary	Purchase	100	14/07/2013
	Ordinary	Purchase	86,248	15/07/2013
	Ordinary	Sale	1,614,767	19/12/2013
	Ordinary	Purchase	1,614,767	24/12/2013

REMUNERATION

Board of Directors Remuneration Policy

The Board of Directors is paid an annual remuneration as approved by the shareholders at the Annual General Meeting. While the amount of remuneration is not directly linked to the performance of the Bank, factors such as the Bank's performance, industry comparison and the time and effort committed by the directors to the Bank, are considered for determining the total remuneration. Directors remuneration is accounted as an expense as per International Accounting Standards and CBB regulations, the payment of which is subject to approval by the shareholders at the Annual General Meeting. In addition, the members are paid sitting fees for the various sub-committees of the Board of Directors.

Employees Remuneration Policy

As the quality of human capital is fundamental to success, the Bank's remuneration policy is to attract, retain and motivate the best talent. In line with this strategy, employee remuneration and benefits are reviewed and revised annually in the context of business performance, industry and local practices. While a major component of employee remuneration consists of fixed monthly salaries and allowances, employees are provided with several other benefits like performance bonus, medical, life insurance cover, retirement benefits and employee savings scheme.

Remuneration of Board members, senior management and fees paid to external auditors

The aggregate remuneration paid to Board members and senior management personnel are disclosed in Note 27 of the Financial Statements.

KPMG Fakhro was the Bank's external auditors for the financial year ended 31 December 2013. The details of fee paid to the auditors during the year 2013 for audit and other services are held at the Bank's premises, which is available to eligible shareholders upon specific request.

Status of compliance with CBB's Corporate Governance guidelines (High Level Controls Module)

Banks are required to comply with the High Level Controls (HC) Module of the CBB Rulebook, which became effective from 01 January 2011 with full compliance mandated by the financial year end 2012. The HC Module contains both Rules and Guidance; Rules must be complied with, but Guidance may either be complied with or non-compliance explained by way of an annual report to the shareholders and to the CBB.

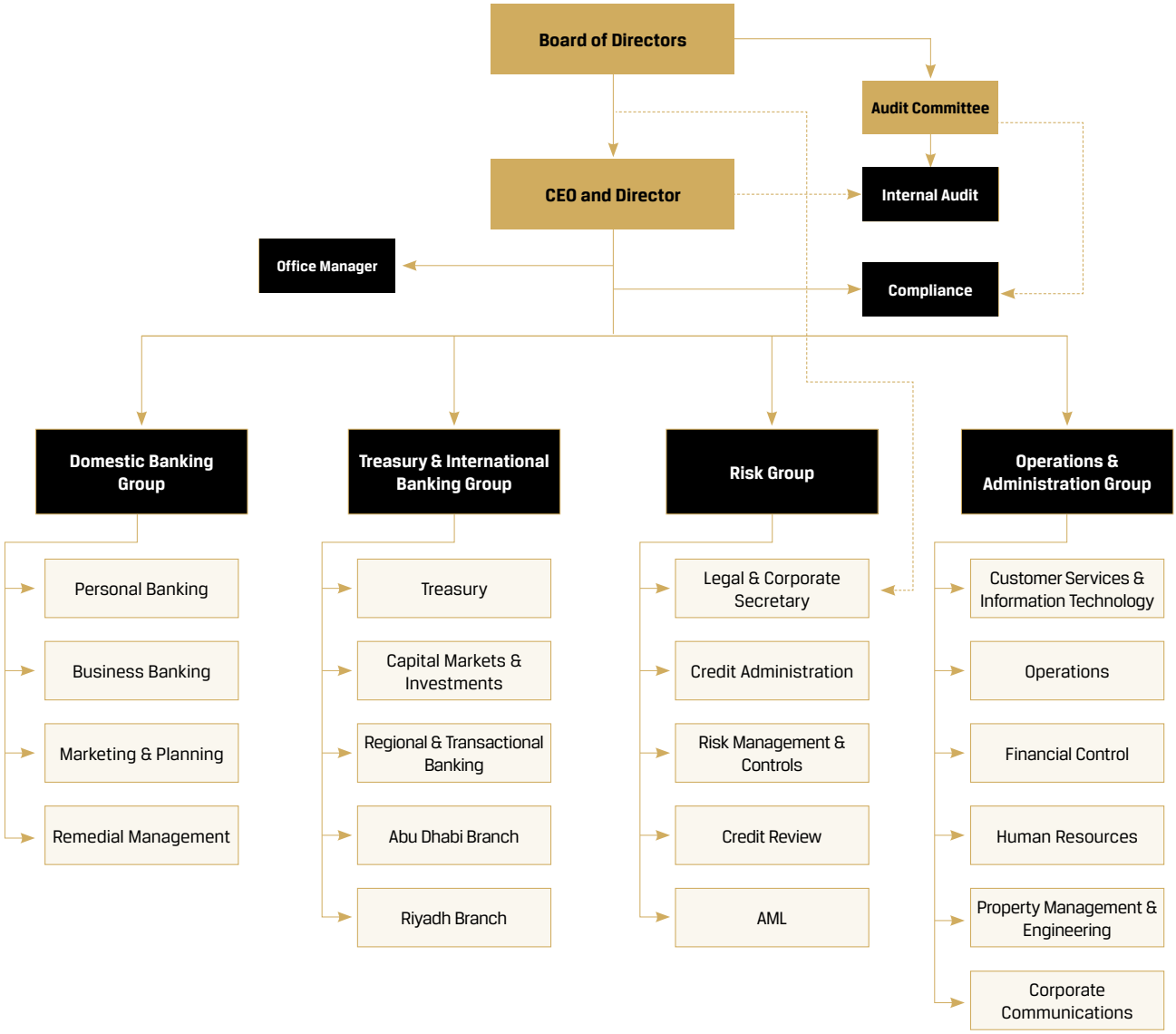
CORPORATE GOVERNANCE

The Bank is in compliance with the requirements of the HC Module except for the following Guidance:

1. HC 1.3.13 states that no director of a bank should hold more than 3 directorships in public companies in Bahrain, with the provision that no conflict of interest may exist, and the Board should not propose the election or re-election of any director who does. Two of the Bank's Directors, Mr. Farouk Almoayyed and Mr. Fawzi Kanoo hold more than 3 directorships in public companies in Bahrain. However, the Bank is of the opinion that this does not impact the effectiveness and efficiency of the Board of Directors, as the Directors concerned provide adequate attention to their responsibilities as Directors of the Bank and there are no conflicts of interest between their other directorships and that of the Bank.

2. HC 1.4.6 states that the Chairman of the Board of Directors should be an independent director. The Bank's Chairman, Mr. Farouk Almoayyed is not treated as an independent director, taking into account the business transactions that the Bank has with the Almoayyed Group controlled by Mr. Farouk Almoayyed. The Bank is of the view that this does not compromise the high standards of corporate governance that the Bank maintains as (i) the business transactions are entered into on 'arms length' basis following transparent tendering and approval processes (ii) the Bank follows strict policies to manage conflicts of interest in Board decisions (iii) Directors who are interested parties in business proposals considered by the Bank do not participate in decisions related to such proposals.

ORGANISATION STRUCTURE



EXECUTIVE MANAGEMENT

ABDUL RAZAK ABDULLA HASSAN AL QASSIM
Chief Executive Officer and Director

Master's degree in Management Sciences and a Sloan Fellowship from MIT (Massachusetts Institute of Technology, USA).
Mr. Al Qassim joined NBB in 1977 after nine years with Chase Manhattan Bank and Standard Chartered Bank. Member of Asset/Liability Committee, Business Review, Development and Planning Committee, Credit Committee and Human Resources Committee.
Chairman of the Board of Directors of Bahrain Islamic Bank (BisB); Chairman of Benefit Company; Chairman of Bahrain Association of Banks; Board Member, Chairman of Executive Committee, Member of Donation Committee and Member of Nomination and Remuneration Committee at Bahrain Telecommunication Company (Batelco); Board Member of Umniah Mobile Company (Jordan); Board Member of Dhivehi Raajeyge Gulhn plc (Dhiraagu), Maldives; Board Member of Sure Guernsey Limited; Board Member of Sure Jersey Limited; Board Member of Sure Isle of Man Limited; Board Member of the Crown Prince International Scholarship Programme; Board Member of Deposit and URIA Protection Board at Central Bank of Bahrain.
He assumed his present position in 2008.

ABDUL AZIZ ABDULLA AL AHMED
General Manager – Domestic Banking Group

Executive Diploma from University of Virginia, USA. He also attended a number of training courses inside the Kingdom of Bahrain and abroad.
Mr. Abdul Aziz joined NBB in 1974. Member of Asset/Liability Committee, Business Review, Development and Planning Committee and Credit Committee.
Board Member of Bahrain Commercial Facilities Company (BCFC) and Board Member of National Motor Company.
Mr. Abdul Aziz has over 40 years of banking experience. He assumed his present position in 2011.

HUSSAIN SAYED ALI AL HUSSAINI
General Manager – Treasury & International Banking Group

MBA in Marketing and Management, DePaul University, USA; PMD (Programme for Management Development) from Harvard Business School, Boston, USA; B.A. in Economics, Concordia University, Canada.
Mr. Al Hussaini joined NBB in 1982.
Member of Asset/Liability Committee, Business Review, Development and Planning Committee, Business Continuity Planning Committee and Credit Committee.
Vice Chairman of the Board of Directors and Vice Chairman of the Executive Committee of the Securities and Investment Company (SICO), Board Member and Investment Committee Member of Esterad Investment Company. Member of Delta Mu Delta - Chicago USA, Interarab Cambist Associations, International Securities Market Association, Harvard Business School – Alumni Club, USA, Bahrain Financial Market Association.
He assumed his present position in 2011.

KHALID ALI JUMA
General Manager – Operations & Administration Group

Executive Diploma from University of Virginia, USA. He also attended a number of training courses inside the Kingdom of Bahrain and abroad.
Mr. Juma joined NBB in 1972. Member of Asset/Liability Committee, Business Review, Development and Planning Committee, Business Continuity Planning Committee and Human Resources Committee. Board member of Benefit Company.
He assumed his present position in 2011.

RAVEENDRA KRISHNAN
General Manager - Risk Group

Masters Degree in Finance, University of Mumbai; Certified Associate of the Indian Institute of Bankers.
Mr. Krishnan joined NBB in 1996 after several years with the State Bank of India and Oman International Bank. Member of Asset/Liability Committee, Business Review, Development and Planning Committee, Business Continuity Planning Committee, Operational Risk Management Committee and Credit Committee.
He assumed his present position in 2011.

ABDUL MONEM YOUSIF AL BANNA
Executive Assistant General Manager –Internal Audit

CPA from Illinois, USA; BS in Accounting, University of Bahrain.
Mr. Al Banna joined NBB in 1989. Member of Business Review, Development and Planning Committee, Business Continuity Planning Committee and Operational Risk Management Committee. Secretary of the Audit Committee of NBB's Board of Directors.
Member of Board of Directors and Member of the Audit and Risk Committee of Oasis Capital B.S.C.
He assumed his present position in 2011.

ABDULLA ABDUL RAHMAN HUSSAIN

Executive Assistant General Manager – Customer Services & Information Technology

Harvard Business School Graduate of Advanced Management Programme; Master of Business Administration in Marketing from University of Bahrain, Post Graduate Diploma in Finance from University of Bahrain, Bachelor of Science in Computer Sciences from St. Edwards University, Austin, US.
Mr. Hussain joined NBB in 2008 after more than 23 years of experience in Banking, professional services, technology, project management and e-Business. Member of Asset/Liability Committee, Business Review, Development and Planning Committee, Business Continuity Planning Committee and Operational Risk Management Committee.
Board member and Chairman of Executive Committee of Benefit Company.
He assumed his present position in 2011.

NADER KARIM AL MASKATI

Assistant General Manager – Regional & Transactional Banking

Executive Management Diploma from Darden Graduate School of Business Administration, USA. Master Degree in Finance and Post Graduate Diploma in Marketing from Bahrain University. B.Sc in Economics & Political Sciences from Cairo University.
Mr. Maskati joined NBB in 1993 after several years experience with National Bank of Abu Dhabi. Member of the Credit Committee.
He assumed his present position in 2009.

FATIMA ABDULLA BUDHAISH

Assistant General Manager – Credit Review

Executive Management Diploma from Darden Graduate School of Business; Certified Public Accountant, (USA); Executive MBA from University of Bahrain.
Mrs. Budhaish joined NBB in 2004 after five years with BBK and has over 15 years' professional experience. Member of Asset/Liability Committee, Business Continuity Planning Committee, Operational Risk Management Committee and Credit Committee.
Board member of Bahrain Islamic Bank.
She assumed her present position in 2013.

FAROUK ABDULLA KHALAF

General Manager - Riyadh Branch

Member of the Chartered Institute of Management Accountants, U.K.
Mr. Farouk joined NBB in 1986 after several years experience with Gulf International Bank, Aluminum Bahrain (ALBA) and British Bank of the Middle East, Bahrain. Member of the Credit Committee.
He assumed his present position in 2012.

ROY S. SAMA

General Manager – Abu Dhabi Branch

Post Graduate Diploma in Banking & Finance from Monash University, Melbourne, Australia.
Mr. Sama joined NBB in 2012 after 5 years with HSBC Bank Middle East in Abu Dhabi and more than 15 years with various banks in Australia. Member of the Credit Committee. Fellow of the Australasian Institute of Banking & Finance.
He assumed his present position in 2012.

JASSIM MOHAMED AL HAMMADI

Assistant General Manager – Central Operations

Master of Business Administration, University of Glamorgan, UK, Executive Diploma from University of Bahrain, Advance and Intermediate Diploma from BIBF, Bahrain. Mr. Al Hammadi joined NBB in 1974.
He has several years of experience in Financial Control, Customer Services, Card Business, Retail Banking, Operations and Anti-money laundering. Member of Business Review, Development and Planning Committee, Business Continuity Planning Committee and Operational Risk Management Committee. Member of the Bankers Society of Bahrain-ATM Security Committee.
He assumed his present position in 2007.

AHMED JASIM MURAD

Assistant General Manager – Business Banking

Executive Management Diploma from Darden Graduate School of Business. Bachelor of Business Marketing, St. Edward's University – Austin, Texas, USA. Associate Diploma in Commercial Studies, University of Bahrain. Moreover, he attended number of training courses inside the Kingdom of Bahrain and abroad.
Mr. Murad joined NBB in 1997 and has acquired working experience in different departments such as Retail, Commercial, and Corporate Banking. Member of the NBB Credit Committee. Director of Ghetha Fund Company B.S.C (c).
He assumed his present position in 2012.

REYAD NASSER AL NASSER

Assistant General Manager – Riyadh Branch

Master of Business Administration from Dublin University, USA and Accounting Diploma from University of Bahrain. Advance Diploma in Banking from BIBF.
Mr. Nasser joined NBB in 1981 and worked extensively in various NBB branches in the capacity of Branch Manager.
He assumed his present position in 2011.

PAVING THE WAY TO A SECURE FUTURE

NBB with a strong capital base, adequate liquidity and the largest distribution of networks in the Kingdom is committed to meet the expectations of our customers.

REVIEW OF OPERATIONS

KHALID ALI JUMA
General Manager
Operations & Administration Group

INFORMATION TECHNOLOGY

Information Technology department's strategic projects and initiatives for the year 2013 focused primarily to upgrade IT Infrastructure, enhance core banking systems functionality and to develop satellite systems to achieve the objective of a strategic migration toward technology services, enhanced customer services and ensuring compliance to regulatory requirements as well as compliance for internal control.

NBB customer delivery systems were expanded to provide our customers with more facilities, enriching their banking experience. Acknowledging the rapid rate of adoption of smart mobile phones and tablets by our customers, NBB IT has implemented a state-of-art Mobile Banking Payment system (MBPS) which when launched will enable retail customers conduct their banking transactions on a real-time basis on the move and from their convenient locations. This new channel service compliments the already implemented channels like Retail Internet Banking, Corporate Internet Banking, and Interactive Voice Response (IVR) services, the functionalities on these channels also were enhanced and re-engineered for the best service experience for our customers. In an effort to support the "Go Green" initiative, IT has implemented systems that enable sending customer accounts statements via e-mails. Straight through processing (STP) of both the inward and the outward remittances have been implemented providing thereby a real-time transfer of funds facilities for our customers.

Credit card customers' service has been enhanced and NBB customers can now get details of the card limits, remaining limits and outstanding amount in real-time mode. Encouraged by the adoption rate of the VISA prepaid card by our customers, we have launched MASTRCARD based pre-paid card as well.

During the year, the bank committed resources to enhance protection of its customer information, prioritizing projects that were aimed at augmenting the data / network security framework. In an effort to protect our customers and in tune with the CBB mandate, NBB implemented enhanced SMS alerts service for customers' card based transactions and salary credits. Besides, to protect our Internet Banking customers from phishing attempts, NBB has been periodically conducting customer awareness campaigns and twice-a-year Penetration testing of the services by third-party vendors.

Treasury Systems were enhanced to enable dealers, middle-office and back-office conduct their activities in an improved manner. The dealing system was upgraded to EIKON feed from REUTERS in an effort to facilitate our dealing room with all the interfaces to Financial Information systems and the Bank's back-end systems.

New suite of applications was developed in-house to cater to FATCA, Corporate Credit Bureau requirements (CBB Mandate). In-house developed credit product modules were enhanced to reflect market value of all collaterals in comparison to the outstanding which has enabled the Financial control publish the latest information to the regulators.

Major infrastructure upgrades were implemented to the Bank's core IT data network components in an effort to focus on enhancing network and systems

performances, security, resulting in an improved reliablility and efficiency of service to both our internal and external customers. This upgrade made the Bank's core infrastructure more robust, resilient and expandable for next few years.

In line with the Bank's strategy to develop additional revenue potential for regional operations and to comply with regulatory mandates, the Bank segregated physically the Core system installation for KSA branch, with its own hardware and infrastructure in our branch in Riyadh, KSA. The core system will drive other systems locally in KSA and further enhance the security and confidentiality of all our KSA customers' information.

HUMAN RESOURCES

In 2013 substantial focus was placed on creating career progression opportunities of internal Bahraini staff members. Instead of opening these opportunities to external candidates, committed and deserving staff members were considered for higher level positions. The process of selection and integration in the new department was supported by Career Planning process, wherein a clear career path for an employee was charted along with specific objectives and learning initiatives. Thus, the Career Planning process helped the employee in having clarity on his/her further moves within the organization, thereby helping the retention of talented employees.

At the apex level, under the Leadership Development initiative, 2 promising Bahraini staff members were nominated for the Leadership Development Programme at Darden Business School. This initiative has also been helping the Bank in developing and retaining high potential Bahraini employees, who will eventually assume significant responsibilities towards future growth of the Bank.

Apart from the Leadership Development initiative, numerous training programs were conducted during the year in order to build competencies, resulting in the training of 4.8 mandays per employee covering 87 Per cent of eligible staff under training.

The Bank also continued with its Executive Trainee program, with 7 trainees getting deployed in mainstream function. A new improvised Executive Trainee program is being planned for the next batch, which will be rolled out in 2014.

With these conscious efforts to develop Bahraini staff members, the Bank has increased Bahrainization to 93.2 Per cent during 2013.

Continuing with the efforts for identification and development of high potential staff and harness their talent, the Bank rolled out "Assessment Centre" initiative. The Assessment Centre assesses abilities, skills and competencies of the staff in a scientific manner and thus development efforts can be focused on the right candidates addressing specific competencies.

On Compensation & benefits front, it was imperative for the Bank to stay competitive in the employment market in order to attract and retain the right candidates. To this effect, the Bank participated in the Compensation Survey conducted across its three locations of operations i.e. Bahrain, UAE and KSA. The results of this benchmarking survey helped the Bank in fine-tuning its employment strategies.

In order to ensure sound succession depth in the organization, the Bank conducted an in depth assessment of available leadership bench strength and organizational restructuring options. The actions and initiatives resulting from this exercise will be undertaken in 2014.

CALL CENTRE

NBB's 24/7 Call Center is entrusted with the management and service delivery of inbound/outbound voice operations with a multi-talented team of customer service associates. Following the strategic direction of emphasis on customer service, the call center pursued a rigorous policy of enhancing customer experience and facilitating sales. The primary areas of focus for 2013 were lead generation, service efficiency and managing customer complaints.

During the year, the Call Center aimed at increasing the amount of leads generated by focusing on cross selling and up-selling the bank's products through an outbound sales campaign.

Call Center refurbished its IVR to offer better and enhanced service to its customers. This transformation gave the customers the opportunity to get fully online and automated information on credit cards details. The revamped features include online/real time balance. In addition, customers will also be able to know all their recently authorized transactions (unbilled transactions) that are not yet included in their statements. This provides our credit card holders a unique way to tally their balances with up-to-minute transactions.

REVIEW OF OPERATIONS

Another crucial area for the Call Center was to support the Bank's electronic channels. Beside fully supporting the customers on Phone Banking, Retail Internet Banking and managing the electronic bill payments, the call center was entrusted in supporting Corporate Internet Banking services too.

A new process has also been implemented for handling customer complaints for both local and overseas branches whereby the Call Center is the primary designate for handling complaints for improved follow-up and resolution within the agreed timelines.

CARD CENTER

The NBB Card Center witnessed a very busy year with the launch of new products and services and significant improvements in its activities.

In addition to the VISA "Taabeya Card" launched in 2011, NBB launched the MasterCard "Taabeya Card" in 2013, which was extremely well received by customers with increased demand due to its features and security. The most distinctive feature of this card is that customers can choose to deposit only the amount of money which they wish to spend, thereby having control over their spending.

In an effort to improve its service to its merchants and reduce paper, the Bank implemented the project for sending a consolidated merchant statement which gives merchants the flexibility to reconcile and view all their accounts in one go without having to review multiple statements. This service has been well received by our merchants and has made their accounting process simpler.

Changes were incorporated to the card management system in order to comply with PCI DSS standards. Card Center was also involved in various system improvements including the upgrade of infrastructure i.e. Hardware systems upgrades, operating system and database upgrade which provided customers faster and more reliable services.

Training to merchants on best practices and fraud detection was also conducted on a periodic basis to ensure smoother operational efficiency, control and further secure the transactions.

The Card Center has lead a project to send Credit Card & PIN Mailer through courier companies which will bring more convenience to our Credit Card holders. Card Center was also extensively involved in the Internet Banking enhancements, preparation for Mobile Banking Services and IVR to provide convenient and useful information to our customers anywhere, anytime. This also includes features whereby our customers will not only be able to obtain most up-to-date available card balances, but also review recently authorized transactions that have not been settled (i.e. unbilled transactions). This is a unique feature offered to our customers to verify their recent transactions.

CENTRAL OPERATIONS

NBB has always strived to maintain the highest standards of services in funds transfer operations and in 2013, the Bank remained committed to this strategic initiative. In recognition of its consistent, high-quality performance and standard in the fund transfer operations, the Bank was awarded the JP Morgan Quality Recognition

Award 2013 for excellence in US Dollar processing. JP Morgan presents this award to selected U.S. Dollar clearing clients who achieve outstanding straight-through results by properly formatting their Swift payments. Less than one per cent of JP Morgan's total funds transfer clients are able to meet the criteria for this award. This is the 13th consecutive year that NBB has earned this recognition which not only illustrates NBB's leading presence in the global financial services market but also aptly demonstrates the Bank's long-term commitment to maintain highest standard of quality.

In 2013 the Central Operations had a key role in the successful implementation of the Corporate Internet Banking, adding more customer services channels to our customers who can now enjoy remote access to their accounts and do banking at any time from any place.

CORPORATE SOCIAL RESPONSIBILITY

The National Bank of Bahrain is a part of the fabric of the community it serves. Over the years of success, growth and expansion that we have seen, there is one important aspect in our business that we have always consciously though about – how can we reshape ourselves as responsible corporate citizens of a changing world? We believe that contributing to the overall health and wellness of our community starts with remaining committed to the highest ethical standards in everything we do- right from research and development to sales and marketing.

Our most important responsibility is to fulfill the expectations of our stakeholders and to continuously improve our social, environmental and economical performance while ensuring sustainability and operational success of our organization. The Bank adopts a stringent policy of involving itself with the community whereby the organization undertakes an active role in helping local communities achieve their aspirations. A combination of volunteer work and patronage is followed to sustain this objective.

The Bank is resolute that the community it serves also benefits from the success and translate that determination to practice by setting aside a percentage of the Bank's annual net profit for allocation among various programmes and foundations/projects aimed at social welfare, health care and the underprivileged sections of our society. This dates back to 1980 when the Bank's Donation and Contribution Programme was conceived.

In 2013 the Bank contributed over BD 0.95 million, through the donations and contributions programme, primarily directed towards health care, social welfare, supporting educational institutions including government schools, research studies and in ensuring that the less privileged among us are put on the path to a more secure future. The Bank has appropriated BD 34.34 million since the inception of the Donation and Contributions programme in 1980.

The Bank's employees also make significant contributions as volunteers sharing their skills, financial and business knowledge and the benefit of their experience with the student community. This includes participating in a broad range of training seminars and work-shops, for the benefit of students from educational establishments, particularly those enrolled in H.H. The Crown Prince's Scholarship programme that is aimed at the development of vision and leadership capabilities among Bahrain's future government and business leaders.

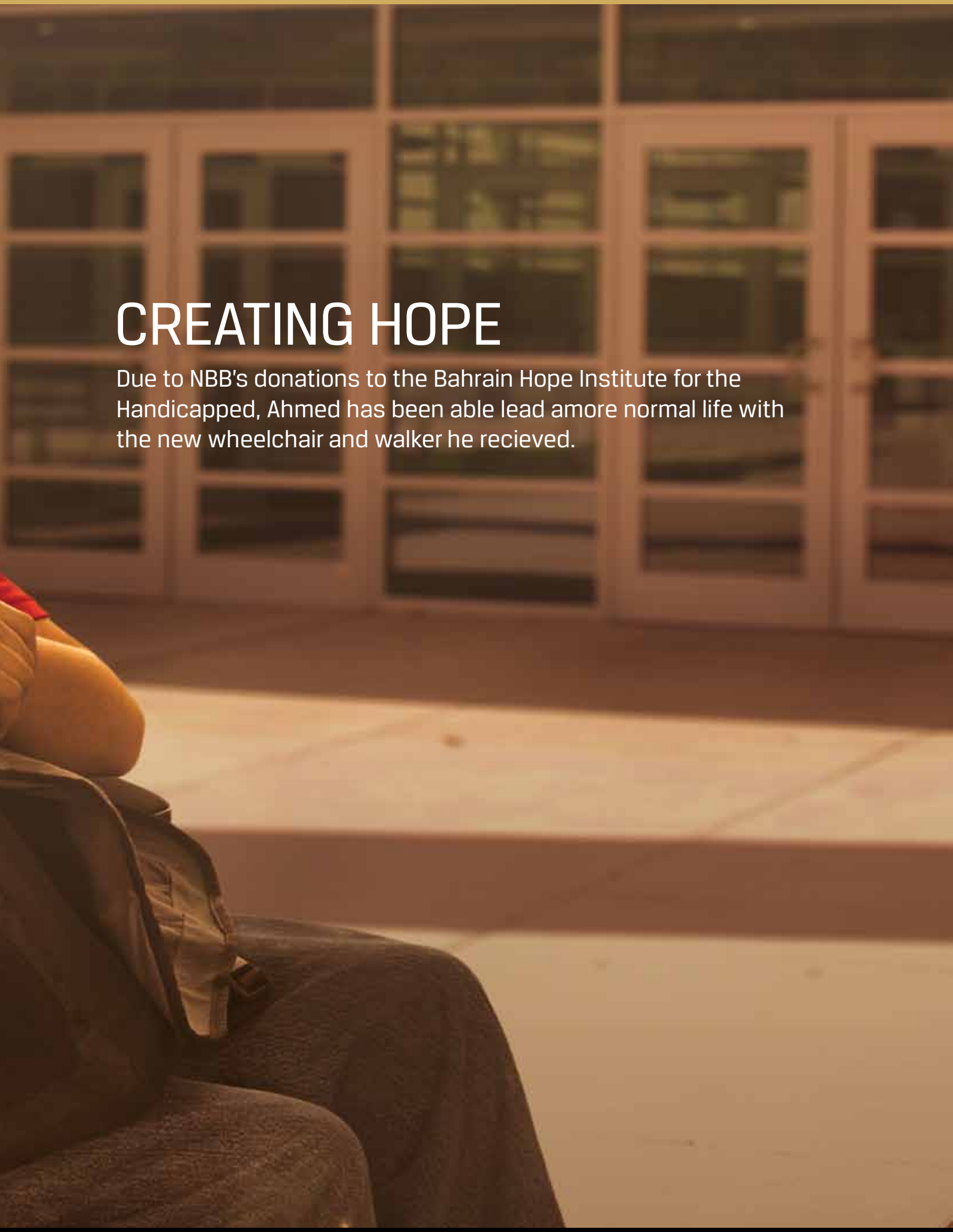
Since 1957, the community has warmly welcomed us to be a part of their lives and has placed their trust in NBB. The Bank has strived to ensure that it supports the nation in its march forward. The Bank has always endevoured to remember, that while we have been fortunate with our success we also need to provide for those among us who are less privileged and those with special needs to ensure a better society and a more prosperous Bahrain.

PROJECTS

Support

NBB Donated BD 50,000 to help people hit by the floods following the downpour that devastated the country through a national fundraising campaign launched by The Royal charity Organization Chairman Shaikh Nasser bin Hamad Al Khalifa following directives from His Majesty King Hamad. This drive was organized by the national committee in charge of aiding affected people in cooperation with Bahrain TV.

As a responsible corporate citizen and a leading Bank in the development of the Kingdom of Bahrain, National Bank of Bahrain assisted the traders and small business enterprises affected by the fire that devastated Isa Town market with a contribution of BD 400,000. This initiative is part of joint effort with the Bahrain Chamber of Commerce and Industry (BCCI)



CREATING HOPE

Due to NBB's donations to the Bahrain Hope Institute for the Handicapped, Ahmed has been able lead amore normal life with the new wheelchair and walker he recieved.

REVIEW OF OPERATIONS

which donated BD 100,000 for the same cause. This generous contribution went to the eligible parties in order to enable them to resume their business in a better shape as soon as possible. The financial assistance was given out after obtaining a list of affected traders and businessmen detailing the type and scope of the damage and the social condition of each case by which the method of the aid and amount was determined. This contribution is a great example of partnership and responsible community work and is also a testament of NBB commitment towards contributing actively in building stronger community socially and economically.

Crown Prince's International Scholarship Programme

In 2006 NBB joined the Crown Prince International Scholarship Programme (CPISP) as a Gold sponsor and made a commitment to contribute BD 500,000 to the programme over a five-year period. Subsequently the Bank upgraded its sponsorship level to Platinum in 2009 whereby the Bank committed to contribute BD 1,000,000 to the programme over a five year period. NBB has already made contribution of BD 1.3 million towards the programme. The sponsorship reflects the Banks continuing support to human resources development in the country and in particular, programmes that support Bahraini students to develop and improve their academic qualifications, including doctorate and master's degrees.

Charity Funds Support

2013 was the seventeenth consecutive year that the Bank has provided assistance to all the local charity funds registered with the Ministry of Social Development. During the past sixteen years about BD 1.68 million has been contributed by the Bank to the local charity funds that provide basic sustenance to poor families and under privileged people across the Kingdom. This year, during the Holy Month of Ramadan, the Bank distributed nearly 7,700 coupons to purchase foodstuffs totaling BD 150,000. The amount was allocated to local charitable societies and organization, who in turn distributed these coupons to those families who are in dire need for help and support.

On the occasion of Eid Al Adha and Eid Al Fitr, the Bank organised the purchase and distribution of gift items for occupants and staff of the NBB Home for the Aged, NBB Home for Disabled Children, Bahrain Mobility International as well as for the children in the Hope Institute for the Blind and the Bahraini Institute for the Blind.

Support to government School Students

In 2013, more than 20,000 needy government school students benefited from the annual winter clothing donation programme. NBB allocated BD 150,000 this year for the programme, which covered all government schools in the Kingdom of Bahrain.

Sponsorship

NBB has demonstrated a leading role in supporting a unique number of important activities and events. Major activities in which the Bank participated as a key sponsor during 2013 were:

- Support the Bahrain International Garden-Show IMF/World Bank Meetings-Washington DC. (Banks in Bahrain Showcase Reception) organized by the Banker's Society of Bahrain and Economic Development of Bahrain.
- Support the Euromoney Bahrain Conference
- 13th Gulf Disability Society Conference organized by the Gulf Disability Society
- 1st Energy Management Conference & Exhibition organized by the Bahrain Society of Engineers
- Support the Bahraini Women Day Celebration organized by the Supreme Council For Women
- Support the GCC Conference Secret of Change organized by the Ministry of Electricity & Water Authority

Included among the major beneficiaries of the Donations and Contributions programme this year were:

- Rehabilitation Centre for Handicapped Children
- Bahrain Cancer society
- Children & Mother Welfare Society
- Hope Institute for Handicapped
- Women & Child Information Centre
- Bahrain Society for Child Development
- Sultan Bin A.Aziz Centre for Hearing & Speech - Bahrain Society for Child Development
- The Saudi Bahraini Institute for The Blind
- Bahrain National Heredity Anemia Society
- Bahraini disabled Sports Committee
- Bahrain Down Syndrome Society
- Al Rahma Centre
- Bahraini Association for Intellectual Disability & Autism
- Public Commission for The Protection Of Marine Environment & Wild Life
- The Bahrain Young Ladies Assn/Aisha Yateem Family Counseling Center
- Migrant Workers protection Society
- Royal Charity Organization

- Minors Estate Directorate
- Child Care Home
- Al Sanable Orphans Care
- NBB Home for The Aged
- Muharraq Social Welfare Centre
- UCO Parents Care Centre
- Al Manar Parents Care Centre
- Bahrain Philanthropic Society
- Bahrain Red Crescent Society
- Al Noor Charity Welfare
- Husan Al Jawar Society
- Middle 4 Youth Society
- Rotary Club of Manama (6-A- Side Football Charity Tournament)

MAJOR PROJECTS

Major projects financed, and contributions made, since the beginning of the donations and contributions programme:

Health Services:

- Building and equipping NBB Dair health centre.
- Financing and furnishing the NBB Arad health centre and physiotherapy wing.
- Providing Salmaneya Medical Centre with two advanced general purpose x-rays, an ambulance, dialysis machines and a urology endoscopy system.
- New eco cardiogram machine for Shaikh Mohamed Bin Khalifa cardiac centre.
- Annual financial support to Shaikh Mohammed Bin Khalifa Cardiac Centre at the Bahrain defence force hospital.
- Upgradation of BDF's computer systems.

Social Welfare Schemes

- Building and furnishing the NBB home for the aged.
- Building and furnishing the friendship Kindergarten for the Blind.
- Building and furnishing the NBB home for disabled children and providing a bus with special equipment.
- Supplying 3 specially manufactured buses for Bahrain mobility international and Muharraq.
- Social Welfare Centre.
- Annual financial support to all the facilities built by the Bank.

Educational facilities

- Construction of administration and registration buildings for the University of Bahrain.
- Building and furnishing the NBB public library in Muharraq.
- Providing the University of Bahrain with "horizon", a fully automated library system and 2 PC laboratories, the e-learning centre in addition to annual financial support for many years.
- Contribution to the new Shaikh Isa library
- Installation of air conditioning in all government primary schools.
- Annual financial support to the university student fund.
- Computerised library system for Women and children information centre.
- Construction of shades for the Pakistan Urdu School.

REVIEW OF OPERATIONS

ABDUL AZIZ ABDULLA AL AHMED
General Manager
Domestic Banking Group

BAHRAIN BUSINESS BANKING

According to the EDB report, GDP growth during the year was expected to be around 4.8 Per cent. However, our experience indicates that the growth trend was spread unevenly and mainly confined to specific sectors like hospitality, education and healthcare. The SME segment remained stagnant, business activity was limited and the segment was characterized by dwindling working capital funding requirements. The real-estate market, while showing signs of stability in certain areas, continued to remain subdued overall. On the positive side, we were aware that expansion projects of several corporates were on the drawing board, which are expected to materialize in the first half of 2014.

It has therefore been a testing year. NBB's Business Banking Units continued to face not only difficult business conditions at the local market level but also growing competition from hard pressed traditional and non-traditional institutions operating in the domestic market. Through this difficult phase, the Unit streamlined the business, maintained strong financial position and continued to be a market leader by serving customers in every possible way.

In an environment which has remained intricate with severe competition and pricing pressure for the limited number of viable projects, the Bank has managed to consolidate the portfolio and revise products, services and delivery channels. The Unit, have made necessary changes, wherever possible to strengthen business propositions in the prevailing market condition. For example, our short term revolving product that gave companies the flexibility to finance their immediate requirements without getting into long term commitment was reinforced. In view of the market situation, we have prudently continued to be very selective regarding exposures to certain sectors like real estate.

The Bank kept in close contact with all customers throughout the year in order to better understand how they were being affected and what was sought by them to roll things over. Based on the information, "tailor made" products were created, wherever possible, which met the customer's requirements during this demanding period.

The Unit witnessed a gradual lift in the local economy towards the end of 2013 and we understand that many large corporate are finalizing their expansion plans, which is a positive sign for 2014 and beyond. It is also expected that the GCC Development Fund will begin to materialize on a significant scale. Bilateral financing from another GCC country was also recently announced, with stated intention to finance projects worth USD1.3bn in Bahrain over the coming years. It is expected that the funds would be allocated to projects like power transmission networks, housing projects, and road-works. We expect these initiatives to enhance economic activity going forward into next year. Along with the existing pipeline deal flows, we expect significant business enhancement in 2014.

The delivery channels of the Bank were enhanced with the introduction of Corporate Internet banking (CIB). Over 100 clients have already signed up for the service, which will enhance customer service levels by allowing our business banking customers to transact from the convenience of their office. This facility will help to strengthen our business relationships which will pay us back in the long run.

Business Banking continued to improve their products and services for the benefit of the customers of the Bank. The unit looks forward to 2014 with optimism, based on improving market situation, strong deal flows in the pipeline and kick-starting of major projects funded by the GCC Development Fund. We are confident that we will be strongly positioned to meet our customers' needs in 2014 and beyond.

PERSONAL BANKING

While 2013 witnessed a growth in the economy, the growth was not uniform across sectors. Consequently, the year continued to present challenges for the business, with all retail banks focusing their resources on select sectors. There was pricing pressure on assets as banks scrambled for market-share to compensate for the reduced opportunities in business banking. Banks with better liquidity and lower cost of funds reduced pricing on retail loans as a relatively lower risk option. Working within difficult operating conditions, new packages and campaigns were launched aimed at individuals. The bank took a conscious decision to take price leadership position in retail loans and offered competitive rates. This strategy was well supported through below the line campaigns like branch merchandising, bulk messaging and data mining to cross sell to existing customer base, which helped the division in enhancing booking volumes and income.

The bank's flagship saving scheme "Al Watani Savings" was revamped and relaunched to catch the attention and establish high recall among customers. An attractive tagline message encouraged the saving habit amongst customers. An attractive communication campaign was developed and promoted through various media including prime outdoor locations. The campaign was well received by the market and the business managed to significantly enhance the low-cost deposits base for the Bank.

A new prepaid product, the Mastercard Taabeya, was launched to widen the selection for NBB customers. The card offered a range of usage opportunities and appealed to a wide cross section of customers for their various needs like crediting their children's monthly allowance to using on the internet in a safe and secure manner. The Titanium card portfolio was significantly enhanced by proactively offering the Titanium card to select cardholders, as an upgrade on their existing card.

The Bank tied up with various merchant partners to bring special offers and add value to its cardholders. During the course of the year, various offers and promotions were made available to NBB cardholders by participating partner organizations like supermarkets, consumer durables outlets, airlines and travel agencies.

The unit communicated its products through strategic outdoor locations across some of the major business areas in the Kingdom. Branch merchandising was also fully leveraged as a cost-effective communication medium. Other non-conventional means (statements inserts, envelopes etc.) were used to effectively reach out to customers and generate enquiries and leads for the sales teams. In order to gauge customer feedback and identify areas for improvement, the unit also supported an initiative to survey a cross section of customers through the NBB Call Center.

In an effort to bring banking services nearer to customers, the direct sales distribution channel was strengthened and used as an effective sales tool. By offering customers service at their door-step, the direct sales team was able to canvass business from a growing number of customers. Sales desks were set up in various Ministries and Government offices to interact directly with customers and potential customers.

In our continued efforts to bring banking convenience closer to our customers a new, full service branch was opened at Bukuwara in Riffa, as well as a new off-site ATM added to NBB's ATM network. Another new site for an off-site ATM has already been prepared and is expected to go on-line shortly.

Technology was leveraged significantly to enhance service levels for customers. Retail Internet Banking was augmented to offer better functionalities and convenience to customers. Upgrades were done to the system to keep the bill payment service compatible with one of the telecom operator's platform so that our customers could enjoy continued service. E-statements facility was introduced which allowed customers to get their individual as well as consolidated account statements through e-mail, in a secure and convenient manner. The Bank also extended the facility of the credit card 'payment gateway' to new merchants, which would enhance business for the merchant partner and the Bank as well as facilitating on-line payments for customers. A new, application based mobile banking service is currently being tested and is expected to be launched shortly which would allow subscribers to conduct most of their banking transactions from their mobile phones and other electronic devices.

SUPPORTING DEVELOPMENT

NBB is proud of its role both commercially and socially within the Kingdom of Bahrain. We are determined to promote and support a vibrant social and economic interaction that will benefit all communities.

REVIEW OF OPERATIONS

HUSSAIN SAYED ALI AL HUSSAINI
General Manager
Treasury & International Banking Group

INTRODUCTION

Global growth remains in low gear and down side risk to economies persist. Forecasts are that world economies expanded 2.9% in 2013 down from 3.2% in 2012. China and a number of emerging market economies are coming off cyclical peaks and growth rates are projected to be below the elevated levels seen in recent years. The U.S. has seen several quarters of solid private demand although the public sector demand is pushing in the opposite direction. This counterforce should diminish in 2014 setting stage for stronger growth. Euro economies are struggling but are showing signs of coming out of recession. Expectations are for U.S growth forecast for 2014 are 2.6% up from 1.6% and in Euro 1% up from - 0.4%.

Two years after the "Arab Spring" many countries are still undergoing complex political, social and economic transitions. Oil exporting economies in the MENA region experienced somewhat slower growth in 2013. Forecasts are for growth of 3% in 2013 down from 4.3% in 2012 and around 3% for 2014. Slower growth can be attributed to lower oil prices and increased government spending. The region should see a continuation of debt issuance to support increased spending.

Continued subpar global growth has forced advanced economy central banks to lower or maintain benchmark interest rates at historically low levels with the ECB set to be possibly more aggressive. The unprecedented liquidity in the markets has been highly beneficial to risk assets with equity markets benefiting the most. Global equities are currently 15-35% higher for the year with the DJIA making all time highs. Regional markets are at 5 year highs. Credit spreads also continue to benefit and have tightened 30-40bps on the year.

The Federal Reserve has kept interest rates near zero for five years now. They have been buying US $ 85 billion worth of bonds every month for almost two years. The main focus for the markets over the coming months will be the reaction when these ultra accommodative policies start to wind down. The mere talk of tapering asset purchases sent emerging markets into a tailspin and caused long term rates to move almost 100bps higher in yield.

MARKETABLE SECURITIES UNIT

Unprecedented low rate levels continued in 2013 . As short term interest rates remained close to zero in G-3 markets, opportunities in sovereign markets where limited. The unit took advantage of a continued tightening of spreads in the high grade GCC markets and was able to book capital gains and reallocate in to higher yielding investments which represented better relative value. The Government of Bahrain continued to be very active in the primary bond markets in both BHD and dollars allowing the unit to deploy excess liquidity at extremely attractive levels.

With Federal Reserve policy getting closer to withdrawing some of the unprecedented liquidity in the market, global emerging markets have become extremely volatile. The unit took a decision to exit emerging market investments until the investment climate remains clearer.

Last year the unit began a strategy which effectively hedges the portfolios long term fixed interest rate risk, and replaces it with

floating rate risk. We have continued to strategically lock in our long term funding rates. Over 50% of the investment portfolio is currently floating or less than one year in maturity. This is implemented using liquid vanilla interest rate swaps with very strong counterparties. Though we expect rates to remain low in the foreseeable future, prudent risk management dictates we continue to take these steps as we get closer to the inevitable change in Fed policy.

Market timing strategies were also utilized to take full advantage of the volatility producing capital gains throughout the year. These strategies coupled with a high level of diversification provided the unit with above average returns.

FOREIGN EXCHANGE & MONEY MARKETS UNIT

2013 proved to be as difficult as the previous financial year, with comparable prevailing market conditions challenging the overall activities of the FX & Money Market Unit. The unit persistently struggled with the continued tight credit situation and unrelenting streak of low interest rates to successfully meet its budgeted obligations for the year while effectively meeting the bank's funding and liquidity obligations.

Throughout the year the unit progressed to follow a prudent short term investment strategy, primarily investing in higher yielding currencies and comparatively profitable Government of Bahrain conventional and Islamic issues that emphasized and reinforced the bank's long standing economic commitment.

Moreover, the unit managed to enhance its profitability for the current year by executing various FX and Money Market arbitrage gapping strategies coupled with a number of cross currency GCC transactions.

TREASURY MARKETING & SALES UNIT

By executing a considerable number of FX strategies during the year, the unit ultimately managed to attain its budgeted income for 2013.

Throughout the year, the Unit successfully managed to attract and attain a substantially high level of customers' deposits at very competitive rates. Furthermore, the Unit has achieved in particular a considerable volume of long term deposits.

Abiding with their catalyst role of providing Total Treasury Solutions to the bank's customers, the Unit augmented its coordination with Investment Unit and Business Banking to provide overall hedging and investment products to meet various clients' requirements.

FUNDS & INVESTMENT UNIT

On the proprietary book front, the Bank continued to adopt a cautious approach to its investment activities and hence the Bank has not deployed any new funds for proprietary book during 2013. Moreover, the bank sucessfully redeemed all its investment in capital protected notes once such notes matured. Despite adopting a conservative approach due to increasing markets uncertainty, the Bank will remain open for any investment opportunities in local and regional markets.

On the client business front, investors continued to stick to cautious stance towards the markets, hence demand on investment products contracted. On the custody services side, which allow clients to invest in fixed Income instruments, and as a result of active marketing and sales efforts, the Unit has been able to double the assets under management in 2013 compared to 2012. The unit continues to capitalise it's copmpetitive edge to gain more market share by attracting new clients and encouraging exisiting clients to increase their investments using NBB's custody services by offering very competitive fees structure, providing clients with market access and trade execution services across local, GCC (Islamic & non Islamic), and global fixed income securities, conducting each transaction with the utmost transparency and confidentiality. Moreover giving clients the most competitive rates and best size allotments during subscription of new issues especially the BHD denominated ones. The Unit will continue its research in finding and choosing the right investment product for its clients, keeping in mind capital preservation and risk-adjusted returns.

REGIONAL & TRANSACTIONAL BANKING

During 2013, Regional & Transactional Banking Unit continued to focus on regional corporate names as well as managing the relationship with local, regional and international financial institutions.

The Unit played a major role in leading a group of local banks to structure a term loan facility of US $ 250 million to Bahrain Mumtalakat Holding Company for general corporate and investment purposes. The Unit worked extensively for a number of months in order to reach the

REVIEW OF OPERATIONS

financial close of this transaction which was achieved in August 2013. In addition to leading the Arranging Bank Group for the facility, NBB assumed the role of Facility Agent which involved extensive liasion with the Borrower, participating banks and the legal counsel to review and finalize facility agreement and to arrange for the drawdown under the facility.

As regards corporate finance transactions, the Unit worked on the evaluation of financial advisory roles for housing and industrial projects as well as IPO issues which are still in the pipeline.

In the Gulf region, we continued our active calls on key banks to pursue collaboration on major financing deals in active market segments such as Contracting, Aviation and Trade.

The Unit continued its strong relationships with regional and international financial institutions. We succeeded to initiate new relationships with regional and international banks for providing various correspondent banking services to support the activities of these institutions.

The Unit continued its collaboration with international banks in soliciting trade products such as confirmation of Letters of Credit issued in favor of local exporters and the issuance of Letters of Guarantee with respect to contracts awarded in Bahrain during the year.

Throughout the year, the Unit provided technical support to other business units such as Corporate Banking, Retail Banking and Treasury Operations.

INTERNATIONAL BANKING

RIYADH BRANCH

During 2013, NBB Riyadh Branch maintained its focus on implementation of the 3 Year Business Plan that was extended to 2013. The Plan called for selective tapping of rewarding opportunities in the Kingdom within target sectors to achieve specific goals and objectives.

On the corporate side, the Branch attracted few selective customers through bilateral relationships to make the book more diversified while enhancing relationships with existing ones. We achieved impressive growth in the loans and advances portfolio, deposit book and contingent business where the Branch once again, exceeded the target increase in terms of size, fee income and return on risk assets. All these achievements had a positive impact on Branch profitability in 2013.

On the retail side, the Branch revisited the strategy for retail that started in late 2012. The branch introduced retail credit card and revised consumer loans criteria to attract desired customers falling in the target 'niche' market within the ever growing retail sector in Saudi Arabia so as to realize the goals and objectives of 2013.

Significant investments were made by the branch in 2013 in selecting, testing and installing a new IT core system that was implemented earlier in the year. The branch also completed the plan to enhance delivery channels by offering Internet Banking to Corporate customers while independent studies of IT security and internal control were also done.

The Branch launched limited Islamic Banking Products and Services in late 2013 following an initial introduction of Murabaha products that was well received in the preceding year.

During 2013, Riyadh Branch once again organized training of nearly all staff to attend courses at the Institute of Banking to enhance their knowledge related to the current rules and procedures of SAMA and AML. Selected Saudi staff was also recommended to attend courses and seminars at the Institute of Bankers and at the Head Office to acquire more skills in credit, operations, trade finance and information technology.

The branch is well prepared for the challenges that 2014 will bring and believes that the coming year will be more rewarding.

ABU DHABI BRANCH

In 2013 NBB Abu Dhabi branch continued with its focus of consolidating and growing the UAE business with a specific focus on corporate banking. To this end the new strategic direction for the UAE business was signed off by the CEO earlier in the year. This was timely given the strong recovery of the UAE Banking sector in 2013 which saw loan growth of around 7% compared to 2.6% in 2012.

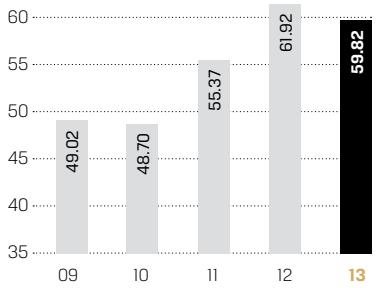
Paramount to the booking of new business was identifying key industry segments in which NBB could compete effectively and building a strong business pipeline. Whilst the Abu Dhabi branch continued to selectively assess syndicated transactions, new business booked were primarily bilateral transactions in the Emirate of Abu Dhabi on the foundations of superior customer service and competitive pricing. Several other strong business opportunities were also identified in other Emirates. A highlight of the year is the growth in the trade finance business which saw an immediate boost in the branch commission income. In addition, the branch continued to maintain strong relationships with Bahraini or Bahraini linked companies already established or entering the UAE market. In this regard reciprocal referrals were made between the Abu Dhabi branch and Bahrain in pursuit of new business opportunities.

Improving operational effectiveness of the branch continued with the launch of UAE Central Bank mandated direct debit system, automation of trade finance processes and the initiation of the integration of various payment applications with the bank's core banking application project. Corporate internet banking was formally launched to customers whilst other new products providing convenient banking options for customers such Image 'Cheque Clearing System for Customers' is under review.

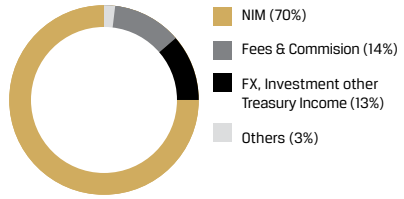
Key to successfully implementing the UAE strategy is the strengthening of the corporate team across Credit Review, Relationship Managers and Trade Finance. Opening a second branch in the UAE and the setting up of Electronic Banking Centres continue to be under review and will be in line with business growth.

The UAE economy has rebound strongly from the financial crisis and the approved UAE federal budget of AED 140 billion will see many new old projects re-launched and new projects announced in 2014. NBB Abu Dhabi is optimistic and confident in its view of growing the UAE business in 2014.

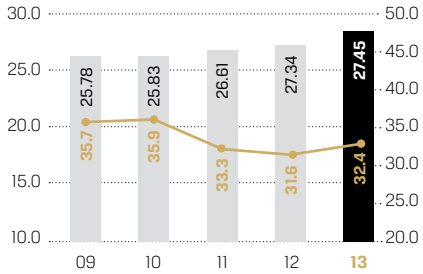
FINANCIAL REVIEW



NET INTEREST INCOME
BD Millions



COMPOSITION OF TOTAL INCOME
Per cent



OPERATING COST & COST TO INCOME RATIO

Operating Cost
BD Millions

Cost to Income Ratio
Per cent

OVERVIEW

The financial position of the Bank remains strong with a steady and consistent improvement in the overall performance during the year 2013. While the external environment showed tentative signs of recovery although significant challenges still exists, the Bank focused on a balanced growth within the overall prudent risk management framework. This resulted in the Bank delivering a record net Profit of BD 51.36 million for 2013, compared to BD 47.50 million for 2012, an increase of 8.1 per cent.

At year-end 2013, the Bank's Total Balance Sheet stood at BD 2,749.23 million, compared to BD 2,654.56 million at year-end 2012. While Loans and advances showed a decline due to certain major repayments and lack of quality lending opportunities, the available funds were efficiently deployed in Investment securities and Treasury Bills to maintain the overall interest margin. As a result, the total Earning Assets increased from BD 2,515.83 million at year-end 2012 to BD 2,596.84 million at year-end 2013.

Key performance indicators continue to remain strong with Return on Average Equity at 15.06 per cent and a Return on Assets of 1.90 per cent for the year 2013. Earnings Per Share improved from 50.5 fils in 2012 to 54.6 fils for 2013. Efficiency Ratio for 2013 was 32.4 per cent compared to 31.6 Per cent for the previous year. The Bank continues to have a strong capital adequacy ratio of 31.2 per cent before the proposed appropriations calculated in accordance with Basel 2 and Central Bank of Bahrain guidelines. Liquidity continues to be comfortable with liquid assets (Cash and balances with central banks, Treasury bills and Placement with financial institutions) representing 30.0 per cent of total assets.

NET INTEREST INCOME

Net Interest Income at BD 59.82 million for the year reflects a marginal decrease of 3.4 per cent over 2012. The decrease is largely attributable to the lack of quality lending opportunities and reduced returns on deployment of surplus liquidity due to very low short term interest rates. However, the decrease was largely off-set by additional investments in Government of Bahrain bonds. As a result, the net interest margin, on average total assets, was 2.21 per cent in 2013 compared to 2.46 per cent in 2012.

OTHER INCOME

Total Other Income for the year was BD 24.83 million, marginally higher than BD 24.69 million recorded in the previous year. Higher Exchange Income and realized profit on investments has been partly off-set by lower Commission and dividend income on the Bank's equity investments resulting in a modest increase in total Other Income.

Details of Other Income, with comparative figures for the previous year, are set out in Note 24 to the Financial Statements.

OPERATING EXPENSES

Operating Expenses at BD 27.45 million showed a modest increase of 0.4 per cent over the previous year actual of BD 27.34 million. Staff Expenses decreased marginally from BD 19.59 million in 2012 to BD 19.58 million in 2013 mainly on account of efficiency improvements and better utilisation of existing manpower. Other Operating Expenses increased slightly to BD 7.87 million in 2013 from BD 7.75 million in 2012 as the Bank continued with the branch refurbishment programme and other information technology initiatives to improve operational efficiency and enhance customer service. Operating efficiency ratio increased marginally from 31.6 per cent in 2012 to 32.4 per cent for the year 2013 due to decrease in revenue. However, this ratio compares favourably with regional peers.

PROVISIONS

The Bank follows International Accounting Standard 39 and Central Bank of Bahrain

regulations for assessing the adequacy of provisions for loan losses. Provisions for individually impaired credit exposures are determined by discounting expected future cash flows. Impairment and uncollectability is also measured on a portfolio basis, for a homogenous group of loans and advances not individually identified as impaired, on the basis of estimates of incurred losses inherent within the loans and advances portfolio that have not been specifically identified at the balance sheet date. The estimates are based on internal risk ratings, historical default rates adjusted considering current observable data, rating migrations, loss severity, macroeconomic outlook and other relevant factors that reflect the effect of current conditions on the loan book. Based on the ongoing assessment of the provision requirement and the Bank's continued emphasis on having a strong balance sheet, an amount of BD 5.28 million was provided towards impairment on loans and advances during the year. Further, a provision of BD 0.35 million was made for impairment on equity investments due to decrease in the market value of the investments.

Non-performing loans continue to be closely monitored which amounted to BD 66.74 million at the end of 2013 compared to BD 69.76 million at the end of 2012. This includes one large exposure where scheduled repayments have not been met and for which the Bank holds adequate security. Details of the Bank's non-performing loans, provisions and movements therein during the year are detailed in Note 7 to the Financial Statements

ASSETS

Total Assets stood at BD 2,749.23 million as at 31 December 2013, reflecting an increase of 3.6 per cent over BD 2,654.56 million recorded in the previous year. Total Earning Assets stood at BD 2,596.84 million as at 31 December 2013 compared to BD 2,515.83 million as at the previous year end, reflecting a modest growth of 3.2 per cent. While Loans & Advances decreased during the year due to lack of quality lending opportunities, additional investments in Government of Bahrain bonds resulted in an overall increase in the total earning assets. The Bank has a well diversified asset profile with Loans and Advances representing 31.3 per cent of the total assets, while Treasury Bills represents 20.7 per cent, Placements with Banks & Financial Institutions represent 5.3 per cent, Investment securities represent 36.3 per cent and Others 6.4 per cent of the total assets.

The loan portfolio is diversified with widespread participation in domestic market and broadening of business relationships in Bahrain in line with the Bank's strategy of focusing on the active sectors of the domestic economy. Loans and Advances portfolio is concentrated principally in Bahrain and other GCC countries. Based on contractual maturity terms, 39.2 per cent of the current portfolio matures within one year and 70.6 per cent is due to mature within 3 years of the balance sheet date.

At the year-end, the Bank's Investment portfolio of BD 997.72 million (2012: BD 757.83 million) consisted mainly of debt and equity securities while a small portion represents investments in mutual funds designated at Fair Value Through Profit or Loss. A substantial portion i.e. 98.9 Per cent of the total debt portfolio is in investment grade securities.

Notes 29 and 30 to the Financial Statements provide details of the distribution of Total Assets by geographical region and industry.

LIABILITIES

Customer Deposits at year-end 2013 stood at BD 2,083.54 million compared to BD BD 2,077.90 million at previous year-end. The Bank continues to be successful in generating customer deposits resulting from its dominant position in the domestic market and leveraging its image as a safe and sound financial institution in the Kingdom of Bahrain.

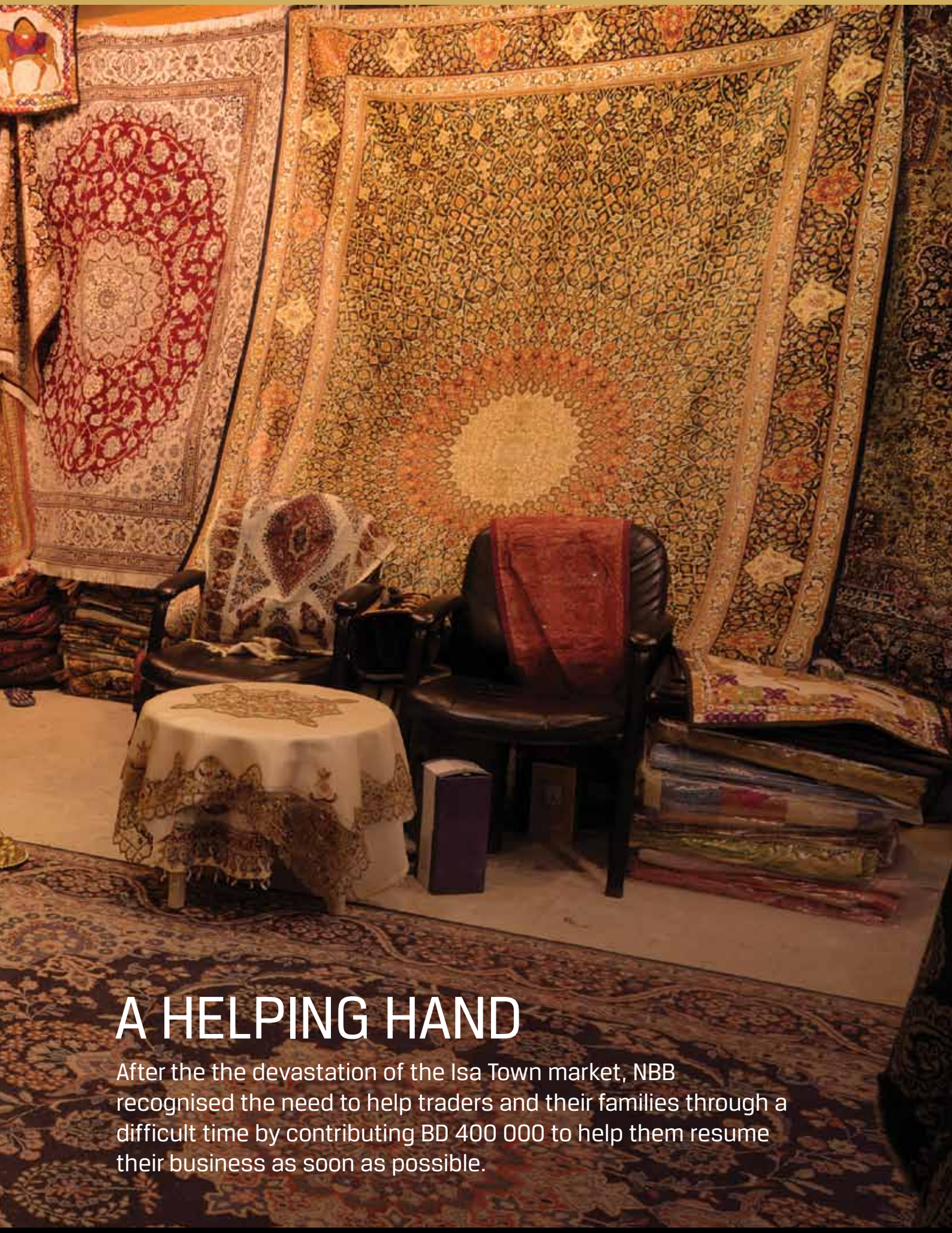
Borrowings under repurchase agreements and Due to banks and financial institutions stood at BD 282.71 million at year-end 2013, compared to BD 243.95 million as at year-end 2012. Customers Deposits continue to be the major source of funding with the ratio of Customers' Deposits to Total Liabilities at 87.3 per cent at year-end 2013.

CAPITAL STRENGTH

Shareholders' Equity, inclusive of proposed appropriations, reflected a balance of BD 363.14 million as at year-end 2013, compared to BD 318.94 million as at the previous year, an increase of 13.9 per cent. At the year-end, Shareholders' Equity as a percentage of Total Assets was 13.2 per cent.

The Bank's capital adequacy ratio at the balance sheet date was 31.2 per cent with Tier 1 ratio at 29.2 per cent before the proposed appropriations. The ratios have been calculated in accordance with the Basel 2 and Central Bank of Bahrain guidelines.

The Bank's capital adequacy ratio, encompassing credit, operational and market risk, is well above the Basel requirement of 8 per cent and also comfortably above the minimum level of 12 per cent set by the Central Bank of Bahrain. Note 41 to the Financial Statements and Risk and Capital management disclosures provide further details on capital adequacy. The main factors that contribute to the Bank's strong capital adequacy ratio are high capital base, low risk profile of on-balance sheet and off-balance sheet exposures which includes significant exposures to low risk weighted assets namely governments, public sector undertakings, banks and financial institutions.

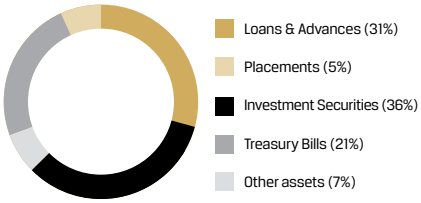


A HELPING HAND

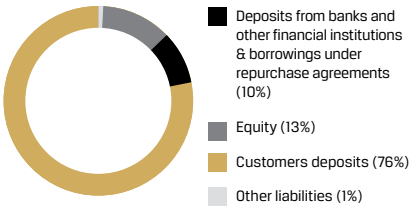
After the the devastation of the Isa Town market, NBB recognised the need to help traders and their families through a difficult time by contributing BD 400 000 to help them resume their business as soon as possible.

RISK MANAGEMENT

RAVEENDRA KRISHNAN
General Manager
Risk Group



COMPOSITION OF TOTAL ASSETS
Per cent



COMPOSITION OF TOTAL LIABILITY AND EQUITY
Per cent

RISK MANAGEMENT

In a world characterised by high integration of global financial markets, innovation in financial products, extensive use of derivatives, market volatility and large scale regulatory changes, the management of risk is a key issue for every bank. NBB has over the years, developed risk management into a core competence and remains well positioned to meet these challenges. The Bank evaluates risk in terms of the impact on income and asset values. The evaluation reflects the Bank's assessment of the potential impact on its business on account of changes in political, economic and market conditions and in the credit worthiness of its clients. Risk management at NBB has always been prudent and proactive with the objective of achieving the optimum balance between risk appetite and expected returns.

Risk arises from the Bank's lending and investment activities as carried out by the various units. Corporate Banking is responsible for lending to large corporate entities in Bahrain. Regional Banking handles credit facilities to leading corporates in other countries of the GCC. The Trade Finance and Financial Institutions unit is involved in identifying and financing trade flows between the GCC region and the rest of the world. Commercial Banking's responsibilities cover the borrowing requirements of small to medium-sized companies based in Bahrain. Personal Banking handles lending to individuals in Bahrain and other retail services. Treasury and Investments is responsible for all the treasury and capital market related activities of the Bank and Abu Dhabi and Riyadh Branches serve the UAE and Saudi Arabian markets respectively.

The overall authority for risk management in the Bank is vested in the Board of Directors. The Board authorises appropriate credit and market risk policies as well as suitable operational guidelines based on the recommendation of Management. Approval authorities are delegated to different functionaries in the hierarchy depending on the amount, type of risk and collateral security. The Bank has established committees that decide on all risk issues and authorities are properly structured.

Integral to the Bank's risk management system is the internal audit department that plays a role in evaluating the independence and overall effectiveness of the Bank's risk management functions. A periodic review of risk assets is conducted by the department to confirm that established policies, procedures and approved terms are complied with, and to review asset quality and highlight areas of concern so that corrective action can be taken in time.

The Risk Management Group (RMG) of the Bank provides the necessary support to Senior Management and the business units in all areas of risk management. This division functions independently of the business units to analyse risks and put forth its recommendations prior to approval by the delegated authorities. The Bank promotes healthy debate among the business units and RMG to achieve an optimum balance between risk and return.

The Bank's risk management process encompasses the various dimensions of risk as follows:

CREDIT RISK

Credit Risk represents the potential financial loss as a consequence of a customer's inability to honour the terms and conditions

of the credit facility. Such risk is measured with respect to counterparties for both on-balance sheet assets and off-balance sheet items.

The Bank has well laid out procedures, not only to appraise but also to regularly monitor credit risk. Regular reviews are carried out for each account and risks identified are mitigated in a number of ways, which include obtention of collateral, counter-guarantees from shareholders and/or third parties. Adequate margins are maintained on the collateral to provide a cushion against adverse movement in the market price of collateral.

In addition to rigorous credit analysis, the terms and conditions of all credit facilities are strictly implemented by the Credit Administration Department. An internal grading system and review process ensures prompt identification of any deterioration in credit risk and consequent implementation of corrective action. The Bank's internal ratings are based on a 10-point scale that takes into account the financial strength of a borrower as well as qualitative aspects, to arrive at a comprehensive snapshot of the risk of default associated with the borrower. Ratings are further sub-divided into categories which reflect estimates of the potential maximum loss if default occurs. Risk Ratings assigned to each borrower are reviewed at least on an annual basis. Regular monitoring of the portfolio enables the Bank to weed out accounts that evidence deterioration in risk profile.

The Bank follows stringent criteria in setting credit limits for countries and financial institutions. Prudent norms have also been implemented to govern the Bank's investment activities. Not only are regular appraisals conducted to judge the credit worthiness of the counterparty but day-to-day monitoring of financial developments across the globe ensures timely identification of any event affecting the risk profile.

The Bank enters into derivative contracts in the normal course of business to meet customer requirements and to manage its own exposure to fluctuations in interest and exchange rates. The credit risk arising from a derivative contract is calculated by taking the cost of replacing the contract, where its mark to market value is positive, together with an estimate for the potential future change in the value of the contract. The credit risk on contracts with a negative mark to market value is restricted to the potential future change in their market value. Details of derivative contracts are contained in Note 17 to the Financial Statements.

The Bank has systems and procedures in place to generate alerts in case of past dues in any account. A stringent classification process is followed for all accounts with past dues of over 90 days. The Bank applies rigorous standards for provisioning and monitoring of non- performing loans. Level of provisions required is determined based on the security position, repayment source, discounted values of cash flows, etc. Adequate provisions are carried to guard against inherent risks in the portfolio. At year end 2012 exceeded the entire non-performing portfolio.

LEGAL RISK

Legal Risk management systems supplement the above credit procedures and guard against the inability of the Bank to enforce claims against counterparties and borrowers.

In-house expertise together with firms of international repute retained by the Bank ensures that the facility documentation encompasses eventualities that might affect the implementation of stipulated terms and conditions.

LIQUIDITY RISK

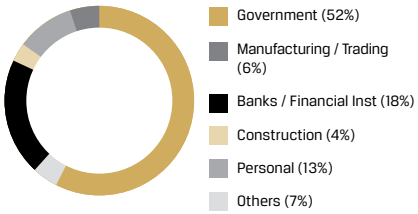
Liquidity Risk is classified as the potential inability of the bank to meet its financial obligations on account of a maturity mismatch between assets and liabilities. Liquidity risk management ensures that funds are available at all times to meet the funding requirements of the Bank.

The assets/liabilities management policies of the Bank define various liquidity criteria that need to be complied with, such as minimum level of liquid assets, gap limits, ratio of liquid assets to total assets, etc..

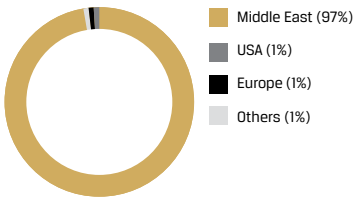
The Bank maintains adequate investments in liquid assets such as inter-bank placements and treasury bills. In addition, the Bank also relies on trading assets and other marketable securities to provide secondary sources of liquidity. The ratio of liquid assets to total assets as at 31 December 2013 was 30.0 Per cent. The high level of liquidity enables the Bank to meet fluctuating customer borrowings and drawdowns comfortably.

The Bank's ability to maintain a stable liquidity profile is primarily on account of its success in retaining and growing its customer deposit base. The marketing strategy of the Bank has ensured a balanced mix of demand and time deposits. As a result of its successful deposit and asset-liability management strategies, the Bank is a net placer of funds in the interbank market and is not dependent on volatile short-term borrowings.

RISK MANAGEMENT



SECTOR DISTRIBUTION OF ASSETS
Per cent



GEOGRAPHICAL DISTRIBUTION OF ASSETS
Per cent

The Treasurer closely monitors the maturity profile of assets and liabilities so that adequate liquidity is maintained at all times. The asset and liability maturity profile by individual asset and liability category based on contractual repayment arrangements is detailed in Note 35 to the Financial Statements. As at 31 December 2013, 30.4 Per cent of assets were scheduled to mature within three months. Substantial investment securities with contractual maturities of more than three months can also be readily liquidated. Considering the effective maturities of deposits based on retention history and in view of the ready availability of liquid investments, the Bank is able to ensure that sufficient liquidity is always available. Proper contingency plans exist and can be implemented on a timely basis to minimise the risk associated with dramatic changes in market conditions. The Asset Liability Committee (ALCO) chaired by the Chief Executive Officer, reviews the liquidity gap profile, liquidity scenarios and projections, and addresses strategic issues concerning liquidity.

INTEREST RATE RISK

Interest Rate Risk is measured by the extent to which changes in market interest rates impact margins, net interest income and the economic value of the Bank's equity. The Bank's asset and liability management process is utilised to manage interest rate risk through the structuring of on-balance sheet and off-balance sheet portfolios. Net interest income will be affected as a result of volatility in interest rates to the extent that the repricing structure of interest bearing assets differs from that of liabilities. The Bank's goal is to achieve stable earnings growth through active management of the assets and liabilities mix while selectively positioning itself to benefit from near-term changes in interest rate levels.

The Bank uses interest rate gap analysis to measure the interest rate sensitivity of its annual earnings due to repricing mismatches between rate sensitive assets, liabilities and derivatives positions. Note 32 to the Financial Statements gives details of the Bank's exposure to interest rate risk.

Duration analysis is used to measure the interest rate sensitivity of the fixed income portfolio. Modified Duration gives the percentage change in value of the portfolio following a 1% change in yield. Modified Duration of the Bank's fixed income portfolio was 2.65 Per cent on 31.12.2013. This implies that a 1 Per cent parallel upward shift in the yield curve could result in a drop in the value of the portfolio by BD 24.96 million. Interest rate swaps and forward rate agreements are used to manage the interest rate risk. The Treasurer is primarily responsible for managing interest rate risk. Reports on overall positions and risks are submitted to senior management for review and positions are adjusted if deemed necessary. In addition, ALCO regularly reviews the interest rate sensitivity profile and its impact on earnings. Strategic decisions are made with the objective of producing a strong and stable interest income over time.

MARKET RISK

Market Risk is classified as the risk to the value of the trading portfolio arising from changes in interest rates, foreign exchange, commodity and equity prices. The Bank's trading activities are governed by conservative policies, adherence to limits set annually and regular reviews. Quality and rating are the main criteria in selecting a trading asset.

Using the Standardised Method, the Bank calculates the capital that is required to be held on account of the various risk factors affecting the trading book and currency positions. Capital requirement on account of interest rate risk, foreign exchange risk, equity risk, commodity risk and options risk are calculated separately and then summed up to arrive at the total market risk capital requirement of the Bank. The following table shows the capital charges as at 31 December 2013:

Particulars (BD '000)	Capital Charge
Interest Rate Risk	636.1
Equities Risk	91.7
Foreign Exchange Risk	65.8
Commodities Risk	-
Options Risk	-
Total minimun capital required for market risk	793.6
Multiplier	12.5
Market Risk weighted exposure under the Standard Method	**9,920**

During the period January to December 2013, the maximum capital requirement as per Standardized Method was BD 16.7 million on 18th August 2013 while the minimum capital requirement was BD 5.7 million on 21st February 2013.

OPERATIONAL RISK

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Bank has well laid out procedures and systems that set out the methodologies for carrying out specific tasks. These systems and procedures are constantly reviewed and revised to address potential risks.

The Operational Risk management department within the Risk Group independently monitors and manages all aspects of operational risk on a bank wide basis. The Bank has established an Operational Risk Management Committee (ORMC) to supervise, monitor and review operational risk issues and ensure that adequate mitgants are developed and implemented for all operational risk issues. The Risk and Control Self Assessment (RCSA) programme provides the ORMC with a compact and comparative view of operational risks along with their measure in terms of likelihood of occurrence and probable impact across various units of the Bank, and also provides a basis to evaluate and prioritise the requirement of control enhancements and new mitigation approaches in a structured manner.

In addition to the RCSA programme, the Bank also uses Key Risk Indicators (KRIs) as a tool to monitor operational risk. KRIs are statistics and /or metrics which provide insight into the Bank's operational risk position. KRIs have been designed with thresholds that indicate increasing level of risk, thereby providing an indication of severity and the requirement to take corrective action. KRI results are tracked regularly by the Operational Risk management department and reviewed by the ORMC.

The scope of the Bank's internal audit department encompasses audits and reviews of all business units, support services and branches. The internal audit process focuses primarily on assessing risks and controls and ensuring compliance with established policies, procedures and delegated authorities. New products and services are also reviewed by the internal audit department and assessed for operational risk prior to their implementation. The internal audit department is operationally independent and reports significant internal control deficiencies to the Audit Committee.

The Bank has a well-established Business Continuity Plan as well and off-site computer back-up centre that provides full system support to the Bank's operations in case of an emergency in the information technology systems. The Business Continuity Plan and the computer back-up centre is regularly tested to ensure its readiness for seamless switchover in case of any emergency.

Necessary procedures and systems have been put in place to protect the Bank from money laundering activities.

All the aspects of risk mentioned above are reviewed regularly at each meeting of the Board of Directors and the Executive Committee based on a comprehensive risk report. This integrated approach to risk management also serves the Bank in achieving its objective of protecting the interests of shareholders and customers.

FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

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Audit
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Kingdom of Bahrain

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21 January 2014

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of National Bank of Bahrain BSC ("the Bank"), which comprise the statement of financial position as at 31 December 2013, the statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

RESPONSIBILITY OF THE BOARD OF DIRECTORS 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 our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider 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 management, 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, and 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 Volume 1 of the Central Bank of Bahrain (CBB) Rule Book, we report that: the Bank has maintained proper accounting records and the financial statements are in agreement therewith; the financial information contained in the directors' report 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, applicable provisions of Volume 6 and CBB directives), the CBB Capital Markets regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association having occurred during the year that might have had a material adverse effect on the business of the Bank or on its financial position; and satisfactory explanations and information have been provided to us by the management in response to all our requests.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Note	2013 BD millions	2013 US$ millions	2012 BD millions	2012 US$ millions
Assets					
Cash and balances at central banks		**108.39**	**288.30**	106.51	283.26
Treasury bills	4	**570.10**	**1,516.21**	380.11	1,010.94
Placements with banks and other financial institutions	5	**146.25**	**388.96**	486.07	1,292.74
Trading securities	6	**0.57**	**1.52**	0.52	1.39
Loans and advances	7	**859.39**	**2,285.61**	888.25	2,362.37
Investment securities	8	**997.72**	**2,653.50**	757.83	2,015.50
Investment in associates	9	**22.81**	**60.65**	3.05	8.11
Interest receivable and other assets	10	**30.09**	**80.02**	17.43	46.35
Property and equipment	19	**13.91**	**36.99**	14.79	39.34
Total assets		**2,749.23**	**7,311.76**	2,654.56	7,060.00
Liabilities					
Due to banks and other financial institutions	11	**252.82**	**672.38**	168.53	448.22
Borrowings under repurchase agreements	12	**29.89**	**79.49**	75.42	200.59
Customer deposits	13	**2,083.54**	**5,541.33**	2,077.90	5,526.34
Interest payable and other liabilities	14	**19.84**	**52.76**	13.77	36.61
Total liabilities		**2,386.09**	**6,345.96**	2,335.62	6,211.76
Equity					
Share capital	20	**94.09**	**250.24**	85.54	227.49
Statutory reserve	21	**47.05**	**125.13**	42.77	113.75
General reserve	21	**32.40**	**86.17**	32.40	86.17
Other reserves and retained earnings	21	**189.60**	**504.26**	158.23	420.83
Total equity		**363.14**	**965.80**	318.94	848.24
Total liabilities and equity		**2,749.23**	**7,311.76**	2,654.56	7,060.00

The Board of Directors approved the financial statements consisting of pages 54 to 95 on 21 January 2014 and signed on their behalf by :

Farouk Yousuf Khalil Almoayyed
Chairman

Abdul Razak A. Hassan Al Qassim
Chief Executive Officer & Director

The accompanying notes 1 to 43 are an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2013

	Note	2013 BD millions	2013 US$ millions	2012 BD millions	2012 US$ millions
Interest income	23	**76.77**	**204.17**	78.31	208.27
Interest expense	23	**(16.95)**	**(45.08)**	(16.39)	(43.59)
Net interest income		**59.82**	**159.09**	61.92	164.68
Other income	24	**24.83**	**66.05**	24.69	65.66
Total operating income		**84.65**	**225.14**	86.61	230.34
Staff expenses	25	**19.58**	**52.08**	19.59	52.10
Other expenses		**7.87**	**20.93**	7.75	20.61
Total operating expenses		**27.45**	**73.01**	27.34	72.71
Profit before provisions & Tax		**57.20**	**152.13**	59.27	157.63
Impairment provisions on loans and advances	7	**(5.28)**	**(14.04)**	(9.21)	(24.49)
Impairment provisions on investments		**(0.35)**	**(0.93)**	(2.56)	(6.81)
Income tax expense		**(0.21)**	**(0.56)**	-	-
Profit for the year		**51.36**	**136.60**	47.50	126.33
Basic and diluted earnings per share	38	**54.6 fils**	**15 cents**	50.5 fils	13 cents

Farouk Yousuf Khalil Almoayyed
Chairman

Abdul Razak A. Hassan Al Qassim
Chief Executive Officer & Director

The accompanying notes 1 to 43 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	2013		2012	
	BD millions	**US$ millions**	BD millions	US$ millions
Profit for the year	**51.36**	**136.60**	47.50	126.33
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
Foreign currency translation movement	**-**	**-**	0.03	0.08
Fair value reserve (available-for-sale securities):				
Net change in fair value	**17.10**	**45.48**	22.66	60.26
Net amount transferred to profit or loss	**(2.39)**	**(6.36)**	0.97	2.58
Share of other comprehensive income of associate	**0.46**	**1.23**	-	-
Total other comprehensive income for the year	**15.17**	**40.35**	23.66	62.92
Total comprehensive income for the year	**66.53**	**176.95**	71.16	189.25

The accompanying notes 1 to 43 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

For the year ended 31 December 2013

In BD millions	Note	Share capital	Statutory reserve	General reserve	Fair value reserve	Donation and charity reserve	Retained earnings*	Total BD millions	Total US$ millions
Balance at 1 January 2013		**85.54**	**42.77**	**32.40**	**42.07**	**9.15**	**107.01**	**318.94**	**848.24**
2012 appropriations									
Cash dividend at 25%		**-**	**-**	**-**	**-**	**-**	**(21.38)**	**(21.38)**	**(56.86)**
Bonus shares issued at 10%		**8.55**	**-**	**(8.55)**	**-**	**-**	**-**	**-**	**-**
Transfer to donations and charity		**-**	**-**	**-**	**-**	**2.37**	**(2.37)**	**-**	**-**
Transfer to general reserve		**-**	**-**	**12.83**	**-**	**-**	**(12.83)**	**-**	**-**
Transfer to statutory reserve		**-**	**4.28**	**(4.28)**	**-**	**-**	**-**	**-**	**-**
Balance after 2012 appropriations		**94.09**	**47.05**	**32.40**	**42.07**	**11.52**	**70.43**	**297.56**	**791.38**
Comprohensive income for the year:									
Profit for the year		**-**	**-**	**-**	**-**	**-**	**51.36**	**51.36**	**136.60**
Other comprehensive income		**-**	**-**	**-**	**15.17**	**-**	**-**	**15.17**	**40.35**
Total comprehensive income for the year		**-**	**-**	**-**	**15.17**	**-**	**51.36**	**66.53**	**176.95**
Utilisation of donation and charity reserve		**-**	**-**	**-**	**-**	**(0.95)**	**-**	**(0.95)**	**(2.54)**
Balance at 31 December 2013	**20-22**	**94.09**	**47.05**	**32.40**	**57.24**	**10.57**	**121.79**	**363.14**	**965.79**

* The appropriations for the year 2013 will be submitted to the shareholders at the annual general meeting. These appropriations include BD 32.93 million for cash dividend at 35% (2012: 25%) and BD 2.57 million for donations and contributions.

For the year ended 31 December 2012

In BD millions	Note	Share capital	Statutory reserve	General reserve	Fair value reserve	Donation and charity reserve	Retained earnings	Total BD millions	Total US$ millions
Balance at 1 January 2012		85.54	42.77	32.40	18.44	8.16	87.42	274.73	730.67
2011 appropriations									
Cash dividend at 30%		-	-	-	-	-	(25.66)	(25.66)	(68.25)
Transfer to donation and charity		-	-	-	-	2.28	(2.28)	-	-
Balance after 2011 appropriations		85.54	42.77	32.40	18.44	10.44	59.48	249.07	662.42
Comprehensive income for the year:									
Profit for the year		-	-	-	-	-	47.50	47.50	126.33
Other comprehensive income		-	-	-	23.63	-	0.03	23.66	62.92
Total comprehensive income for the year		-	-	-	23.63	-	47.53	71.16	189.25
Utilisation of donation and charity reserve		-	-	-	-	(1.29)	-	(1.29)	(3.43)
Balance at 31 December 2012	20-22	85.54	42.77	32.40	42.07	9.15	107.01	318.94	848.24

The accompanying notes 1 to 43 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Note	2013 BD millions	2013 US$ millions	2012 BD millions	2012 US$ millions
CASH FLOWS FROM OPERATING ACTIVITIES:					
Profit for the year		**51.36**	**136.60**	47.50	126.33
Adjustments to reconcile net income to net cash from operating activities :					
Depreciation		**2.04**	**5.43**	2.13	5.66
Impairment provisions on loans and advances	7	**5.28**	**14.04**	9.21	24.49
Impairment provisions on investments		**0.35**	**0.93**	2.56	6.81
Share of profit of associates		**(1.95)**	**(5.19)**	(0.75)	(1.99)
Profit for the year after adjustments		**57.08**	**151.81**	60.65	161.30
CHANGES IN OPERATING ASSETS AND LIABILITIES					
Balances with central banks (mandatory cash reserves)		**6.94**	**18.46**	(11.27)	(29.97)
Treasury bills		**(124.57)**	**(331.30)**	(48.48)	(128.94)
Placement with banks and other financial institutions		**57.96**	**154.15**	(49.64)	(132.02)
Trading securities		**(0.06)**	**(0.16)**	0.13	0.35
Loans and advances		**23.58**	**62.71**	74.60	198.40
Investment securities		**(231.94)**	**(616.86)**	(93.20)	(247.87)
Interest receivable and other assets		**(6.24)**	**(16.60)**	(3.32)	(8.84)
Due to banks and other financial institutions		**84.29**	**224.18**	41.30	109.84
Borrowings under repurchase agreements		**(45.52)**	**(121.06)**	5.04	13.40
Customer deposits		**5.64**	**15.00**	172.41	458.54
Interest payable and other liabilities		**6.07**	**16.14**	2.95	7.84
Net cash (used in) / generated from operating activities		**(166.77)**	**(443.53)**	151.17	402.03
CASH FLOWS FROM INVESTING ACTIVITIES:					
Investment in associate		**(17.50)**	**(46.54)**	-	-
Dividend recieved from associate		**0.16**	**0.43**	0.16	0.43
Purchase of property and equipment, net		**(1.16)**	**(3.09)**	(1.22)	(3.24)
Net cash used in investing activities		**(18.50)**	**(49.20)**	(1.06)	(2.81)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Dividends paid		**(21.38)**	**(56.86)**	(25.66)	(68.25)
Donations and charities paid		**(0.95)**	**(2.54)**	(1.29)	(3.43)
Net cash used in financing activities		**(22.33)**	**(59.40)**	(26.95)	(71.68)
Net (decrease) / increase in cash and cash equivalents		**(207.60)**	**(552.13)**	123.16	327.54
Cash and cash equivalents at 1 January	15	**550.01**	**1,462.79**	426.85	1,135.25
Cash and cash equivalents at 31 December	15	**342.41**	**910.66**	550.01	1,462.79

The accompanying notes 1 to 43 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

1. ACTIVITIES

National Bank of Bahrain BSC, a public shareholding company, was incorporated in the Kingdom of Bahrain by an Amiri decree in January 1957. The Bank is licensed by Central Bank of Bahrain as a conventional retail bank.

The overseas branches in Abu Dhabi (United Arab Emirates) and Riyadh (Kingdom of Saudi Arabia) operate under the laws of those respective countries.

The Bank is principally engaged in providing retail and wholesale commercial banking services, treasury and investment activities and investment advisory services.

The Bank's registered address is National Bank of Bahrain BSC, P.O.Box 106, NBB Tower, Government Avenue, Manama, Kingdom of Bahrain. The shares of the Bank are listed on the Bahrain Bourse, Manama, Kingdom of Bahrain.

2. SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), the requirements of the Bahrain Commercial Companies Law 2001 and the Central Bank of Bahrain and Financial Institutions Law 2006.

b. Basis of preparation

The financial statements of the Bank are presented in Bahraini Dinar (BD) being the functional currency of the Bank. The US Dollar (US$) amounts are presented for the convenience of the reader. The Bahraini Dinar has been translated to US dollar at the rate of BD 0.376 to US$ 1 (2012: BD 0.376 to US$ 1).

The financial statements have been prepared on the historical cost convention except for financial instruments at fair value through profit or loss, available-for-sale investments and derivative financial instruments which are measured at fair value. The principal accounting policies applied in the preparation of these financial statements have been consistently applied to all the years presented except as described below:

I) New standards, amendments and interpretations effective from 1 January 2013

The following standards, amendments and interpretations, which became effective as of 1 January 2013, are relevant to the Bank:

i) IAS 1 (amendment) - Presentation of items of other comprehensive income

The amendments to IAS 1 require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss.

The adoption of this amendment had no significant impact on the financial statements.

ii) IAS 19 – Employee benefits (2011)

IAS 19 (2011) changes the definition of short-term and other long-term employee benefits to clarify the distinction between the two.

The adoption of this amendment had no significant impact on the financial statements.

iii) Amendments to IFRS 7 on offsetting financial assets and financial liabilities (2011)

Disclosures – Offsetting Financial Assets and Financial Liabilities (amendments to IFRS 7) introduces disclosures about the impact of netting arrangements on an entity's financial position including the nature and extent of rights of set off under master netting arrangements or similar arrangements.

The adoption of this amendment had no significant impact on the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

iv) IFRS 12 - Disclosures of interests in other entities

IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. It requires the disclosure of information about the nature, risks and financial effects of these interests.

As a result of IFRS 12, the Bank has expanded its disclosures about interests in associates. Refer to note 9.

v) IFRS 13 - Fair value measurement

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7.

As a result, the Bank has included additional disclosures in this regard. However, the change had no significant impact on the measurements of the Bank's assets and liabilities.

vi) Improvements to IFRS (2011)

Improvements to IFRS issued in 2011 contained numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes to presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. There were no significant changes to the current accounting policies of the Bank as a result of these amendments.

II) New standards, amendments and interpretations issued but not yet effective

The following standards and interpretations have been issued and are expected to be relevant to the Bank in future periods, with effective dates on or after 1 January 2014.

i) IFRS 9 - Financial Instruments

IFRS 9 – Financial Instruments is part of a wider project to replace IAS 39 – Financial Instruments: recognition and measurement.

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard however, permits an irrevocable election for investment in equity instrument which is not held for trading, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to profit or loss at a later date.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

The effective date for IFRS 9 has not yet been specified. The IASB currently has an active project to make limited amendments to address practice and other issues. The Bank is awaiting finalisation of the limited amendments before evaluating the potential impact of this standard.

ii) Amendments to IAS 32 on offsetting financial assets and financial liabilities (2011)

Offsetting Financial Assets and Financial Liabilities (amendments to IAS 32) clarify the offsetting criteria by explaining when an entity currently has a legally enforceable right to set off and when gross settlement is equivalent to net settlement.

The amendments to IAS 32 are effective on or after 1 January 2014. The application of these amendments will have no significant impact on the financial statements of the Bank.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

iii) Novation of Derivatives and Continuation of Hedge Accounting (2013)

Novation of Derivatives and Continuation of Hedge Accounting - Amendments to IAS 39 provides relief from discontinuing hedge accounting if as a consequence of laws or regulations, a clearing counterparty becomes a new counterparty to each of the original parties; and any changes to a derivative's terms are limited to those necessary to replace the counterparty - e.g. changes to collateral terms.

The amendments are effective for annual periods beginning on or after 1 January 2014. The application of these amendments will have no significant impact on the financial statements of the Bank.

iv) Amendments to IAS 36 on recoverable amount disclosures for non-financial assets

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36) have expanded disclosures of recoverable amounts when the amounts are based on fair value less costs of disposal and impairment is recognized.

The amendments are effective for annual periods beginning on or after 1 January 2014. The application of these amendments will have no significant impact on the financial statements of the Bank.

III) Early adoption of standards

The Bank did not early adopt new or amended standards in 2013.

c. Foreign currencies

Foreign currency transactions:

Foreign currency transactions are initially recorded at rates of exchange prevailing at the value date of the transactions. Monetary assets and liabilities in foreign currencies are translated to respective functional currencies at the rates of exchange prevailing at the statement of financial position date. Realised and unrealised exchange gains or losses are recognised in the statement of profit or loss and included in "other income".

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in statement of profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised directly in other comperhensive income as part of fair value changes.

Foreign operations:

The assets and liabilities of the overseas branches are translated into Bahraini Dinar at spot exchange rate at the reporting date. The income and expenses of these overseas branches for the period are translated into Bahraini Dinar at average exchange rates. Differences resulting from the translation of the opening net investment in these overseas branches are recognised in other comprehensive income.

d. Use of estimates and management judgement

The Bank's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements.

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities. All estimates and assumptions required in confirmity with IFRS are best estimates undertaken in accordance with the application of standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of profit or loss, the Bank makes judgements as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets within credit risk characteristics and objective evidence of impairment similar to those in the portfolio to assess impairment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

The Bank classifies some non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances – for example selling an insignificant amount close to maturity - the Bank is required to reclassify the entire category as available-for-sale. Accordingly, the investments would be measured at fair value instead of amortized cost.

The Bank considers that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below cost. The determination of significant or prolonged decline requires judgement. In making this judgement, the Bank evaluates among other factors, the normal volatility in share price for the specific equity instrument and also the general market index. In addition, the Bank considers impairment when there is evidence of deterioration in the financial health of the investee company, industry and sector performance, changes in technology and operational and financing cash flows.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period or in the period of the revision and future period if the revision affects both current and future periods.

e. Accounting for income and expenses

i) Interest income and expenses are recognised in the statement of profit or loss on an accrual basis using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. The application of the effective interest rate method has the effect of recognising interest income and interest expense evenly in proportion to the amount outstanding over the period to maturity or repayment. In calculating the effective interest rate, cash flows are estimated taking into consideration all contractual terms of the financial instrument but excluding future credit losses.

ii) Fees and commissions that are integral to the effective interest rate of a financial asset or liability are included in the calculation of the effective interest rate. Other fees and commissions are recognised as the related services are performed or received, and are included in fee and commission income.

iii) Dividend income is recognised when the right to receive a dividend is established.

iv) Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related services are provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Bank has different retirement benefit schemes for its employees in Bahrain and its overseas branches, which are in accordance with the relevant labour laws of the respective countries. The retirement benefit scheme is in the nature of a 'Defined Contribution Plan' for employees who are covered by the social insurance pension schemes in Bahrain and the overseas branches. Other employees are entitled to leaving indemnities payable in accordance with the employment agreements or under the respective labour laws, based on length of service and final remuneration. This liability, which is unfunded, is considered as a 'Defined Benefit Plan' which represents a defined benefit scheme under IAS 19, and is provided for on the basis of the cost had all such employees left at the statement of financial position date. The cost of providing these retirement benefits is charged to the statement of profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

The Bank has a voluntary employees saving scheme. The Bank and the employees contribute monthly on a fixed percentage of salaries basis to the scheme. The scheme is managed and administered by a board of trustees who are the employees of the Bank. The Bank's share of contribution to this scheme is charged to the statement of profit or loss.

v) Other expenses are recognised in the period in which they are incurred on an accrual basis.

f. Financial assets and liabilities

i) Investments at fair value through profit or loss comprise investments designated at inception at fair value though profit or loss and trading investments.

Investments designated at fair value through profit or loss: Investment securities which are acquired with an intent to hold for an indefinite period of time, and are managed, evaluated and reported internally on a fair value basis are designated as investments at fair value through profit or loss. These investments are carried at fair value based on quoted market prices, fund manager quotes or amounts derived from cash flow models as appropriate. Any unrealised gains and losses arising from changes in fair value are recognised in the statement of profit or loss.

Trading securities: Securities which are either acquired for the purpose of generating profit from short-term fluctuations in price or are included in a portfolio in which a pattern of short-term profit taking exists are categorised as trading securities. These securities are initially recognised at fair value and subsequently measured at fair value based on quoted market bid prices. Realised and unrealised gains and losses on trading securities are included in the statement of profit or loss.

ii) Held-to-maturity investments
Held-to-maturity investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank positively intends, and is able, to hold until maturity. Held-to-maturity investments are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest method, less any impairment losses.

iii) Available-for-sale investments
Investments which are non-derivative and which are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity, changes in interest rates or concerns with respect to credit deterioration are categorised as available-for-sale investments. Available-for-sale investments which comprise both debt and equity investments are initially recognised at fair value, including transaction costs, and subsequently measured at fair value based on quoted market prices, brokers quotes or amounts derived from cash flow models as appropriate. Unrealised gains and losses arising from changes in the fair values of available-for-sale investments are recognised in other comprehensive income. The cumulative fair value adjustments on available-for-sale investments which are sold or otherwise disposed of and which had previously been recognised in other comprehensive inome are transferred to the statement of profit or loss

iv) Investment securities measured as at amortised cost:
Investments measured as at amortised cost are those non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market. Investment securities measured as at amortised cost are stated at amortised cost, less provision for impairment.

v) Loans and advances
Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are stated at amortised cost, adjusted for changes in fair value under any effective hedging arrangement, less provision for impairment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

vi) Customer deposits

Customer deposits are initially recognised at their fair value and subsequently measured at their amortised cost using the effective interest method.

vii) Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specific debtor fails to make payment when due in accordance with the contractual terms.

Financial guarantees are initially recognised at fair value (which is the premium received on issuance). The premium received is amortised over the life of the financial guarantee. The guarantee liability (the notional amount) is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). The unamortised portion of the premium on these financial guarantees is included under other liabilities.

viii) Derivative financial instruments

All derivative financial instruments are initially recognised at cost, being the fair value at contract date, and are subsequently re-measured at their fair values. Fair values are obtained from quoted market prices in active markets including recent market transactions, and valuation techniques including discounted cash flow models and option pricing models as appropriate. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in same statement of profit or loss line as the hedged item. In the case of fair value hedges that meet the criteria for hedge accounting, any gain or loss arising from remeasuring the hedging instruments to fair value as well as the related changes in fair value of the item being hedged are recognised in the statement of profit or loss under other income.

In the case of cash flow hedges that meet the criteria of hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion, if any, is recognised in the statement of profit or loss.

All derivative financial instruments are recognised in the statement of financial position as either assets (positive fair values) or liabilities (negative fair values).

ix) Repos and Reverse repos

Where securities are sold subject to a commitment to repurchase them at a specified future date (repo) and at a predetermined price, they are not derecognised and the consideration received is classified as Borrowings under Repurchase Agreements. The difference between the sale and repurchase price is treated as an interest expense and accrued over the life of the repo agreement using the effective yield method. Conversely, securities purchased under a commitment to resell them at a specified future date (reverse repo) and at a predetermined price are not recognised in the statement of financial position and the consideration paid is recorded in Placements with Banks and Other Financial Institutions. The difference between the purchase and resale price is treated as an interest income and accrued over the life of the reverse repo agreement using the effective yield method.

x) Cash and cash equivalents

Cash and cash equivalents comprise cash, balances at central banks excluding mandatory cash reserves, placements with banks and other financial institutions that mature within three months of the date of placement, and short-term highly liquid investments that are readily convertible to cash and which are subject to an insignificant risk of change in value and mature within three months of the date of acquisition and are used by the Bank in the management of its short term commitments.

xi) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method.

xii) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

When available, the Bank measures the fair value of a financial instrument using quoted market prices in an active market for that instrument. This includes listed equity and debt securities. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

For unlisted debt securities fair value is based on brokers quotes, recent arm's length transactions between knowledgeable, willing parties (if available) and discounted cash flow analyses with accepted economic methodologies for pricing financial instruments.

xiii) Categorisation of financial assets

The categorisation of financial assets into fair value through profit or loss, available-for-sale and held-to-maturity is done on the basis of the management intent at the time these securities are acquired and laid down investment policies.

xiv) Identification and measurement of impairment

At each reporting date, the carrying amount of the Bank's financial assets not carried at fair value through profit or loss is reviewed to determine whether there is objective evidence that a specific asset may be impaired. Financial asset(s) is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reasonably. If any such evidence exists, the recoverable amount of the asset is estimated to determine the extent of impairment.

Objective evidence that financial assets are impaired include significant financial difficult of the borrower or issuer, default or delinquency of a borrower, the restructuring of a loan or advance by the Bank on terms the Bank would not cosider otherwise, indicators that a borrower or issuer will enter bankruptcy or the disappearance of an active market for a security.

Impairment losses on assets carried at amortised cost are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset shall be reduced directly or through use of an allowance account. The amount of the loss shall be recognized in statement of profit or loss. When subsequent event causes the amount of impairment losses to decrease, the impairment loss is reversed through statement of profit or loss.

The Bank considers evidence of impairment for loans and advances at both specific and collective level.

All individually significant loans and advances are assessed for specific impairment. Specific provision for impairment, pertaining to individually significant impaired loans and advances, is determined based on the difference between the net carrying amount and the estimated recoverable amount of the loans and advances, measured at the present value of estimated future cash flows from such loans and advances and discounting them based on their original effective interest rate. If a loan has a floating interest rate, the discount rate is the current effective rate determined under the contract.

Impairment and uncollectability is also measured and recognised on a portfolio basis for a group of loans and advances with similar credit risk characteristics, that are not individually identified as impaired, on the basis of estimates of losses that have been incurred but not yet specifically identified within the loans and advances portfolio at the statement of financial position date. The estimates are based on internal risk ratings, historical default rates, rating migrations, loss severity, macroeconomic and other relevant factors with historic loss experience being adjusted to reflect the effect of prevailing economic and credit conditions.

Loans and advances are written off after all reasonable attempts at restructuring and possible courses of action to achieve recovery have been exhausted and the possibility of any further recovery is considered to be remote.

In case of debt securities classified as available-for-sale, the bank assesses individually whether there is an objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. The amount of impairment loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less impairment loss previously recognised in the statement of profit or loss. If, in subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the statement of profit or loss, then the impairment loss is reversed through the statement of profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

For an investment in equity security classified as available-for-sale, a significant or prolonged decline in fair value below cost is an objective evidence of impairment. Where there is an objective evidence of impairment, the amount of impairment loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in the statement of profit or loss. Any subsequent recovery in fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

xv) De-recognition of financial assets and liabilities

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

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

g. Impairment of non-financial assets

At each statement of financial position date, the Bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognised in the statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized in the statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

h. Investment in associates

Associates are those entities in which the Bank has significant influence, but not control or joint control, over their financial and operating policies. Significant influence is presumed to exist when the Bank holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method and are recognised initially at cost, which includes the transaction costs. The financial statements of the Bank include its share of the income and expenses and equity movements of associates, after adjustments to align the accounting policies with those of the Bank, from the date that significant influence commences until the date that significant influence ceases. On cessation of significant influence, even if an investment in an associate becomes an investment in a joint venture, the entity does not re-measure the retained interest. When the Bank's share of losses exceeds its interest in an associate, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Bank has an obligation or has made payments on behalf of the associate.

i. Property and equipment

Property and equipment are initially recorded at cost and subsequently stated at cost less accumulated depreciation and impairment losses. Land is not depreciated and is stated at cost at the date of acquisition. Where an item of property and equipment comprises major components having different useful lives, they are accounted for separately. The cost of an item of property and equipment comprises its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be put to its intended use. Depreciation is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives of the property and equipment. The estimated useful lives are as follows:

Buildings	20 to 40 years
Furniture and Equipment	3 to 8 years

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

The residual value and the useful life of property and equipment are reviewed periodically and, if expectations differ from previous estimates, the change is recognised prospectively in the statement of profit or loss over the remaining estimated useful life of the property and equipment.

j. Other provisions

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

k. Off-setting

Financial assets and financial liabilities are only set-off and the net amount reported in the statement of financial position when there is a legally enforceable right to set-off the recognised amounts and the Bank intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

l. Settlement date accounting

All "regular way" purchases and sales of financial assets except for derivatives are recognised on the settlement date i.e. the date the Bank receives or delivers the asset. Regular way purchases and sales are those that require delivery of assets within the time frame generally established by regulation or convention in the market place. Derivative transactions are recognised on trade date i.e. the date the bank contracts to purchase or sell.

m. Proposed appropriations

Dividends and other proposed appropriations are recognised as a liability in the period in which they are approved by the shareholders.

n. Remuneration policy

Board of Directors - The remuneration of the Board of Directors is approved by the shareholders. In addition, directors are paid nominal fees for attending meetings of the sub-committees of Board.

Employees - The Bank's remuneration policies, which are approved by the Board of Directors, are applicable for all employees including the Chief Executive Officer. The remuneration primarily consists of monthly salaries and allowances. The Bank also has a discretionary profit sharing scheme based on the net income for the year and considering the employees' performance during the year.

o. Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenue and incur expenses, including revenues and expenses that relate to transactions with any of the other components of the Bank. All operating results of the operating segments are reviewed regularly by the Chief Executive Officer to make decisions about resource allocation and assess its performance, and for which discrete financial information is available.

p. Earnings per share

The Bank presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

q. Income tax liability

The Bank's operations in Bahrain and Abu Dhabi are not liable to income tax. Riyadh branch is subject to income tax in accordance with the Saudi Income Tax Law. Income tax, if any, is charged to the statement of profit or loss.

r. Repossessed property

In certain circumstances, property is repossessed following the foreclosure on loans and advances that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and reported within 'other assets'.

s. Fund administration

The Bank acts as a trustee/manager and in other capacities that result in holding or placing of assets on behalf of trust or other institutions. These assets and income arising thereon are not included in the Bank's financial statements as they are not assets of the Bank.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. FINANCIAL RISK MANAGEMENT

The Bank is exposed to the following types of risks:

- credit risk
- liquidity risk
- market risk
- operational risk

Risk Management Framework

The overall authority for risk management in the Bank is vested in the Board of Directors. The Board authorises appropriate credit, liquidity and market risk policies as well as operational guidelines based on the recommendation of Management. The Bank has established various committees that review and assess all risk issues. Approval authorities are delegated to different functionaries in the hierarchy depending on the amount, type of risk and nature of operations or risk. The Risk Group of the Bank provides the necessary support to Senior Management and the business units in all areas of risk management. This Group functions independent of the business units and reports directly to the Chief Executive Officer.

The Audit Committee of the Board is responsible for monitoring compliance with the Bank's policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by the Internal Audit division, which undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee and to Management.

The Bank's risk management policies are established to identify and analyse the risk faced by the Bank, to set appropriate limits and controls, and to monitor risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Bank's activities. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit Risk

Credit risk represents the potential financial loss as a consequence of a customer's inability to honour the terms and conditions of a credit facility. Such risk is measured with respect to counterparties for both on-balance sheet assets and off-balance sheet items.

The Bank has well laid out procedures, not only to appraise but also regularly monitor credit risk. Credit appraisal is based on the financials of the borrower, performance projections, market position, industry outlook, external ratings (where available) track record, account conduct, repayment sources and ability, tangible and intangible security, etc. Regular reviews are carried out for each account and risks identified are mitigated in a number of ways, which include obtention of collateral, counter-guarantees from shareholders and/or third parties. Adequate margins are maintained on the collaterals to provide a cushion against adverse movement in the market price of collateral.

The Credit Review Department of the Bank analyses risks and puts forth its recommendations prior to approval by the appropriate authorities. In addition to rigorous credit analysis, the terms and conditions of all credit facilities are strictly implemented by the Credit Administration Department. An internal grading system and review process ensures prompt identification of any deterioration in credit risk and consequent implementation of corrective action.

The Bank's internal ratings are based on a 10-point scale, which takes into account the financial strength of a borrower as well as qualitative aspects to arrive at a comprehensive snapshot of the risk of default associated with the borrower. Ratings are further sub-divided into categories, which reflect estimates of the potential maximum loss in an event of default. Risk Ratings assigned to each borrower are reviewed at least on an annual basis. Regular monitoring of the portfolio enables the Bank to identify accounts, which witness deterioration in risk profile. Consumer credit facilities which are granted based on pre-defined criteria such as salary assignment, maximum repayment obligation as a percentage of salary etc., are excluded from this rating system.

The Bank also uses the ratings by established rating agencies, viz., Moody's, Standard & Poor and Fitch as part of the appraisal process while considering exposures to rated entities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk management ensures that funds are available at all times to meet the funding requirements of the Bank.

The asset/liabilities management policies of the Bank define the proportion of liquid assets to total assets with the aim of minimising liquidity risk. The Bank maintains adequate liquid assets such as inter-bank placements, treasury bills and other readily marketable securities, to support its business and operations. The Treasury department monitors the maturity profile of assets and liabilities so that adequate liquidity is maintained at all times. The Asset Liability Committee (ALCO) chaired by the Chief Executive Officer reviews the Liquidity Gap Profile and the Liquidity scenario and addresses strategic issues concerning liquidity.

Market Risk

Market Risk is the risk of potential losses arising from movements in market prices of interest rate related instruments and equities in the trading portfolio and foreign exchange and commodities holdings throughout the Bank. The Bank's trading activities are governed by conservative policies that are clearly documented, by adherence to comprehensive limit structures set annually and by regular reviews. Quality and rating are the main criteria in selecting a trading asset. The Bank uses the standardized method for allocating market risk capital based on the risk assessed for underlying factors of interest rate risk, equity risk, foreign exchange risk, options risk and commodity risk. Daily reports in this regard are submitted to senior management for review and decision making purposes.

Operational Risk

Operational Risk is the risk of monetary loss on account of human error, fraud, systems failures or the failure to record transactions. The Bank has well laid out procedures and systems that set out the methodologies for carrying out specific tasks. These systems and procedures are constantly reviewed and revised to address any potential risks.

The scope of the Bank's Internal Audit division encompasses audits and reviews of all business units, support services and branches. The internal audit process focuses primarily on assessing risks and controls and ensuring compliance with established policies, procedures and delegated authorities. New products and services are reviewed by the Internal Audit division and assessed for operational risks prior to their implementation. The Internal Audit division is operationally independent and reports significant internal control deficiencies to the Audit Committee.

Capital Management

The Bank's policy is to maintain sufficient capital to sustain investor, creditor and market confidence and to support future development of the business. The impact of the level of capital on return on shareholder's equity is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Central Bank of Bahrain's (CBB) Basel II guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1st January 2008. The Bank ensures that the capital adequacy requirements are met on a consolidated basis and also with local regulator's requirements, if any, in countries in which the Bank has branches. The Bank has complied with regulatory capital requirements throughout the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. TREASURY BILLS

Treasury bills are short-term in nature. These include treasury bills issued by the Government of Bahrain and Government of Saudi Arabia. They also include short-term Islamic Sukuk issued by the Government of Bahrain.

	2013		2012	
As at 31 December	**BD '000**	**US$ '000**	BD '000	US$ '000
Government of Bahrain	**560,064**	**1,489,532**	370,079	984,253
Government of Saudi Arabia	**10,031**	**26,678**	10,035	26,689
Total	**570,095**	**1,516,210**	380,114	1,010,942

5. PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

Placements with banks and other financial institutions are part of the Bank's money market activities and comprises short-term lending to banks and other financial institutions.

	2013		2012	
As at 31 December	**BD '000**	**US$ '000**	BD '000	US$ '000
Placements with banks	**146,248**	**388,957**	464,424	1,235,170
Placements with other financial institutions	**-**	**-**	21,647	57,572
Total	**146,248**	**388,957**	486,071	1,292,742

	2013		2012	
As at 31 December	**BD '000**	**US$ '000**	BD '000	US$ '000
Current and call accounts	**13,786**	**36,665**	9,471	25,189
Placements-Term	**132,462**	**352,292**	476,600	1,267,553
Total	**146,248**	**388,957**	486,071	1,292,742

6. TRADING SECURITIES

	2013		2012	
As at 31 December	**BD '000**	**US$ '000**	BD '000	US$ '000
Equity securities	**573**	**1,524**	523	1,391
Total	**573**	**1,524**	523	1,391

7. LOANS AND ADVANCES

	2013		2012	
a) As at 31 December	**BD '000**	**US$ '000**	BD '000	US$ '000
Loans and advances to non-banks	**859,688**	**2,286,404**	870,214	2,314,399
Loans and advances to banks	**32,647**	**86,827**	45,807	121,827
Less: Provision for impairment	**(32,944)**	**(87,617)**	(27,769)	(73,854)
Total	**859,391**	**2,285,614**	888,252	2,362,372

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

7. LOANS AND ADVANCES (CONTINUED)

b) Loans and advances are of a floating rate nature, since as per the Bank's loan agreements, the Bank reserves the right to change the rate of interest at any time in the event of money market fluctuations and/or other credit/banking considerations which may be set out from time to time by the Bank and/or any governmental or regulatory authority.

c) As at 31 December 2013, the amount of floating rate loans for which interest was being reset by the Bank on agreed dates and based on an agreed fixed margin over a benchmark interest rate, amounted to BD 383.79 million (US$ 1,020.72 million) [31 December 2012: BD 426.20 million (US$ 1,133.50 million)].

d) In accordance with the Bank's policy and the Central Bank of Bahrain guidelines, loans on which payments of interest or repayments of principal are 90 days past due, are defined as non-performing. The following is the ageing schedule of non-performing and other impaired and past due loans and advances. The table shows the time period since the date of last repayment of principal or interest by the customer.

	2013		2012	
As at 31 December	**BD '000**	**US$ '000**	BD '000	US$ '000
Over 3 months to 1 year	**3,167**	**8,423**	60,647	161,295
1 to 3 years	**57,106**	**151,878**	4,882	12,984
Over 3 years	**6,467**	**17,199**	4,229	11,247
Total	**66,740**	**177,500**	69,758	185,526

As at 31 December 2013, loans on which payments of interest or repayments of principal are overdue up to 90 days but not impaired amounted to BD 4.92 million (US$ 13.07 million) [31 December 2012: BD 2.82 million (US$ 7.51 million)].

As at 31 December 2013, the principal outstanding of the non-performing loans portfolio on which interest is not being accrued amounted to BD 66.00 million (US$ 175.53 million) [31 December 2012: BD 58.44 million (US$ 155.43 million)].

e) During 2013, credit facilities amounting to BD 42.65 million (US$ 113.43 million) were restructured [2012: BD 43.22 million (US$ 114.95 million)]. Restructuring concessions mainly related to deferral of loan installments to assist customers overcome temporary cash crunch situations or to realign the repayment with the borrowers'/projects' revised cash flow projections. Due to the minor nature of concessions, there was no significant impact on the Bank's provisions on loans and advances impairment and present and future earnings.

f) The Bank holds collateral against loans and advances to customers in the form of lien over deposits, mortgage over properties and/or shares and sovereign/ bank guarantees. As at 31 December 2013, loans and advances amounting to BD 280.29 million (US$ 745.45 million) [31 December 2012: BD 318.60 million (US$ 847.34 million)] was fully collateralized and loans and advances amounting to BD 10.36 million (US$ 27.55 million) [31 December 2012: BD 6.40 million (US$ 17.02 million)] were partly collateralized with a collateral value of BD 4.25 million (US$ 11.30 million) [31 December 2012: BD 2.40 million (US$ 6.38 million)].

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

7. LOANS AND ADVANCES (CONTINUED)

g) Exposure to credit risk

As at 31 December	2013 BD '000	2013 US$ '000	2012 BD '000	2012 US$ '000
TOTAL CARRYING AMOUNT	**859,391**	**2,285,614**	888,252	2,362,372
1. Individually impaired				
Substandard	**61,536**	**163,659**	61,086	162,462
Doubtful	**749**	**1,992**	567	1,508
Loss	**15,919**	**42,338**	14,539	38,668
Gross amount	**78,204**	**207,989**	76,192	202,638
Interest in suspense	**(11,464)**	**(30,489)**	(6,434)	(17,112)
Individually impaired net of interest in suspense	**66,740**	**177,500**	69,758	185,526
Specific provision for impairment	**(21,494)**	**(57,165)**	(16,016)	(42,596)
Individually impaired carrying amount	**45,246**	**120,335**	53,742	142,930
2. Past due below 90 days but not impaired				
Gross amount	**4,916**	**13,074**	2,823	7,508
Collective impairment provision	**(68)**	**(181)**	(39)	(104)
Past due but not impaired carrying amount	**4,848**	**12,893**	2,784	7,404
3. Neither past due nor impaired by internal rating				
Rated 1	**33,015**	**87,806**	33,908	90,181
Rated 2	**25,433**	**67,641**	30,237	80,418
Rated 3	**124,846**	**332,037**	135,877	361,375
Rated 4	**205,090**	**545,452**	210,593	560,088
Rated 5	**97,698**	**259,835**	44,970	119,601
Rated 6	**3,594**	**9,559**	38,169	101,513
Rated 7	**47,415**	**126,104**	60,852	161,840
Not rated *	**283,588**	**754,223**	288,834	768,176
Gross amount	**820,679**	**2,182,657**	843,440	2,243,192
Collective impairment provision	**(11,382)**	**(30,271)**	(11,714)	(31,154)
Carrying amount of neither past due nor impaired	**809,297**	**2,152,386**	831,726	2,212,038
Total carrying amount	**859,391**	**2,285,614**	888,252	2,362,372

* Includes mainly consumer loans and other facilities that are not assigned any ratings at inception.

h) Impairment provisions for loans and advances

Movements during the year	**Specific Impairment Provision**		**Collective Impairment Provision**		**Total Impairment Provisions**		**Interest in Suspense**	
Amounts in BD 000's	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
At 1 January	**16,016**	10,946	**11,753**	7,771	**27,769**	18,717	**6,434**	4,090
Charge & transfers for the year	**6,145**	5,681	**(867)**	9,202	**5,278**	14,883	**5,261**	2,737
Amounts written off against provision	**(75)**	(167)	**(28)**	-	**(103)**	(167)	**(3)**	(208)
Recoveries, transfers & write backs	**(592)**	(444)	**592**	(5,220)	-	(5,664)	**(228)**	(185)
At 31 December	**21,494**	16,016	**11,450**	11,753	**32,944**	27,769	**11,464**	6,434

The provisions and interest in suspense relate to loans and advances to non-banks.

In accordance with the Central Bank of Bahrain guidelines, interest on non-performing loans is reversed from income and is accounted for on a cash basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

8. INVESTMENT SECURITIES

Investment securities comprise the following:

As at 31 December	2013 BD '000	2013 US$ '000	2012 BD '000	2012 US$ '000
Available-for-sale investments	**991,531**	**2,637,051**	747,502	1,988,037
Provision for impairment on available-for-sale investments	**(10,567)**	**(28,104)**	(10,271)	(27,316)
	980,964	**2,608,947**	737,231	1,960,721
Investments designated at fair value through profit or loss	**779**	**2,072**	4,604	12,245
Investment securities measured as at amortized cost	**15,974**	**42,484**	15,991	42,529
Total investment securities	**997,717**	**2,653,503**	757,826	2,015,495

A) Available for sale investments

i. Breakdown of quoted and unquoted securities

As at 31 December	2013 BD '000	2013 US$ '000	2012 BD '000	2012 US$ '000
Quoted:				
Debt securities	**399,063**	**1,061,338**	432,264	1,149,638
Equity securities	**56,705**	**150,811**	54,435	144,774
Total	**455,768**	**1,212,149**	486,699	1,294,412
Provision for impairment on available-for-sale securities	**(10,567)**	**(28,104)**	(10,217)	(27,173)
Total net quoted securities	**445,201**	**1,184,045**	476,482	1,267,239
Unquoted:				
Debt securities	**521,489**	**1,386,939**	246,809	656,407
Equity securities	**14,274**	**37,963**	13,994	37,218
Total	**535,763**	**1,424,902**	260,803	693,625
Provision for impairment on available-for-sale securities	**-**	**-**	(54)	(143)
Total net unquoted securities	**535,763**	**1,424,902**	260,749	693,482
Total available-for-sale investments	**980,964**	**2,608,947**	737,231	1,960,721

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

8. INVESTMENT SECURITIES (CONTINUED)

ii. Breakdown between fixed rate and floating rate available-for-sale debt securities

As at 31 December	2013 BD '000	2013 US$ '000	2012 BD '000	2012 US$ '000
Fixed rate debt securities	**446,181**	**1,186,652**	442,852	1,177,798
Floating rate debt securities *	**474,371**	**1,261,625**	236,221	628,247
Total	**920,552**	**2,448,277**	679,073	1,806,045

Floating rate debt securities at 31 December 2013 include securities amounting to BD 451.99 million (US$ 1,202.10 million) [31 December 2012:BD 174.08 million (US$ 462.98 million)] of hedged fixed rate bonds.

iii. Breakdown of available-for-sale debt securities by rating.
The ratings given below are by established rating agencies.

As at 31 December	2013 BD '000	2013 US$ '000	2012 BD '000	2012 US$ '000
AAA	**24,890**	**66,197**	75,445	200,652
AA	**34,322**	**91,282**	37,593	99,981
A	**73,053**	**194,290**	97,418	259,090
BBB	**778,020**	**2,069,202**	457,125	1,215,758
BB+	**10,267**	**27,306**	1,501	3,992
Not-rated	**-**	**-**	9,991	26,572
Total	**920,552**	**2,448,277**	679,073	1,806,045

B) Investments designated at fair value through profit or loss

Fair value through profit or loss investment securities comprise investments as under:

As at 31 December	2013 BD '000	2013 US$ '000	2012 BD '000	2012 US$ '000
Investments in managed funds	**779**	**2,072**	912	2,426
Investments in capital protected notes	**-**	**-**	3,692	9,819
Total	**779**	**2,072**	4,604	12,245

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

9. INVESTMENT IN ASSOCIATES

On 6 May 2013 the Bank entered into a an agreement to acquire 25.8% shareholding in Bahrain Islamic Bank for BD 17.43 million from The Investment Dar KSC and the transaction was completed on 22 May 2013 after receiving the required regulatory approvals as well as completion of the required documentation and formalities. Consequently the Bank has obtained significant influence over the investee. Bahrain Islamic Bank is incorporated in the Kingdom of Bahrain to carry out banking and other financial trading activities in accordance with the teachings of Islam (Shari'a) and operates under a retail banking license issued by the Central Bank of Bahrain.

The Bank has a 34.84% interest in The Benefit Company BSC (c) incorporated in the Kingdom of Bahrain. The company has been granted a license for ancillary services by the Central Bank of Bahrain to provide payment systems, Bahrain Cheque Truncation and other related financial services for the benefit of commercial banks and their customers in the Kingdom of Bahrain.

The Bank has recognised both the investments as equity accounted associates in accordance with IAS 28 "Investment in associates".

	2013		2012	
Movements during the year	**BD '000**	**US$ '000**	BD '000	US$ '000
At 1 January	**3,049**	**8,109**	2,458	6,537
Acquisition during the year	**17,501**	**46,545**	-	-
Share of profit/ (loss)	**1,948**	**5,181**	748	1,989
Dividends received	**(156)**	**(415)**	(157)	(418)
Share of change in fair value reserve	**463**	**1,231**	-	-
At 31 December	**22,805**	**60,651**	3,049	8,108

Shares of Bahrain Islamic Bank are listed on the Bahrain Bourse and the quoted price on 31 December 2013 was BD 0.135 (31 December 2012: BD 0.07) . The estimated fair value of the investment based on this price is BD 32.68 Million.

The financial statements of the associates used for applying the equity accounting are as of 30 September 2013 which is different from the reporting date of the Bank. Accordingly, amounts have been adjusted for material transactions, if any, for the period from 30 September 2013 to the Bank's reporting date.

10. INTEREST RECEIVABLE AND OTHER ASSETS

	2013		2012	
As at 31 December	**BD '000**	**US$ '000**	BD '000	US$ '000
Interest receivable	**16,188**	**43,053**	12,694	33,761
Accounts receivable & prepayments	**6,012**	**15,989**	2,150	5,718
Positive fair value of derivatives	**6,416**	**17,064**	-	-
Others *	**1,471**	**3,912**	2,583	6,870
Total	**30,087**	**80,018**	17,427	46,349

* Others include BD 1.29 million (US$ 3.43 million) [2012 : BD 1.29 million (US$ 3.43 million)] in respect of land and buildings acquired from customers and now held for disposal. The land and buildings are stated at lower of cost and fair value less cost to sell.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

11. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2013		2012	
As at 31 December	**BD '000**	**US$ '000**	BD '000	US$ '000
Current and call accounts	**29,416**	**78,234**	29,852	79,394
Term deposits	**223,400**	**594,149**	138,677	368,822
Total	**252,816**	**672,383**	168,529	448,216

12. BORROWINGS UNDER REPURCHASE AGREEMENTS

Borrowings under repurchase agreements amount to BD 29.89 million (US$ 79.49 million) [2012: BD 75.42 million (US$ 200.59 million)] and the fair value of the investment securities pledged as collateral amounts to BD 30.06 million (US$ 79.95 million) [2012: BD 75.40 million (US$ 200.53 million)].

13. CUSTOMER DEPOSITS

	2013		2012	
As at 31 December	**BD '000**	**US$ '000**	BD '000	US$ '000
Repayable on demand or at short notice	**1,033,373**	**2,748,332**	962,131	2,558,859
Term deposits	**1,050,166**	**2,792,995**	1,115,773	2,967,481
Total	**2,083,539**	**5,541,327**	2,077,904	5,526,340

14. INTEREST PAYABLE AND OTHER LIABILITIES

	2013		2012	
As at 31 December	**BD '000**	**US$ '000**	BD '000	US$ '000
Interest payable	**9,757**	**25,950**	5,009	13,322
Creditors & account payables	**3,973**	**10,566**	2,716	7,223
Deferred income	**1,129**	**3,003**	1,678	4,463
Employee benefits	**4,710**	**12,527**	4,139	11,008
Others	**270**	**718**	224	596
Total	**19,839**	**52,764**	13,766	36,612

15. CASH AND CASH EQUIVALENTS

	2013		2012	
As at 31 December	**BD '000**	**US$ '000**	BD '000	US$ '000
Cash and balances at central banks*	**26,164**	**69,585**	17,328	46,085
Treasury bills	**210,110**	**558,803**	144,694	384,824
Placements with banks and other financial institutions	**106,134**	**282,271**	387,986	1,031,878
Total	**342,408**	**910,659**	550,008	1,462,787

* Exclude balances with central banks of BD 82.24 million (US$ 218.72 million) [2012: BD 89.18 million (US$ 237.18 million)] maintained for the purpose of the cash reserve ratio requirement set by the central banks.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

16. CONTINGENT LIABILITIES AND BANKING COMMITMENTS

The Bank issues commitments to extend credit and guarantees the performance of customers by issuing standby letters of credit and guarantees to third parties. For these instruments, the contractual amount of the financial instrument represents the maximum potential credit risk if the counterparty does not perform according to the terms of the contract. The credit exposure for the contingent liabilities is reduced by obtaining counter guarantees and collateral from third parties. A large majority of these expire without being drawn upon, and as a result, the contractual amounts are not representative of the actual future credit exposure or liquidity requirements of the Bank.

Based upon the level of fees currently charged, taking into account maturity and interest rates together with any changes in the credit worthiness of counter parties since origination, the Bank has determined that the fair value of contingent liabilities and undrawn loan commitments is not material.

	2013		2012	
As at 31 December	**BD '000**	**US$ '000**	BD '000	US$ '000
Contingent liabilities				
Liabilities on confirmed documentary credits	**44,117**	**117,332**	53,600	142,553
Guarantees:				
Counter guaranteed by banks	**29,445**	**78,311**	21,309	56,673
Others	**68,609**	**182,471**	59,798	159,037
Sub-total	**142,171**	**378,114**	134,707	358,263
Banking commitments				
Undrawn loan commitments	**16,797**	**44,673**	16,797	44,673
Forward commitments:				
Securities purchased	**22,700**	**60,372**	-	-
Interbank takings	**5,753**	**15,301**	9,000	23,936
Sub-total	**45,250**	**120,346**	25,797	68,609
Total	**187,421**	**498,460**	160,504	426,872

As at 31 December 2013, the remaining period to the contractual date for the forward commitments was within 14 days. On the contractual date these commitments were carried out, and resulted in cash flows in and out of the Bank as represented by the notional principal amount.

17. DERIVATIVE AND FOREIGN EXCHANGE FINANCIAL INSTRUMENTS

The Bank utilises various derivative and foreign exchange financial instruments for trading, asset/liability management and hedging risks. These instruments primarily comprise futures, forwards, swaps and options.

Futures and forward contracts are commitments to buy or sell financial instruments or currencies on a future date at a specified price or yield, and may be settled in cash or through delivery. Swap contracts are commitments to settle in cash on a future date or dates, interest rate commitments or currency amounts based upon differentials between specified financial indices, as applied to a notional principal amount. Option contracts give the acquirer, for a fee, the right but not the obligation, to buy or sell within a limited period a financial instrument or currency at a contracted price.

In respect of the derivative and foreign exchange financial instruments, the contract/notional principal amounts do not represent balances subject to credit or market risk. Contract/notional principal amounts represent the volume of outstanding transactions and are indicators of business activity. These amounts are used to measure changes in the value of derivative products and to determine the cash flows to be exchanged. The replacement cost is the cost of replacing those financial instruments with a positive market value, together with an estimate for the potential future change in the value of the contract, and reflects the maximum credit loss for the Bank had all these counterparties defaulted. For written options, there is no credit risk, as they represent obligations of the Bank. The fair value represents the aggregate of the positive and negative cash flows which would have occurred if the rights and obligations arising from the instrument were extinguished by the Bank in an orderly market as at the reporting date. The fair values of derivative financial instruments such as interest rate swaps and forward rate agreements were calculated using discounted cash flow models based on current market yields for similar types of instruments and the maturity of each instrument. The futures contracts, foreign exchange contracts and interest rate options were revalued using market prices and option valuation models as appropriate.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

17. DERIVATIVE AND FOREIGN EXCHANGE FINANCIAL INSTRUMENTS (CONTINUED)

a) The following table summarises for each type of derivative and foreign exchange financial instrument, the aggregate notional amounts, the replacement cost and the fair value:

Amounts in BD'000	Notional principal amount		Replacement cost		Fair value	
As at 31 December	**2013**	2012	**2013**	2012	**2013**	2012
Interest rate contracts						
Interest rate swaps	**435,356**	183,436	**9,255**	28	**6,416**	(2,254)
Sub-total	**435,356**	183,436	**9,255**	28	**6,416**	(2,254)
Foreign exchange contracts						
Outright spot and forward contracts	**129,804**	154,191	**89**	227	**(170)**	51
Swap agreements	**204,211**	319,041	**2,042**	2,109	**153**	793
Sub-total	**334,015**	473,232	**2,131**	2,336	**(17)**	844
Total	**769,371**	656,668	**11,386**	2,364	**6,399**	(1,410)

b) The remaining maturity profile by each class of derivative and foreign exchange financial instrument based on contract/notional principal amounts is as follows:

Amounts in BD'000	**2013**			2012		
As at 31 December	**Up to 1 year**	**More than 1 year**	**Total**	Up to 1 year	More than 1 year	Total
Interest rate contracts						
Interest rate swaps	**-**	**435,356**	**435,356**	18,800	164,636	183,436
Sub-total	**-**	**435,356**	**435,356**	18,800	164,636	183,436
Foreign exchange contracts						
Outright spot and forward contracts	**129,804**	**-**	**129,804**	154,191	-	154,191
Swap agreements	**204,211**	**-**	**204,211**	319,041	-	319,041
Sub-total	**334,015**	**-**	**334,015**	473,232	-	473,232
Total	**334,015**	**435,356**	**769,371**	492,032	164,636	656,668

18. CAPITAL COMMITMENTS

At 31 December 2013 commitments for capital expenditure amounted to BD 0.77 million (US$ 2.05 million) [31 December 2012: BD 1.05 million (US$ 2.79 million)].

19. PROPERTY & EQUIPMENT

	Land		Buildings		Furniture and equipment		Total	
	BD'000	**US$'000**	**BD '000**	**US$'000**	**BD'000**	**US$'000**	**BD'000**	**US$'000**
Cost	**761**	**2,024**	**25,259**	**67,178**	**14,132**	**37,585**	**40,152**	**106,787**
Accumulated depreciation	**-**	**-**	**(14,987)**	**(39,859)**	**(11,257)**	**(29,939)**	**(26,244)**	**(69,798)**
Net book value at 31 December 2013	**761**	**2,024**	**10,272**	**27,319**	**2,875**	**7,646**	**13,908**	**36,989**
Net book value at 31 December 2012	761	2,024	10,983	29,210	3,047	8,103	14,791	39,337

The depreciation charge for 2013 amounted to BD 2.04 million (US$ 5.43 million) [2012: BD 2.13 million (US$ 5.66 million)].
The above includes capital work in progress at cost. When the asset is ready to use, the same is capitalised and depreciated in accordance with the Bank's policies.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

20. SHARE CAPITAL

	2013		2012	
	BD '000	**US$ '000**	BD '000	US$ '000
Authorised share capital				
1,500,000,000 (2012: 1,500,000,000) ordinary shares of 100 fils each	**150,000**	**398,936**	150,000	398,936
Issued and fully paid share capital				
At 1 January 855,360,000 ordinary shares of 100 fils each (2012: 855,360,000 shares of 100 fils each)	**85,536**	**227,489**	85,536	227,489
Bonus issue (one for ten shares held) *	**8,554**	**22,750**	-	-
At 31 December 940,896,000 ordinary shares of 100 fils each (at 31 Dec 2012: 855,360,000 shares of 100 fils each)	**94,090**	**250,239**	85,536	227,489

* The shareholders annual general ordinary and extra ordinary meeting for the year 2012 held on 6th March 2013 approved the increase of issued and fully paid capital of the Bank to BD 94.09 million by the issue of bonus shares at the rate of one additional share for every ten shares held amounts to BD 8.55 million. These shares will rank pari passu with all other shares for future dividends and distribution. This bonus issue is made through utilisation of BD 8.55 million from General Reserve.

The distribution of ordinary shares, setting out the number of shares and shareholders and percentage of total outstanding shares in the following categories is shown below:

	2013			2012		
As at 31 December	**Number of shares**	**Number of shareholders**	**% of total outstanding shares**	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	**302,351,251**	**1,121**	**32.1%**	274,882,264	1,159	32.1%
1% up to less than 5%	**110,868,462**	**6**	**11.8%**	100,731,112	6	11.8%
5% up to less than 10%	**66,637,247**	**1**	**7.1%**	60,620,224	1	7.1%
10% up to less than 20%	**-**		**-**	-	-	-
20% up to less than 50%	**461,039,040**	**1**	**49.0%**	419,126,400	1	49.0%
More than 50%	**-**	**-**	**-**	-	-	-
Total	**940,896,000**	**1,129**	**100.0%**	855,360,000	1,167	100.0%

The distribution of ordinary shares ownership based on nationality of the shareholders is shown below:

	2013			2012		
As at 31 December	**Number of shares**	**Number of shareholders**	**% of total outstanding shares**	Number of shares	Number of shareholders	% of total outstanding shares
Bahraini	**886,439,415**	**1,025**	**94.2%**	800,177,490	1,047	93.5%
Other GCC countries	**53,982,242**	**82**	**5.7%**	54,619,384	90	6.4%
Others	**474,343**	**22**	**0.1%**	563,126	30	0.1%
Total	**940,896,000**	**1,129**	**100.0%**	855,360,000	1,167	100.0%

49% of the Bank's share capital is held by the Bahrain Mumtalakat Holding Co, that is 100% owned by the Government of Bahrain. 7.1% of shares is owned by the Social Insurance Organisation. The rest of the share capital is widely held primarily by the citizens of and entities incorporated in the Kingdom of Bahrain.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

21. RESERVES

a) Statutory reserve

In accordance with the Bahrain Commercial Companies Law 2001, 10 percent of net profit is appropriated to a statutory reserve, which is not normally distributable except in accordance with Article 224 of the law. Such appropriations may cease when the reserve reaches 50 percent of paid up share capital.

b) General reserve

The reserve has been created in accordance with the Bank's articles of association and underlines the shareholders' commitment to enhance the strong equity base of the Bank.

c) Fair value reserve

The fair value reserve includes the cumulative net change in fair value of available-for-sale investments, excluding impairment losses, until the investment is derecognised or impaired.

d) Donation and charity reserve

Based on the recommendations of the Board of Directors, upon shareholders' approval an amount is transferred from the profit for the year to this reserve. The reserve represents the uncommitted amount of the donations and charities approved by the Shareholders.

22. APPROPRIATIONS

The appropriations relating to the year 2012 were approved at the last annual general meeting held on 6 March 2013.

23. INTEREST INCOME / INTEREST EXPENSE

a) Interest income

	2013		2012	
For the year ended 31 December	**BD '000**	**US$ '000**	BD '000	US$ '000
Loans and advances to customers	**40,652**	**108,117**	46,912	124,766
Loans and advances to banks	**831**	**2,210**	772	2,053
Treasury bills	**4,903**	**13,040**	6,543	17,402
Placement with banks & other financial institutions	**2,848**	**7,574**	3,360	8,936
Investment securities	**26,424**	**70,277**	20,205	53,737
Derivative assets held for risk management	**1,110**	**2,952**	518	1,378
Total	**76,768**	**204,170**	78,310	208,272

b) Interest expense

	2013		2012	
For the year ended 31 December	**BD '000**	**US$ '000**	BD '000	US$ '000
Deposits from customers	**14,008**	**37,255**	14,094	37,484
Deposits from banks and other financial institutions	**607**	**1,614**	736	1,957
Borrowings under repurchase agreements	**170**	**452**	338	899
Derivative liabilities held for risk management	**2,165**	**5,758**	1,219	3,242
Total	**16,950**	**45,079**	16,387	43,582

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For the year ended 31 December 2013

24. OTHER INCOME

For the year ended 31 December	2013 BD '000	2013 US$ '000	2012 BD '000	2012 US$ '000
a) Fees and commission income				
Fees and commission on loans and advances	**8,110**	**21,569**	9,017	23,981
Commission on sale of managed funds	**124**	**330**	48	128
Other fees and commission	**6,417**	**17,066**	6,357	16,907
Less: fees and commision paid	**(3,219)**	**(8,561)**	(3,038)	(8,080)
Sub-total	**11,432**	**30,404**	12,384	32,936
b) Other operating income				
Profit on sale of available for sale investments	**2,694**	**7,165**	2,285	6,077
(Loss) / gain on fair value through profit or loss investments	**(56)**	**(149)**	183	487
Dividend income	**2,798**	**7,441**	3,475	9,242
Profit on exchange dealing and transactions	**5,192**	**13,809**	4,908	13,053
Profit / (loss) on trading securites and derivatives	**122**	**324**	(127)	(338)
Share of profit of associates	**1,948**	**5,181**	748	1,989
Other income	**703**	**1,870**	829	2,209
Sub-total	**13,401**	**35,641**	12,301	32,719
Total other income	**24,833**	**66,045**	24,685	65,655

25. STAFF EXPENSES

For the year ended 31 December	2013 BD '000	2013 US$ '000	2012 BD '000	2012 US$ '000
Salaries, allowances and bonuses	**15,771**	**41,944**	15,669	41,673
Social security & gratuity	**1,966**	**5,229**	2,062	5,484
Housing & other benefits	**1,579**	**4,199**	1,584	4,213
Others	**267**	**710**	275	731
Total	**19,583**	**52,082**	19,590	52,101

26. SIGNIFICANT NET OPEN FOREIGN CURRENCY POSITIONS

As at 31 December	2013 BD '000	2013 US$ '000	2012 BD '000	2012 US$ '000
US Dollar (long position) - unhedged	**138,029**	**367,098**	163,966	436,080
UAE Dirhams (long position) - unhedged	**13,716**	**36,479**	17,023	45,274
Saudi Riyal (long position) - unhedged	**13,047**	**34,699**	5,063	13,465
Qatari Riyal (long position) - unhedged	**64,195**	**170,731**	107,287	285,338

The Bahraini dinar has a fixed rate of exchange against the US dollar.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

27. RELATED PARTY DISCLOSURES

Certain related parties (major shareholders, directors of the Bank and families and companies of which they are principal owners, key management personnel and associates) were customers of the Bank in the ordinary course of business.

The transactions with these parties were made on an arm's length basis. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. Typically, key management personnel include the Chief Executive Officer and persons directly reporting to him. Balances at the reporting date in regard to related parties and transactions during the year with related parties comprised the following:

Amounts in BD'000	Majority Shareholder		Directors & Key Management Personnel		Associates	
As at 31 December	**2013**	2012	**2013**	2012	**2013**	2012
Loans and advances	**60,919**	60,133	**12,537**	10,015	**-**	-
Treasury bills, bonds and equities	**1,318,633**	809,465	**-**	-	**22,805**	3,049
Customers' deposits	**213,664**	294,843	**50,909**	32,408	**4,104**	2,653
Contingent liabilities for irrevocable commitments, guarantees and other contingencies	**29,478**	41,149	**3,957**	3,496	**-**	-
For the year ended 31 December	**2013**	2012	**2013**	2012	**2013**	2012
Loans advanced	**35,835**	13,660	**12,037**	1,873	**-**	-
Loans repaid	**32,775**	35,467	**9,775**	4,702	**-**	-
Net increase / (decrease) in overdrafts	**(2,274)**	(26,836)	**260**	5,356	**-**	-
Treasury bills, bonds and equities purchased	**1,368,495**	1,121,656	**-**	-	**17,500**	-
Treasury bills, bonds and equities matured/sold	**859,327**	951,523	**-**	-	**-**	-
Interest income	**31,113**	24,468	**317**	290	**-**	-
Interest expense	**1,106**	1,723	**338**	238	**20**	20
Share of profit of associates	**-**	-	**-**	-	**1,948**	748
Directors' remuneration & sitting fees	**167**	166	**271**	273	**-**	-
Short term employee benefits	**-**	-	**3,487**	3,401	**-**	-
Post employment retirement benefits	**-**	-	**713**	718	**-**	-

No impairment losses have been recorded during the year against balances outstanding with related parties and no specific allowance has been made for impairment losses on balances with related parties at the year end.

28. FUND ADMINISTRATION

Third party funds under administration held in trust or in fiduciary capacity are not treated as assets of the Bank and are, accordingly, not included in the statement of financial position. At 31 December 2013, third party funds under administration amounted to BD 1.60 million (US$ 4.26 million) [31 December 2012 :BD 14.63 million (US$ 38.92 million)].

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

29. GEOGRAPHICAL DISTRIBUTION

Amounts in BD'000	Assets		Liabilities		Contingent liabilities and banking commitments	
As at 31 December	**2013**	2012	**2013**	2012	**2013**	2012
Middle East	**2,650,018**	2,479,814	**2,322,363**	2,234,067	**349,782**	363,984
U.S.A.	**21,828**	35,692	**469**	703	**435,494**	183,587
Europe	**38,908**	59,713	**49,829**	79,437	**152,560**	268,644
Rest of the World	**38,478**	79,342	**13,431**	21,410	**18,956**	957
Total	**2,749,232**	2,654,561	**2,386,092**	2,335,617	**956,792**	817,172

30. DISTRIBUTION BY SECTOR

Amounts in BD'000	Assets		Liabilities		Contingent liabilities and banking commitments	
As at 31 December	**2013**	2012	**2013**	2012	**2013**	2012
Government	**1,426,030**	971,357	**580,851**	312,872	**64,371**	55,862
Manufacturing / trading	**154,297**	142,009	**178,745**	152,216	**36,261**	26,756
Banks / financial institutions	**501,216**	816,733	**325,021**	641,507	**810,385**	691,413
Construction	**111,319**	125,110	**40,576**	37,226	**35,342**	27,463
Personal	**355,223**	342,829	**1,136,152**	1,067,222	**426**	1,814
Others	**201,147**	256,523	**124,747**	124,574	**10,007**	13,864
Total	**2,749,232**	2,654,561	**2,386,092**	2,335,617	**956,792**	817,172

31. CONCENTRATION OF CREDIT RISK

The following is the concentration of credit risk by industry and geographical regions:

a) By Industry

Amounts in BD'000	Government			Banks/				
As at 31 December 2013	**Bahrain**	**Other countries**	**Manufacturing/ trading**	**financial institutions**	**Construction**	**Personal**	**Others**	**Total**
Assets								
Balances at central banks	**-**	**-**	**-**	**90,778**	**-**	**-**	**-**	**90,778**
Treasury bills	**560,064**	**10,031**	**-**	**-**	**-**	**-**	**-**	**570,095**
Placements with banks and other financial institutions	**-**	**-**	**-**	**146,248**	**-**	**-**	**-**	**146,248**
Loans and advances	**59,981**	**-**	**145,993**	**50,226**	**108,195**	**354,525**	**140,471**	**859,391**
Investment securities	**749,293**	**36,978**	**-**	**138,305**	**-**	**-**	**12,729**	**937,305**
Interest receivable and other assets	**9,348**	**335**	**289**	**3,331**	**1,574**	**698**	**13,618**	**29,193**
Total assets	**1,378,686**	**47,344**	**146,282**	**428,888**	**109,769**	**355,223**	**166,818**	**2,633,010**
Contingent liabilities and banking commitments	**64,296**	**75**	**36,261**	**41,014**	**35,342**	**426**	**10,007**	**187,421**
Derivatives (notional)	**-**	**-**	**-**	**769,371**	**-**	**-**	**-**	**769,371**

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31. CONCENTRATION OF CREDIT RISK (CONTINUED)

a) By Industry

Amounts in BD'000 As at 31 December 2012	Government Bahrain	Government Other countries	Manufacturing/ trading	Banks/ financial institutions	Construction	Personal	Others	Total
Assets								
Balances at central banks	-	-	-	91,523	-	-	-	91,523
Treasury bills	370,079	10,035	-	-	-	-	-	380,114
Placements with banks and other financial institutions	-	-	-	486,071	-	-	-	486,071
Loans and advances	57,100	119	130,915	57,151	120,484	342,213	180,270	888,252
Investment securities	439,386	90,545	4,238	136,015	-	-	29,484	699,668
Interest receivable and other assets	3,777	316	732	2,742	3,386	616	5,299	16,868
Total assets	870,342	101,015	135,885	773,502	123,870	342,829	215,053	2,562,496
Contingent liabilities and banking commitments	55,862	-	26,756	34,745	27,463	1,814	13,864	160,504
Derivatives (notional)	-	-	-	656,668	-	-	-	656,668

The balances at the end of the year are representative of the position during the year and hence average balances have not been separately disclosed.

The above includes certain exposures to customers / counter parties which are in excess of 15% of the Bank's capital base. These have the approval of the Central Bank of Bahrain or are exempt exposures under the large exposures policy of the Central Bank of Bahrain. The table below gives details of these exposures as at 31 December 2013:

Amounts in BD'000 **Counterparty**	**Counterparty type**	**Total Exposure**
Counterparty A	Sovereign	1,308,070
Counterparty B	Sovereign	164,235
Counterparty C	Sovereign	100,960
Counterparty D	Corporate	53,568

(b) By geographical regions:

Amounts in BD'000 As at 31 December 2013	**Middle East**	**USA**	**Europe**	**Rest of the World**	**Total**
Assets					
Balances at central banks	**90,778**	**-**	**-**	**-**	**90,778**
Treasury bills	**570,095**	**-**	**-**	**-**	**570,095**
Placements with banks and other financial institutions	**128,351**	**5,848**	**4,973**	**7,076**	**146,248**
Loans and advances	**857,895**	**-**	**-**	**1,496**	**859,391**
Investment securities	**860,120**	**15,947**	**31,843**	**29,395**	**937,305**
Interest receivable and other assets	**26,556**	**33**	**2,092**	**512**	**29,193**
Total assets	**2,533,795**	**21,828**	**38,908**	**38,479**	**2,633,010**
Contingent liabilities and banking commitments	**160,774**	**138**	**22,423**	**4,086**	**187,421**
Derivatives (notional)	**189,008**	**435,356**	**130,137**	**14,870**	**769,371**

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For the year ended 31 December 2013

31. CONCENTRATION OF CREDIT RISK (CONTINUED)

(b) By geographical regions continued:

Amounts in BD'000

As at 31 December 2012	Middle East	USA	Europe	Rest of the World	Total
Assets					
Balances at central banks	91,523	-	-	-	91,523
Treasury bills	380,114	-	-	-	380,114
Placements with banks and other financial institutions	443,061	4,089	38,381	540	486,071
Loans and advances	888,252	-	-	-	888,252
Investment securities	569,682	31,560	19,964	78,462	699,668
Interest receivable and other assets	15,114	44	1,368	342	16,868
Total assets	2,387,746	35,693	59,713	79,344	2,562,496
Contingent liabilities and banking commitments	142,024	151	17,566	763	160,504
Derivatives (notional)	221,960	183,436	251,078	194	656,668

32. INTEREST RATE RISK

Interest Rate Risk is measured by the extent to which changes in the market interest rates impact margins, net interest income and the economic value of the Bank's equity. Net interest income will be affected as a result of volatility in interest rates to the extent that the re-pricing structure of interest bearing assets differs from that of liabilities. The Bank's goal is to achieve stable earnings growth through active management of the assets and liabilities mix while, selectively, positioning itself to benefit from near-term changes in interest rate levels. The treasurer is primarily responsible for managing the interest rate risk. Reports on overall position and risks are submitted to senior management for review and positions are adjusted if deemed necessary. In addition, ALCO regularly reviews the interest rate sensitivity profile and its impact on earnings.

The Bank's asset and liability management process is utilised to manage interest rate risk through the structuring of on-balance sheet and off-balance sheet portfolios. The Bank uses various techniques for measuring and managing its exposure to interest rate risk. Duration analysis is used to measure the interest rate sensitivity of the fixed income portfolio. Duration of the portfolio is governed by economic forecasts, expected direction of interest rates and spreads. Modified duration gives the percentage change in value of the portfolio following a 1% change in yield. Interest rate swaps and forward rate agreements are used to manage the interest rate risk. The Bank uses interest rate gap analysis to measure the interest rate sensitivity of its annual earnings due to repricing mismatches between rate sensitive assets, liabilities and derivatives' positions.

Assets and liabilities are placed in maturity buckets based on the remaining period to the contractual repricing or maturity dates, whichever is earlier. Customers' deposits for which no specific contractual maturity or repricing dates exist are placed in ladders based on the Bank's judgement concerning their most likely repricing behaviour.

NOTES TO THE FINANCIAL STATEMENTS

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32. INTEREST RATE RISK (CONTINUED)

The repricing profile and effective interest rate of the various asset and liability categories are as follows:

Amounts in BD'000 As at 31 December 2013	**Effective interest rate %**	**Up to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**More than 5 years**	**Rate insensitive**	**Total**
Assets								
Cash and balances at central banks	**-**	**-**	**-**	**-**	**-**	**-**	**108,408**	**108,408**
Treasury bills	**1.03%**	**376,358**	**119,228**	**74,509**	**-**	**-**	**-**	**570,095**
Placements with banks and other financial institutions	**1.03%**	**114,677**	**13,785**	**4,000**	**-**	**-**	**13,786**	**146,248**
Trading securities	**-**	**-**	**573**	**-**	**-**	**-**	**-**	**573**
Loans and advances	**4.40%**	**401,432**	**40,160**	**73,969**	**276,979**	**66,851**	**-**	**859,391**
Investment securities	**4.67%**	**31,132**	**22,720**	**21,535**	**441,296**	**419,842**	**61,192**	**997,717**
Investment in associates, interest receivable and other assets	**-**	**-**	**-**	**-**	**-**	**-**	**52,892**	**52,892**
Property and equipment	**-**	**-**	**-**	**-**	**-**	**-**	**13,908**	**13,908**
Total assets		**923,599**	**196,466**	**174,013**	**718,275**	**486,693**	**250,186**	**2,749,232**
Liabilities and equity								
Due to banks and other financial institutions	**0.39%**	**219,337**	**4,064**	**-**	**-**	**-**	**29,416**	**252,817**
Borrowings under repurchase agreements	**1.60%**	**29,898**	**-**	**-**	**-**	**-**	**-**	**29,898**
Customer deposits	**0.61%**	**939,196**	**338,938**	**26,751**	**198**	**-**	**778,455**	**2,083,538**
Interest payable and other liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**19,839**	**19,839**
Equity	**-**	**-**	**-**	**-**	**-**		**363,140**	**363,140**
Total liabilities and equity		**1,188,431**	**343,002**	**26,751**	**198**	**-**	**1,190,850**	**2,749,232**
On-Balance sheet interest rate sensitivity gap		**(264,832)**	**(146,536)**	**147,262**	**718,077**	**486,693**	**(940,664)**	**-**
Off-Balance sheet interest rate gap		**397,756**	**37,600**	**-**	**(37,600)**	**(397,756)**	**-**	**-**
Cumulative interest rate sensitivity gap		**132,924**	**23,988**	**171,250**	**851,727**	**940,664**	**-**	**-**

Amounts in BD'000 As at 31 December 2012	Effective interest rate %	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Rate insensitive	Total
Assets								
Cash and balances at central banks	-	-	-	-	-	-	106,508	106,508
Treasury bills	1.29%	274,423	80,437	25,254	-	-	-	380,114
Placements with banks and other financial institutions	0.83%	441,225	19,731	15,644	-	-	9,471	486,071
Trading securities	-	-	523	-	-	-	-	523
Loans and advances	4.64%	358,964	31,619	61,298	345,145	91,226		888,252
Investments securities	4.09%	61,281	3,920	19,859	414,799	195,205	62,762	757,826
Investment in associate, Interest receivable and other assets	-	-	-	-	-	-	20,476	20,476
Property and equipment	-	-	-	-	-	-	14,791	14,791
Total assets		1,135,893	136,230	122,055	759,944	286,431	214,008	2,654,561
Liabilities and equity								
Due to banks and other financial institutions	0.45%	136,045	2,632	-	-	-	29,852	168,529
Borrowings under repurchase agreements	0.87%	75,418	-	-	-	-	-	75,418
Customer deposits	0.72%	942,658	342,236	30,156	2,743	-	760,111	2,077,904
Interest payable and other liabilities	-	-	-	-	-	-	13,766	13,766
Equity	-	-	-	-	-	-	318,944	318,944
Total liabilities and equity		1,154,121	344,868	30,156	2,743	-	1,122,673	2,654,561
On-Balance sheet interest rate sensitivity gap		(18,228)	(208,638)	91,899	757,201	286,431	(908,665)	-
Off-Balance sheet interest rate gap		145,836	37,600	(18,800)		(164,636)	-	-
Cumulative interest rate sensitivity gap		127,608	(43,430)	29,669	786,870	908,665	-	-

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For the year ended 31 December 2013

33. MARKET RISK

a) The Bank uses the Standardised Method for allocating market risk capital.

The following table shows the capital charges as at 31 December

Amounts in BD'000 **Risk Type**	**2013**	2012
Interest Rate Risk	**636.1**	1,043.3
Equities Risk	**91.7**	83.7
Foreign Exchange Risk	**65.8**	52.9
Commodities Risk	**-**	-
Options Risk	**-**	-
Total minimum capital required for market risk	**793.6**	1,179.9
Multiplier	**12.5**	12.5
Market Risk weighted exposure under the Standardized Method	**9,920**	14,749

b) The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in future cash flows or fair values of financial instruments because of changes in market interest rates. The interest rate risk management process is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to an interest rate shock of 200 bps increase/decrease. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

Amounts in BD'000	**2013**		2012	
	200 bps parallel increase	**200 bps parallel decrease**	200 bps parallel increase	200 bps parallel decrease
At 31 December	**(24,955)**	**24,955**	(44,823)	44,823
Average for the year	**(37,828)**	**37,828**	(31,993)	31,993
Minimum for the year	**(23,634)**	**23,634**	(26,000)	26,000
Maximum for the year	**(49,041)**	**49,041**	(45,744)	45,744

c) The Bank holds investments in quoted equities as part of the available for sale investments. Equity risk is the potential adverse impact due to movements in individual equity prices or general market movements in stock markets. The Bank manages this risk through diversification of investments in terms of geographical distribution and industrial concentration.

Overall non-trading interest rate risk positions are managed by the Treasury division, which uses investment securities, placements with banks, deposits from banks and derivative instruments to manage the overall position arising from the Bank's non-trading activities. The use of derivatives to manage interest rate risk is described in note 17.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

34. SEGMENT INFORMATION

For management purposes, the Bank is organised into the following main strategic business units (SBUs) - Personal Banking, Bahrain Business Banking and Treasury & International Banking. These SBUs are the basis on which the Bank reports its operating segment information.

The Personal Banking and Bahrain Business Banking SBUs provide various banking products and services to the Bank's customers in Bahrain . The SBUs are differentiated based on their respective customer segments. Personal Banking caters to individuals. Bahrain Business Banking caters to government, corporates, small & medium enterprises.

The Treasury & International Banking SBU has the overall responsibility of managing the Bank's liquidity, interest rate, foreign exchange and market risk and provide various banking products and services to Bank's customers outside Bahrain.

Financial information about the operating segments is presented in the following table:

Amounts in BD'000	**Personal Banking**		**Bahrain Business Banking**		**Treasury & International Banking**		**Total**	
For the year ended 31 December	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Interest income	**22,914**	23,967	**14,556**	19,906	**39,298**	34,437	**76,768**	78,310
Interest expense	**(4,358)**	(4,067)	**(9,161)**	(9,235)	**(3,431)**	(3,085)	**(16,950)**	(16,387)
Inter-segment interest income/(expense)	**3,872**	4,560	**6,664**	7,801	**(10,536)**	(12,361)	**-**	-
Net interest income	**22,428**	24,460	**12,059**	18,472	**25,331**	18,991	**59,818**	61,923
Other income	**8,195**	8,750	**1,677**	1,702	**14,961**	14,232	**24,833**	24,684
Operating income	**30,623**	33,210	**13,736**	20,174	**40,292**	33,223	**84,651**	86,607
Result	**18,316**	20,635	**3,541**	6,720	**32,497**	23,277	**54,354**	50,632
Unallocated corporate expenses							**(2,991)**	(3,133)
Profit for the year							**51,363**	47,499
Other information:								
Segment assets	**386,395**	369,485	**386,712**	419,961	**1,976,125**	1,865,115	**2,749,232**	2,654,561
Segment liabilities & Equity	**865,531**	804,993	**1,151,302**	1,274,346	**732,399**	575,222	**2,749,232**	2,654,561
Depreciation for the year	**738**	751	**242**	249	**294**	362	**1,274**	1,362
Provision for impaired assets	**1,142**	1,527	**3,969**	7,256	**517**	2,988	**5,628**	11,771

During 2013, the total capital expenditure amounted to BD 1.60 million (US$ 4.26 million) [2012: BD 1.22 million (US$ 3.24 million)].

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

34. SEGMENT INFORMATION (CONTINUED)

Segment revenues and expenses are directly attributable to the business segments. The benefit of the Bank's capital has been distributed among the segments in proportion to their total assets employed. Expenses of departments whose services are jointly utilised by more than one segment have been allocated to the relevant segments on an appropriate basis.

Inter-segment interest income and expense represent the interest cost on the excess funds which are automatically transferred by all the other business segments to Treasury and International Banking. The interest rate for calculating interest of such transfers is set once every three months separately for local and foreign currency and is based on the weighted average of market rates for various maturities for each currency.

While the Bank conducts its Banking business primarily through its strategic Business units, it operates from various geographical locations:
(I) Domestic operations, through its network of branches in the Kingdom of Bahrain and
(ii) Overseas operations through its branches in the United Arab Emirates and Saudi Arabia.

Financial information about geographical locations is presented in the following table:

Amounts in BD 000's						
	Domestic		**Overseas**		**Total**	
For the year ended 31 December	**2013**	2012	**2013**	2012	**2013**	2012
Operating income	**80,920**	83,752	**3,731**	2,855	**84,651**	86,607
Profit for the year	**50,102**	47,049	**1,261**	450	**51,363**	47,499
At 31 December						
Segment assets	**2,635,412**	2,549,112	**113,820**	105,449	**2,749,232**	2,654,561
Segment liabilities & Equity	**2,635,412**	2,549,112	**113,820**	105,449	**2,749,232**	2,654,561

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35. MATURITY PROFILE AND LIQUIDITY RISK

a) Maturity Profile

The table below shows the maturity profile of total assets and liabilities and equity based on contractual terms, except for Asset Backed securities and Mortgage Backed securities which are based on expected weighted average tenor as it is better representative of the product's maturity profile considering the inherent nature of the products.

Amounts in BD'000 As at 31 December 2013	**Up to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 3 years**	**3 to 5 years**	**5 to 10 years**	**10 to 20 years**	**Over 20 years**	**Total**
Assets									
Cash and balances at central banks	**108,408**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**108,408**
Treasury bills	**376,358**	**119,228**	**74,509**	**-**	**-**	**-**	**-**	**-**	**570,095**
Placements with banks and other financial institutions	**128,463**	**13,785**	**4,000**	**-**	**-**	**-**	**-**	**-**	**146,248**
Trading securities	**-**	**573**	**-**	**-**	**-**	**-**	**-**	**-**	**573**
Loans and advances	**193,531**	**38,130**	**104,838**	**270,177**	**157,820**	**80,995**	**13,900**	**-**	**859,391**
Investment securities	**12,646**	**30,272**	**27,142**	**266,225**	**180,375**	**419,842**	**-**	**61,215**	**997,717**
Interest receivable & other assets and property & equipment	**15,822**	**467**	**347**	**2,016**	**1,247**	**8,519**	**-**	**38,382**	**66,800**
Total assets	**835,228**	**202,455**	**210,836**	**538,418**	**339,442**	**509,356**	**13,900**	**99,597**	**2,749,232**
Liabilities and equity									
Due to banks and other financial institutions	**248,753**	**4,064**	**-**	**-**	**-**	**-**	**-**	**-**	**252,817**
Borrowings under repurchase agreements	**29,898**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**29,898**
Customers' deposits	**1,717,299**	**339,253**	**26,771**	**215**	**-**	**-**	**-**	**-**	**2,083,538**
Interest payable & other liabilities	**12,125**	**827**	**125**	**6,762**	**-**	**-**	**-**	**-**	**19,839**
Equity	**32,931**	**-**	**-**	**-**	**-**	**-**	**-**	**330,209**	**363,140**
Total liabilities and equity	**2,041,006**	**344,144**	**26,896**	**6,977**	**-**	**-**	**-**	**330,209**	**2,749,232**

Amounts in BD'000 As at 31 December 2012	Up to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Over 20 years	Total
Assets									
Cash and balances at central banks	106,508	-	-	-	-	-	-	-	106,508
Treasury bills	274,423	80,437	25,254	-	-	-	-	-	380,114
Placements with banks and other financial institutions	450,696	19,731	15,644	-	-	-	-	-	486,071
Trading securities	-	523	-	-	-	-	-	-	523
Loans and advances	177,213	41,073	88,156	285,429	155,195	110,809	29,723	654	888,252
Investment securities	26,465	3,920	31,700	302,511	138,157	196,869	-	58,204	757,826
Interest receivable & other assets and property & equipment	6,895	334	335	4,110	1,166	3,390	-	19,037	35,267
Total assets	1,042,200	146,018	161,089	592,050	294,518	311,068	29,723	77,895	2,654,561
Liabilities and equity									
Due to banks and other financial institutions	165,897	2,632	-	-	-	-	-	-	168,529
Borrowings under repurchase agreements	75,418	-	-	-	-	-	-	-	75,418
Customers' deposits	1,702,748	342,249	30,162	2,745					2,077,904
Interest payable & other liabilities	10,521	954	232	2,059	-	-	-	-	13,766
Equity	21,384	-	-	-	-	-	-	297,560	318,944
Total liabilities and equity	1,975,968	345,835	30,394	4,804	-	-	-	297,560	2,654,561

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For the year ended 31 December 2013

b) Liquidity risk

The table below shows the undiscounted cash flows of the Bank's financial liabilities and undrawn loan commitments on the basis of their earliest contractual liability. The Bank's expected cash flows on these instruments vary significantly from this analysis; for example customers are expected to maintain stable or increased balances in demand deposits and not all undrawn loan commitments are expected to be drawn down immediately. For derivatives that have simultaneous gross settlement (e.g. cash inflow/(outflow) are considered while in the case of derivatives that are net settled the net amounts have been considered.

Amounts in BD'000 At 31 December 2013	**Carrying amount**	**Gross nominal inflow/(outflow)**	**Less than 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 5 years**	**More than 5 years**
Non derivative liabilities							
Due to Banks and other financial institutions	**252,817**	**253,057**	**248,976**	**4,081**	**-**	**-**	**-**
Borrowings under repurchase agreements	**29,898**	**29,941**	**29,941**	**-**	**-**	**-**	**-**
Customer deposits	**2,083,538**	**2,088,690**	**1,859,499**	**201,951**	**27,033**	**207**	**-**
Total non derivative liabilities	**2,366,253**	**2,371,688**	**2,138,416**	**206,032**	**27,033**	**207**	**-**
Derivative liabilities							
Trading: outflow	**-**	**(334,016)**	**(270,845)**	**(24,581)**	**(38,590)**	**-**	**-**
Trading: inflow	**2,131**	**333,947**	**270,013**	**25,448**	**38,486**	**-**	**-**
Total derivative liabilities	**2,131**	**(69)**	**(832)**	**867**	**(104)**	**-**	**-**
Banking commitments	**-**	**(33,744)**	**(16,947)**	**(16,666)**	**-**	**(131)**	**-**
Financial guarantees	**-**	**(4,707)**	**(3,430)**	**(250)**	**(1,025)**	**(2)**	**-**

Amounts in BD'000 At 31 December 2012	Carrying amount	Gross nominal inflow/(outflow)	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years
Non derivative liabilities							
Due to Banks and other financial institutions	168,529	168,761	166,092	2,669	-	-	-
Borrowings under repurchase agreements	75,418	75,491	75,491	-	-	-	-
Customer deposits	2,077,904	2,083,479	1,704,982	346,063	29,530	2,904	-
Total non derivative liabilities	2,321,851	2,327,731	1,946,565	348,732	29,530	2,904	-
Derivative liabilities							
Trading: outflow	-	(473,232)	(341,239)	(52,976)	(79,017)	-	-
Trading: inflow	-	475,568	343,575	52,976	79,017	-	-
Total derivative liabilities	-	2,336	2,336	-	-	-	-
Banking commitments	-	(7,797)	9,000			(16,797)	-
Financial guarantees	-	(3,881)	(2,449)	(323)	(680)	(429)	-

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36. RETIREMENT BENEFIT COSTS

The Bank's obligations to defined contribution pension plans for employees who are covered by the social insurance pension scheme in Bahrain and its overseas branches are recognized as an expense in the statement of profit or loss. The Bank's contribution for 2013 amounted to BD 0.83 million (US$ 2.21 million) [2012: 0.87 million (US$ 2.31 million)].

Other employees are entitled to leaving indemnities payable in accordance with the employment agreements or under the respective labour laws. The movement in the provision for leaving indemnities during the year is as follows:

Provision for leaving indemnities

Movements during the year	**2013**		2012	
	BD 000's	**US$ 000's**	BD 000's	US$ 000's
At 1 January	**3,678**	**9,780**	3,841	10,215
Charge for the year	**1,235**	**3,285**	1,117	2,970
Paid during the year	**(659)**	**(1,753)**	(1,280)	(3,405)
At 31 December	**4,254**	**11,312**	3,678	9,780

The Bank has a voluntary Staff Savings Scheme for Bahraini employees. The employees and the Bank contribute monthly on a fixed-percentage-of-salaries basis to the Scheme. The Scheme is managed and administrated by a board of trustees who are the employees of the Bank. The Bank's contribution to the Scheme for 2013 amounted to BD 0.80 million (US$ 2.13 million) [2012:BD 0.72 million (US$ 1.91 million)]. As at 31 December 2013, after considering the employer's and employees' contributions, net income accretions and net pay-outs from the Scheme, the net balance of the Scheme, amounted to BD 9.94 million (US$ 26.44 million) [31 December 2012: BD 8.97 million (US$ 23.86 million)].

37. LEGAL CLAIMS

As at 31 December 2013, legal suits pending against the Bank aggregated to BD 0.72 million (US$ 1.91 million) [2012: BD 0.39 million (US$ 1.04 million)]. Based on the opinion of the Bank's legal advisors, management believes that no liability is likely to arise from the suits and does not consider it necessary to carry any specific provision in this respect.

38. EARNINGS AND DIVIDEND PER SHARE

	2013		2012	
	BD millions	**US$ millions**	BD millions	US$ millions
Profit for the year	**51.36**	**136.60**	47.50	126.33
Dividend proposed at 35% (2012: 25%)	**32.93**	**87.58**	21.38	56.87
Weighted average number of shares issued (millions)				
Ordinary shares as at 1 January	**855.4**	**855.4**	855.4	855.4
Effect of bonus shares issued during 2013	**85.5**	**85.5**	85.5	85.5
Weighted average number of ordinary shares (millions) as at 31 December	**940.9**	**940.9**	940.9	940.9
Earnings per share	**54.6 fils**	**15 cents**	50.5 fils	13 cents
Dividend per share	**35 fils**	**9 cents**	25 fils	7 cents

Diluted earnings per share is same as basic earnings per share as the Bank does not have any potential dilutive instruments in issue.

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39. ACCOUNTING CLASSIFICATION

a) The following table provides disclosure of the accounting classification for assets and liabilities:

Amounts in BD 000's At 31 December 2013	**Trading**	**Designated at fair value through profit or loss**	**Loans and receivables**	**Available for sale**	**Others at amortised cost**	**Total carrying amount**
Cash and balances at central banks	**-**	**-**	**108,408**	**-**	**-**	**108,408**
Treasury bills	**-**	**-**	**570,095**	**-**	**-**	**570,095**
Placements with banks and other financial institutions	**-**	**-**	**146,248**	**-**	**-**	**146,248**
Trading securities	**573**	**-**	**-**	**-**	**-**	**573**
Loans and advances	**-**	**-**	**859,391**	**-**	**-**	**859,391**
Investment securities	**-**	**779**	**15,974**	**980,964**	**-**	**997,717**
Interest receivable & other assets	**-**	**-**	**30,087**	**-**	**-**	**30,087**
Total	**573**	**779**	**1,730,203**	**980,964**	**-**	**2,712,519**
Due to banks and other financial institutions	**-**	**-**	**-**	**-**	**252,817**	**252,817**
Borrowings under repurchase agreements	**-**	**-**	**-**	**-**	**29,898**	**29,898**
Customer deposits	**-**	**-**	**-**	**-**	**2,083,538**	**2,083,538**
Interest payable & other liabilities	**-**	**-**	**-**	**-**	**15,129**	**15,129**
Total	**-**	**-**	**-**	**-**	**2,381,382**	**2,381,382**

Amounts in BD 000's At 31 December 2012	Trading	Designated at fair value through profit or loss	Loans and receivables	Available for sale	Others at amortised cost	Total carrying amount
Cash and balances at central banks	-	-	106,508	-	-	106,508
Treasury bills	-	-	380,114	-	-	380,114
Placements with banks and other financial institutions	-	-	486,071	-	-	486,071
Trading securities	523	-	-	-	-	523
Loans and advances	-	-	888,252	-	-	888,252
Investment securities	-	4,604	15,991	737,231	-	757,826
Interest receivable & other assets	-	-	17,427	-	-	17,427
Total	523	4,604	1,894,363	737,231	-	2,636,721
Due to banks and other financial institutions	-	-	-	-	168,529	168,529
Borrowings under repurchase agreements	-	-	-	-	75,418	75,418
Customer deposits	-	-	-	-	2,077,904	2,077,904
Interest payable & other liabilities	-	-	-	-	9,627	9,627
Total	-	-	-	-	2,331,478	2,331,478

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39 b. FAIR VALUE HIERARCHY

The Bank measures fair values of financial instruments using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. as derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

The table below analyses financial assets and liabilities carried at fair value, by valuation method.

Amounts in BD 000's	**2013**				2012			
At 31 December	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Financial assets held for trading	**573**	**-**	**-**	**573**	523	-	-	523
Financial assets designated at fair value through profit or loss:								
Managed funds	**-**	**779**	**-**	**779**	-	912	-	912
Capital Protected Notes	**-**	**-**	**-**	**-**	-	3,692	-	3,692
Available-for-sale financial assets:								
Debt securities	**399,063**	**521,489**	**-**	**920,552**	432,264	246,809	-	679,073
Equity securities	**46,138**	**-**	**14,274**	**60,412**	44,218	-	13,940	58,158
Derivative financial assets	**-**	**11,385**	**-**	**11,385**	-	2,364	-	2,364
Total	**445,774**	**533,653**	**14,274**	**993,701**	477,005	253,777	13,940	744,722
Derivative financial liabilities	**-**	**4,987**	**-**	**4,987**	-	3,774	-	3,774

The following table analyses the movement in Level 3 financial assets during the year. There are no transfers between level 1, level 2 and level 3 of the fair value hierarchy.

Amounts in BD 000's	**Available for Sale Financial Assets**	
	2013	2012
At 1 January	**13,940**	14,548
Total gains/(losses):		
in income statement	**7**	43
in other comprehensive income	**327**	-
Purchases	**-**	-
Settlements	**-**	(651)
Transfers into / (out) of Level 3	**-**	-
At 31 December	**14,274**	13,940
Total gain / (loss) for the year included in income statement for assets/liabilities held at 31 December	**(7)**	(43)

Level 3 comprises unquoted equity investments classified as available for sale which are measured at their net asset values based on the latest financial statements issued by the investee. Sensitivity analysis of the movement in fair value of the financial instruments in the level 3 category financial assets is assessed as not significant to the other comprehensive income and total equity.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

40. AVERAGE BALANCES

The following are the average daily balances for full year:

	2013		2012	
	BD 000's	**US$ 000's**	BD 000's	US$ 000's
Total assets	**2,626,723**	**6,985,965**	2,504,848	6,661,830
Total liabilities	**2,305,338**	**6,131,218**	2,221,053	5,907,056
Equity	**321,385**	**854,747**	283,795	754,774
Contingent liabilities and undrawn loan commitments	**143,300**	**381,117**	137,737	366,322

41 CAPITAL ADEQUACY

The Bank operates as an independent banking institution with headquarters in Bahrain and branches in Bahrain, United Arab Emirates and Saudi Arabia.

The capital adequacy ratio has been calculated in accordance with Basel 2 and Central Bank of Bahrain guidelines incorporating credit risk, operational risk and market risk. The Bank uses the Standardized approach for computing credit risk. Operational risk is computed using the Basic indicator approach. Market Risk is computed using the Standardized method.

The details of the Bank's capital adequacy calculations under Basel 2 as at 31 December are shown below:

Based on year end balances	2013		2012	
	BD 000's	**US$ 000's**	BD 000's	US$ 000's
Tier 1 Capital	**284,549**	**756,779**	272,454	724,612
Tier 2 Capital	**19,989**	**53,162**	21,648	57,574
Total Capital Base	**304,538**	**809,941**	294,102	782,186
Risk Weighted Exposure:				
Credit Risk	**812,884**	**2,161,926**	894,505	2,379,003
Market Risk	**9,920**	**26,383**	14,749	39,226
Operational Risk	**152,559**	**405,742**	146,245	388,949
Total Risk Weighted Exposure	**975,363**	**2,594,051**	1,055,499	2,807,178
Capital Adequacy Ratio	**31.2%**		27.9%	
Tier 1 Capital Adequacy Ratio	**29.2%**		25.8%	

Based on average balances	2013		2012	
	BD 000's	**US$ 000's**	BD 000's	US$ 000's
Tier 1 Capital	**251,345**	**668,471**	238,234	633,601
Tier 2 Capital	**43,115**	**114,668**	41,039	109,146
Total Capital Base	**294,460**	**783,138**	279,273	742,747
Risk Weighted Exposure:				
Credit Risk	**853,005**	**2,268,630**	912,513	2,426,896
Market Risk	**9,562**	**25,431**	18,707	49,753
Operational Risk	**147,824**	**393,149**	138,480	368,298
Total Risk Weighted Exposure	**1,010,391**	**2,687,210**	1,069,700	2,844,947
Capital Adequacy Ratio	**29.1%**		26.1%	
Tier 1 Capital Adequacy Ratio	**24.9%**		22.3%	

42. DEPOSIT PROTECTION SCHEME

Deposits held with the Bank's Bahrain operations are covered by the regulation protecting Deposits and Unrestricted Investment Accounts issued by the Central Bank of Bahrain in accordance with Resolution No (34) of 2010. The scheme applies to all eligible accounts held with Bahrain offices of the Bank subject to specific exclusions, maximum total amount entitled and other regulations as stipulated in the subject resolution.

43. COMPARATIVES

The corresponding figures have been regrouped where necessary to conform with the current year's presentation. The regrouping has not affected previously reported profit for the year or equity of the Bank.

RISK AND CAPITAL MANAGEMENT DISCLOSURES

for the year ended 31 December 2013

These disclosures have been prepared in accordance with the Public Disclosure Module ("PD"), Section PD-3.1.6, CBB Rule Book, Volume I for Conventional banks. These disclosures should be read in conjunction with the Notes, in particular the Significant Accounting Policies and Financial Risk Management, in the Bank's Financial Statements for the year ended 31 December 2013.

These disclosures have been reviewed by the Bank's external auditors KPMG based upon agreed upon procedures as required under Para PD-A.2.4 of the PD Module.

RISK AND CAPITAL MANAGEMENT DISCLOSURES

For the year ended 31 December 2013

EXECUTIVE SUMMARY

The Central Bank of Bahrain's (CBB) Basel 2 guidelines outlining the capital adequacy framework for banks incorporated in the Kingdom of Bahrain became effective from 1 January 2008.

NBB has adopted the Standardised Approach for Credit Risk, Standardised Approach for Market Risk and the Basic Indicator Approach for Operational Risk to determine the capital requirement. This report consists of the Basel Committee's Pillar 3 disclosures and other disclosure requirements as stipulated by the CBB. The report contains a description of the Bank's risk management and capital adequacy policies and practices including detailed quantitative information on capital adequacy.

As at 31 December 2013, the Bank's total risk weighted exposures amounted to BD 975.4 million; Tier 1 Capital and Total Regulatory Capital amounted to BD 284.5 million and BD 304.5 million respectively. Accordingly, Tier 1 Capital Adequacy Ratio and Total Capital Adequacy Ratio were 29.2% and 31.2% respectively before the proposed appropriation. These ratios exceed the minimum capital requirements under the CBB's Basel 2 framework. The Bank's intention is to maintain a Tier 1 capital ratio above 8% and a total capital ratio in excess of 12%.

The Bank views these disclosures as an important means of increased transparency and accordingly has provided extensive disclosures in this report that is appropriate and relevant to the Bank's stakeholders and market participants.

SCOPE OF APPLICATION

The Bank operates as an independent banking institution with headquarters in Bahrain and branches in Bahrain, the United Arab Emirates and Saudi Arabia. The Bank's capital adequacy requirements are computed on a consolidated basis.

RISK AND CAPITAL MANAGEMENT

The Bank is exposed to the following types of risks:

- credit risk
- liquidity risk
- market risk
- interest rate risk
- operational risk

Risk management framework

The overall authority for risk management in the Bank is vested in the Board of Directors. The Board authorises appropriate credit, liquidity and market risk policies as well as operational guidelines based on the recommendation of Management. The Bank has established various committees that review and assess all risk issues. Approval authorities are delegated to different functionaries in the hierarchy depending on the amount, type of risk and nature of operations or risk. The Risk Group (RG) of the Bank provides the necessary support to Senior Management and the business units in all areas of risk management. This Group functions independent of the business units and reports directly to the Chief Executive Officer. The Group comprises of a Credit Review department (responsible for pre-approval analysis of credit/investment proposals as well as risk policy and procedures management), Credit Administration department (responsible for post approval implementation and follow up), Legal department (responsible for management of legal risk) and Risk Management department (responsible for market risk and operational risk).

The Audit Committee of the Board is responsible for monitoring compliance with the Bank's policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by the Internal Audit division, which undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee and to Management.

Credit Risk

Credit Risk represents the potential financial loss as a consequence of a customer's inability to honour the terms and conditions of a credit facility. Such risk is measured with respect to counterparties for both on-balance sheet assets and off-balance sheet items.

The Bank acknowledges that credit risk is an inherent and substantial cost that needs to be set against income. Risk is just one aspect of the triangle for any economic capital system and must be seen in conjunction with capital requirements and returns. The Bank evaluates risk in terms of the impact on income and asset values and the evaluation reflects the Bank's assessment of the potential impact on its business on account of changes in political, economic and market conditions and in the credit worthiness of its clients. Risk management at the Bank has always been conservative and proactive with the objective of achieving a balanced relation between risk appetite and expected returns.

RISK AND CAPITAL MANAGEMENT DISCLOSURES

For the year ended 31 December 2013

Credit Risk (continued)

The Bank monitors and manages concentration risk by setting limits on exposures to countries, sectors, products and counterparty groups. Stringent criteria are used by Credit Review Department in setting such limits and these have ensured that the impact of any adverse developments on the Bank's income stream and capital strength is limited. Prior to launch of any new asset product, based on a comprehensive risk analysis, product specific transaction approval criteria are set. Similarly, prudent norms have been implemented to govern the Bank's investment activities, which specify to the Bank's Treasury department the acceptable levels of exposure to various products, based on its nature, tenor, rating, type, features, etc.

The Bank has well laid out procedures, not only to appraise but also regularly monitor credit risk. Credit appraisal is based on the financials of the borrower, performance projections, market position, industry outlook, external ratings (where available), track record, product type, facility tenor, account conduct, repayment sources and ability, tangible and intangible security, etc. Regular reviews are carried out for each account and risks identified are mitigated in a number of ways, which include obtaining collateral, counter-guarantees from shareholders and/or third parties. Adequate margins are maintained on the collateral to provide a cushion against adverse movement in the market price of collateral. Not only are regular appraisals conducted to judge the credit worthiness of the counterparty but day-to-day monitoring of financial developments across the globe by the Business Units and Credit Review Department ensures timely identification of any events affecting the risk profile.

The Business Units of the Bank are responsible for business generation and initial vetting of proposals to make sure that the Bank's risk acceptance criteria are met. Credit facilities in excess of BD 250,000 or falling outside pre-approved product criteria are referred to Credit Review Department, which analyses the proposal and puts forth its recommendations prior to approval by the appropriate authorities. In addition to rigorous credit analysis, the terms and conditions of all credit facilities are strictly implemented by the Credit Administration Department. An internal grading system and review process ensures prompt identification of any deterioration in credit risk and consequent implementation of corrective action.

The Bank's internal ratings are based on a 10-point scale, which takes into account the financial strength of a borrower as well as qualitative aspects to arrive at a comprehensive snapshot of the risk of default associated with the borrower. Ratings are further sub-divided into categories, which reflect estimates of the potential maximum loss in an event of default. Risk Ratings assigned to each borrower are reviewed at least on an annual basis. Regular monitoring of the portfolio enables the Bank to identify accounts, which witness deterioration in risk profile. Consumer credit facilities which are granted based on pre-defined criteria such as salary assignment, maximum repayment obligation as a percentage of salary, etc are excluded from this rating system.

The Bank also uses the ratings by established rating agencies, viz., Moody's, Standard & Poor and Fitch as part of the appraisal process while considering exposures to rated entities.

For purposes of comparison, the Bank's internal ratings are mapped to Moody's and Standard and Poor (S&P) ratings as under:

Bank's Internal Ratings Scale	Equivalent to Moody's and S&P ratings
1	AAA/Aaa
2	AA/Aa2
3	A/A2
4	BBB+/Baa1
5	BBB-/Baa3
6	BB/Ba2
7	B+/B1
8 - 10	CCC/Caa to C

However, the above mapping is not intended to reflect a direct relationship between the Bank's internal ratings and the corresponding rating of the external agencies since the basis and methodology differ.

Liquidity risk

Liquidity Risk is the potential inability of a bank to meet its financial obligations on account of a maturity mismatch between assets and liabilities. Liquidity risk management ensures that funds are available at all times to meet the funding requirements of the Bank.

The asset/liability management policies of the Bank define the proportion of liquid assets to total assets with the aim of minimising liquidity risk. The Bank maintains adequate liquid assets such as inter-bank placements, treasury bills and other readily marketable securities, to support its business and operations. The Treasury Department monitors the maturity profile of assets and liabilities so that adequate liquidity is maintained at all times.

RISK AND CAPITAL MANAGEMENT DISCLOSURES

For the year ended 31 December 2013

Liquidity Risk (continued)

The Bank's ability to maintain a stable liquidity profile is primarily on account of its success in retaining and growing its customer deposit base. The marketing strategy of the Bank has ensured a balanced mix of demand and time deposits. Stability of the deposit base thus minimises the Bank's dependence on volatile short-term borrowings. Further, investment securities with contractual maturities of more than three months can also be readily liquidated. Considering the effective maturities of deposits based on retention history and in view of the ready availability of liquid investments, the Bank is able to ensure that sufficient liquidity is always available. The Asset Liability Committee (ALCO) chaired by the Chief Executive Officer reviews the Liquidity Gap Profile and the Liquidity scenario and addresses strategic issues concerning liquidity.

Market risk

Market Risk is the risk of potential losses arising from movements in market prices of interest rate related instruments and equities in the trading portfolio and foreign exchange and commodities holdings throughout the Bank. The Bank's trading activities are governed by conservative policies that are clearly documented, by adherence to comprehensive limit structures set annually and by regular reviews. Quality and rating are the main criteria in selecting a trading asset. The Bank uses the standardized method for allocating market risk capital based on the risk assessed for underlying factors of interest rate risk, equity risk, foreign exchange risk, options risk and commodity risk. Daily reports in this regard are submitted to senior management for review and decision making purposes.

Interest Rate Risk

Interest Rate Risk is measured by the extent to which changes in the market interest rates impact margins, net interest income and the economic value of the Bank's equity. Net interest income will be affected as a result of volatility in interest rates to the extent that the re-pricing structure of interest bearing assets differs from that of liabilities. The Bank's goal is to achieve stable earnings growth through active management of the assets and liabilities mix while, selectively positioning itself to benefit from near-term changes in interest rate levels. The Treasurer is primarily responsible for managing the interest rate risk. Reports on overall position and risks are submitted to senior management for review and positions are adjusted if deemed necessary. In addition, ALCO regularly reviews the interest rate sensitivity profile and its impact on earnings.

The Bank's asset and liability management process is utilised to manage interest rate risk through the structuring of on-balance sheet and off-balance sheet portfolios. The Bank uses various techniques for measuring and managing its exposure to interest rate risk. Duration analysis is used to measure the interest rate sensitivity of the fixed income portfolio. Duration of the portfolio is governed by economic forecasts, expected direction of interest rates and spreads. Modified Duration gives the percentage change in value of the portfolio following a 1% change in yield. Interest rate swaps and forward rate agreements are used to manage the interest rate risk. The Bank uses interest rate gap analysis to measure the interest rate sensitivity of its annual earnings due to re-pricing mismatches between rate sensitive assets, liabilities and derivatives positions.

Operational Risk

Operational Risk is the risk of monetary loss on account of human error, fraud, systems failures or the failure to record transactions. In order to manage and mitigate such risks, the Bank ensures that proper systems and resources (financial and personnel) are available to support the Bank's operations. Proper segregation of duties and other controls (including reconciliation, monitoring and reporting) are implemented to support the various operations, especially credit, treasury and electronic banking activities.

Detailed operational guidelines are spelt out in the Operations Manual to specify the steps to be followed in handling any transaction. These steps are designed to mitigate the risks arising from errors, omissions and oversights in dealing with customer instructions and transaction processing. The overriding principles in drawing up operational processes are that transactions must be scrutinized by a "checker" independent from the "originator" prior to booking and that there should be a clear audit trail for post facto scrutiny. The Bank's Fraud Manual and the Code of Conduct provide necessary guidance to mitigate risks and ensure that adequate controls are in place for detecting suspicious transactions. Any changes to operational procedures need to be processed through the Internal Audit Department, who ensure that satisfactory control mechanisms are in place in all procedures.

Specific limits are set up to mitigate and monitor the Bank's exposure including limits on maximum branch cash limit, maximum teller limit, maximum payment authorization limit, signature authorities, etc. Documented policies and procedures, approval and authorization process for transactions, documented authority letters, process of verification of transaction details and activities, reconciliation of key activities, dual custody of financial assets like demand drafts, cheques etc. and insurance coverage of various operational risks are the key pillars of the operational risk management process.

The Bank has an Operational Risk Management Department within the RG to independently monitor and manage all aspects of operational risk on a bank wide basis. The Bank also has a dedicated Operational Risk Management Committee to supervise, monitor and review operational risk issues and ensure that adequate mitigants are developed and implemented for all operational risk issues.

RISK AND CAPITAL MANAGEMENT DISCLOSURES

For the year ended 31 December 2013

Operational Risk (continued)

The scope of the Internal Audit department encompasses audits and reviews of all business units, support services and branches. The internal audit process focuses primarily on assessing risks and controls and ensuring compliance with established policies, procedures and delegated authorities. New products and services are reviewed by the Internal Audit department and assessed for operational risks prior to their implementation. The Internal Audit department is operationally independent and reports significant internal control deficiencies to the Audit Committee.

The Bank has a Business Continuity Plan (BCP) to ensure that the critical activities are supported in case of an emergency. The BCP is approved by the Board of Directors.

Risk Monitoring and Reporting

Systems and processes are in place to regularly monitor and report risk exposures to the Board of Directors and senior management to effectively monitor and manage the risk profile of the Bank.

The Board of Directors is provided with quarterly risk reports covering credit, market, liquidity, operational, concentration and other risks.

Senior management is provided with a daily report on market risk and monthly reports on other risks. Reports on capital adequacy and internal capital adequacy assessment are provided to senior management on a monthly basis. In addition, stress testing on capital adequacy is undertaken once a year or more frequently in times of need and communicated to Board of Directors and senior management for appropriate decisions.

Capital management

The Bank's policy is to maintain sufficient capital to sustain investor, creditor and market confidence and to support future development of the business. The impact of the level of capital on return on shareholder's equity is also considered and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank's capital management framework is intended to ensure that there is sufficient capital to support the underlying risks of the Bank's business activities and to maintain a well-capitalised status under regulatory requirements. The Bank has a comprehensive Internal Capital Adequacy Assessment Process (ICAAP) that includes Board and senior management oversight, monitoring, reporting and internal control reviews, to identify and measure the various risks that are not covered under Pillar 1 risks and to regularly assess the overall capital adequacy considering the risks and the Bank's planned business strategies. The non Pillar 1 risks covered under the ICAAP process include concentration risk, liquidity risk, interest rate risk in the banking book and other miscellaneous risks. The ICAAP also keeps in perspective the Bank's strategic plans, credit growth expectations, future sources and uses of funds, dividend policy and the impact of all these on maintaining adequate capital levels. In addition, the ICAAP process also includes stress testing on the Bank's capital adequacy to determine capital requirement and planning to ensure that the Bank is adequately capitalised in line with the overall risk profile.

The Bank ensures that the capital adequacy requirements are met on a consolidated basis and also with local regulator's requirements, if any, in countries in which the Bank has branches. The Bank has complied with regulatory capital requirements throughout the period.

Prior approval of the Central Bank of Bahrain is obtained by the Bank before submitting any proposal for distribution of profits for shareholders approval.

CAPITAL STRUCTURE AND CAPITAL ADEQUACY

The Bank's paid up capital consists only of ordinary shares which have proportionate voting rights. The Bank does not have any other type of capital instruments.

The Bank's Tier 1 capital comprise of share capital, retained earnings and eligible reserves. Unrealized losses on equity securities classified as available-for-sale are deducted fully from Tier 1. On 22 May 2013, the Bank completed the acquisition of 25.8 % of equity in Bahrain Islamic Bank and the carrying amount of this investment is deducted fully from Tier 1.The Bank holds 34.8 % of the equity capital of Benefit Company and 50 percent of carrying value of this investment is deducted from Tier 1.

The Bank's Tier 2 Capital comprise of interim profits, collective impairment provisions up to 1.25% of credit risk weighted assets and 45% of unrealized gains arising on revaluation of equity securities classified as available-for-sale. 50 percent of the carrying value of the Bank's investment in Benefit Company is deducted from Tier 2.

The Bank has no subsidiaries and/or investments in insurance companies exceeding 20% of the Bank's capital or the invested company's capital that is required to be deducted from capital.

RISK AND CAPITAL MANAGEMENT DISCLOSURES

For the year ended 31 December 2013

CAPITAL STRUCTURE AND CAPITAL ADEQUACY CONTINUED

Capital structure, minimum capital and capital adequacy:

BD 000's **As at 31 December 2013**	
Tier 1 capital	
Share Capital	94,090
Statutory Reserve	47,045
General Reserve	32,400
Other Reserves	10,570
Retained Earnings	121,793
Deductions from Tier 1 Capital	(21,349)
Total Tier 1 (A)	**284,549**
Tier 2 capital	
45% of revaluation reserves on available for sale equity investments	11,693
Collective impairment provision subject to 1.25% of credit risk weighted assets	10,161
Deductions from Tier 2 Capital	(1,865)
Total Tier 2	**19,989**
Total Capital Base (Tier 1 + Tier 2) (B)	**304,538**

BD 000's **As at December 2013**	**Credit exposure before credit risk mitigant**	**Eligible credit risk mitigant**	**Credit exposure after credit risk mitigant**	**Risk weighted exposure**	**Capital Requirement @12%**
Sovereigns	1,570,093	-	1,570,093	-	-
PSE	135	-	135	-	-
Banks	257,372	29,907	227,465	101,757	12,211
Corporates	474,261	29,937	444,324	261,717	31,406
Regulartory retail	340,146	1,195	338,951	254,213	30,506
Residential mortages	16,017	-	16,017	12,013	1,442
Past due exposures	45,246	-	45,246	48,546	5,826
Investments in equities/funds	46,023	-	46,023	53,248	6,390
Securitisation exposures	23	-	23	5	1
Other assets	107,005	11,125	95,880	81,385	9,766
Total Credit Risk Exposure	**2,856,321**	**72,164**	**2,784,157**	**812,884**	**97,546**
Market Risk				**9,920**	**1,190**
Operational Risk				**152,559**	**18,307**
Total Risk Weighted Exposure (C)				**975,363**	**117,044**
Capital Adequacy Ratio (B)/(C)				**31.22%**	
Tier 1 Capital Adequacy Ratio (A)/(C)				**29.17%**	

RISK AND CAPITAL MANAGEMENT DISCLOSURES

For the year ended 31 December 2013

CREDIT RISK

The Bank has a diversified on and off balance sheet credit portfolio, which are divided into counter party exposure classes in line with the CBB's Basel 2 capital adequacy framework for the standardised approach for credit risk. A high-level description of the counter party exposure classes and the risk weights used to derive the Risk Weighted Assets are as follows:

Sovereigns Portfolio

The sovereign portfolio comprises exposures to governments and their respective central banks. The risk weights are 0% for exposures in the relevant domestic currency of the sovereign, or for any exposures to GCC governments. Foreign currency claims on other sovereigns are risk weighted based on their external credit ratings.

Certain multilateral development banks as determined by the CBB may be included in the sovereign portfolio and treated as exposures with a 0% risk weighting.

PSE Portfolio

Public sector entities (PSEs) are risk weighted according to their external ratings except for Bahrain PSEs, and domestic currency claims on other PSEs that are assigned a 0% risk weight by their respective country regulator, are consequentially allowed a 0% risk weight by CBB for computation purposes.

Banks Portfolio

Claims on banks are risk weighted based on their external credit ratings. A preferential risk weight treatment is available for qualifying short-term exposures to banks in their country of incorporation. Short-term exposures are defined as exposures with an original tenor of three months or less and denominated and funded in the respective domestic currency. The preferential risk weight for short-term claims is allowed on exposures in Bahraini Dinar/US Dollar in the case of Bahraini incorporated banks.

Corporates Portfolio

Claims on corporates are risk weighted based on their external credit ratings. A 100% risk weight is assigned to exposures to unrated corporates. A preferential risk weight treatment is available for certain corporates owned by the Government of Bahrain, as determined by the CBB, which are assigned a 0% risk weight.

Equities Portfolio

The equities portfolio comprises equity investments in the banking book, i.e. the available-for-sale securities portfolio. The credit (specific) risk for equities in the trading book is included in market risk RWAs for regulatory capital adequacy calculation purposes.

A 100% risk weight is assigned to listed equities and funds. Unlisted equities and funds are risk weighted at 150%. Investments in rated funds are risk weighted according to the external credit rating. Investments in companies engaged primarily in real estate are included in other assets and risk weighted at 200%.

In addition to the standard portfolios, other exposures are risk weighted as under:

Past due exposures

All past due loan exposures, irrespective of the categorisation of the exposure are classified separately under the past due exposures asset class. A risk weighting of either 100% or 150% is applied depending on the level of specific provision maintained against the exposure.

Other assets and holdings of securitisation tranches

Other assets are risk weighted at 100%. Securitisation tranches are risk weighted (ranging from 20% to 350%) based on their external credit ratings and resecuritisation tranches are risk weighted (ranging from 40% to 650%) based on their external credit ratings. Exposures to securitisation & resecuritisation tranches that are rated below BB- or are unrated are deducted from regulatory capital rather than subject to a risk weight. Investments in real estate and also in bonds, funds and equities of companies engaged primarily in real estate are included in other assets and risk weighted at 200%.

RISK AND CAPITAL MANAGEMENT DISCLOSURES

For the year ended 31 December 2013

External Credit Assessment Institutions (ECAI)

The Bank uses ratings issued by Standard & Poor's, Moody's and Fitch to derive the risk weightings under the CBB's Basel 2 capital adequacy framework. Where ratings vary between rating agencies, the highest rating from the lowest two ratings is used to represent the rating for regulatory capital adequacy purposes.

The following are gross credit risk exposures considered for Capital Adequacy Ratio calculations comprising of banking book exposures:

BD 000's As at 31 December 2013	
Cash and balances at central banks	108,408
Treasury bills	570,095
Placements with banks and other financial institutions	146,248
Loans and advances	870,841
Investment securities	998,290
Other assets	66,800
Total assets	**2,760,682**
Non-derivative banking commitments and contingent liabilities (notional)	**187,421**
Derivatives (notional)	**769,371**

The balances above are representative of the position during the period; hence the average balances for the period is not separately disclosed.

INDUSTRY OR COUNTERPARTY EXPOSURE

BD 000's As at 31 December 2013	Govt	Mfg/ Trdg	Banks/ FIs	Const	Personal	Others	Total
Cash and balances at central banks	-	-	108,408	-	-	-	108,408
Treasury bills	570,095	-	-	-	-	-	570,095
Placements with banks and other financial institutions	-	-	146,248	-	-	-	146,248
Loans and advances	60,847	148,015	50,888	109,728	359,645	141,718	870,841
Investment securities	786,271	8,015	170,197	1,550	-	32,257	998,290
Other assets	9,683	289	26,136	1,574	698	28,420	66,800
Total assets	**1,426,896**	**156,319**	**501,877**	**112,852**	**360,343**	**202,395**	**2,760,682**
Non-derivative banking commitments and contingent liabilities (notional)	**64,371**	**36,261**	**41,014**	**35,342**	**426**	**10,007**	**187,421**
Derivatives (notional)	**-**	**-**	**769,371**	**-**	**-**	**-**	**769,371**

The above includes certain exposures to customers / counter parties which are in excess of 15% of the Bank's capital base. These have the approval of the Central Bank of Bahrain or are exempt exposures under the large exposures policy of the Central Bank of Bahrain. The table below gives details of these exposures:

Counterparty	Counterparty Type	Total Exposure
Counterparty A	Sovereign	1,308,070
Counterparty B	Sovereign	164,235
Counterparty C	Sovereign	100,960
Counterparty D	Corporate	53,568

RISK AND CAPITAL MANAGEMENT DISCLOSURES

For the year ended 31 December 2013

GEOGRAPHIC DISTRIBUTION OF EXPOSURE

BD 000's As at 31 December 2013	Middle East	USA	Europe	Rest of the world	Total
Cash and balances at central banks	108,408	-	-	-	108,408
Treasury bills	570,095	-	-	-	570,095
Placements with banks and other financial institutions	128,351	5,848	4,973	7,076	146,248
Loans and advances	869,325	-	-	1,516	870,841
Investment securities	921,107	15,947	31,843	29,393	998,290
Other assets	64,163	33	2,092	512	66,800
Total assets	**2,661,449**	**21,828**	**38,908**	**38,497**	**2,760,682**
Non-derivative Banking commitments and contingent liabilities (notional)	**160,774**	**138**	**22,423**	**4,086**	**187,421**
Derivatives (notional)	**189,008**	**435,356**	**130,137**	**14,870**	**769,371**

RESIDUAL CONTRACTUAL MATURITY

BD 000's As at 31 December 2013	Up to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Over 20 years	Total
Cash and balances at central banks	108,408	-	-	-	-	-	-	-	108,408
Treasury bills	376,358	119,228	74,509	-	-	-	-	-	570,095
Placements with banks and financial institutions	128,463	13,785	4,000	-	-	-	-	-	146,248
Loans and advances	196,069	38,968	106,168	273,660	159,856	82,043	14,077	-	870,841
Investment securities	12,646	30,845	27,142	266,225	180,375	419,842	-	61,215	998,290
Other assets	15,822	467	347	2,016	1,247	8,519	-	38,382	66,800
Total assets	**837,766**	**203,293**	**212,166**	**541,901**	**341,478**	**510,404**	**14,077**	**99,597**	**2,760,682**
Non-derivative Banking commitments and contingent liabilities (notional)	**79,171**	**34,195**	**44,550**	**25,758**	**3,549**	**198**	**-**	**-**	**187,421**
Derivatives (notional)	**270,845**	**24,581**	**38,589**	**-**	**37,600**	**397,756**	**-**	**-**	**769,371**

Past due exposures

In accordance with the Bank's policy and Central Bank of Bahrain guidelines, loans on which payment of interest or repayment of principal are 90 days past due, are defined as non-performing.

The Bank has systems and procedures in place to generate alerts in case of past dues in any account. A stringent classification process is followed for all accounts with past dues of over 90 days. The Bank applies rigorous standards for provisioning and monitoring of non-performing loans. Level of provisions required is determined based on the security position, repayment source, discounted values of cash flows, etc and adequate provisions are carried to guard against inherent risks in the portfolio.

The Bank considers evidence of impairment for loans and advances at both specific and collective level.

All individually significant loans and advances are assessed for specific impairment. Specific provision for impairment, pertaining to individually significant impaired loans and advances, is determined based on the difference between the net carrying amount and the estimated recoverable amount of the loans and advances, measured at present value of estimated future cash flows from such loans and advances and discounting them based on their original effective interest rate. If a loan has a floating interest rate, the discount rate is the current effective rate determined under the contract.

RISK AND CAPITAL MANAGEMENT DISCLOSURES

For the year ended 31 December 2013

Impairment and uncollectability is also measured and recognised on a portfolio basis for a group of loans and advances with similar credit risk characteristics, that are not individually identified as impaired, on the basis of estimates of incurred losses that are inherent but not yet specifically identified within the loans and advances portfolio at the statement of financial position date. The estimates are based on internal risk ratings, historical default rates, rating migrations, loss severity, macroeconomic and other relevant factors with historic loss experience being adjusted to reflect the effect of prevailing economic and credit conditions.

Ageing analysis of impaired and past due loans and advances:

BD 000's **As at 31 December 2013**	
Over 3 months to 1 year	3,167
1 to 3 years	57,106
Over 3 years	6,467
Total	**66,740**

Geographical location of impaired and past due loans and advances:

BD 000's **As at 31 December 2013**	**Loan Amount**	**Specific impairment provision**	**Collective impairment provision**
Bahrain	66,133	21,215	10,763
Other GCC countries	607	279	687
Others	-	-	-
Total	**66,740**	**21,494**	**11,450**

Industry/sector wise breakdown of impaired and past due loans and advances:

	At 31 December 2013			**For the year ended 31 December 2013**	
BD 000's	**Loan Amount**	**Specific impairment provision**	**Collective impairment provision**	**Specific impairment Charge**	**Write offs**
Government	-	-	-	-	-
Manufacturing/trading	647	621	2,022	-	6
Construction	54,491	10,831	2,399	4,753	-
Personal	10,844	9,903	5,120	1,392	95
Others	758	139	1,909	-	2
Total	**66,740**	**21,494**	**11,450**	**6,145**	**103**

Movement in impairment provision for loans and advances:

BD 000's	**Specific impairment provision**	**Collective impairment provision**	**Total impairment provision**	**Interest in suspense**
At 1 January 2013	16,016	11,753	27,769	6,434
Charge & transfers for the year	6,145	(867)	5,278	5,261
Amounts written off	(75)	(28)	(103)	(3)
Recoveries, transfers & write backs	(592)	592	-	(228)
At 31 December 2013	**21,494**	**11,450**	**32,944**	**11,464**

Restructuring

During the year ended 31 December 2013, credit facilities amounting to BD 42.7 million were restructured. Restructuring concessions mainly related to deferral of loan installments to assist customers overcome temporary cash crunch situations or to realign the repayment with the borrowers'/projects' revised cash flow projections. Due to the minor nature of concessions, there was no significant impact on the Bank's provisions for loans and advances impairment and present and future earnings.

RISK AND CAPITAL MANAGEMENT DISCLOSURES

For the year ended 31 December 2013

CREDIT RISK MITIGATION

The reduction of the capital requirement attributable to credit risk mitigation is calculated in different ways, depending on the type of credit risk mitigation, as under:

Adjusted exposure amount: The Bank uses the comprehensive method for eligible financial collateral such as cash and equities listed on a recognized stock exchange. The exposure amount and financial collateral, where applicable, are adjusted for market volatility through the use of supervisory haircuts (for currency mis-matches, price volatility and maturity-mismatches) that are specified by the CBB.

Substitution of counterparty: The substitution method is used for eligible guarantees (only sovereigns, banks or corporate entities with ECAI ratings higher than that of the counterparty; guarantees issued by corporate entities may only be taken into account if their rating corresponds to A- or better) whereby the rating of the counterparty is substituted with the rating of the guarantor.

COLLATERAL AND VALUATION PRINCIPLES

The main collaterals taken for risk mitigation on credit exposures are deposits held by customers, pledge of quoted shares, residential/commercial property mortgage, investment securities, counter-guarantees from other banks, etc. Other risk mitigants considered include salary and end of service benefits assignment for personal loans, personal guarantees of promoters etc. However, for purposes of capital adequacy computation, only eligible collateral recognised under Basel 2 is taken into consideration and there are no significant concentrations in such eligible collateral taken for credit risk mitigation.

The Bank's Credit Policy defines the types of acceptable collateral and the applicable haircuts or loan-to-value ratio. The Bank has a system of independent valuation of collateral. In the case of real estate, valuation is done by independent valuer at regular intervals as stipulated in the Bank's credit policy. In respect of quoted shares and other securities, the valuation is done based on the closing price on the stock exchange. The market value of the collateral is actively monitored on a regular basis and requests are made for additional collateral in accordance with the terms of the underlying agreements. In general, lending is based on the customer's repayment capacity and not the collateral value. However, collateral is considered as a secondary alternative to fall back on in the event of default.

Eligible financial collateral, guarantees and credit derivatives, presented by standard portfolio are as under:

BD 000's		**Secured by**		
As at 31 December 2013	**Gross credit exposure**	**Financial collateral**	**Guarantees and credit derivatives**	**Credit exposure after risk mitigants**
Sovereigns	1,570,093	-	-	1,570,093
PSE	135	-	-	135
Banks	257,372	29,907	-	227,465
Corporates	474,261	29,937	-	444,324
Regulatory retail	340,146	1,195	-	338,951
Residential mortgages	16,017	-	-	16,017
Past due exposures	45,246	-	-	45,246
Investments in equities/funds	46,023	-	-	46,023
Securitisation exposures	23	-	-	23
Others assets	107,005	11,125	-	95,880

On and off-Balance Sheet netting:

The legal documents that the Bank obtains from customers include clauses that permit the Bank to offset the customer's dues to the Bank against the Bank's dues to the customer. Thus, if the same legal entity has obtained credit facilities from the Bank and also maintains credit balance with the Bank, the Bank has the legal right to set-off the credit balances against the dues. In case of certain counter party banks, the Bank has entered into specific netting agreements that provide for netting on and off-balance sheet exposures.

The amount of financial assets and financial liabilities set off under netting agreements amounted to BD 58.7 million at 31 December 2013.

RISK AND CAPITAL MANAGEMENT DISCLOSURES

For the year ended 31 December 2013

MARKET RISK

The Bank uses the standardized method for allocating market risk capital. The Bank has clearly documented policies and procedures for the management and valuation of the trading portfolio. The Treasury Operations department, which is independent of the front office, is responsible for valuation which is done on a daily basis, based on quoted market prices from stock exchanges, independent third parties or amounts derived from cash flow models as appropriate.

The following table shows the capital charges:

BD 000's		Capital Charge		
Risk Type	As at 31-12-2013	Maximum	Minimum	Average
Interest Rate Risk	636.1	1,163.2	252.3	603.5
Equities Risk	97.1	112.6	79.8	90.7
Foreign Exchange Risk	65.8	292.1	19.2	71.9
Commodities Risk	-	-	-	-
Options Risk	-	-	-	-
Total minimum capital required for market risk	**793.6**			
Multiplier	12.5			
Market Risk weighted exposure under the Standardized Method	**9,920**			

OPERATIONAL RISK

Whilst the Bank recognizes that operational risks cannot be eliminated in its entirety, it constantly strives to minimise operational risks (inherent in the Bank's activities, processes and systems) by ensuring that a strong control infrastructure is in place throughout the organisation and enhanced where necessary. The various procedures and processes used to manage operational risks are regularly reviewed and updated and implemented through effective staff training, close monitoring of risk limits, segregation of duties, appropriate controls to safeguard assets and records, regular reconciliation of accounts and transactions, and financial management and reporting. In addition, regular internal audit and reviews, business continuity planning and insurance cover are in place to complement the processes and procedures.

The Bank presently follows the Basic Indicator Approach for assessing the capital requirement for Operational Risk. The capital requirement of BD 18.3 million is based on the gross operating income (excluding profit/loss on Investments held under Available-for-Sale, Held-to-Maturity categories and any exceptional items of income) for the last 3 years multiplied by 12.5 (the reciprocal of the 8 percent minimum capital ratio) to arrive at the operational risk-weighted exposure

EQUITY POSITION IN BANKING BOOK

The Bank holds certain investments in equity securities as part of its strategic holdings and others are held with the objective of capital appreciation and realizing gains on sale thereof. All equity positions in the Banking book are classified as "Available-for-Sale". The accounting policies for "Available-for-Sale" instruments are described in detail in the Financial Statements under "Significant Accounting Policies".

BD 000's As at 31 December 2013	Balance Sheet Value	Capital Requirement @ 12% of Risk Weighted Assets
Details of Equity Investments:		
Quoted Equities:	46,138	4,116
Unquoted Equities:	14,274	1,697
Total	**60,412**	**5,812**
Realised gains (recorded in profit or loss during the year)		-
Net unrealised gains recognised in Equity		25,984
Unrealised losses deducted from Tier 1 Capital		872
45% of unrealised gains recognised under Tier 2 Capital		11,693

RISK AND CAPITAL MANAGEMENT DISCLOSURES

For the year ended 31 December 2013

INTEREST RATE RISK IN BANKING BOOK

Interest Rate Risk is measured by the extent to which changes in the market interest rates impact margins, net interest income and the economic value of the Bank's equity. The Bank's asset and liability management process is utilised to manage interest rate risk through the structuring of on-balance sheet and off-balance sheet portfolios. Net interest income will be affected as a result of volatility in interest rates to the extent that the re-pricing structure of interest bearing assets differs from that of interest bearing liabilities. The Bank's goal is to achieve stable earnings growth through active management of the assets and liabilities mix while, selectively positioning it to benefit from near-term changes in interest rate levels.

Overall non-trading interest rate risk positions are managed by the Treasury division, which uses investment securities, placements with banks, deposits from banks and derivative instruments to manage the overall position arising from the Bank's non-trading activities. Reports on overall position and risks are submitted to senior management for review and positions are adjusted if deemed necessary. In addition, ALCO regularly reviews (at least on a monthly basis) the interest rate sensitivity profile and its impact on earnings. Strategic decisions are made with the objective of producing a strong and stable interest income stream over time.

Duration analysis is used to measure the interest rate sensitivity of the fixed income portfolio. Duration of the portfolio is governed by economic forecasts, expected direction of interest rates and spreads. Modified Duration gives the percentage change in value of the portfolio following a 1% change in yield. Modified Duration of the Bank's fixed income portfolio was 2.65% on 31 December 2013 implying that a 1% parallel upward shift in the yield curve could result in a drop in the value of the portfolio by BD 25.0 million.

Deposits without a fixed maturity are considered as repayable on demand and are accordingly included in the overnight maturity bucket. The Bank usually levies a pre-payment charge for any loan or deposit, which is repaid/withdrawn before the maturity date, unless it is specifically waived. This prepayment charge is to take care of any interest rate risk that the Bank faces on account of such prepayments and accordingly, no assumptions regarding such pre-payments are factored for computation of interest rate risk in the banking book.

RISK AND CAPITAL MANAGEMENT DISCLOSURES

For the year ended 31 December 2013

INTEREST RATE RISK IN BANKING BOOK CONTINUED

The Bank uses interest rate gap analysis to measure the interest rate sensitivity of its annual earnings due to re-pricing mismatches between rate sensitive assets, liabilities and derivatives' positions. The asset and liability re-pricing profile of various asset and liability categories is set out below:

BD 000's As at 31 December 2013	Upto 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Rate insensitive	Total
Assets							
Cash and balances at central banks	-	-	-	-	-	108,408	108,408
Treasury bills	376,358	119,228	74,509	-	-	-	570,095
Placements with banks and other financial institutions	114,677	13,785	4,000	-	-	13,786	146,248
Trading securities	-	573	-	-	-	-	573
Loans and advances*	401,432	40,160	73,969	276,979	66,851	-	859,391
Investment securities**	31,132	22,720	21,535	441,296	419,842	61,192	997,717
Other assets	-	-	-	-	-	66,800	66,800
Total assets	**923,599**	**196,466**	**174,013**	**718,275**	**486,693**	**250,186**	**2,749,232**
Liabilities and equity							
Due to banks and other financial institutions	219,337	4,064	-	-	-	29,416	252,817
Borrowings under repurchase agreements	29,898	-	-	-	-	-	29,898
Customer deposits	939,196	338,938	26,751	198	-	778,455	2,083,538
Interest payable and other liabilities	-	-	-	-	-	19,839	19,839
Equity	-	-	-	-	-	363,140	363,140
Total liabilities and equity	**1,188,431**	**343,002**	**26,751**	**198**	**-**	**1,190,850**	**2,749,232**
On-Balance Sheet interest rate sensitivity gap	**(264,832)**	**(146,536)**	**147,262**	**718,077**	**486,693**	**(940,664)**	**-**
Off-Balance Sheet interest rate sensitivity gap	**397,756**	**37,600**	**-**	**(37,600)**	**(397,756)**	**-**	**-**
Cumulative interest rate sensitivity gap	**132,924**	**23,988**	**171,250**	**851,727**	**940,664**	**-**	**-**

* Net of collective impairment provision of BD 11,450

** Available-for-sale securities at 31 December 2013 include securities amounting to BD 30,057 sold under agreement to repurchase.

The interest rate risk management process is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to an interest rate shock of 200bps increase/ decrease. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant balance sheet position) is as follows:

BD 000's As at 31 December 2013	200 bp parallel increase	200 bp parallel decrease
As at year ended above	(24,955)	24,955
Average for the year	(37,828)	37,828
Minimum for the year	(23,634)	23,634
Maximum for the year	(49,041)	49,041

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17 214433

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BRANCHES IN BAHRAIN

AIRPORT	
Arrivals	**17 321212**
Transit	**17 321214**
A'ali	**17 643438**
Al Esteqlal Highway	**17 622611**
Al Muthanna	**17 225622**
Asry	**17 671007**
Awali	**17 756462**
Budaiya	**17 696699**
Central Market	**17 241242**
Diplomatic Area	**17 537466**
East Riffa	**17 775284**
Exhibition Avenue	**17 714900**
Hamad Town	**17 420898**
Hidd	**17 672683**
Isa Town	**17 689555**
Jidhafs	**17 552257**
Lulu Road	**17 256444**
Main Branch	
(New NBB Tower)	**17 228800**
Muharraq North	**17 322522**
Muharraq Souk	**17 343717**
Palace Avenue	**17 294191**
Salmaniya	**17 250777**
Seef Mall	**17 582666**
Sitra	**17 731128**
Souk Waqef	**17 413444**
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