Al Baraka Islamic Bank B.S.C. (c)

Basel II, Pillar III Disclosures
30 June 2013

(Unaudited)

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1 INTRODUCTION

Al Baraka Islamic Bank B.S.C. (c) (the "Bank") is a closed shareholding company incorporated in the Kingdom of Bahrain on 21 February 1984. The Commercial Registration of the Bank was renewed on 7 January 2008 to change the status from exempt closed joint stock company to closed joint stock company. The Bank operates under a Retail Bank's licence number RB/025 issued by the Central Bank of Bahrain (the "CBB"). The Bank has six commercial branches in the Kingdom of Bahrain.

The principal activities of the Bank and its subsidiaries (the "Group") are taking demand, saving and investment accounts, providing Murabaha finance, Ijara financing and other Shari'a compliant forms of financing as well as managing investors' money on the basis of Mudaraba or agency for a fee, providing commercial banking services and other investment activities. The Bank's registered office is at Building 238, Road 1704, Block 317, Manama, Kingdom of Bahrain.

For details on the Group's subsidiaries as of 30 June 2013, refer note 2 of the interim condensed consolidated financial statements of the Group.

The public disclosures under this section have been prepared in accordance with the Central Bank of Bahrain ("CBB") requirements outlined in its Public Disclosure Module ("PD"), Section PD-3: Quarterly Disclosure requirements, CBB Rule Book, Volume II for Islamic Banks.

2 CAPITAL ADEQUACY

To assess its capital adequacy requirements in accordance with the CBB requirements, the Group adopts the standardised approach for its credit risk, basic indicator approach for its operational risk and standardised measurement approach for its market risk. The CBB capital adequacy requirement is minimum accepted level for capital adequacy. The credit committee of the Group identify and approve assets suitable for funding by equity of Investment Accountholders ("IAH").

For the purpose of computing the Capital Adequacy Ratio ("CAR") the Group is not consolidating its Subsidiary (Delmon properties company S.A.L) as being a commercial entity and it is risk weighted as per the requirement of the CA Module. Further, the Group's financial subsidiary (Al Baraka Bank (Pakistan) Limited) is consolidated as per the requirement of the CA Module.

2 CAPITAL ADEQUACY (continued)

Table – 1. Capital structure

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

	30 June 2013		31 December 2012	
	Tier 1	*Tier 2*	*Tier 1*	*Tier 2*
	US $	*US $*	*US $*	*US $*
Components of capital				
Issued and fully paid ordinary shares	122,457,800		122,457,800	
General reserves	8,687,143		8,687,143	
Legal / statutory reserves	21,748,828		21,748,828	
Others	(9,174,955)		(7,821,732)	
Retained profit brought forward	6,369,122		6,369,122	
Minority interest in consolidated subsidiaries	17,376,837		18,171,801	
Less:				
Goodwill	18,559,177		19,038,642	
Unrealised gross losses arising from fair valuing equity securities	84,998		2,148,174	
Tier 1 Capital before PCD deductions	148,820,600		148,426,146	
Current interim profits (reviewed by external auditors)		826,267		-
Unrealised gain arising from fair valuing equities (45% only)		-		585,681
Profit equalization reserve		553,997		544,632
Investment risk reserve		2,536,362		2,604,947
Tier 2 Capital before PCD deductions		3,916,626		3,735,260
Total available capital		152,737,226		152,161,406
Deductions				
Unconsolidated majority-owned or -controlled banking, securities or other financial entities	(22,171,217)	(22,171,217)	(13,838,160)	(13,838,160)
Excess amount over maximum permitted large exposure limit	(6,371,775)	(6,371,775)	(10,844,723)	(10,844,723)
Additional deduction from Tier 1 to absorb deficiency in Tier 2	(24,626,366)	-	(20,947,623)	-
Total Deductions	(53,169,358)	(28,542,992)	(45,630,506)	(24,682,883)
Tier 1 and Tier 2 eligible capital	95,651,242	-	102,795,640	-
Total eligible capital		95,651,242		102,795,640

2 CAPITAL ADEQUACY (continued)

Table – 2. Capital requirement by type of islamic financing contracts

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

	30 June 2013 Capital requirements US $	31 December 2012 Capital requirements US $
Type of islamic financing contracts		
Sales receivables	**26,280,780**	23,516,744
Ijara Muntahia Bittamleek & Ijara income receivable	**4,165,929**	4,341,875
Musharaka	**3,007,644**	2,875,781
Mudaraba financing	**5,534,988**	4,183,311
	38,989,341	34,917,711

Table – 3. Capital requirement for market risk

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

	30 June 2013		31 December 2012	
	Self Financed US $	Financed by IAH US $	Self Financed US $	Financed by IAH US $
Market risk - standardised approach				
Equity position risk	-	-	-	-
Foreign exchange risk	**5,950,184**	**22,296**	5,931,906	170,249
Total of market risk - standardised approach	**5,950,184**	**22,296**	5,931,906	170,249
Multiplier	**12.50**	**12.50**	12.50	12.50
	74,377,300	**278,700**	74,148,825	2,128,113
Eligible Portion for the purpose of the calculation	**100%**	**30%**	100%	30%
Risk Weighted Exposures ("RWE") for CAR Calculation	**74,377,300**	**83,610**	74,148,825	638,434
Total market RWE		**74,460,910**		74,787,259
Minimum capital requirement (12%)		**8,935,309**		8,974,471

Table – 4. Capital Requirements for operational risk

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

	30 June 2013 US $	31 December 2012 US $
Indicators of operational risk		
Average gross income	**61,985,696**	61,985,696
Multiplier	**12.5**	12.5
	774,821,200	774,821,200
Eligible Portion for the purpose of the calculation	**15%**	15%
Total operational RWE	**116,223,180**	116,223,180
Minimum capital requirement (12%)	**13,946,782**	13,946,782

2 CAPITAL ADEQUACY (continued)

Table – 5. Capital adequacy ratios

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

	30 June 2013		*31 December 2012*	
	US $	***US $***	*US $*	*US $*
	Total capital ratio	**Tier 1 capital ratio**	Total capital ratio	Tier 1 capital ratio
Capital adequacy ratio	**15.62%**	**15.62%**	17%	17%

Legal restrictions on capital and income mobility

Distributing profits by subsidary to the parent is subject to compliance with applicable laws and regulations in Pakistan. Such distribution should go through the legal and regulatory channels applicable in relevant jurisdiction (i.e Pakistan). Mobilsation of capital, reserves and equivilant funds out of the subsidary to the parent is subject to the local rules and regulations. The parent is not subject to and ristriction to support its subsidary in the form of deposits or capital. However, as a procedure, a prior writen approval has to be obtained from the CBB for increasing investment in subsidary.

Table - 6. The Group's subsidiary capital adequacy ratios

The following is the Group's subsidiary capital adequacy ratio prepared on the basis of SBP requirements, which may differ from the CBB requirements, as of:

	30 June 2013		*31 December 2012*	
	US $	***US $***	*US $*	*US $*
	Total capital ratio	**Tier 1 capital ratio**	Total capital ratio	Tier 1 capital ratio
Capital adequacy ratio	**10.80%**	**10.77%**	11.18%	11.00%

3 RISK MANAGEMENT

Risk management is an integral part of the Group's decision-making process. The risk management committee and executive committees, guide and assist with overall management of the Group's consolidated statement of financial position risks. The Group manages exposures by setting limits approved by the Board of Directors. The Group risk management strategies have been effectively implemented during the period in line with the objective defined.

a) Credit risk

Credit risk is the risk that one party to a financial contract will fail to discharge an obligation and cause the other party to incur a financial loss. The Group controls credit risk by monitoring credit exposures, and continually assessing the creditworthiness of counterparties. Financing contracts are mostly secured by the personal guarantees of the counterparty, by collateral in form of mortgage of the objects financed or other tangible security.

Table – 7. Credit risk exposure

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

	30 June 2013				*31 December 2012*			
	Self financed		*Financed by IAH*		*Self financed*		*Financed by IAH*	
	Total gross credit exposure US $	**Average gross exposure over the period US $*	*Total gross credit exposure US $*	**Average gross credit risk exposure over the period US $*	*Total gross credit exposure US $*	**Average gross exposure over the period US $*	*Total gross credit exposure US $*	**Average gross credit risk exposure over the period US $*
Funded								
Cash and balances with banks	**202,419,233**	**172,394,094**	**57,899,593**	**43,537,096**	189,788,235	151,261,573	16,033,463	30,822,550
Sales receivables	**44,760,232**	**39,374,930**	**537,383,597**	**512,618,306**	32,178,777	19,924,765	454,604,373	446,806,956
Mudaraba financing	**5,684,946**	**5,738,770**	**40,439,955**	**40,154,762**	5,318,913	7,033,749	29,542,013	21,374,830
Ijara Muntahia Bittamleek	**-**	**-**	**117,187,490**	**114,592,428**	-	-	113,232,535	108,775,756
Musharaka	**4,480,000**	**4,480,000**	**62,193,892**	**60,353,332**	4,480,000	4,480,000	58,012,371	59,336,533
Investments	**115,342,635**	**117,918,737**	**248,413,492**	**242,157,527**	142,048,157	135,570,348	258,687,874	272,439,437
Investment in real estate	**3,204,488**	**3,204,488**	**-**	**-**	3,204,488	3,204,488	-	-
Ijara income receivables	**811,494**	**884,902**	**16,683,138**	**18,175,940**	1,080,657	1,196,886	21,242,837	23,095,059
Premises and equipment	**21,733,028**	**21,586,217**	**-**	**-**	22,056,788	22,696,767	-	-
Other assets	**63,541,324**	**64,784,082**	**20,360,232**	**19,300,413**	31,696,869	34,637,432	16,182,546	16,791,776
Unfunded exposure								
Commitments and contingent liabilities	**164,845,497**	**152,644,166**	**-**	**-**	132,232,783	165,905,937	-	-
	626,822,877	**583,010,386**	**1,100,561,389**	**1,050,889,804**	564,085,667	545,911,945	967,538,012	979,442,897

*Average balances are computed based on quarter end balances.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 8. Credit risk – geographic breakdown

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

	30 June 2013				*31 December 2012*			
	Self financed		*Financed by IAH*		*Self financed*		*Financed by IAH*	
	**geographic area*		**geographic area*		**geographic area*		**geographic area*	
	Middle East US $	*Other Asian countries US $*	*Middle East US $*	*Other Asian countries US $*	*Middle East US $*	*Other Asian countries US $*	*Middle East US $*	*Other Asian countries US $*
Cash and balances with banks	**81,649,678**	**120,769,555**	**4,915,880**	**52,983,713**	82,199,490	107,588,745	11,075,716	4,957,747
Sales receivables	**44,760,232**	**-**	**299,326,753**	**238,056,844**	32,178,777	-	242,240,449	212,363,924
Mudaraba financing	**5,684,946**	**-**	**40,439,955**	**-**	5,318,913	-	29,542,013	-
Ijara Muntahia Bittamleek	**-**	**-**	**86,983,097**	**30,204,393**	-	-	85,038,850	28,193,685
Musharaka	**4,480,000**	**-**	**4,669,870**	**57,524,022**	4,480,000	-	3,099,445	54,912,926
Investments	**49,598,336**	**65,744,299**	**33,576,878**	**214,836,614**	99,790,739	42,257,418	16,802,902	241,884,972
Investment in real estate	**3,204,488**	**-**	**-**	**-**	3,204,488	-	-	-
Ijara income receivables	**811,494**	**-**	**12,973,739**	**3,709,399**	1,080,657	-	16,030,695	5,212,142
Premises and equipment	**9,449,515**	**12,283,513**	**-**	**-**	10,131,233	11,925,555	-	-
Other assets	**34,785,574**	**28,755,750**	**221,952**	**20,138,280**	7,222,157	24,474,712	186,702	15,995,844
	234,424,263	**227,553,117**	**483,108,124**	**617,453,265**	245,606,454	186,246,430	404,016,772	563,521,240

* Segmental information is presented in respect of the Group's geographical segments. The geographical segments are based upon the location of the units responsible for recording the transactions and reflects the manner in which financial information is evaluated by management and the Board of Directors. For financial reporting purposes, the Group is divided into two geographical segments, Middle East and Other Asian Countries. Other Asian Countries predominantly includes operations in Pakistan.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 9. Credit risk – counterparty type breakdown

The following table summarises the distribution of funded and unfunded exposure by counterparty type as of:

	30 June 2013				*31 December 2012*			
	Self financed		*Financed by IAH*		*Self financed*		*Financed by IAH*	
	Funded	***Unfunded***	***Funded***	***Unfunded***	*Funded*	*Unfunded*	*Funded*	*Unfunded*
	US $	***US $***	***US $***	***US $***	*US $*	*US $*	*US $*	*US $*
Cash items	**7,797,551**	**-**	**8,444,215**	**-**	16,940,017	-	-	-
Claims on Sovereigns	**124,294,116**	**1,523,374**	**238,197,134**	**-**	110,708,344	8,208,660	239,627,962	-
Claims on Public Sector Entities	**-**	**-**	**62,109,977**	**-**	-	-	75,227,887	-
Claims on banks	**191,982,809**	**46,979,575**	**200,663,769**	**-**	159,662,674	19,656,442	134,648,010	-
Claims on corporate	**11,699,039**	**116,342,548**	**454,420,237**	**-**	6,390,978	104,367,681	377,165,278	-
Mortgage	**-**	**-**	**52,182,680**	**-**	-	-	54,229,575	-
Past dues receivables	**225,740**	**-**	**49,369,619**	**-**	3,308,885	-	54,376,725	-
Equity investment	**27,676,320**	**-**	**351,862**	**-**	63,840,675	-	551,726	-
Equity Sukuk	**-**	**-**	**-**	**-**	-	-	-	-
Investment in Funds	**1,050,000**	**-**	**5,017,222**	**-**	10,777,742	-	5,012,194	-
Holding of Real Estate	**35,802,828**	**-**	**9,666,393**	**-**	35,985,231	-	10,702,810	-
Other assets	**61,448,977**	**-**	**20,138,281**	**-**	24,238,338	-	15,995,845	-
	461,977,380	**164,845,497**	**1,100,561,389**	**-**	431,852,884	132,232,783	967,538,012	-

For the purpose of rating, the Group is using External Credit Assessment Institutions (ECAIs) Standard & Poors, Moodys, Capital Intelligence and Fitch for assigning risk weight to assets.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 10. Credit risk – related party transactions

The following table summarises the balances with related parties as of:

	30 June 2013		*31 December 2012*	
	Self financed Funded US $	*Financed by IAH Funded US $*	*Self financed Funded US $*	*Financed by IAH Funded US $*
Cash and balances with bank	**-**	**177,942**	-	98,781
Sales Receivable	**-**	**7,394,897**	-	15,391,289
Musharaka	**-**	**981,982**	-	739,510
Mudaraba Financing	**5,684,946**	**40,439,955**	5,318,913	29,542,013
Ijara Muntahia Bittamleek	**-**	**4,952,808**	-	5,011,117
Investments	**27,676,320**	**256,356**	63,840,664	255,746
Ijara Income Receivable	**-**	**90,478**	-	13,748
Other Assets	**27,086,025**	**2,735,543**	53,332	757,416
	60,447,291	**57,029,961**	69,212,909	51,809,620
Contingencies and commitments	**16,735,450**	**-**	18,490,556	-

All transactions with related parties have been made on arms length basis.

The Group's intra-group transactions as of 30 June 2013 is its investment in subsidiary of USD 61,961 thousand (31 December 2012: USD 61,961 thousand) and amount receivable of USD 960 thousand (31 December 2012: USD 985 thousand) by the Bank from its subsidiary in Pakistan.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 11. Credit risk – concentration of risk

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

The following are the balances representing the concentration of risk to individual counterparties as of 30 June 2013:

Counterparties *	***Funded*** ***US $***
Counterparty # 1	213,447,220
Counterparty # 2	57,812,364
Counterparty # 3	46,132,655
Counterparty # 4	45,315,086
Counterparty # 5	44,824,252
Counterparty # 6	44,342,434
Counterparty # 7	43,220,598
Counterparty # 8	40,679,419
Counterparty # 9	38,974,324
Counterparty # 10	32,894,086
Counterparty # 11	30,004,937
Counterparty # 12	27,664,487

* The exposure is in excess of the 15% individual obligor limit.
Counterparty 1,2,3,4,5,7,8,9,10,11 & 12 are exempt as per the CBB rules or separate exemption have been obtained from the CBB.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

The following are the balances representing the concentration of risk to individual counterparties as of 31 December 2012:

Counterparties *	*Funded* *US $*
Counterparty # 1	219,373,303
Counterparty # 2	43,941,366
Counterparty # 3	37,123,161
Counterparty # 4	36,549,449
Counterparty # 5	31,666,519
Counterparty # 6	29,377,398
Counterparty # 7	27,676,320
Counterparty # 8	24,870,011

* The exposure is in excess of the 15% individual obligor limit.
Counterparty 1,3,4,5,6,& 8 are exempt as per the CBB rules or separate exemption have been obtained from the CBB.

Past due and non-performing facilities

Past due represents installments that are not received on the contractual repayments date. The Group defines non-performing facilities as the facilities that are overdue for period of 90 days or more. These exposures are placed on a non-accrual status with income being recognised to the extent that it is actually received/distributed. It is the Group's policy, except for the subsidiary which is following their local regulations, that when an exposure is overdue for a period of 90 days or more, the whole financing facility extended is considered as past due, not only the overdue installments/payments.

Highly leveraged counter parties

Highly leveraged counter parties are determined by the Credit Department on case by case basis according to industry types and credit policies and procedures of the Group. Each industry has clear established leverage ratios set in place internally which are considered threshold for measuring how leveraged is our counterpart (Low, Medium/Acceptable or High). Any excess over such determined ratios, the customer is classified as highly leveraged with high risk. This ratio will have a big impact on Internal Rating / Grading of the customer.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 12. Credit Risk – Residual Contractual Maturity Breakdown

70% of Group assets are financed by equity of IAH, while 30% are self financed. The following table summarises the residual contractual maturity breakdown of the whole credit portfolio as of 30 June 2013, broken down by major types of credit exposure:

	Up to 3 months US $	*3 to 6 months US $*	*6 months to 1 year US $*	*1 to 3 years US $*	*3 to 5 years US $*	*5 to 10 years US $*	*10 to 20 years US $*	*Over 20 years US $*	*No fixed maturity US $*	*Total US $*
ASSETS										
Cash and balances with banks	211,666,118	-	-	-	-	-	-	-	48,652,708	260,318,826
Sales receivables	274,284,558	141,652,582	74,639,171	44,381,823	18,468,470	6,949,404	-	-	21,767,821	582,143,829
Mudaraba financing	28,192,468	15,312,240	2,620,193	-	-	-	-	-	-	46,124,901
Ijara Muntahia Bittamleek	6,448,802	4,666,061	6,444,151	33,926,912	30,147,133	16,985,019	15,698,697	2,666,770	203,945	117,187,490
Musharaka	1,787,161	4,485,283	1,651,971	19,605,461	9,583,889	7,397,190	10,772,563	-	11,390,374	66,673,892
Investments*	9,750,141	96,344,309	71,156,149	75,285,365	71,191,591	36,216,670	1,000,000	-	2,811,902	363,756,127
Investment in real estate	-	-	-	-	-	-	-	-	3,204,488	3,204,488
Ijara income receivables	1,888,120	897,522	954,088	4,926,172	3,461,144	3,160,132	1,303,519	221,431	682,504	17,494,632
Premises and equipment	-	-	-	-	-	-	-	-	21,733,028	21,733,028
Goodwill	-	-	-	-	-	-	-	-	18,559,177	18,559,177
Other assets	40,203,318	6,876,627	3,957,184	84,650	32,779,777	-	-	-	-	83,901,556
Total assets	574,220,686	270,234,624	161,422,907	178,210,383	165,632,004	70,708,415	28,774,779	2,888,201	129,005,947	1,581,097,946
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS										
Due to banks and financial institutions	73,411,071	13,335,672	-	-	-	-	-	-	-	86,746,743
Current accounts**	185,257,592	-	-	-	-	-	-	-	-	185,257,592
Other liabilities	32,424,811	1,073,393	243,717	2,846,066	3,714,852	23,339	-	-	-	40,326,178
Total liabilities	291,093,474	14,409,065	243,717	2,846,066	3,714,852	23,339	-	-	-	312,330,513
Equity of investment accountholders	419,157,747	211,509,345	296,608,244	133,024,763	40,261,290	-	-	-	-	1,100,561,389
Total owners' equity	-	-	-	-	-	-	-	-	168,206,044	168,206,044
Total liabilities, Equity of investment accountholders and owner's equity	710,251,221	225,918,410	296,851,961	135,870,829	43,976,142	23,339	-	-	168,206,044	1,581,097,946
Net gap	(136,030,535)	44,316,214	(135,429,054)	42,339,554	121,655,862	70,685,076	28,774,779	2,888,201	(39,200,097)	-
Cumulative net gap	(136,030,535)	(91,714,321)	(227,143,375)	(184,803,821)	(63,147,959)	7,537,117	36,311,896	39,200,097	-	-
Off-balance sheet equity of investment accountholders	6,056,750	74,604,410	27,483,200	-	-	-	-	-	-	108,144,360

* Investments in 1 to 3 years are easily convertible into liquid funds.

** Current Accounts are shown under up to 3 months maturity in the above table. However, most of these current accounts are stable funds which are expected to be available to the bank on continuous basis.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 12. Credit Risk – Residual Contractual Maturity Breakdown (continued)

66% of Group assets are financed by equity of IAH, while 34% are self financed. The following table summarises the residual contractual maturity breakdown of the whole credit portfolio as of 31 December 2012, broken down by major types of credit exposure:

	Up to 3 months US $	*3 to 6 months US $*	*6 months to 1 year US $*	*1 to 3 years US $*	*3 to 5 years US $*	*5 to 10 years US $*	*10 to 20 years US $*	*Over 20 years US $*	*No fixed maturity US $*	*Total US $*
ASSETS										
Cash and balances with banks	168,449,162	-	-	-	-	-	-	-	37,372,536	205,821,698
Sales receivables	200,044,743	133,877,222	56,160,391	33,971,296	11,834,001	9,073,002	-	-	41,822,495	486,783,150
Mudaraba financing	28,986,028	-	4,188,580	1,686,318	-	-	-	-	-	34,860,926
Ijara Muntahia Bittamleek	6,705,707	3,037,781	9,008,918	33,382,995	27,452,001	16,768,651	14,390,559	2,485,923	-	113,232,535
Musharaka	3,277,094	515,219	4,740,541	15,077,360	9,588,628	13,219,242	4,807,002	450,014	10,817,271	62,492,371
Investments*	2,189,696	703,735	102,176,878	153,103,434	60,167,662	4,550,000	1,000,000	-	76,844,626	400,736,031
Investment in real estate	-	-	-	-	-	-	-	-	3,204,488	3,204,488
Ijara income receivables	1,408,823	456,387	1,910,553	6,195,344	4,497,604	3,512,462	1,829,999	316,127	2,196,195	22,323,494
Premises and equipment	-	-	-	-	-	-	-	-	22,056,788	22,056,788
Goodwill	-	-	-	-	-	-	-	-	19,038,642	19,038,642
Other assets	19,393,950	360,396	4,673,462	-	15,772,224	-	-	-	7,679,383	47,879,415
Total assets	430,455,203	138,950,740	182,859,323	243,416,747	129,312,120	47,123,357	22,027,560	3,252,064	221,032,424	1,418,429,538
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS										
Due to banks and financial institutions	87,532,854	12,515,011	19,655,253	-	-	-	-	-	-	119,703,118
Current accounts**	128,853,507	-	-	-	-	-	-	-	-	128,853,507
Other liabilities	25,922,852	1,237,810	589,780	2,621,153	3,186,212	10,793	-	-	-	33,568,600
Total liabilities	242,309,213	13,752,821	20,245,033	2,621,153	3,186,212	10,793	-	-	-	282,125,225
Equity of investment accountholders	415,123,734	191,890,300	213,229,805	127,097,072	20,197,101	-	-	-	-	967,538,012
Total owners' equity	-	-	-	-	-	-	-	-	168,766,301	168,766,301
Total liabilities, Equity of investment accountholders and owner's equity	657,432,947	205,643,121	233,474,838	129,718,225	23,383,313	10,793	-	-	168,766,301	1,418,429,538
Net gap	(226,977,744)	(66,692,381)	(50,615,515)	113,698,522	105,928,807	47,112,564	22,027,560	3,252,064	52,266,123	-
Cumulative net gap	(226,977,744)	(293,670,125)	(344,285,640)	(230,587,118)	(124,658,311)	(77,545,747)	(55,518,187)	(52,266,123)	-	-
Off-balance sheet equity of investment accountholders	31,946,581	5,150,489	84,770,789	11,288,738	818,590	-	-	-	-	133,975,187

* Investments in 1 to 3 years are easily convertible into liquid funds.

** Current Accounts are shown under up to 3 months maturity in the above table. However, most of these current accounts are stable funds which are expected to be available to the bank on continuous basis.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 13. Credit risk – credit quality of Islamic financing contracts by counterparty type

The following table summarises the aging of non performing facilities disclosed by counterparty type as of:

	30 June 2013					31 December 2012				
			Aging of non performing facilities					Aging of non performing facilities		
	Past due but performing US $	Non-performing Islamic financing contracts US $	90 days to 1 year US $	1 year to 3 years US $	Over 3 years US $	Past due but performing US $	Non-performing Islamic financing contracts US $	90 days to 1 year US $	1 year to 3 years US $	Over 3 years US $
Banks	67,500	-	-	-	-	53,333	3,051,045	3,051,045	-	-
Corporates	8,070,051	62,220,780	21,557,423	19,007,376	21,655,981	8,928,999	64,884,058	28,739,698	15,633,236	20,511,124
Investment Firms	-	36,923,563	225,740	-	36,697,824	-	36,996,685	-	-	36,996,685
Residentials	207,649	2,711,474	639,358	390,769	1,681,348	124,235	4,357,501	2,302,596	324,869	1,730,036
Others	1,361,779	4,311,696	721,919	1,315,958	2,273,818	1,659,770	4,348,161	1,093,242	1,597,391	1,657,528
	9,706,979	106,167,513	23,144,440	20,714,103	62,308,971	10,766,337	113,637,450	35,186,581	17,555,496	60,895,373

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 14. Credit Risk – provision against facilities by counterparty type

The following table summarises the total provisions against financing facilities disclosed by counterparty type as of 30 June 2013

		Specific allowances					
	Opening Balance	Charges during the period	Write-Back during the period	Write-offs during the period	Transferred to investment risk reserve	Exchange difference on opening balance	Balance at the end of the period
	US $	US $	US $	US $	US $	US $	US $
Corporates	30,120,374	3,911,118	(2,693,517)	-	-	(630,388)	30,707,587
Investment Firms	22,363,730	-	-	-	-	(148,541)	22,215,189
Individuals	1,555,099	39,572	(57,181)	(68,702)	68,440	(13,167)	1,524,061
Others	2,041,766	78,177	(39,874)	-	-	(51,419)	2,028,650
	56,080,969	3,950,690	(2,750,698)	(68,702)	68,440	(792,096)	56,475,487

A collective provision of US $ 598 thousand is being maintained against financing facilities as at 30 June 2013.

The following table summarises the total provisions against non performing facilities disclosed by counterparty type as of 31 December 2012:

		Specific allowances					
	Opening Balance	Charges during the period	Write-Back during the period	Write-offs during the period	Transferred to investment risk reserve	Exchange difference on opening balance	Balance at the end of the period
	US $	US $	US $	US $	US $	US $	US $
Corporates	26,297,297	10,045,179	(3,255,300)	(1,484,413)	-	(1,482,389)	30,120,374
Investment Firms	22,556,464	-	-	-	-	(192,734)	22,363,730
Individuals	1,352,926	108,935	(5,555)	-	132,387	(33,594)	1,555,099
Others	1,693,072	548,669	(74,428)	-	-	(125,547)	2,041,766
	51,899,759	10,702,783	(3,335,283)	(1,484,413)	132,387	(1,834,264)	56,080,969

A collective provision of US $ 600 thousand is being maintained against financing facilities as at 31 December 2012.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 15. Credit risk – non performing facilities and provisions

The following table summarises the total non performing facilities and provisions disclosed by geographical area as of:

	30 June 2013			*31 December 2012*		
	Non-performing Islamic financing contracts US $	***Specific provision US $***	***Collective provision* US $***	*Non-performing Islamic financing contracts US $*	*Specific provision US $*	*Collective provision* US $*
Middle East	**46,363,978**	**28,214,924**	**598,234**	50,919,533	28,363,724	600,000
Other Asian countries	**59,803,535**	**28,260,563**	**-**	62,717,917	27,717,245	-
	106,167,513	**56,475,487**	**598,234**	113,637,450	56,080,969	600,000

* Collective provision is calculated based on estimates by the management keeping in view general economic and market conditions, effecting investment and financing portfolio of the Group.

Table – 16. Credit risk – restructured Islamic financing contracts

The following table summarises the total outstanding Islamic financing contracts that were restructured as of:

	30 June 2013 Total US $	*31 December 2012 Total US $*
Restructured Islamic financing contracts	**1,521,703**	11,486,817

There is no significant impact of the renegotiated Islamic financing contracts on the provisions as well as present and future earnings. In addition, the magnitude of the restructuring activities is immaterial.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 17. Counterparty credit risk exposure

The following table summarises the counterparty credit risk exposure covered by collateral as of:

	30 June 2013		*31 December 2012*	
	Gross positive FV of contracts US $	** Collateral held US $*	*Gross positive FV of contracts US $*	** Collateral held US $*
Cash and balances with banks and financial institution	**260,318,826**	**-**	205,821,698	-
Sales receivables	**582,143,829**	**347,067,125**	486,783,150	285,207,600
Mudaraba financing	**46,124,901**	**-**	34,860,926	-
Ijara Muntahia Bittamleek	**117,187,490**	**100,697,874**	113,232,535	75,932,029
Musharaka	**66,673,892**	**66,673,893**	62,492,371	59,460,764
Investments	**363,756,127**	**-**	400,736,031	-
Investment in real estate	**3,204,488**	**-**	3,204,488	-
Ijara income receivables	**17,494,632**	**-**	22,323,494	-
Premises and equipment	**21,733,028**	**-**	22,056,788	-
Other assets	**83,901,556**	**-**	47,879,415	-
	1,562,538,769	**514,438,892**	1,399,390,896	420,600,394

* Collaterals have been restricted to outstanding exposure of financing facilities.

Table – 18. Counterparty credit risk exposure

The following table summarises exposure by type of Islamic financing contract that is covered by eligible collateral after the application of haircuts as of:

	30 June 2013		*31 December 2012*	
	Gross positive FV of contracts US $	*Collateral held US $*	*Gross positive FV of contracts US $*	*Collateral held US $*
Ijara Muntahia Bittamleek & Ijara income receivable	**134,682,122**	**43,954,350**	135,556,029	56,043,459

b) Market risk

Market risk arises from fluctuations in profit rates, equity prices and foreign exchange rates.

Table – 19. Market risk capital requirements

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

	30 June 2013		*31 December 2012*	
	Equity position risk US $	*Foreign exchange risk US $*	*Equity position risk US $*	*Foreign exchange risk US $*
RWE	**-**	**74,460,910**	-	74,787,259
Capital requirements (12%)	**-**	**8,935,309**	-	8,974,471
Maximum value of RWE	**-**	**75,711,023**	1,752,000	75,246,956
Minimum value of RWE	**-**	**74,460,905**	-	62,113,705

3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

Table – 20. Equity position risk in Banking Book

The following table summarises the total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 30 June 2013:

	Total gross exposure US $	***Average gross exposure over the period US $***	***Publicly held US $***	***Privately held US $***	***Capital requirement US $***
Sukuk	**324,766,864**	**318,654,401**	**38,960,996**	**285,805,868**	**2,810,094**
Managed funds	**-**	**3,718,328**	**-**	**-**	**-**
Private equity	**28,078,181**	**28,239,361**	**95,505**	**27,982,676**	**5,008,019**
Real estate related	**4,893,861**	**3,448,214**	**-**	**4,893,861**	**4,323,972**
Others	**6,017,221**	**6,015,958**	**-**	**6,017,222**	**204,620**
	363,756,127	**360,076,262**	**39,056,501**	**324,699,627**	**12,346,705**

The following table summarises the total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 31 December 2012:

	Total gross exposure US $	*Average gross exposure over the period US $*	*Publicly held US $*	*Privately held US $*	*Capital requirement US $*
Sukuk	318,518,419	332,572,863	14,667,388	303,851,031	3,882,644
Managed funds	9,727,742	9,016,379	9,727,742	-	1,167,329
Private equity	64,442,390	64,432,681	295,981	64,146,409	11,509,526
Real estate related	2,035,286	2,311,381	-	2,035,286	488,469
Others	6,012,194	6,376,558	-	6,012,194	625,463
	400,736,031	414,709,862	24,691,111	376,044,920	17,673,431

Table – 21. Equity gains or losses in Banking Book

The following table summarises the cumulative realised and unrealised gains or losses during the period ended:

	30 June 2013 US $	*31 December 2012 US $*
Cumulative realised gains (losses) arising from sale or liquidation	**3,712,025**	(156,744)
Total unrealised losses recognised in the balance sheet but not through P&L	**(84,998)**	(846,661)
Unrealized gross losses included in Tier One Capital	**(84,998)**	(2,148,174)
Unrealized gains included in Tier Two Capital (45% only)	**-**	585,681

3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

Foreign exchange risk
Foreign exchange risk arise from the movement of the rate of exchange over a period of time. Positions are monitored on a regular basis to ensure positions are maintained within established approved limits.

Table – 22. Foreign currency translation risk

Following is the Group's exposure to different currencies in equivalent US dollars:

	30 June 2013		
	Operational equivalent Long (short) US $	Strategic equivalent Long (short) US $	Total equivalent Long (short) US $
Pakistani rupees	31,155,350	31,765,798	62,921,148
Euro	(1,901,933)	-	(1,901,933)
Kuwaiti dinars	11,302,318	-	11,302,318
Pound sterling	80,958	-	80,958
Swiss Francs	34,456	-	34,456
Japanese yen	(78,304)	-	(78,304)

The strategic currency risk represents the amount of equity of the subsidiary

	31 December 2012		
	Operational equivalent Long (short) US $	Strategic equivalent Long (short) US $	Total equivalent Long (short) US $
Pakistani rupees	26,705,144	33,219,036	59,924,180
Euro	714,124	-	714,124
Kuwaiti dinars	11,474,490	-	11,474,490
Pound sterling	96,223	-	96,223

Foreign currency risk sensitivity analysis
In order to measure its exposures to currency risk, the Group stress tests its exposures following the standard shocks approach adopted by Derivatives Policy Group in this respect which calculates the effect on assets and income of the Group as a result of 20% appreciation and depreciation in foreign currencies in relation to the reporting currency of the Group. This is calculated using various percentages based upon the judgement of the management of the Group.

3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

Table – 23. Foreign currency risk sensitivity analysis

Following is the sensitivity analysis that calculates the effect of a reasonable possible movement of the currency exchange rate against the US Dollar with all other variables held constant on the consolidated statement of income and the consolidated statement of equity relating to the Group's investment in subsidiary. The impact of a similar increase in exchange rates will be approximately opposite to the impact disclosed below.

At 30 June 2013

Currency	Particular	*Local Currency exposures*	*Exposures in US $*	*Variance after 20% depreciation*
Pakistani rupees	Net long Position	6,270,690,149	62,921,148	50,336,918
Euro	Net short Position	(1,461,892)	(1,901,933)	(1,521,546)
Kuwaiti dinars	Net long Position	3,222,737	11,302,318	9,041,854
Pound sterling	Net long Position	53,216	80,958	64,766
Swiss Francs	Net long Position	36,461	34,456	27,565
Japanese yen	Net short Position	(7,768,581)	(78,304)	(62,643)

At 31 December 2012

Currency	Particular	*Local Currency exposures*	*Exposures in US $*	*Variance after 20% depreciation*
Pakistani Rupees	Net long Position	5,821,616,110	59,924,180	47,939,344
Euro	Net long Position	541,373	714,124	571,299
Kuwaiti Dinars	Net long Position	3,226,633	11,474,490	9,179,592
Pound Sterling	Net long Position	59,526	96,223	76,978

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders

The Group's share of profit as a Mudarib for managing equity of IAH and their share of income is based on the terms and conditions of the related Mudarib agreements. These fund are invested in Islamic modes of financing and investments including murabaha, musharaka, mudaraba and ijara. The Group is offering these accounts for saving and term accounts ranging from 3 months to 5 years. There are no separate designations for portfolio managers, investment advisors and trustee. IAH accounts are managed at Head Office and subsidiary levels by relevant departments.

Investors' share of income is calculated based on the income generated from joint investment accounts after deducting the expenses related to investment pool "mudarib expenses". Mudarib expenses include all expenses incurred by the Group, including specific provisions, but excluding staff cost and depreciation. The Group's "mudarib profit" is deducted from investors' share of income before distributing such income. In some cases, equity of IAH withdrawn before maturity and without completing three months are not entitled to any income. Equity of IAH held for more than three months and withdrawn before their maturity are entitled to income only after deducting a penalty charge equivalent to three months' income.

The basis applied by the Group in arriving at the investment account holders share of income is [total investment income less investment pool expenses] divided by [average funds generating income (shareholders and equity of investment accountholders) times average funds of equity of IAH].

Investment risk reserve
The Group deducts investment risk reserve as per approved policy from the profit distributable to equity of investment accountholders of its Bahrain operations, after allocating the Mudarib share in order to cater against future losses for equity of IAH.

Profit equalisation reserve
The Group appropriates a certain amount in excess of the profit to be distributed to equity of investment accountholders before taking into consideration the mudarib share of income. This is used to maintain a certain level of return on investment for equity of IAH.

Displaced commercial risk
The Group is exposed to displaced commercial risk in the event of having equity of IAH profit rates that are lower than market rates. The Group has mitigated this risk through the setting up of reserves that will be used in case of a drop in IAH profit rates. The policies and procedures for displaced commercial risk are formulated and implemented at the segment level (Pakistan, Bahrain offshore, Bahrain Commercial).

Penalty charges and Non Shari'a - compliant income
A financial penalty of USD 2 thousand (2012: Nil) was charged by the CBB during the period ended 30

A financial penalty of USD 33 thousand (2012: USD 635 thousand) was charged by SBP to the Group's subsidiary in Pakistan during the period.

The Group charged USD 153 thousand (2012: USD 426 thousand) to customers as penalty for default which was disposed through charity contribution.

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 24. Equity of Investment Accountholders

The following table summarises the breakdown of equity of IAH and the analysis of profit equalisation reserve, investment risk reserve and return on equity of IAH as of:

	30 June 2013 US $	*31 December 2012 US $*
IAH - Banks	**181,997,753**	145,465,301
IAH - Non-banks	**915,473,277**	818,923,132
Profit equalisation reserve	**553,997**	544,632
Investment risk reserve	**2,536,362**	2,604,947
	1,100,561,389	967,538,012

Table – 25. Ratio of reserves to total IAH

The following table summarises the ratio of reserves to the total amount of equity of IAH as of:

	30 June 2013 US $	*31 December 2012 US $*
PER to IAH (%)	0.05%	0.06%
IRR to IAH (%)	0.23%	0.27%

Table – 26. Equity of Investment Accountholders by Islamic financing product type

The following table summarises the percentage of IAH financing for each type of Shari's-compliant contract to total equity of IAH financing as of:

	30 June 2013	*31 December 2012*
Sales receivable	**69.44%**	67.19%
Mudaraba investments	**5.23%**	4.37%
Musharaka	**8.04%**	8.57%
Ijara Muntahia Bittamleek & Ijara income receivable	**17.30%**	19.87%

Table – 27. Equity of Investment Accountholders by Counterparty Type

The following table summarises the percentage of financing for each category of counterparty to total financing as of:

Counterparty type

	30 June 2013	*31 December 2012*
Banks	**25.09%**	15.11%
Investment Firms	**5.79%**	4.30%
Corporates	**23.29%**	31.92%
Residentials	**44.37%**	47.41%
Others	**1.46%**	1.27%

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 28. Investment Accountholders share of profit

The following table summarises the share of profits earned by and paid out to equity of IAH and the Group as Mudarib for the period ended:

	30 June 2013	*30 June 2012*
Administrative expenses charged to equity of investment accountholders holders	**1,239,104**	1,140,142
Share of profits earned by IAH, before transfers to/from reserves	**35,317,740**	40,328,274
Percentage share of profit earned by IAH before transfer to/from reserves	**3.36%**	3.96%
Share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	**27,144,374**	32,806,873
Percentage share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	**2.58%**	3.22%
Share of profit paid out to Bank as mudarib	**8,173,366**	7,505,743
Mudarib Fee to total Investment Profits	**23.14%**	18.61%

Table – 29. Movement in profit equalisation reserve

The following table summarises the movement in profit equilisation reserve during the period ended:

	30 June 2013 US $	*30 June 2012 US $*
Balance at 1 January	**544,632**	524,542
Amount apportioned from income allocable to equity of Investment Accountholders	**11,827**	15,658
Exchange Difference	**(2,462)**	(6,748)
	553,997	533,452
Percentage of the profit earned on equity of investment accountholders appropriated to profit equilisation reserve	**0.03%**	0.04%

Table – 30. Movement in investment risk reserve

The following table summarises the movement in investment risk reserve during the period ended:

	30 June 2013 US $	*30 June 2012 US $*
Balance at 1 January	**2,604,947**	2,737,120
Amount apportioned from income allocable to equity of Investment Accountholders	**-**	-
Amount apportioned to provision	**(68,440)**	-
Exchange Difference	**(145)**	(399)
	2,536,362	2,736,721
Percentage of the profit earned on equity of investment accountholders appropriated to investment risk reserve	**-%**	-%

The profit equalisation reserve and investment risk reserve will revert to IAH as per terms and conditions of the Mudaraba contract.

As IAH funds are commingled with the Group's funds for investment, no priority is granted to any party for the purpose of investments and distribution of profits.

The Group's share, as Mudarib, in the profits of IAH is up to a maximum of 70% (31 December 2012: up to 70%) as per the terms of IAH agreements.

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 31. Equity of Investment Accountholders rate of return

The following table summarises the average rate of return over the period:

	Average 30 June 2013 Rate of return %		
	Bahrain		***Pakistan***
	BD	**USD**	
Saving Accounts	**0.73%**	**0.59%**	**6.00%**
One Month Term Deposits	**1.92%**	**1.39%**	**6.52%**
Three Months Term Deposits	**2.22%**	**-**	**6.92%**
Six Months Term Deposits	**2.53%**	**1.88%**	**7.16%**
Nine Months Term Deposits	**2.55%**	**-**	**-**
1 Year Term Deposits	**2.94%**	**2.27%**	**8.30%**
2 Years Term Deposits	**3.43%**	**-**	**8.17%**
3 Year Term Deposits	**3.43%**	**-**	**-**

	Average 31 Dec 2012 Rate of return %		
	Bahrain		*Pakistan*
	BD	USD	
Saving Accounts	0.78%	-	5.94%
One Month Term Deposits	1.82%	-	6.05%
Three Months Term Deposits	2.27%	0.79%	6.50%
Six Months Term Deposits	2.46%	0.84%	6.75%
Nine Months Term Deposits	2.71%	-	-
1 Year Term Deposits	2.91%	0.90%	8.01%
2 Years Term Deposits	-	1.01%	8.38%
3 Year Term Deposits	-	-	8.44%
4 Years Term Deposits	-	-	8.55%
5Years Term Deposits	-	-	9.54%

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 32. Equity of Investment Accountholders by type of assets

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the period ended 30 June 2013:

	Opening Actual Allocation US$	*Movement US$*	*Closing Actual Allocation US$*
Cash and balances with banks	**16,033,463**	**41,866,130**	**57,899,593**
Sales receivable	**454,604,373**	**82,779,224**	**537,383,597**
Mudaraba financing	**29,542,013**	**10,897,942**	**40,439,955**
Ijara Muntahia Bittamleek	**113,232,535**	**3,954,955**	**117,187,490**
Musharaka	**58,012,371**	**4,181,521**	**62,193,892**
Investments	**258,687,874**	**(10,274,382)**	**248,413,492**
Ijara income receivables	**21,242,837**	**(4,559,699)**	**16,683,138**
Other assets	**16,182,546**	**4,177,686**	**20,360,232**
	967,538,012	**133,023,377**	**1,100,561,389**

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the period ended 30 June 2012:

	Opening Actual Allocation US$	*Movement US$*	*Closing Actual Allocation US$*
Cash and balances with banks	25,213,075	(9,179,612)	16,033,463
Sales receivable	493,760,773	(39,156,400)	454,604,373
Mudaraba financing	17,883,626	11,658,387	29,542,013
Ijara Muntahia Bittamleek	102,557,275	10,675,260	113,232,535
Musharaka	58,488,432	(476,061)	58,012,371
Investments	299,810,645	(41,122,771)	258,687,874
Ijara income receivables	24,076,119	(2,833,282)	21,242,837
Other assets	34,591,810	(18,409,264)	16,182,546
	1,056,381,755	(88,843,743)	967,538,012

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 33. Equity of Investment Accountholders profit earned and paid

The following table summarises the amount and percentage of profits earned and paid out to profit sharing investment accounts over the past five years:

	Profit earned		*Profit paid to IAH*	
	US$	*%age*	*US$*	*%age*
2013* (six months)	**35,317,740**	**6.72%**	**27,144,374**	**5.17%**
2012	75,886,460	7.92%	61,441,021	6.44%
2011	86,984,643	8.33%	68,601,248	6.57%
2010	45,896,366	6.25%	29,786,963	4.05%
2009	46,278,164	6.90%	35,740,826	5.30%
2008	42,843,699	6.00%	36,367,056	5.06%
2007	47,762,553	6.65%	41,047,490	5.72%

* Annualised

Table - 34. Treatment of assets financed by Equity of Investment Accountholders

The following table summarises the treatment of assets financed by IAH in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of 30 June 2013:

	RWA US$ '000	*RWA for capital adequacy purposes - 30% US$ '000*	*Capital charges US$ '000*
Type of Claims			
Claims on Sovereign	**43,463,055**	**13,038,917**	**1,564,670**
Claims on PSEs	**-**	**-**	**-**
Claims on Banks	**86,440,516**	**25,932,155**	**3,111,859**
Claims on Corporates	**395,232,634**	**118,569,790**	**14,228,375**
Mortgage	**57,297,844**	**17,189,353**	**2,062,722**
Past due facilities	**57,708,447**	**17,312,534**	**2,077,504**
Investment in securities	**5,497,263**	**1,649,179**	**197,901**
Holding of Real Estates	**19,332,786**	**5,799,836**	**695,980**
Other Assets	**20,138,280**	**6,041,484**	**724,978**
	685,110,825	**205,533,248**	**24,663,989**

The following table summarises the treatment of assets financed by IAH in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of 31 December 2012:

	RWA US$ '000	*RWA for capital adequacy purposes - 30% US$ '000*	*Capital charges US$ '000*
Type of Claims			
Claims on Sovereign	29,924,213	8,977,264	1,077,272
Claims on PSEs	3,411,578	1,023,473	122,817
Claims on Banks	68,115,866	20,434,760	2,452,171
Claims on Corporates	325,887,054	97,766,116	11,731,934
Mortgage	53,612,820	16,083,846	1,930,062
Past due facilities	65,403,951	19,621,185	2,354,542
Investment in securities	5,691,794	1,707,538	204,905
Holding of Real Estates	21,405,621	6,421,686	770,602
Other Assets	15,995,844	4,798,753	575,850
	589,448,741	**176,834,621**	**21,220,155**

3 RISK MANAGEMENT (continued)

d) Off-balance sheet equity of Investment Accountholders

Table – 35. Off-balance sheet equity of Investment Accountholders by Islamic product type

The following table summarises the breakdown of Off-balance sheet equity of IAH by type of islamic financing contracts as of:

Islamic products

	30 June 2013	*31 December 2012*
Sales receivables	**74.59%**	80.56%
Mudaraba financing	**15.01%**	10.40%
Investments	**10.40%**	9.04%

Table – 36. Off-balance sheet equity of Investment Accountholders by counterparty type

The following table summarises the percentage of financing for each category of counterparty to total financing as of:

Counterparty type

	30 June 2013	*31 December 2012*
Banks	**5.60%**	13.44%
Corporate	**94.40%**	86.56%

Table – 37. Off-balance sheet equity of Investment Accountholders by type of assets

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the period ended 30 June 2013:

	Opening actual allocation US$	***Movement US$***	***Closing actual allocation US$***
Sales receivables	**107,929,065**	**(27,267,905)**	**80,661,160**
Mudaraba financing	**13,938,794**	**2,298,987**	**16,237,781**
Investments	**12,107,328**	**(861,909)**	**11,245,419**
	133,975,187	**(25,830,827)**	**108,144,360**

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the period ended 30 June 2012:

	Opening actual allocation US$	*Movement US$*	*Closing actual allocation US$*
Sales receivables	235,360,992	(122,150,000)	113,210,992
Mudaraba financing	13,375,235	(703,654)	12,671,581
Investments	11,225,283	704,812	11,930,095
	259,961,510	(122,148,842)	137,812,668

3 RISK MANAGEMENT (continued)

d) Off-balance sheet equity of Investment Accountholders (continued)

Table – 38. Off-balance sheet equity of Investment Accountholders historical returns

The following table summarises the historical returns over the past five year / period:

	June 2013	*Dec 2012*	*Dec 2011*	*Dec 2010*	*Dec 2009*
Gross Income	**32,366**	1,208,812	458,674	2,756,802	1,116,995
Mudarib Fee	**15,609**	168,172	110,062	261,157	195,459

The Group's share of profit as a Mudarib for managing Off-balance sheet equity of Investment Accountholders and their share of income is based on the terms and conditions of the related mudarib agreements. These mudarib agreements are done at the individual Counter party level.

e) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on regular basis.

Table – 39. Liquidity ratios

The following table summarises the liquidity ratios as of:

	30 June 2013	*31 December 2012*
Liquid assets to total assets	**25.01%**	19.51%
Short term assets to short term liabilities	**81.6%**	68.6%

Table – 40. Quantitative indicators of financial performance and position

	*June 2013**	*Dec 2012**	*Dec 2011*	*Dec 2010*	*Dec 2009*
Return on average equity	****0.63%**	-6.1%	1.4%	2.8%	-15.5%
Return on average assets	****0.07%**	-0.8%	0.2%	0.5%	-2.7%
Cost to Income Ratio	**85.8%**	98.4%	91.0%	75.3%	103.5%

* Return based on total income and equity (including non-controlling interest)

** Annualised

4 OTHERS

Table – 41. Legal Contingencies

	30 June 2013	*31 December 2012*
Law suit	**3,650,000**	**3,700,000**

During the year 2010, certain suits have been filed by Mr. Faisal Vawda in the Honorable High Court of Sindh against the Bank wherein Mr. Vawda has claimed that he was offered 24 million ordinary shares of the Bank at an aggregate value of USD 3.01 (31 December 2012: USD 3.08) million as sale consideration against the commercial property sold to the Bank. He further claimed that in addition to the said property, he has also paid USD 0.61(31 December 2012: USD 0.62) million towards the purchase consideration for the above referred shares. However, the said shares or any other consideration against the property has not been received by him. Based on the above, Mr. Vawda has alleged the Bank of involvement in illegal business. The Bank contends that the aforesaid allegations of Mr. Vawda are baseless and without any merit and that the subject property has been duly purchased and paid for by the Bank. Further, in the opinion of legal advisor of the Bank, the plaintiff is not likely to be successful in securing the reliefs prayed in the said suits.

In terms of the merger agreement dated 16 August 2010 between sponsors shareholders of the Bank and AlBaraka, the Emirates Financial Holdings LLC will keep the Bank fully indemnified, safe and secured against all losses, costs, claims, damages of any nature whatsoever resulting to the Bank on account of the Mr. Vawda litigations including any additional or ancillary litigation or proceedings filed by Faisal Vawda Group in relation to the subject matter of the Mr. Vawda litigations.