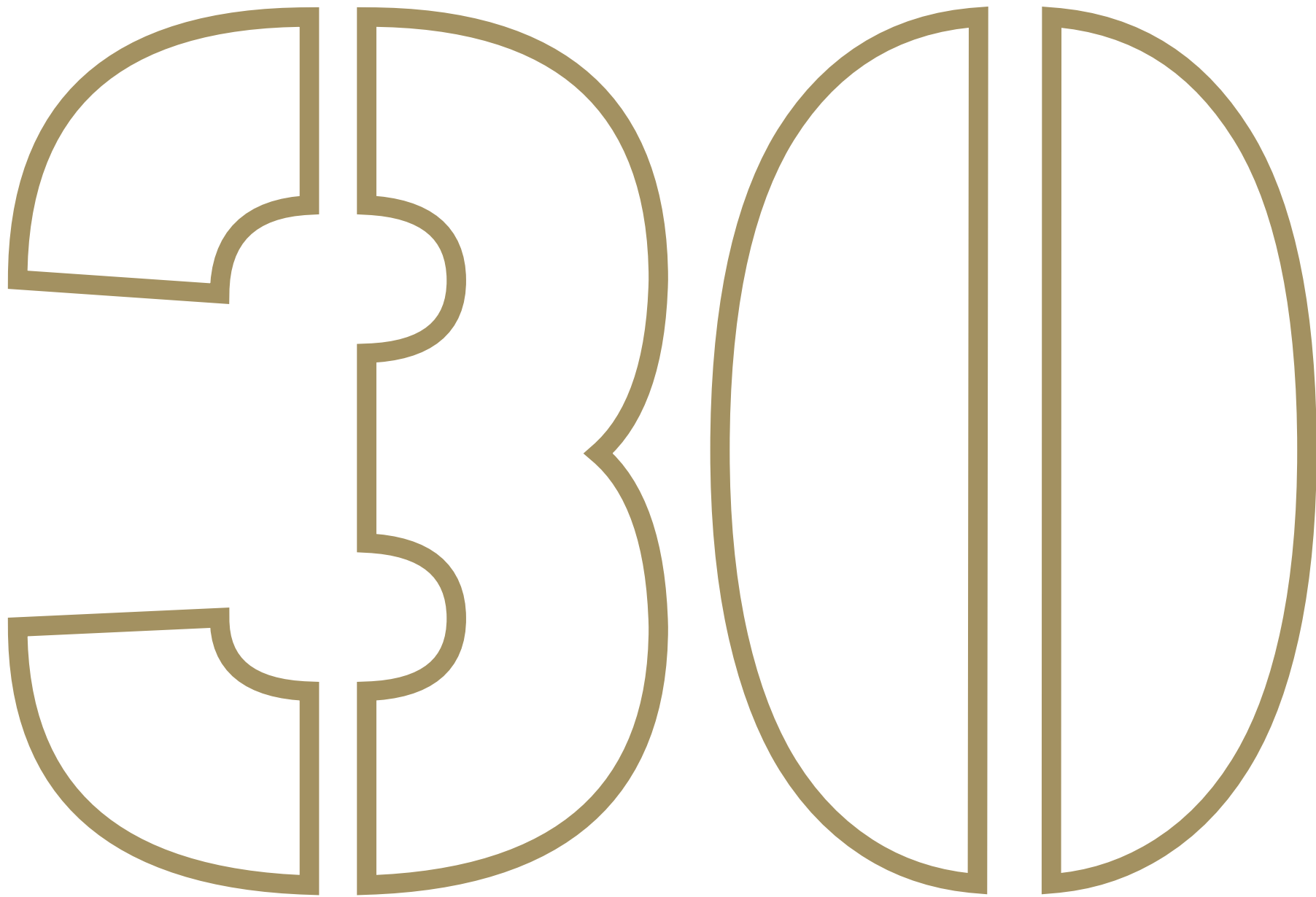


Celebrating
30 Years of Success



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Al Baraka Islamic Bank B.S.C (c)
Licensed as an Islamic Retail Bank by the Central Bank of Bahrain





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4th Floor
Internal Audit - Internal
Internal & Shari'a Audit

Flexi-Pay
BUY NOW!

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KHALID AL KABBANI alBaraka

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Vision

'We believe society needs a fair and equitable financial system: one which rewards effort and contributes to the development of the community.'

Mission

'To meet the financial needs of communities across the world by conducting business ethically in accordance with our beliefs, practicing the highest professional standards and sharing the natural benefits with the customers, staff and shareholders who participate in our business success.'



**His Royal Highness Prince
Khalifa bin Salman Al Khalifa**

The Prime Minister of the
Kingdom of Bahrain



**His Majesty King
Hamad bin Isa Al Khalifa**

King of the Kingdom of Bahrain



**His Royal Highness Prince
Salman bin Hamad Al Khalifa**

The Crown Prince
of the Kingdom of Bahrain and
Deputy Supreme Commander
and First Deputy Prime Minister

BANK'S PROFILE

Al Baraka Islamic Bank is one of Bahrain's leading financial institutions in the Islamic banking sector. Throughout its history of three decades, since its establishment in 1984, the bank has played a prominent role in building the infrastructure of the Islamic finance industry. The bank also played a significant role in promoting the Islamic finance industry and publicizing its merits. The bank enjoys a good reputation and high standing with the community in Bahrain in particular, and in the Gulf, Arab and Islamic worlds in general.

Al Baraka Islamic Bank offers innovative financial products, particularly in the areas of Islamic investment, international trade, management of short-term liquidity and consumer financing that the bank has lunched under (Taqseet product).... etc., which are all based on Islamic financing mode. Such financing modes include Murabaha, Diminishing Musharaka, Mudaraba, and Ijarah Muntahia Bittamleek.

The Bank had achieved excellent results in its banking operations, thanks to its vast wealth of knowledge in the area of the Fiqh (jurisprudence) of Islamic finance, the diverse experience of its senior management team in different fields of Islamic banking and the strength and depth that the parent company, Al Baraka Banking Group, with its strong financial position and standing provides to the bank. Since its inception, Al Baraka Islamic Bank has managed more than US\$ 7 billion in funds on behalf of many large financial institutions and high net worth clients who sought rewarding long-term financial returns by deploying Shari'a-compliant financial instruments.

During the year 2010, AIB completed the merger of its branches in Pakistan, which their operations dates back to 1991, with the branches of Emirates Global Islamic Bank (Pakistan), to establish Al Baraka Bank Pakistan Limited as a subsidiary with 64.64% Shareholding. The Head office is located in Karachi. ABPL have assets in excess of Rs. 70 billion a workforce of more than 1400 professionals and a network of 110 branches in 36 cities and towns across the country. ABPL has commenced operations on 29th of October 2010 and consequently, all branches of AIBP and Emirates Global Islamic Bank is re-branded as ABPL.

As for its strategic plans, the bank continue maintaining the pace of its growth in its business operations with particular focus on commissions and fee – based

earnings. The bank also expanding its investment portfolio, continue to develop its infrastructure, particularly with regard to modern information technologies (IT) and related services, improve customer service, provide training and coaching to employees and maintain our special relationship with our customers as their "Partners in Achievement".

Al Baraka Islamic Bank is a banking institution registered with the Ministry of Industry and Commerce in Bahrain under Commercial Registration No. 14400 and has a Retail Banking license issued by the Central Bank of Bahrain. The bank has an authorized capital of US\$ 600 million and issued and paid-up capital of US\$122 million. Al Baraka Islamic Bank - Bahrain is one of the banking units of Al Baraka Banking Group, which is a Bahrain Joint Stock Company listed in Bahrain stock exchange and Nasdaq Dubai. Al Baraka Banking Group is a leading international Islamic banking group with Standard and Poor's rating of investment grade BB+/ Negative/B credit rating. The Group offers retail, corporate and investment banking and treasury services, strictly in accordance with the principles of the Islamic Shari'a. The authorized capital of Al Baraka Banking Group is US\$1.5 billion, while total equity amounts to around US\$1.98billion. The Group has a wide geographical presence in the form of subsidiary banking units and representative offices in 15 countries, which in turn provide their Shari'a-compliant banking products and services through around 500 branches. These banking Units are Jordan Islamic Bank, Jordan; Al Baraka Islamic Bank, Bahrain; Al Baraka Bank Pakistan Limited, Pakistan; Al Baraka Bank Algeria; Al Baraka Bank Sudan; Al Baraka Bank Ltd, South Africa; Al Baraka Bank Lebanon; Al Baraka Bank Tunis; Al Baraka Bank Egypt; Al Baraka Turk Participation Bank, Turkey and its branches in Iraq; Al Baraka Bank Syria and a representative office in Indonesia and a representative office in Libya.

BRANCHES

Head Office

Mr. Mohammed Al Mutaweh
CEO & Board Member
Al Baraka Tower
Diplomatic Area
P.O. Box 1882
Manama, Kingdom of Bahrain

Main Branch (Diplomatic Area)
Tel: +97317 535 300
Fax: +97317 533 993

Isa Town Branch
Tel: +973 17 788 388
Fax: +973 17 687 838

Muharraq Branch
Tel: +973 17 461 999
Fax: +973 17 324 888

Riffa Branch
Tel: +973 17 768 600
Fax: +973 17 490 003

Arad Branch
Tel: +973 17 358 885
Fax: +973 17 676 361

Ramil Mall Branch, A'ali
Tel: +973 17 646 677
Fax: +973 17 646 676

Web: www.albaraka.bh
Email: complaints@albaraka.bh

Subsidiaries

1. Al Baraka Bank Pakistan Limited
Shafqaat Ahmed
Chief executive Officer
Plot No. 162, Bangalore Town
Block 7 & 8, Shahrah-e-Faisal
Karachi, Pakistan

Tel: +9221 34 315 851
+9221 34 307 000
Fax: +9221 34 323 761
+9221 34 546 465

Email: albaraka@albaraka.com.pk
Web: www.albaraka.com.pk

2. Itqan Capital Company
Adel Saud Dahlawi
CEO & Board Member
Jeddah, Prince Sultan Road
Hay Al Nahda
P.O. Box 8031
Postal Code 21482

Tel: +966 26 996 888
Fax: +966 26 338 852





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BOARD OF DIRECTORS

1 Mr. Khalid Rashid Al Zayani Chairman

Experience: 44 years

Mr. Khalid Rashid Al-Zayani is a prominent businessman at the local, Arab and international levels and holds many leading positions in the areas of banking, investment and trade. He holds a bachelor degree in Business Administration from the University of London, United Kingdom. In addition to his position as chairman of the boards of directors of many companies affiliated to Al Zayani Group, such as Zayani Investments and Euro Motors, he is a member of the Board of Directors and Executive Committee member of Investcorp as well as being a member of the boards of a number of local and international associations and chambers of commerce.

2 Mr. Adnan Ahmed Yousif Vice Chairman

Experience: 41 years

Mr. Adnan Ahmed Yousif is a highly regarded senior banker with over 41 years of international banking experience. He holds a Master of Business Administration degree from University of Hull, UK. He was earlier with Arab Banking Corporation, for over 20 years and last served as Director on its Board. As President & Chief Executive, Mr. Yousif has lead Al Baraka Banking Group (ABG) since inception, developing the Group into one of the largest and most diversified Islamic banking groups in the world. He is also the Chairman of Al Baraka Turk Participation Bank, Banque Al Baraka D'Algerie, Al Baraka Bank Ltd. South Africa, Al Baraka Bank Lebanon, Jordan Islamic Bank, Al Baraka Bank Egypt, Al Baraka Bank Syria, Al Baraka Bank Sudan, Al Baraka Bank Pakistan Ltd., Vice Chairman of Al Baraka Islamic Bank, Bahrain and a Board member of Al Baraka Bank Tunisia. Mr. Yousif was the Chairman of the Union of Arab Banks, Lebanon for two terms (2007-2013). Besides having received many international awards including twice the Islamic Banker of the Year award (2004 and 2009), he is the recipient of the Medal of Efficiency, a unique honor conferred by His Royal Highness - King Hamad Bin Isa Al Khalifa, the King of the Kingdom of Bahrain during the year 2011. Mr. Adnan Ahmed Yousif was honored with the Tatweej Award for Excellence in leadership and institutional performance in the category - "Wise Leadership in the field of Arab banking for 2012" granted by the Arab Administrative Development Organization - an organization affiliated to the Arab League - in cooperation with the Tatweej Academy. In addition, he was awarded by LARIBA American Finance House the 2012 "LARIBA Award for Excellence in Achievement", in recognition of his leadership role in consolidating and operating the largest diversified Islamic Banking Group in the world.

3 Mr. Abdul Latif Abdul Rahim Janahi Board Member

Experience: over 42 years

Mr. Abdul Latif Abdul Rahim Janahi is one of the early pioneers in Islamic economy, Islamic banking and Islamic insurance. He authored a number of books on these topics and prepared more than 60 studies and work papers presented at numerous events, conferences, seminars and, universities. He worked hard to promote the idea of Islamic banking, insurance and re-insurance in Bahrain and was behind the establishment of a number of banks, financial institutions and insurance and reinsurance companies in Bahrain and outside Bahrain. He has practical experience of more than 42 years in the areas of banking, insurance and reinsurance. He holds a diploma in insurance and is a recognized expert in conventional insurance, Takaful (Islamic insurance), Islamic banking and Islamic economics. Mr. Janahi is the founder and Chief Executive Officer of the Safwa International, Bahrain (consultancy), and board member of many Islamic banking and investment institutions such as the Islamic Bank of Bangladesh - Dhaka, Khaleej Finance and Investment (being the Chairman of the Board of Directors) and the Islamic Arab Bank and Islamic Insurance and Reinsurance Company.

4 Mr. Moosa Abdul Aziz Shehadah Board Member

Experience: 53 years

Mr. Moosa Abdul Aziz Shehadah is a prominent Arab banker who holds a Bachelor degree in Commerce from Beirut Arab University and an MBA degree from the University of San Francisco, United States of America. He is currently the General Manager and Deputy Chairman of the Board of Directors of Jordan Islamic Bank, as well as the Deputy Chairman of the Banks Association in Jordan. He is the chairman and board member of several banks and companies such as Alaqa Islamic Bank - Palestine, the Islamic Insurance Company, Al Amin investment Company, Arab Steel Pipes Company and Saudi Fransi Bank of Egypt - Cairo. He is also a member of the Board of Trustees and Board of Directors of the Petra University, the Hashemite Kingdom of Jordan, Lebanon Reconstruction Fund and Waqf Investment Funds as well as being the Chairman of the Investment Committee and member of Board of the Shariah Faculty at Jordan University, the Hashemite Kingdom of Jordan.

5 Mr. Abdulrahman Abdulla Mohamed Board Member

Experience: 38 years

Master of Business Administration Degree (MBA) from University of Hull, United Kingdom, around 38 year in Banking Industry. Present Position, Board Director

BOARD OF DIRECTORS (CONTINUED)

and Executive Committee Member - TAIB Bank (Aug 2011- till present) Past Positions, General Manager - National Bank of Bahrain, Board Member and Executive Committee Member - Bahrain Commercial Facilities Company Chairman of the Board - National Motors Company.

6 Mr. Ashraf Ahmed Mustafa El-Ghamrwai
Board Member

Experience: 37 years

Mr. Ashraf Ahmed Mustafa El-Ghamrwai is a prominent banker who holds a professional diploma in advanced bank credit and an MBA in Commerce from the University of Ain Shams, Cairo. Mr. El-Ghamrwai is currently the CEO and Deputy Chairman of Board of Directors of Al Baraka Bank Egypt. He is also a member of the Board of Directors and the Audit Committee of Al Tawfeeq Company for Investment Funds, Chairman of the Board of Directors of the Egyptian Saudi Finance Company for Investment and Real Estates, member of the Board of Directors, Egyptian Building Company and Leasing Company in Saudi Arabia, member of the Federation of Egyptian Banks and member of the Egyptian Saudi Business Council in Saudi Arabia.

7 Mr. Yousef Ali Fadil bin Fadil
Board Member

Experience: 30 years

Mr. Yousef Ali Fadil is a distinguished banker with a wealth of experience in banking and administration. He holds a Bachelor degree in Mathematics and Computer Science, University of Gonzaga, Washington - United States of America in 1983. During his career, Mr. Yousef Fadel held senior positions in the banking and financial sectors, including the positions of General Manager of Al Sahel Shares Center during the period 2004-2006, Deputy Chief Executive Officer of Abu Dhabi Islamic Bank during the period 2003-2004, General Manager of Emirates Financial Company in 2003 and Executive Manager of the Investment Department at Dubai Islamic Bank during the period 2000-2002. Mr. Yousef Fadel also held many senior positions in the National Bank of Umm Al Qaiwain during the period from 1985 to 1998. During his career Mr. Yousef Fadel served as member of the boards of directors of a number of institutions inside and outside the UAE including Union Insurance Company, Bahrain Islamic Bank and Bosna Bank International. He is currently the General Manager of Al Sahel Shares Center.

8 Mr. Maqbool Habib Khalfan
Board Member

Experience: 46 years

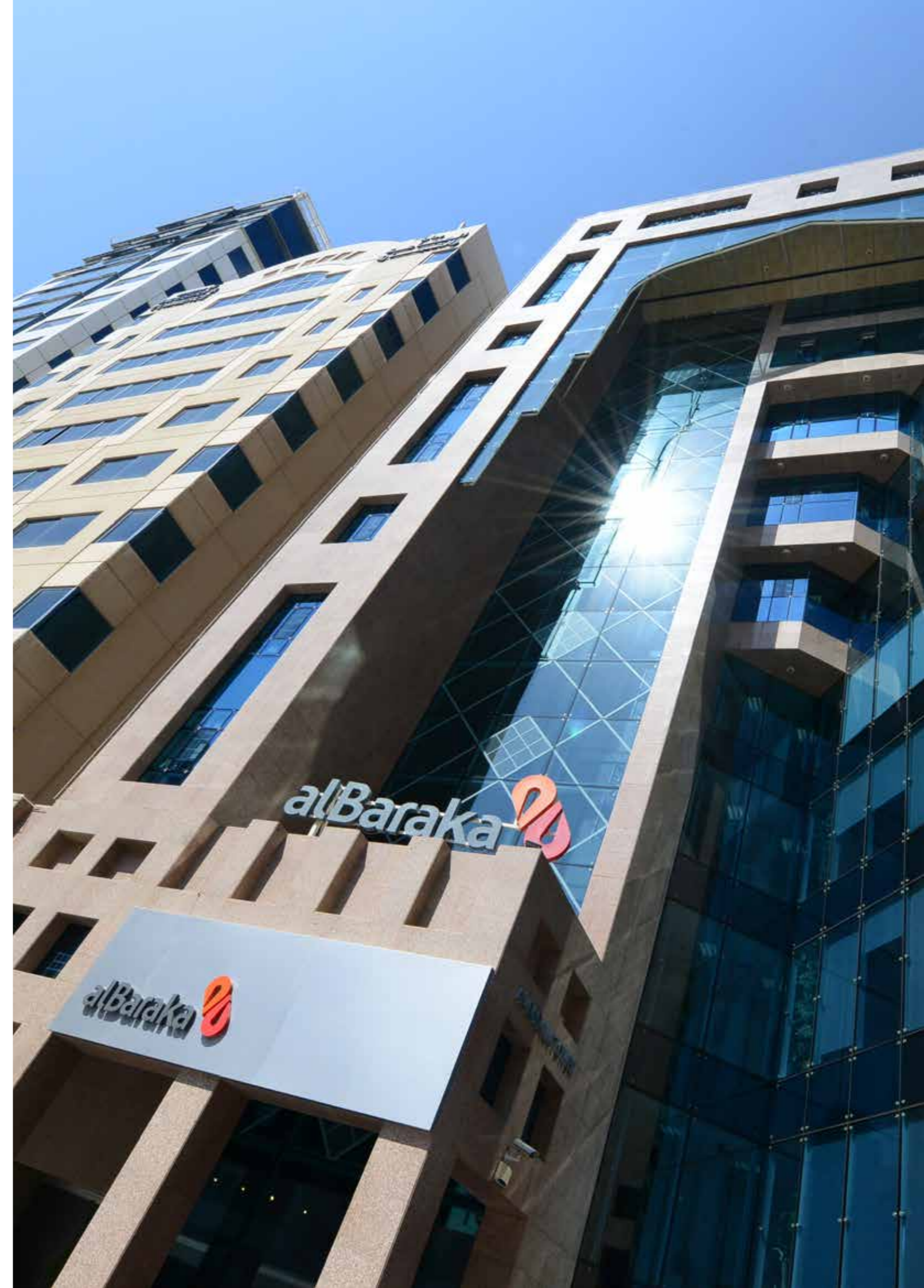
Mr. Maqbool Habib Khalfan is a well-known banking personality with banking experience of more than thirty years. He is the managing partner of (and 50% partner in) Arabian Exchange Company, Qatar since 1977. Mr. Khalfan was the founder and director

of Gulf Colours, Qatar and had held many senior positions in banks as he was the General Manager of Qatar Industrial Development Bank during the period from 1997 to 2001 and General Manager of Doha Bank Limited during the period 1979-1997. He holds a Bachelor degree in Business Administration from Cairo University - May 1977.

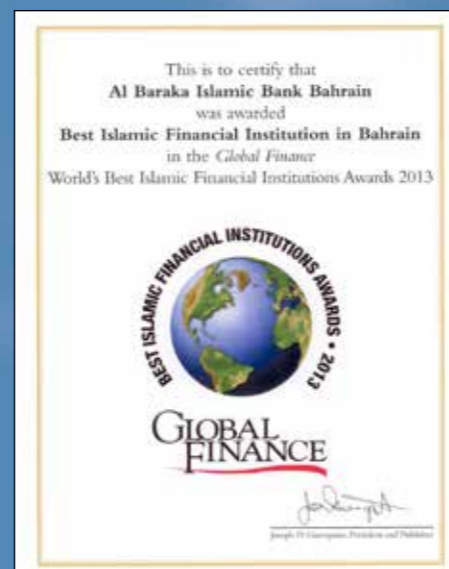
9 Mr. Mohammed Isa Al Mutaweh
Chief Executive Officer and Member of the Board of Directors

Experience: 27 years

He is the Chief Executive Officer and Board Member of Al Baraka Islamic Bank - Bahrain, Chairman of Credit Committee and Member of Executive Committee. Backed by a long banking experience over 27 years of which he previously held several senior positions, General Manager and Board Member of Al Amin Bank, Bahrain, Chairman of Credit Committee and member of Executive Committee of Al Amin Bank. Executive Director in ABC Islamic Bank, and prior to that, he was in a senior position with National Bank of Bahrain in the Corporate Banking Division. He is also a member of the World Union of Arab Bankers and a member of the participation committee of the Awqaf Properties Investment Fund of Islamic Development Bank, Jeddah and ex-member of the board of directors of Bahrain Association of Banks and a member of Bahrain Advisory Council of the Chartered Institute for Securities & Investment (CISI), UK. Mr. Al Mutaweh has an MBA degree in Business Administration from university of Hull, UK.



Winner of the Global Finance
World's Best Islamic Financial
Institution in Bahrain 2013.
for the 2nd consecutive year.



LIST OF COMMITTEES FOR YEAR 2013 AND SHARI'A SUPERVISORY BOARD

Sharia'a Supervisory Board

Shaikh Dr. Abdul Sattar Abu-Ghoudah
Chairman

Shaikh Essam Mohammed Isaac
Member

Shaikh Nizam Mohammed Yaqoobi
Member

Remuneration & Board Affairs Committee Meetings

Mr. Yousif Ali Fadil Bin Fadil

Chairman

Mr. Adnan Ahmed Yousif
Member

Mr. Abdul Rahman Abdulla Mohamed
Member

Executive Committee

Mr. Adnan Ahmed Yousif
Chairman

Mr. Abdulatif AbdulRahim Janahi
Member

Mr. Abdul Rahman Abdulla Mohamed
Member

Mr. Mohd Isa Al Mutaweh
Member

Risk Management Committee

Mr. Maqbool Habib Khalfan
Chairman

Mr. Ashraf Al Ghmrawi
Member

Mr. Adil Saud Dahlawi
Member (Resigned August 2013)

Audit Committee

Mr. Maqbool Habib Khalfan
Chairman

Mr. Mousa AbdulAziz Shehadeh
Member

Mr. Yousif Ali Fadil Bin Fadil
Member

External Auditor's

Ernst & Young





Khalid Rashid AlZayani
Chairman

The Bank will continue its growth momentum and remain focus on building of high quality assets. In this respect, new business and geographic segments will be explored.

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present our annual report for the year ended 31 December 2013.

Economic Review

Economic and operating environment remained challenging for financial institutions during the year. The world economy has experienced subdued growth during 2013 and world gross product has grown by just 2.1 per cent in 2013. Underperformance in the world economy was observed across almost all regions and major economic groups. Most developed economies continued struggling in an uphill battle against the lingering effects of the financial crisis, grappling in particular with the challenges of taking appropriate fiscal and monetary policy actions. Some signs of improvements have shown up more recently: the euro area has finally come out of a protracted recession, with gross domestic product (GDP) for the region as a whole returning to growth; a few large emerging economies, including China, seem to have backstopped a further slowdown and are poised to strengthen.

However, the Bahrain's economy has shown resilience against political turmoil, global economic downturn and sustained a healthy growth in GDP, which has been increased approximately to 5% per annum during fiscal year ending 31 December 2013 (2012: 3.4%). Aforesaid growth has been achieved mainly through increase in supply of hydrocarbons and government investment in certain infrastructure projects. However, at the same time growth in non-hydrocarbon sector has been declined to 3.2% from 6.7% in year 2012. Resultantly, the market remained challenging for the highly competitive banking industry in Bahrain.

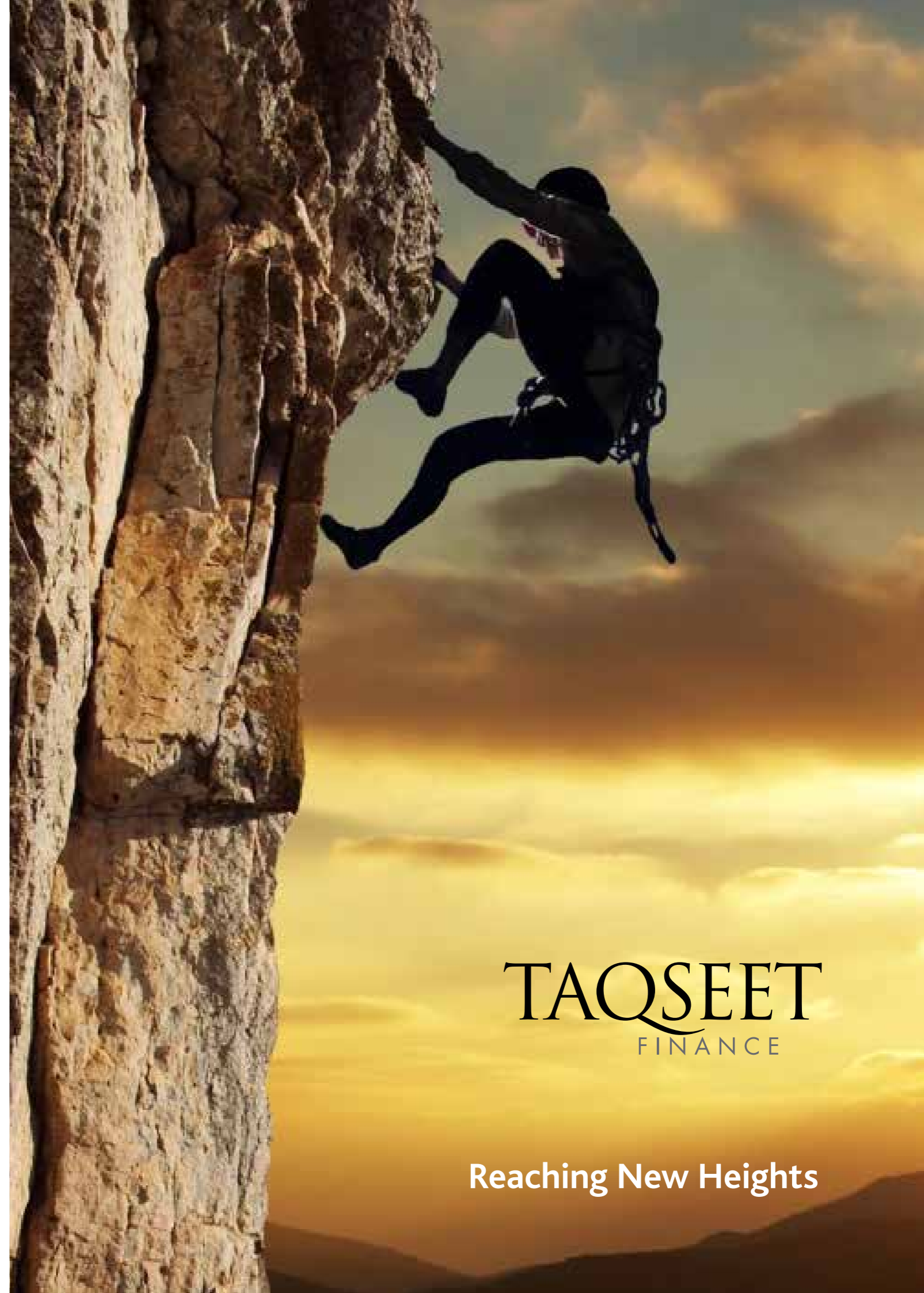
In Pakistan, new government has introduced structural reforms, after its election in second half of the year, to restore the fiscal discipline and achieve economic stability. Resolution of energy related circular debts, incentives to industry and strong efforts to improve tax collections have inspired

the economic prospects of the country. Although, it is too early to conclude about their impact, there are some indications of a pickup in economic activity observed during the latter part of this year. However, rising inflation, security situation and energy shortages remained barriers for the economy to achieve its full potential. Accordingly, GDP growth was restricted to 3.6% during the year. Overall environment for banking industry has been improved a bit, but remained challenging during the year.

Performance Review

By successfully coming out of all sort of challenges imposed by global economic downturn and political turmoil in the region, our Bank has shown strong turnaround during the year ended 31 December 2013, by achieving net profit after provision and tax amounting to United States Dollar (USD) 0.915 million against last year net losses after provision and tax amounting to USD (10.623) million. Our Bank's focus on building up of efficient assets following best prudent practices, improvement and enhancement of liability base and development of our human resource has been resulted in sound financial position and satisfactory operating performance. Key financial performance indicators of the bank have shown commendable growth during the year ended 31 December 2013.

Financial position of the bank has been grown by 15% from last year and has been increased to USD 1,631.208 million as at 31 December 2013. Aforesaid growth, lead by increase in deposit base, is achieved through enhancement of our customer base upon introduction of modern day electronic banking facilities, expansion of branches network by opening of 16 new branches in Pakistan, enhancement our ATM setup by installation of new ATMs and dedicated efforts of our teams. Overall customer deposits have been increased by 16.41% to USD 1,415.663 million as at 31 December 2013 from USD 1,216.095 million as at 31 December 2012. Simultaneously with the accomplishment of aforesaid growth targets, the Bank has attained its strategic objective



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FINANCE

Reaching New Heights

of increase in diversification and reduction in cost of fund through improvement of current and saving accounts mix.

During the year gross operating income has been grown by 6.69% as compared to previous year and reached to USD 43.552 million. Aforesaid increase has been resulted from improvement in quality and mix of assets base, reduction in cost of funds and focuses on increase in volume and quality of banking services. Conversely, operating expenses has been decreased during the year to USD 39.678 million from USD 40.174 million incurred in prior year. Therefore, operating efficiencies has been magnificently improved as compared to last year.

Pursuant to non-conductive economic and operating environment, the deployment of additional liquidity generated from aforementioned growth in deposits and maturity of assets remained key challenge during the year. Further, the Bank remained conservative and focused on consolidation of its assets portfolio. In this respect, new investments or financing are made only with sovereign entities or with obligors/ investees carrying sound financial health. Accordingly, non-performing assets has been substantially reduced.

Shari'a compliant financing facilities has registered a modest growth of 2.80%, increased to USD 667.182 million as at 31 December 2013 from USD 649.017 million as at 31 December 2012. Keeping in view operating environment, blue chip low risk corporate bodies, small and medium sized entities and retail/ ultimate consumers remains key area of interest or focus during the year.

Capital Intelligence has maintained long term and short term foreign currency credit ratings of the bank at BB+ and A3, respectively. Outlook on the assigned ratings is "Stable". The ratings denotes the financial soundness of the Bank and its capacity to repay its financial obligation on a timely basis.

Corporate and Social Responsibility

Being premier Islamic Bank, the help of poor and needy people, promotion of education, develop health facilities and support other welfare projects, are our utmost priorities. In this respect, the Bank help poor or needy people through charity and donate to education, health and other projects of public welfare.

Future Outlook

Global economic outlook as issued by various international organization shows that the year 2014 will remain challenging. The Bank will start implementation of its new 3 year strategic plan starting from 2014. As per new strategic plan improvement in quality of our services, capacity building, effective utilization of available technologies, strengthening of control environment, enhancing efficiency of processes and better resource management, will be areas of key focus during the upcoming years. Being watchful of economic conditions, the Bank will continue its growth momentum and remain focus on building of high quality assets. In this respect, new business and geographic segments will be explored.

Acknowledgment

Finally, I would like to take this opportunity to thank on behalf of the Board to His Majesty King Hamad bin Isa Al Khalifa, HRH Prince Khalifa bin Salman Al Khalifa, the Prime Minister and HRH Prince Salman bin Hamad Al Khalifa, the Crown Prince, Deputy Supreme Commander of the Bahrain Defence Force and First Deputy Prime Minister for their ongoing guidance which contributed to establishing a successful and distinguished Islamic bank in the Kingdom. Our thanks also extended to the Ministry of Industry and Trade, the Central Bank of Bahrain and the State Bank of Pakistan for their unwavering support to our business and for their guidance to promote various programs.

We also express our gratitude to all our shareholders, customers and business partners for their continued support and trust. We offer sincere appreciation to, our parent company, the Al Baraka Banking Group for their guidance and cooperation extended to The Bank. Finally, we are also thankful to our staff and colleagues for their committed services provided to our valued customers.



Khalid Rashid AlZayani
Chairman

Al Baraka Islamic Bank B.S.C. (c)
Manama, Kingdom of Bahrain

18 February 2014

TAQSEET

MORTGAGE FINANCE

Own your dream home
At an attractive profit rate.





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EXECUTIVE MANAGEMENT

1 Mr. Mohammed Isa Al Mutaweh
Experience: 27 years
Chief Executive Officer and Member of the Board of Directors

He is the Chief Executive Officer and Board Member of Al Baraka Islamic Bank - Bahrain, Chairman of Credit Committee and Member of Executive Committee. Backed by a long banking experience over 27 years of which he previously held several senior positions, General Manager and Board Member of Al Amin Bank, Bahrain, Chairman of Credit Committee and member of Executive Committee of Al Amin Bank. Executive Director in ABC Islamic Bank, and prior to that, he was in a senior position with National Bank of Bahrain in the Corporate Banking Division. He is also a member of the World Union of Arab Bankers and a member of the participation committee of the Awqaf Properties Investment Fund of Islamic Development Bank, Jeddah and ex-member of the board of directors of Bahrain Association of Banks and a member of Bahrain Advisory Council of the Chartered Institute for Securities & Investment (CISI), UK. Mr. Al Mutaweh has an MBA degree in Business Administration from university of Hull, UK.

2 Mr. Tariq Mahmood Kazim
Experience: 30 years
Deputy General Manager – Support services Group

Bachelor Degree in Systems Engineering and Analysis (University of Petroleum and Minerals Dhahran/Saudi Arabia) 30 years of experience in providing, managing and implementing Banking, Telecommunication and e-Commerce Solutions. Past careers include two years with Arabian Networks as General Manager and 16 years with NCR as a Business Unit Leader. Joined AlBaraka Islamic Bank in April 2002. He is also a Board Member in Al Baraka Bank Pakistan Limited.

3 Mr. Rashid Hassan Alalaiwi
Experience: 32 years
Deputy General Manager – Business Group

Mr. Rashid is holder of Master of Business Administration from University of Glamorgan in Wales, United Kingdom and he has an Executive Management Diploma from University of Bahrain. He has extensive banking experience for more than 32 years in the retail banking, customer services,

electronic banking, and retail operations. Mr. Rashid has joined Al Baraka Islamic Bank in February 2009 and prior to that he held various senior positions in Bahrain Islamic Bank, Shamil Bank (currently known as Ithmaar Bank), and Bank of Bahrain & Kuwait.

4 Mr. Moosa Abdul Latif Mohammed
Experience: 34 years
Assistant General Manager - Operations

Banking Studies (Diploma) 5 years Banking experience with National Bank of Bahrain, and 29 years banking experience with AlBaraka Islamic Bank, Bahrain. Various managerial and banking courses inside and outside Bahrain.

5 Mr. Nadeem Khan
Experience: 27 years
AGM and Chief Financial Officer

Mr. Nadeem Amjad Khan is a Chartered Accountant and is a Fellow of the Institute of Chartered Accountants of Pakistan. Prior to his appointment as CFO of Albaraka Islamic Bank, Bahrain he worked in Pakistan Branches. He has also worked in leading accounting firms at senior position in Assurance and Management consultancy. He has also been teaching ACCA students. He specializes in accounting and financial matters and has developed broad expertise in treasury and capital markets. He is also Board Member in Al baraka Bank Pakistan Limited.

6 Mr. Fouad El Ouzani
Experience: 12 years
Assistant General Manager - Credit Department

Mr. El Ouzani main responsibilities includes the development and updating of policies and monitoring the credit risk and administration processes like limit establishments, transaction booking and to supervise all credit departments sub-units business processing. Fouad held several managerial positions prior to joining Al Baraka Islamic Bank in Gulf International Bank, The Arab Investment Co. and Arab Banking Corporation (ABC) Bahrain. Fouad holds a B.S.C Degree Chemical Engineering from University of Bahrain and a Master in Finance from Depaul University - USA.

7 Mrs. Maisoon Mohammed BenShams

Experience: 33 years

Assistant General Manager - Risk Management and Compliance

Mrs. Maisoon Heads Risk and Compliance Department of Al Baraka Islamic Bank since 2009 and is responsible for monitoring, and evaluating all the bank's risks (Credit Risk, Market Risk, Liquidity Risk, and Operational Risk). She has rich practical experience in developing risk management framework, policies & procedures, corporate governance, and Business continuity plan. She also has a thorough understanding of banking regulations and regulatory reporting and principles of Basel II and III. She commenced her banking career in 1981 with Central Bank of Bahrain (CBB) where subsequently worked in various capacities and held several positions within CBB. In 2007, joined the private sector as the Manager of Risk & Compliance Department of Liquidity Management Centre. She also served as Compliance Officer for Al Baraka Banking Group for 3 years (2010-2013) and that was in addition to her responsibility as Head of Risk and Compliance for Al Baraka Islamic Bank. Mrs. Maisoon qualified as a Certified Risk Analyst and Certified Risk Officer, and holds Masters of Business Administration from the University of Strathclyde - UK, Bachelors degree in Accounting from University of Bahrain, and Certificate in Strategic Leadership and Executive Management Program from Beyster Institute, California - USA.

8 Mr. Asrar Uddin Abdul Ghafoor

Assistant General Manager - Information Technology
Experience: 21 years

Mr. Asrar Uddin has over 21 years experience in playing an effective role in the IT department of Islamic Bank's in the GCC region. He joined alBaraka IT team in 2002. He has vast knowledge of core banking project implementations, project rollouts, automation of business processes, managing systems migrations, managing day to day activities of IT operations. His major achievements in alBaraka are many but to name some are; Implementation of Misys Equation Banking System, migration from Midas to Equation, successful completion of EMV Project, increasing branches and ATM network, implementation of IT policy and procedures, supporting other alBaraka Banks in Pakistan, South Africa, Egypt, Syria and Lebanon.

9 Mr. Isa Al Obaidly

Senior Manager - Human Resources and Administration
Experience: more than 26 years

Mr. Al Obaidly has more than 26 years experience in several HR & Admin fields including recruitment, Setting of procedures, payroll, PR & payment processing. Earlier he occupied the post Management Analyst the Civil Service Bureau and Chief for the Government Payroll & Leaves, Director of Fund Collection from Bahrain centre for study and research and HR & Finance consultant and Acting Director at the Ministry of Information, Isa attend several professional courses including civil service Bureau conducted by Management Institute Services, UK-1992, a course on Leadership for Democratic Society at the Federal Executive Institution West- Virginia U.S.A-1997. Al Obaidly holds the professional Auditor for ISO 2009 Certificate. He is a holder of a B.S.C degree in Business Administration from Grand View College, USA. And Master degree in Management Technology from Arabic Gulf University Jan1999.

10 Mr. Adel Al-Manea

Senior Manager - Commercial Banking Department
Experience: 24 years

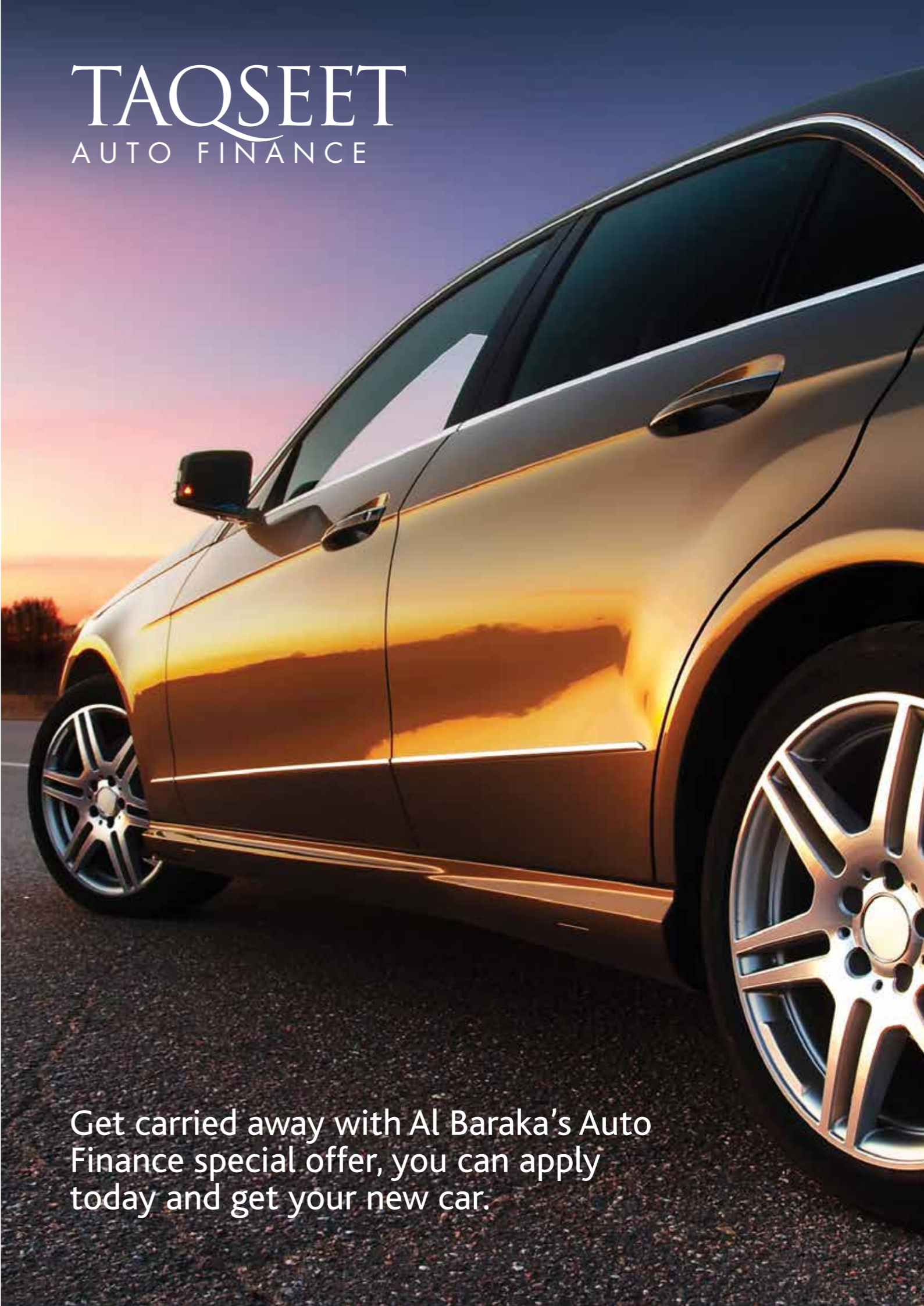
Mr. Al-Manea is Senior Manager for Commercial Banking Department. Mr. Al-Manea is a holder of Associated Accounting Technician from the Board of AAT - United Kingdom and Banking Studies (Diploma) from University of Bahrain. He has over 24 years of banking experience in commercial and Offshore Banks with Local, International and Islamic Banks. 2 years banking experience with Bank of Bahrain and Kuwait, and 18 years banking experience with Ithmaat Bank. Various managerial and banking courses inside and outside Bahrain. Joined AlBaraka Islamic Bank in August 2008.

11 Mr. Hussain H. Nattaie

Senior Manager - Corporate Banking and Syndications
Experience: 10 years

Mr. Al Nattaie is the Head of Corporate Banking and Syndications Department with over eight years experience in local and offshore corporate banking. Hussain held several senior positions prior to joining Al Baraka Islamic Bank in National Bank of Bahrain, The Arab Investment Company and Standard Chartered Bank. Hussain holds a B.Sc. degree in Accounting and Finance from the University of Bahrain and currently is doing the CMA. Mr. Al Nattaie became a member of Al Baraka Bank beginning of year 2008.

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MORE THAN 100 BRANCES TO DATE BAHRAIN / SAUDI ARABIA / PAKISTAN

The year 2013 was a very challenging year for retail Islamic banks in Bahrain. Al Baraka is please to announce its 100th branch now open.



Mohamed Al Motaweh
Chief Executive Officer

CHIEF EXECUTIVE OFFICER'S REPORT

The Bank will continue its growth momentum and remain focus on building of high quality assets. In this respect, new business and geographic segments will be explored.

Dear Shareholders,

Introduction

By virtue of focusing the activities of Al Baraka Islamic Bank in the Kingdom of Bahrain and Pakistan, its businesses and results are affected directly by these two markets. The economy of Kingdom of Bahrain saw robust expansion and the GDP grew by 5% in 2013 supported by the strong performance of gas and oil sector, where output levels rebounded to capacity after technical disruptions. At the same time, key drivers in the non-oil sector are strengthening and will make an increased contribution to the continued expansion of Bahrain's economy in coming period, especially with the expected growth in spending on large infrastructure projects whether funded locally or from the GCC Development Fund, are either starting or about to be launched. This move should in turn have significant positive implications for activity in a number of other sectors, for business and consumer confidence, and for bank credit growth. The Bahrain economy in the second half of the year has benefitted from an improvement in the global economic situation leading to cautious optimism about the wider outlook. Renewed momentum in key emerging markets is creating opportunities for Bahraini trade while the strengthening performance of the regional economies has also contributed. Data showed that the labor market continued to see a gradual improvement with total private sector employment growth in the second quarter of 6.2%. This is in large part reflective of the rebound in a number of labor-intensive sectors, such as hotels and restaurants as well as construction.

Regarding the Pakistan economy, it still suffers from some challenges resulted from political instability and energy shortages. GDP growth was restricted to 3.6% for fiscal 2014. The budget deficit worsened to -8.0% for fiscal 2013. The current account deficit, which had deteriorated in 2012 to -1.7%, had improved a little to -1.0% by the end of the fiscal year to June 2013. The weakened balance of payments position

will however be assisted by the \$6.64 billion IMF package approved in September 2013, in addition to a United States aid injection. The State Bank of Pakistan maintained its economic stimulation policy but despite this, the Pakistan Rupee lost more than 6% of its value against the US dollar over the year 2013.

With regard to the Gulf economy, the GDP growth reached 4.2% in 2013, benefiting from rising oil revenues and the increase in production, especially in Saudi Arabia and Kuwait to compensate for the low supply from Iran. The oil sector grew by 3.8% in 2013. While the non-oil sector grew at a greater pace of 5.2% in 2013 as a result of increased public spending and private sector growth due to more harmonization monetary policy. GCC is expected to register fiscal surplus by 11.6 %. Revenue also increased to 49.3 % of GDP in 2013 compared with 48.4 % in 2012. Increased revenue led to higher spending in the GCC countries through measures such as increased public sector wages, social spending on housing, public transport and direct subsidies provided to citizens to combat rising food prices and unemployment benefits.

Amid these conditions, the Bank continued in 2013 implementing a series of strategic initiatives that had clear positive effects on the Bank's performance. We continued during the year the expansion of our businesses network in Bahrain and Pakistan, where we focused in Pakistan on the activation and increase of operations of our branches in special. As well as building constructive business relationships with big industrial and trade companies in Bahrain and the Gulf region in order to meet their banking and finance needs, as well as the expansion of relations with the government and semi-government institutions, and also with banking and financial institutions, and diversification of products to individual customers as well as expanding the network of branches and automated teller machines in each of the Bahrain and Pakistan. Over the years, Al Baraka Bahrain has developed a wide range of products and services, including a spread of personal,

CHIEF EXECUTIVE OFFICER'S REPORT (CONTINUED)

housing and automobile and equipment finance offerings and Taqseet card (repayment by installments), which offers multiple Murabaha finance transactions at the same time through one card to assist customers in purchasing a wide variety of electronic and other household goods. In 2013, the Bank added to an innovative new product to finance services based on the principle of Ijara whereby the Bank, acting as lessor, leases to the client a service existing as a Forward Ijara, allowing for payment in installments over time, which can be applied to facilities financing education, medical treatment, travel and tourism, marriage, Hajj and Umrah. The electronic banking services launched by the bank last year, has an effective role in improving the level of services provided to customers through the conduct of banking transactions via the Internet, telephone and text messages. The Bank plans during the year 2014 to launch Takaful insurance policies through its branches to provide insurance cover to customers on cars, travel, fire, investments and savings.

Regarding the Bank's ATM network, the total ATMs reached 19 covering different areas and malls in Bahrain. At the branch level, we completed preparation and planning for the opening of the seventh branch in the building of Al Baraka Islamic Bank in Bahrain Bay to be completed in the third quarter of 2014. We paid much of our attention during 2013 to the development of the Bank's work environment, and its relations with the customers in order to improve and develop the relations with them, in addition to the development of human resources and the hiring of skilled recruits to help the Bank in the implementation of its new business strategies. Furthermore, we introduced new IT systems to enable the Bank provide the most advanced banking services to its customers and increase its operational efficiency.

Therefore, we are in a good position to make strong progress and to enhance our leading position in the Kingdom of Bahrain and the region, where financial and economic conditions move towards recovery, especially that the economies and the financial and banking systems in

the region are sound and strong and that the governments in the region stressed that they would continue their spending on investments and infrastructure development and reaffirmed their support to the financial and banking systems.

Financial Performance Statement Income

Total income from the joint finance and investment accounts amounted to US\$ 78 million in 2013, representing a decline of 7.9%. This income includes the income from joint financing operations which has increased by 9.1% from US\$ 35 million in 2012 to US\$ 39 million in 2013 and income from joint financing, other financings and investments which has decreased by 20.1% from US\$ 49 million in 2012 to US\$ 40 million in 2013. This latter income mainly includes income from Ijarah Muntahiya Bittamleek amounting to US\$ 11 million (US\$ 12 million in 2012), income from investments amounting to US\$ 25 million (US\$ 36 million in 2012), income from Mudaraba finance amounting to US\$ 1 million (US\$ 1 million in 2012), income from Musharaka financing amounting to US\$ 5 million (US\$ 5 million in 2012), income from selling of investments amounting to US\$ 4 million (US\$ 1 million in 2012) and income from Istisnaa financing amounting to 1 million in 2012 (US\$ 1 million in 2012). It is clear from these figures that the decrease in this income was resulted from the lower income from investment due to the decrease in the size of this item in the balance sheet.

In line with the decline in the total income from joint financing, the return on equity of investment accountholders went down by 9.4% from US\$ 61 million in 2012 to US\$ 56 million in 2013 which represents the gross return on investment accountholders amounting to US\$ 69 million in 2013 (US\$ 76 million in 2012) less the Bank's share as a Mudarib of US\$ 13 million in 2013 (US\$ 14 million in 2012).

After deducting the investors' share from the revenue from the investment accountholders, the Bank's share of total income (as a Mudarib and financier) amounted to US\$ 22 million in 2013, reflecting a decrease of 4.1%.

The majority of the other sources of income showed good improvements: The Bank's income from self financed sales increased from US\$ 1 million in 2012 to US\$ 3 million in 2013, income from self financed, other financings and investments increased from US\$ 7 million in 2012 to US\$ 8 million in 2013, and other income grew from US\$ 2 million in 2012 to US\$ 3 million in 2013, while income from banking services maintained its level of 2012 at US\$ 7 million in 2013.

These improvements compensated the decline in income from joint investments, as the total operating income of the Bank has increased by 6.7% from US\$ 41 million in 2012 to US\$ 44 million in 2013.

Despite the Bank's continuation to install new ATMs, updating IT systems in Head Office and branches and launching electronic banking services, succeeded in controlling operating expenses, where they remained almost unchanged at US\$ 40 million in 2013. The expenses mainly included staff costs, amounting to US\$ 21 million, other operating expenses, amounting to US\$ 16 million and depreciation amounting to US\$ 3 million.

As a result, the net operating income achieved a big jump and improved by 497% from US\$ 1 million to US\$ 4 million in 2013.

The Bank has continued, as part of its precautionary measures, to set aside provisions to guard against deterioration in the market value of the finance and investment portfolios. These provisions amounted to US\$ 3 million in 2013 compared with US\$ 13 million in 2012.

After incorporating the impact of taxes of US\$ 0.19 million in 2013 (US\$ 3 million in 2012), the Bank's net result amounted to a profit of US\$ 0.92 million in 2013 compared to a net loss of US\$ 11 million in 2012.

The Bank's Financial Position

2013 saw large and clear efforts by the Bank to enhance the liquidity position, and to expand financing business as well. The Bank's efforts to strengthen the finance sources were also successful. All these efforts led to an increase of 15% in the Bank's assets from US\$ 1.42 billion as

at the end of 2012 to US\$ 1.63 billion as at the end of 2013.

Income - Generating Assets

The total income-generating assets increased by 7.2% from US\$ 1.11 billion in 2012 to US\$ 1.19 billion in 2013. Murabaha sale receivables continued to be the main component of the income-generating assets, increasing by 33.3% from US\$ 475 million in 2012 to US\$ 634 million in 2013. These financing operations represent Murabaha, Salam, Istisna and Wakala financing agreements with financial institutions and corporations that the Bank provided to them primarily through syndicated financing arrangements.

The Bank continued during year 2013 to focus on countries in which subsidiaries of Al Baraka Banking Group exist, but because of political situations in some of these countries such as Syria, Yemen and Egypt, the Bank have to select carefully its new financing deals. We also participated actively in financing international commodities. We have took a number of initiatives particularly in the area of the development of treasury and trade finance business, especially the inter-trade finance operations that enhance the Kingdom of Bahrain's position as an intermediary between suppliers and exporters from different Arab countries and across the world through the opening of documentary credits and guarantees by the Bank to facilitate import and export. Based on all these steps, we succeeded in arranging a number of major finance transactions in which banks inside and outside the region had participated.

Investments, which represented the second largest income generating assets, decreased by 16.3% to US\$ 335 million in 2013 compared with US\$ 401 million in 2012. This decrease was mainly resulted from the selling of the Bank's share, amounting to 7.68%, in Al Tawfeeq Company for Investment Funds. The investment portfolio consisted of debt-type instruments at amortized cost in an amount of US\$ 301 million (US\$ 320 million in 2012) and equity-type instruments at fair value through equity in an amount of US\$ 39 million in 2013 (US\$ 91 million in 2012), before deducting US\$ 5 million provisions

for the deterioration in value of these investments in 2013 (US\$ 10 million in 2012).

Starting from 1st July 2012, the Bank became owning 60% of the issued shares of Itqan Capital (previously Al Tawfeek Financial Group), which was established as a closed joint stock company registered in the Kingdom of Saudi Arabia and licensed by the Capital Market Authority. The company engages in asset and portfolio management, and custody, research and advisory services. All products and services offered by the company are in strict compliance with the provisions of Islamic Sharia. The company's paid-up capital is SAR 73 million and the authorized capital is SAR 73 million. This step represent the Bank and the parent company Al Baraka banking Group's strategy to enter key regional markets, for Saudi Arabia is the largest Arab economy with strong fundamentals and a stable financial and investment environment, which presents us with significant business and investment opportunities. The financials of this Company was not consolidated with the Bank's statements because the Company is being controlled through the main parent company, Al Baraka banking Group.

The Treasury Department has been very active during year 2013 in the purchase of Islamic Sukuks, which are financial instruments approved by the Sharia'a, for the purpose of employing the surplus liquidity of the Bank. In this context, the Bank has expanded its portfolios in Salam Sukuks and the Sukuks issued by the Government of Bahrain, as well as that issued by other governments or state-owned companies in the region, considering the good returns that they yield compared to the level of risk they entail.

The income-generating assets also included Mudaraba finance, which decreased by 95% from US\$ 35 million in 2012 to US\$ 2 million in 2013. These finance transactions are usually conducted with banks and financial institutions. The assets also included Ijarah Muntahiya Bittamleek which increased by 11.8% from US\$ 113 million in 2012 to US\$ 127 million in 2013. Musharaka financing also increased by

15.9% from US\$ 62 million in 2012 to US\$ 72 million in 2013. The real estate investments portfolio doubled from US\$ 3 million in 2012 to US\$ 6 million in 2013.

The significant increases in a number of the profit-generating assets reflect the success of the initiatives that the Bank took to expand its financing and investment activities and operations.

Geographical and Sectoral Distribution During 2013, the Bank continued to focus on its main business markets in Pakistan, Bahrain, GCC and MENA in order to benefit from the abundant opportunities available there. As a result, the share of the Asian markets represented 51% of the total assets of the Bank, followed by the Bank's assets in the Gulf and the Middle East and North Africa region at 41%, then Europe at 3% while the remaining assets are divided between the other regions. Of these assets, 40% represents transactions with banks and financial institutions, 23% with commercial and production businesses, 2% in construction and contracting and remaining share in other sectors and activities.

Liquidity Management

A key element of the Bank's culture and policies is the maintenance of strong liquid assets to accord with its leading role as a commercial bank on the one hand, and its ability to seize upon good opportunities that may become available in the regional markets, as an investment bank on the other. After the outbreak of the financial crisis, we promptly re-emphasized this approach as part of our overall precautionary measures. During 2013, this policy was further enhanced as liquid assets (cash and balances with banks) grew to US\$ 320 million in 2013 compared to US\$ 217 million in 2012, representing a large increase of 47.2%. This increase exceeded the remarkable increase in deposits and investment accountholders, and as a result, the liquidity assets as a percentage of total deposits improved from 22.4% in 2012 to 28.6% in 2013. The distribution of assets in terms of maturity shows that 62% of the total assets has a maturity within a period not exceeding one year, compared to 77% on the liabilities and

CHIEF EXECUTIVE OFFICER'S REPORT (CONTINUED)

equity side, which reflects the strong liquidity position of the Bank.

Liabilities and Customer Accounts

On the liabilities side, the investment accountholders, deposits from financial institutions and current accounts represented the main source of funds for the business operations of the Bank. These accounts increased markedly by 16.4% in 2013 to reach US\$ 1.42 billion compared to US\$ 1.22 billion in 2012. The reflects the Bank's successful efforts in expanding and diversifying finance sources sectorally and geographically through its good reputation in the markets, including those where ABG's units operate.

The investment accountholders represent the main external source of funds of the Bank. These accounts increased by 15.6% in 2013 to reach US\$ 1.12 billion compared to US\$ 968 million in 2012. While deposits from financial and banking institutions increased by 7.8% to US\$ 129 million in 2013 compared to US\$ 120 million in 2012. Current accounts increased significantly by 30.3% from US\$ 129 million in 2012 to US\$ 168 million in 2013, reflecting the expansion of the client base of the Bank for both individuals and corporates.

Capital Adequacy

Total shareholders' equity amounted to US\$ 165 million in 2013 compared to US\$ 169 million in 2012, representing a decrease of 2.4% due to the increase in FX reserves related to the Bank's operations in Pakistan. The capital adequacy ratio (in accordance with the instructions of the Central Bank of Bahrain "CBB" with respect to the implementation of the directives of Basel II) remained at very satisfactory level of 13.98% in 2013 compared to 16.79% in 2012, which provides the Bank with a strong capital base for further growth in the coming period.

Off-Balance Sheet Investment Accounts

The equity of investment accountholders amounted to US\$ 137 million in 2013 compared to US\$ 134 million in 2012, reflecting an increase of 2.1%. These accounts are invested primarily in Mudaraba transactions with customers.

New Identity of the Bank

In line with the strategy being implemented by Al Baraka Banking

Group, BSC (ABG), regarding the unification of the new identity of the Group and its subsidiary banking units, Al Baraka Islamic Bank launched its new unified identity on 3rd June 2009. The main objective of the new identity is to ensure that all the banking units of the Group share unified goals and business strategies. For this reason, Al Baraka Islamic Bank views this step as a major achievement for the bank in its quest to attain a leading position in the Islamic banking industry.

During 2013, the Bank continued with developing policies and high ethical and professional standards with regard to the offering of innovative and highly efficient Sharia'a-compliant services and products. To achieve this, we put in place a number of programs and plans which are currently being implemented to embody the motto of the new identity of the Group in being a "Partner Bank" to our customers, investors, and all our stakeholders. These steps included the implementation of a number of programs at all levels at the Bank to promote the understanding and assimilation of the new corporate identity and the values and principles that it represents and, which in turn, require high skills and outstanding performance from all employees.

As we proceeded further with the launch of the unified corporate identity, the concept of Brand Guardianship had been introduced across all Al Baraka Banking Group units, to ensure the smooth assimilation of the brand in all markets. In line with international best practice, a high level branding committee at Group Head Office has been charged with the responsibility for "Brand Guardianship" across the Group. In this regard, several initiatives have been commissioned at the Group level through the Branding & Special Projects team and the Brand Guardians, amongst which are:

1. The issuance of Retail Products Guides and Manuals
2. The issuance of a detailed manual for the standardization of Al Baraka's retail branches network.
3. Standardization of the marketing communication, especially in connection with customers touch points – both one to one as well as advertising messages.

At the subsidiary unit level, the Chief Executive Officer of each bank of the Group has been appointed Brand

Guardian for his respective unit, assisted by senior executives, to ensure that all activities related to the brand conform to the unified policies.

The launch of the Unified Identity resulted in attaining many achievements, which can be summarized as follows:

- Customer interest levels have heightened, resulting in a good increase in the number of new customers.
- Staff across the Group became highly motivated and fully engaged with the implementation of the Group Vision and the concept of partnership and participation was introduced at work.

As a result of this, there is now a strong customer oriented approach in all marketing activities. This approach is derived from the strategy outlined in the unified corporate identity and it has now been fully integrated into the policies, procedures and business methodologies. As a reflection of the Bank's growing reputation regionally and internationally, the Bank was proud to be chosen as the 'Best Islamic Bank in the Kingdom of Bahrain' in February 2013 by the Foundation of Islamic Finance News, the Malaysia-based international institution specialising in news for the Islamic financial sector. The Bank also won the 'Best Islamic Bank in Bahrain for 2012' award from Euromoney Magazine and 'Best Islamic Financial Institution in Bahrain' from Global Finance Magazine. The Bank was selected also in Dubai as one of the best of the leading banks in the Arab world in the field of "wise leadership" for the year 2013 by the Arab Organization for Social Responsibility in cooperation with the Tatweej Academy for Excellence Awards in the Arab region.

We look forward in confidence to the challenges ahead and to the adoption of our newly articulated Group ethos, which we believe will truly reflect the essence of the promise we at Al Baraka Islamic Bank took upon ourselves.

Branches

As for our local branch network, the Bank has six branches in the Kingdom of Bahrain. Furthermore, we also started working on a plan to open two more branches in 2014, which highlights our determination to enhance our financing and deposit market share, considering that the Bank has a range of highly successful financial and deposit products designed for individuals and companies

which include many attractive features that best meet the needs of customers in strict compliance with Islamic Sharia.

As for the ATM network, the total of these ATMs reached 19 spreading over the main areas and malls in Bahrain. The focus was on installing stand-alone ATMs that are not part of branches of the Bank, with particular emphasis on drive-by ATMs.

As part of its continuing efforts to improve its banking services to customers, the Bank launched during the year 2013 the electronic banking services via the Internet to its customers, which contain a range of banking services that will increase customer satisfaction for the Bank's services through the saving of time and effort and to facilitate access to the service and use of the latest technologies in their submission.

In the framework of its strategy to expand the customer base, the Bank during the year 2013 and in collaboration with well-known international consulting firm Ernst Young, conducted a survey to identify the extent of customer satisfaction with the services provided. The survey covers two main sides: first to measure customer satisfaction for current products and services offered by Al Baraka Islamic Bank and expectations regarding new products and services that should be launched by the Bank and, second, to inform other banks' customers about products and services offered by the Bank.

Human Resources and Training

Al Baraka Islamic Bank continued during 2013 to create a conducive work environment and enhance the values and principles of the Bank to promote the concept of working as one team that possesses the academic qualifications, expertise and capabilities needed for the Bank's operations and satisfying the needs and expectations of our customers. The Bank also continued its efforts to fill senior positions and improve the performance and productivity of its staff to serve customers better.

Within its functional development program for high management members in order to give them more managerial authorities, the Bank introduced developmental changes at the Senior Management Structure of the Bank.

The changes included the change of the title and authorization level of Mr. Tariq Kazim from Deputy General Manager – Support services & Pakistan Branches to be Deputy General Manager – Support Services Group, and the Operations, Information Technology and Human Resources & Administration departments will be under his supervision. The changes included also promoting Mr. Rashid Al Alaiwi to Deputy General Manager – Business Group. In addition to his current responsibilities as Head of Retail Banking & Domestic Branches, Mr Al Alaiwi will supervise Commercial Banking and International Banking departments. Mr. Asrar Uddin Abdulghafoor was also promoted to Assistant General Manager – Information Technology Department.

The Bank's management also introduced, as part of its work in serving the community, a program called "Al Ruwad Program" to train university graduates. The program is designed to train university graduates to prepare them for filling leading and senior positions in the future, after arming them with the necessary knowledge and skills required for performing such functions. The management of the Bank, in partnership with Al Baraka Banking Group, has launched a training program for executive trainees in collaboration with Bahrain Institute of Banking and Finance (BIBF), which includes internal and external training on a number of areas in banking and bank departments operations in line with the requirements of the labor market. The Bank's management also focused on providing in-house training courses to help improve performance and increase awareness of key business and other essential skills.

The Bank has also in collaboration with the Al Baraka Banking Group honored employees who have served the Bank for periods 25,20,15,10, and 5 years by giving them certificates and prizes during the annual luncheon, which was held in September 2013. The number of employees who were honored 50 employees.

The Bank organized in collaboration with the ABG in-house training course entitled Introduction to Sharia aspects in the Islamic banks which was prepared by the Department of Sharia in the Group represented by Mr. / Mohammed

Jassim Hassan (Supervisor - Sharia) in collaboration with the Training and Development Unit in Human Resources Department. The session brought together 16 of the new employees and trainees in all of Al Baraka Banking Group and Al Baraka Islamic Bank. Note that this training course will be held on an ongoing basis in each quarter of the year, to target staff and trainees joined the Group and the Bank recently.

The Bank organized in collaboration with the Al Baraka Banking Group, in coordination with the Bahrain Red Crescent first aid course to train ten of the Group and the Bank's staff. The course was held in the building of Al Baraka Islamic Bank during the period from April 14 to 17, 2013.

Information Technology

In view of the rapid advances in information technology at the global level and the changing developments in this area that this entails worldwide, Al Baraka Islamic Bank is very keen on modernizing the infrastructure of its computer network, increasing its capacity and introducing modern technologies with high-speed data transfer capabilities, which will lead to significant time-saving and reduction of effort on the part of the employees of the Bank.

The Bank has also set up a call center equipped with the latest technologies and it is run by qualified staff to respond to customer calls in a professional manner. This is in addition to the development of a complaint system to handle customer complaints and suggestions with a view to improving the level of service offered by the Bank to its customers.

Furthermore, the Bank has undertaken several other initiatives to upgrade the level of customer service including the implementation of a modern banking system based on advanced technology that helps provide superior banking services and that can accommodate the launch of new innovative products. We also launched an ATM card incorporating the embedded EMV chip, which makes it a highly secured and acceptable method of payment in all parts of the world. Many enhancements and improvements were introduced to maximize the benefits of the Core Banking Systems. As for the anti-money laundering

unit, a Suspicious Activities Monitoring system and Watch List Customers (WLC) system were installed to improve the daily monitoring of Bank activities in combating money laundering.

During 2013, the Bank expanded in installing modern applications for delivery channels service such as SWIFT service, Core Banking System applications, Central Bank of Bahrain's reporting requirements and many others.

The Bank has launched a new electronic service using the Kiosk which enables customers to conduct banking transactions electronically via (ipad) in the main branch of the Bank located in the diplomatic area. The device offers clients e-banking services in a comprehensive manner, including a review of their bank account, repay the loans, transfer between accounts and request a statement of account and other services. The device includes a comprehensive guide to teach customers how to use it.

Social Responsibility

We are in Al Baraka Islamic Bank as an Islamic financial institution, and as a part of our commitment to the community, we have to contribute to the development of local economies and communities in which we work, where we believe that this role is one of the key features of the business model that we are committed to. The fact that Al Baraka Islamic Bank is considered a pioneer in Islamic banking, we seek to maintain our position as the leading organization committed to the social responsibility

The Bank continued during the year 2013 performing its social responsibilities by directing its products and services for the development of communities in which it operates to enhance them socially and economically, and to improve the quality of these products and services, as well as through the support of financing of small and medium enterprises and taking care of youth skills and training them. As well as through its social contributions and generous financial donations to serve community and charitable organizations through sponsorships and donations program to charities and local clubs and scientific and religious centers, in addition to supporting needy families in Bahrain. The Bank has a special program to provide assistance to charities and

humanitarian organizations during the holy month of Ramadan.

The Bank continues its sponsorship of many important international finance and banking events and conferences that are held in Bahrain such as the World Conference of Islamic Banking, Sharia Bodies Conference, and the Accounting and Auditing Organization for Islamic Financial Institutions, where we are one of the main sponsors of these conferences.

The Bank employs a number of students who are in the final stages of their undergraduate studies during the summer vacation, as well as fresh graduates with the aim of rehabilitation and refine their knowledge which is considered as an important part of the Bank's contributions toward the community.

At the end of our presentation of the performance of Al Baraka Islamic Bank in 2013, and in light of the positive operating results that we have made, particularly in terms of returning back to profitability through enhancing revenues from core operating sources of the Bank, which cover our both main markets Bahrain and Pakistan, we can emphasize our confidence in the future, where the Bank has great capital, human and technical resources and high liquidity that place him in a strong position to take advantage of the regional and global economies.

As 2013 saw the conclusion of the five-year strategy of the Bank (2009 – 2013), 2014 will witness launching of the new strategy, which will focus on utilizing the successes achieved during the previous years, through continuing to launch new innovative products, expanded our customer base and improved our revenues from the different income sources, in addition to the development of the new areas of business and expanding the network of relationships with clients from individuals, companies and financial institutions in Bahrain and the rest of the region's markets. We recognize that 2014 is full with challenges and is surrounded with unstable environment, but we believe that the economic fundamentals of the Kingdom of Bahrain and other GCC countries will remain strong, and are supported by ambitious development programs. Therefore, the efforts and initiatives made by the Bank, supported

generously by the parent bank, Al Baraka banking Group, will advance the status and profitability of the Bank and will enhance its local and regional position.

Mohammed Isa Al-Mutaweh
Member of the Board of Directors and
Chief
Executive Officer



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Now with Al Baraka Islamic Bank's electronic banking services, bank with us through our secure network from anywhere and anytime. Banking has never been made easier.

Governance and Compliance

Philosophy, Strategy and objectives

AlBaraka Islamic Bank "AIB/the bank" governance framework extends beyond legislative and regulatory compliance and is aimed at creating a culture of good governance across the business to protect the interests of stakeholders. We are committed to safeguarding the interests of our stakeholders and recognize the importance of good corporate governance. The Bank aspires to the highest standards of ethical conduct by delivering our promise to clients, reporting our financial results accurately and transparently and maintaining full compliance with all laws, rules and regulations governing the Bank's business.

The Bank's governance and compliance strategies, objectives and structures have been designed to ensure that the Bank complies with legislation and the myriad of codes, while at the same time moving beyond accountability and assurance issues to value creation and resource utilization issues. Internally the function has expanded in five complementary directions, namely:

- enterprise-wide corporate governance;
- business governance;
- corporate accountability and ethics;
- sustainability management and reporting; and
- Compliance.

The Compliance Unit at AIB works closely with Legal, Company Secretary, Risk, and Internal Audit in promoting a culture of good governance and compliance within the Bank. The Bank has taken the necessary steps to continuously enhance its corporate governance to ensure conformity and seeking best practices.

The board adopted written Corporate Governance Policy covering bank-wide corporate governance framework, matters related to the Board, and the principles and rules of Central Bank of Bahrain (CBB) on Corporate Governance for Islamic retail Licensed Institutions – "Module HC". Moreover, AIB conducts annual detailed self-assessments to ensure compliance with the requirements of Module HC, and sets specific milestone for implementation of any shortfalls whenever exist, including continuous review and upgrades for strong corporate governance practices included AIB's subsidiaries. AIB complies with the principles as set out in Module-HC. CBB, AIB's shareholders, the Board of Directors and Executive and Senior management have been fully apprised of the amendments to the requirements and the milestones set. Starting from 2011, Corporate Governance was an item on the agenda of the annual shareholder meeting for information and any questions from shareholders regarding the Islamic Bank's governance.

These disclosures should be read in conjunction with AIB's consolidated financial statements for the year ended 31 December 2013. To avoid any duplication, information required under CBB Rulebook PD module but already disclosed in other sections of the annual report has not been reproduced in these disclosures.

Governance Framework

Ownership Structure

Al Baraka Islamic Bank B.S.C. is a Bahrain-based licensed Islamic retail Bank and operates as a subsidiary of Al Baraka Banking Group. Al Baraka Banking Group (ABG) is the dominating shareholder. The shareholding structure is transparent and the existing share structure consists entirely of Ordinary Shares and there are no different classes of Ordinary Shares. AIB can also confirm that the minority shareholders of the Bank are well represented on the Board of Directors, either directly or through the independent directors.

There has been no trading of Banks Shares during the year by the Directors or senior management. As at 31st December 2013, distribution schedule of shares, setting out the number and percentage of holders were as the following categories:

SR No	Name	Designation	Position	Nationality	# of Shares	Share %
1	ABG	Parent Co.	Founder	Bahraini	1,115,755	91.1134%
2	Abdullatif AbdulRahim Janahi	Non-executive and Independent Director	BoD Member and Individual Founder	Bahraini	1,250	0.1021%

Other than the above, none of the other directors at the end of the financial year had any interest in the shares of AIB or its related corporations during the financial year. Other shareholders are as under:

SR No	Name	Designation	Position	Nationality	# of Shares	Share %
3	Hussain Mohsin Alharthe	Shareholder	-	Saudi	50,000	4.0830%
4	Bahrain Islamic Bank	Shareholder	-	Bahraini	10,000	0.8166%
5	Ibdar Bank*	Shareholder	-	Bahraini	10,000	0.8166%
6	Suliman Abdulaziz Alrajhi	Shareholder	-	Saudi	5,000	0.4083%
7	Saleh Abdulaziz Alrajhi	Shareholder	-	Saudi	5,000	0.4083%
8	Abdullah Abdulaziz Alrajhi	Shareholder	-	Saudi	5,000	0.4083%
9	Mohammed Abdulaziz Alrajhi	Shareholder	-	Saudi	5,000	0.4083%
10	Heirs of Dr. Hassan Abdullah Kamel	Shareholder	-	Saudi	5,000	0.4083%
11	Dubai Islamic Bank	Shareholder	-	UAE	5,000	0.4083%
12	Saeed Ahmed Lotah & Sons Group	Shareholder	-	UAE	5,000	0.4083%
13	Jordan Islamic Bank	Shareholder	-	Jordan	2,500	0.2042%
14	Sheikh Saleh Abdullah Kamel	Shareholder	-	Saudi	73	0.0060%
Total					1,224,578	100%

*Following the merger of Capinvest B.S.C. with Capital Management House and Elaf.

Distribution of ownership of shares by nationality;

Country	No of Shares	Ownership %
Bahrain	1,137,005	92.85%
Jordan	2,500	0.20%
Saudi Arabia	75,073	6.13%
UAE	10,000	0.82%
Total	1,224,578	100%

Distribution of ownership of shares by size of shareholder;

Categories	No of Shares	% of Total Outstanding
Less than 1%	58,823	4.8%
1% up to less than 5%	50,000	4.1%
50% and above	1,115,755	91.1%
Total	1,224,578	100%

The Board of Directors (The Board)

The adoption and implementation of corporate governance is the direct responsibility of the Board of Directors, and shall continue its endeavour to enhance shareholder value, protect their interest and defend their rights by practicing pursuit of excellence in corporate life.

CORPORATE GOVERNANCE (CONTINUED)

The risk management strategy is based upon risk principles approved by the Board and is underpinned by a system of delegations, passing from the Board through Board committees, the Chief Executive Director (CEO), management committees to the various risk, support and business units of the Bank.

The Board is accountable to the shareholder, and the management is accountable to the Board. Directors apply skill and care in exercising their duties to the Bank and are subject to fiduciary duties, and ensure that the management acts in the best interests of the Bank and its shareholder, by working to enhance the Bank's performance. The Board authorizes the Management to execute strategies that have been approved. The Board oversees the conduct of the Bank's businesses by ensuring that the business is properly managed by a management team of the highest caliber.

The principal functions of the Board are as follows:

- reviews and approves the Management's proposals on long-term strategic plans of the Bank as well as the strategic business plans and activities of the various business units and monitors the Management's performance in the implementation process;
- approves the annual budget for the Bank and conducts regular business review of achievements against the annual budget, as well as reviews the Management's business strategies and action plans;
- sets corporate values and clear lines of responsibility and accountability that are communicated throughout the Bank;
- ensures there is a managed and effective process to select and appoint key Senior Management officers that are qualified, professional and competent to administer the affairs of the Bank as well as approves a succession planning policy and effectively monitors Senior Management's performance on an ongoing basis;
- ensures the implementation of effective internal controls and processes to measure and manage business risks, including but not limited to reviewing the adequacy and integrity of internal control systems and operations; establishing relevant policies on the management of business risks covering inter alia operational, credit, market and liquidity risks and other key areas of the Bank's operations;
- institutes comprehensive policies, processes and infrastructure to ensure Shari'a compliance in all aspects of the Bank's operations, products and activities;
- sets up an effective audit department, staffed with qualified internal audit personnel to perform internal audit functions, covering the financial, management and Shari'a audit;
- establishes procedures to avoid self-serving practices and conflicts of interests including dealings of any form with related entities;
- assures equitable treatment of shareholders including minority shareholders,
- ensures protection of the interests of the depositors, particularly investment account holders;
- establishes and ensures the effective functioning of various Board Committees;
- ensures that the operations of the Bank are conducted within the framework of relevant regulations, laws and policies;
- ensures that the Bank has a beneficial influence on the economic well-being of its community;
- Approve material transactions outside the normal course of business or in excess of the limits of approval authority delegated to Executive Management.

The Board has approved certain policies and procedures which authorizes the senior management to approve certain transactions. The Board has delegated specific authority to the CEO and to management committees to manage the activities of the Bank within the limits set up by it. All credit and investment applications exceeding the pre-defined and approved limits in the form of amount, tenor require approval of the Board. Accordingly, the following types of material transactions require Board approval as defined by the approved policies:

1. Credit facilities above US\$ 15m and/or tenor more than 10 years
2. Investments in quoted equities and investment in funds above US\$5m and/or tenor more than 7 years
3. Write-offs or discharge of the Bank's debts

4. If the investment losses is more than 10%.
5. Any excess above 20% of the original approved limits, and/or amount above US\$ 1m, and/or tenor above 3months.
6. Exceptional waivers in relation to security value or cash margin, if the original authority is the board.

Board meetings are held on a scheduled basis in ensuring relevant policy, strategy and business performance issues are discussed and accordingly tracked and monitored. The Board and its committees are supplied with full and timely information to enable them to discharge their responsibilities. Special Board meetings are also convened when the need arose.

Re-election of Directors

The previous Board's term expired in April 2011. In compliance with the Bank's Article of Association, the shareholders re-elected the existing Board members in the Annual General Meeting held on May 2011, for a period of three years ending April 2014. Re-election of Directors process begins when an announcement is made requesting nominations for the position of membership of the three year term is due to expire, such nominations must be submitted to the Chairman of the Board within the time frame provided in the announcement. As part of the nomination process, each nomination must comply with local rules and regulations and must be submitted to the CBB in order to ensure compliance with the "Fit and Proper" requirements. The names of all nominated individuals so approved by the CBB are then submitted to the shareholders at the next AGM for election. Election of Directors takes place in accordance with the rules and procedures as set out in the Commercial Companies Law and AIB's Articles of Association.

Termination of Board Membership:

The termination is provided for in Article 32 of the Articles of Association as follows:

1. If the member was appointed in violation to the provisions of the law.
2. If the member loses any of the conditions provided for in the Articles e.g. lack of legal capacity, convicted in bankruptcy, crimes of honour or breach of trust.
3. If he uses his membership to conduct a competitive business or causes real damages to the Bank.
4. If he is absent from the Board meeting for four consecutive meetings without legitimate reason.
5. If he resigns or discharged from office
6. If he occupies another salaried position other than an executive position which the Board decided to pay salary to him

If the office of a director becomes vacant the Board may appoint a temporary director to fill the vacancy. Such an appointment shall be presented to the ordinary general meeting in its first meeting for the purpose of ratifying the appointment.

The Board Composition

The Directors have broad experience across a number of industries and business sectors, and provide valuable input and an external perspective to matters of business strategy. The Board currently has 9 members, comprising 5 independent non-executive directors (including the Chairman) and 4 executive directors.

The Board meets quarterly to review and evaluate corporate strategy, major operational and financial plans, risk policy, financial performance objectives and monitors implementation and corporate performance within the parameters of all relevant laws, regulations and codes of best business practice.

The role of the Chairman of the Board is fundamentally distinct from that of the CEO. The separation of powers between the Chairman of the Board and the CEO ensures a balance of power and authority which provides a safeguard against the exercise of unfettered powers in decision-making. The Chairman is responsible for ensuring Board's effectiveness, as well as representing the Board to the shareholder. The CEO act in accordance with the authority delegated to him by the Board.

CORPORATE GOVERNANCE (CONTINUED)

Membership of the Board and Committees is set out below:

Director Name	Nationality	Board Membership		Committee Membership			
		Designation	Position	Audit & Governance	Remuneration & Board Affairs	Executive	Risk
Khalid Rashid Al-Zayani	Bahraini	Independent Director	Chairman				
Adnan Ahmed Yousif	Bahraini	Executive Director	Vice Chairman		Member	Chairman	
Abdullatif AbdulRahim Janahi	Bahraini	Independent Director	Member and Individual Founder			Member	
Abdulrahman Abdulla Mohammed	Bahraini	Independent Director	Member		Member	Member	
Mousa Abdulaziz Shihadah	Jordanian	Executive Director	Member	Member			
Adil Saud Dahlawi*	Saudi	Executive Director	Member				Member
Ashraf Ahmed El Ghamrawi	Egyptian	Executive Director	Member				Member
Yousif Ali Fadil Bin Fadil	UAE	Independent Director	Member	Member	Chairman		
Maqbool Habib Khalfan	Qatar	Independent Director	Member	Chairman			Chairman
Mohamed Isa Al Mutaweh	Bahraini	Executive Director	Member			Member	

*Resigned on 1st August 2013

Information, induction and ongoing development

All Directors receive accurate, timely and clear information on all relevant matters, and have access to the advice and services of the Head of Legal & Corporate Secretary who, together with the Head of Compliance, is responsible for ensuring that Board procedures are followed and applicable rules and regulations are complied with.

A formal induction process exists for each new Director on joining the Board, including briefing on the Bank's Corporate Governance Policy with copy for their reference, and meetings with other Directors and the Board Secretary. The Bank provides the necessary programs of continuing education to ensure that Directors are kept up to date with developments in the industry both locally and globally which assist them in carrying out their duties as Directors.

Board meetings and attendances

In line with the nature and demands of the Bank's business, the Board meets at least every quarter unless further meetings are required. In 2013, the Board held 5 meetings, and the number of meetings attended by each member was as follows:

SR No	Name	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	Khalid Rashid Al-Zayani	4	4	19 February 2013 7 May 2013 1 August 2013 7 November 2013	4/4
2	Adnan Ahmed Yousif				3/4
3	Abdullatif AbdulRahim Janahi				4/4
4	Abdulrahman Abdulla Mohamed				4/4
5	Mousa Abdulaziz Shihadah				4/4
6	Adil Saud Dahlawi*				3/4
7	Ashraf Ahmed El Ghamrawi				4/4
8	Yousif Ali Fadil Bin Fadil				4/4
9	Maqbool Habib Khalfan				4/4
10	Mohamed Isa Al Mutaweh				4/4

* Resigned on 1st August 2013

The Board consists of individuals of caliber and diverse experience with the necessary skills and qualification. The Board comprises Directors who, as a group, provides a mixture of core competencies for the effective functioning and discharging of the responsibilities of the Board.

Performance Evaluation

In line with the Bank's Corporate Governance Policy, the Bank adopts formal procedure in order that the Board could undertake a formal evaluation of its own performance and that of its committees and individual Directors. The Board will distribute Evaluation Forms to all its members to evaluate their performance in the board and its committees and to evaluate the board itself. The Forms will be sent to the Chairman who will direct the Remuneration Committee to write a report.

Remuneration

The Bank follows formal and transparent procedure for remunerating the Board members, executives and senior management and its Shari'a Board members in accordance to the remuneration policies and procedures approved by the Board. Remuneration packages are determined at levels which enable the Bank to attract and retain Directors with the relevant experience and expertise needed to manage the Bank effectively. The component parts of remuneration are structured so as to link rewards to corporate and individual performance.

The Bank provides fees to the Shari'a Board and does not provide any performance linked incentives.

In the case of Non-Executive Directors, their level of remuneration reflects the experience and level of responsibilities undertaken by these Directors in the Bank. As for the CEO, the remuneration is structured so as to link the remuneration and other rewards/benefits to contributions and achievements, in tandem with the Bank and the Parent (ABG) corporate objectives, culture and strategy.

CORPORATE GOVERNANCE (CONTINUED)

The remuneration to the employees of the Bank is on the basis of the HR policy of the bank and the employment contracts of the individuals. There is a system of annual appraisal based on which the performance are reviewed every year. Any bonus/ex-gratia payment is purely at the discretion of the Bank.

No director has received or become entitled to receive a benefit (other than directors' remuneration and fees as disclosed in the financial statements) by reason of a contract made by the Bank or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

Directors' interests in the Bank's shares

Board Members	Number of Shares at 1 January 2013	Number of Shares at 31 December 2013	Changes in shareholding
ABG	1,115,755	1,115,755	-
Abdullatif AbdulRahim Janahi	1,250	1,250	-

CEO, Directors and Shari'a Committee Members' Remunerations:

	2013	2012
Directors, Executive Management and Shari'a Committee Members remuneration:		
Fees and allowances	194,188	354,743
Executive Management Including PCE		
Salaries & other remuneration, including meeting allowance	3,057,853	3,033,621
Bonus	331,000	314,642
Other Benefits	1,407,397	1,410,121
Total	4,796,250	4,758,384
Shari'a Committee Members	65,044	54,968
Total	5,055,482	5,168,095

Board Committees

In accordance with the Board Charter, the Board principally through Board Committees is responsible for overseeing the establishment of systems of risk management by approving accounting policies, financial statements and reports, credit policies and standards, risk management policies and procedures and operational risk policies and systems of internal controls, taking into account the Bank Risk Appetite, the overall business strategy, management expertise and the external environment. The Board has defined general parameters to manage the Bank-wide risk profile to comply with the approved Bank Risk Appetite and tolerances which consider both downside risk and opportunities.

The Board has approved policies that support the implementation of a risk oversight and management framework for the Bank. These policies are overseen by the Board Committees with each Committee operating under a Board approved charter that is reviewed annually.

Each Committee has established a reporting structure that describes the relevant responsibilities in respect to oversight and monitoring of Board-approved risk management policies.

The Committees evaluate developments in respect to the Bank's structure and operations, as well as economic, industry and market developments that may impact the Bank's management of risk.

The Board Committees meet regularly and consist of executive and non executive directors. The Board Committees in operation during the year under review are:

1. Audit Committee and Governance Committee

The Committee consists of three members. The Head of Internal Audit reports directly to the Chairman of the Audit and Corporate Governance Committee. The Committee is regularly informed about significant projects aimed at further improving processes and receives regular updates on major litigation matters as well as significant regulatory and compliance matters.

The primary function of the Audit Committee is to assist the Board in fulfilling its oversight role by:

- monitoring and assessing the integrity of the consolidated financial statements as well as disclosures in the financial statements, results of operations and cash flows;
- monitoring processes designed to ensure an appropriate internal control system, including compliance with legal and regulatory requirements;
- monitoring the qualifications, independence and performance of the external auditors and of Internal Audit; and
- monitoring the adequacy of financial reporting processes and systems of internal accounting and financial controls.

The members, number of meeting held, and attendance of members were as follows:

SR No	Names	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	Maqbool Habib Khalfan	4	4	19 February 2013	4/4
2	Mousa Abdulaziz Shihadah			7 May 2013	4/4
3	Yousif Ali Fadil Bin Fadil			1 August 2013	4/4
				7 November 2013	

2. Remuneration & Board Affairs Committee

The Committee is responsible for assisting the Board in reviewing and overseeing the following responsibilities:

- Board of Directors' and individual directors' performance
- Effectiveness of, and compliance with, the Bank's corporate governance
- policies and practices
- Succession planning for the Board and senior management
- Staff remuneration policy and fees for directors and for the Shari'a Supervisory Board.

CORPORATE GOVERNANCE (CONTINUED)

The Board is ultimately responsible for the approval of the remuneration package. The Committee is guided by the need to 'attract and retain' and at the same time link the rewards to clearly articulate corporate and individual performance parameters. The members, number of meeting held, and attendance of members are as follows:

SR No	Names	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	Yousif Ali Fadil Bin Fadil	2	2	9 January 2013 6 October 2013	2/2
2	Adnan Ahmed Yousif				2/2
3	Abdulrahman Abdulla Mohamed,				2/2

3. Executive Committee

The primary purpose of the Committee is to consider specific matters delegated to it by the full Board and then make recommendations thereon to the Board or take decisions based on authorities specifically delegated by the Board. The Board Executive Committee also has the power and authority to approve certain credit and investment proposals. The members, number of meeting held, and attendance of members are as follows:

SR No	Names	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	Adnan Ahmed Yousif	4	5	11 March 2013 30 April 2013 30 June 2013 23 October 2013 12 December 2013	5/5
2	Abdulrahman Abdulla Mohamed,				5/5
3	Mohamed Isa AlMutaweh				5/5
4	Abdullatif AbdulRahim Janahi				5/5

4. Board Risk Management Committee

The primary responsibility of the Board Risk Committee is to ensure that the integrated risk management functions within the Bank are effectively discharged. The Committee has the overall responsibility for ensuring that the Bank develops appropriate risk policies and strategies for the relevant business activities.

The Risk Committee oversees the Bank's risk management framework, including the credit, market, liquidity and funding, operational, insurance, compliance and regulatory risks assumed by the Bank in the course of carrying on its business. It reviews regulator reports from Management on the measurement of risk and the adequacy and effectiveness of the Bank's risk management and internal controls systems.

A key purpose is to help monitoring the Bank's risk appetite for consideration by the Board, and agreeing and recommending a risk management framework to the Board that is consistent with the approved risk appetite. This framework, which is designed to achieve portfolio outcomes consistent with the Bank's risk/return expectations, includes:

- High-level risk management policies for each of the risk areas it is responsible for overseeing; and
- A set of risk limits to manage exposures and risk concentrations.

The Risk Committee consists of three members. The Risk Committee has its own Board approved charter. The Chairman of the Risk Committee invites members of management or others to attend the committee meetings, as appropriate. (Due to the resignation of Mr. Adel Dahlawi, the Committee will be reconstituted again in the year 2014 to fulfill the minimum requirement of membership)

The members, number of meeting held, and attendance of members are as follows:

SR No	Names	Minimum No. of Meetings	No. of Meetings Held	Dates of Meetings Held	No. of Meetings Attended
1	Maqbool Habib Khalfan	4	4	12 March 2013 6 May 2013 5 September 2013 2 December 2013	4/4
2	Ashraf Ahmed El Ghamrawi				4/4
3	Adil Saud Dahlawi*				2/4

* Resigned on 1st August 2013

Conflict of Interest

Directors avoid any action, position or interest that conflicts with an interest of the Bank, or gives the appearance of a conflict. The Bank annually solicits information from Directors in order to monitor potential conflict of interest, and Directors are expected to be mindful of their fiduciary obligations to the Bank. In the event of a situation involving a potential conflict of interest, Directors are encouraged to seek advice from the Bank's Compliance Officer.

Management Committees

In addition to the Board Committees, the Bank has in place the following Management Committees with the Chief Executive Officer functioning as the Chairman of each committee. The members of committees comprise the Heads of Departments who are drawn from relevant and related functions:

- Asset and Liability Management Committee (ALCO)
- Credit Committee
- Commercial Banking Credit Committee
- Retail Banking Credit Committee
- Management Committee
- Information Technology Steering Committee

There is a clear division of responsibility between the Board and the management. The Executive Director who is also the Managing Director is supported by his team of senior management who are responsible for the implementation of Board resolutions, overall responsibilities of the day-to-day operations of the Bank's business and operational efficiency. The directors are kept abreast of the Bank's performance via the various monthly reports tabled at the Board meetings and Board Committee meetings.

INTERNAL CONTROL

The Board is responsible for the adequacy and effectiveness of system of internal controls of the bank which is supported by segregation of duties, enhanced system of internal controls across all aspects of the business as well as strong support functions covering legal, regulatory, governance, reputation, finance, information technology, human resources and strategy. However, such a system is designed to manage the Bank's key areas of risk within an acceptable risk profile, rather than eliminate the risk of failure to achieve the policies and business objectives of the Bank.

The Bank's system of internal control includes:

- An organization structure with clearly defined authority limits and reporting mechanisms to senior levels of management and to the Board.
- A Risk Management function with responsibility for ensuring that risks are identified assessed and managed throughout the Bank.
- A set of policies and guidelines relating to credit risk management, asset and liability management, compliance, operational risk management and business continuity planning.

CORPORATE GOVERNANCE (CONTINUED)

- An annual budgeting and monthly financial reporting system for all business units, which enables progress against plans to be monitored, trends to be evaluated and variances to be acted upon.
- An Internal Audit function to evaluate the adequacy and effectiveness of governance, risk and control systems, and to review management's compliance with policies and procedures.

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- Various appointed Committees are established by the Board to assist the Board in ensuring the effectiveness of Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Internal Audit Department of the Bank checks for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlights significant findings in respect of any non-compliance. Audits are carried out on all departments and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Audit Committee. Findings of the internal audit are submitted to the Audit Committee for review at their periodic meetings.
- The Audit Committee of the Bank reviews internal control issues identified by the respective Internal Audit Department, regulatory authorities, management, and external auditors and evaluate the adequacy and effectiveness of the risk management and internal control systems. The Audit Committee also reviews the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. The minutes of the Audit Committee meetings are tabled to the Board of the Bank on a periodic basis.

The governance arrangements, systems and controls employed by the Bank also to ensure Shari'a compliance and on how these meet applicable AAOIFI standards, and if there is less than full compliance, an explanation of the reasons for non-compliance.

The Bank is committed to avoid recognizing any income generated from non-Islamic sources. Accordingly, all non-Islamic income is credited to a charity fund where the Bank uses these funds for social welfare activities and charities. The Statement of sources and uses of charity fund disclosed in the Annual Report provides further information, if there was any non-Shari'a-compliant earnings and expenditure occur and the manner in which they were disposed of and the annual zakah contributions of the Bank.

RISK MANAGEMENT

AIB is committed in complying with the best practices informed by Basel II and IFSB guidelines and adhering to CBB requirements. Our Risk Management Framework aims at proactive management of risks in the full life cycle of a financial transaction, including its operating circumstances from origination to final disposal from the books of the Bank. The Bank maintains a prudent and disciplined approach to risk taking by upholding a comprehensive set of risk management policies, processes and limits, employing professionally qualified people with the appropriate skills, investing in technology and training, and actively promoting a culture of sound risk management at all levels.

Risk Management governance originates at Board level, and cascades through to the CEO and businesses, via policies and delegated authorities which ensures Board-level oversight and a clear segregation of duties between those who originate and those who approve risk exposures. The Board has overall responsibility for validating and approving the policies and procedures, defining the risk tolerance, and establishing the risk strategy for effective risk management framework. The responsibility of risk governance lies with the different Board's and management's committees who in turn define and monitor the relevant risks to the organization (both financial and non financial risks, including market, credit, liquidity, operational, compliance, strategic, reputational and legal). AIB's Head of Credit and Head of Risk Management are responsible for formulating and monitoring the Bank's policies relating to all aspects of risk, developing the framework for risk measurement and coordinating with the relevant departments for all necessary steps for adhering to the Basel II requirements under the CBB rules, and the guidelines of the Parent Bank (ABG). They are also responsible for introducing and implementing risk measurement software, monitoring the Bank's compliance with risk measurement standards and providing the management with reports on the various risks. Risk management functions also provide subject matter expertise on

their respective risk areas and report directly to the CEO and Board Risk Committee. Independent review of the risk management framework is carried out through the Bank Internal and External Audit.

The Bank follows a policy of enterprise-wide risk management (ERM), which aligns strategy, policies, charters, people, processes, technology and knowledge in order to evaluate and manage the opportunities, threats and uncertainties the Bank may face in its going efforts to create shareholder value. The ERM places emphasis on accountability, responsibility, independence, reporting, communications and transparency. The risk management framework of the Bank is structured upon:

- Core Risk Principles - overriding principles governing all activities and risk monitoring procedures; and
- Specific Risk Policies - appropriate policies, framework documents, procedures and processes implemented to manage specific risks to which the Bank is exposed.

The Board, and industry regulators, have identified that the material risks relating to the Bank can be categorized as: credit, market (including profit rate and currency), liquidity, and operational risk (includes regulatory compliance and reputational risks).

Further, the Board annually or periodically, reviews the risk management policies, procedures, limits, and risk strategies to cope with the changing economic environment and AIB's risk appetite.

Accurate, reliable and timely information is vital to support decisions regarding risk management at all levels. The requirements span a diverse range of risk functionality including market and credit risk analysis systems, budgeting, strategic planning, asset and liability management, performance measurement, operational risk and regulatory reporting, as well as trading and trade processing systems and those systems supporting our staff.

Data reconciliation is established to provide for the integrity of the information used and appropriate security controls around all systems. Back-up and recovery procedures are defined and business continuity plans approved and communicated to promote resilience and minimize the impact of an incident.

The Bank is committed to meeting the highest levels of ethical standards in all areas of its operations. The Chief Compliance Officer of the Bank is responsible for preparing compliance policies for Board review and approval, and administering and enforcing these policies. These policies establish standards and controls that protect the Bank operations from violating any laws in the various jurisdictions in which the Bank conducts its business.

Management of Credit Risk

The Bank's risk management philosophy is implemented by a well defined policy, trained and experienced staff, and effective systems. Credit Risk Management Policy of the Bank dictates the Credit Risk Strategy. The Policy spell out the target markets, risk acceptance / avoidance levels, risk tolerance limits, preferred levels of diversification and concentration, credit risk measurement, monitoring and controlling mechanisms. AIB has tailored credit approval processes to suit the customer, product, sector and exposure types.

The credit risk policy articulates the credit risk management framework, including:

- key credit risk management principles;
- delegation of authority;
- the credit risk management program;
- counterparty credit risk management for financing, trading and investment activities;
- aggregate limits, beyond which credit applications must be escalated to the Board for approval; and
- single name/aggregation exposures, beyond which exposures must be reported to the Board.

The Credit Risk Management Policy is reviewed frequently to ensure up to date guidelines for new credit approvals, renewals or changes in the existing terms and conditions of the previously approved credit policies. The Bank has a dedicated team of experienced credit review professionals who identify risk at an early stage and take proactive measures to minimize the impact.

CORPORATE GOVERNANCE (CONTINUED)

The Bank has comprehensive credit rating / scoring models being applied in the spheres of retail and non-retail portfolios of the Bank. Our Credit department tracks arrears to ensure operational efficiency and compliance with the granting and follow-up policy by identifying changes in trends and variances from tolerance levels. Arrears percentages are reported daily and are evaluated on product, branch, industry, regional, operational (provincial) manager and national levels. Branch performance and targets include arrears targets, appropriately balanced with sales and profit targets.

Proactive credit risk management practices in the form of studies of rating-wise distribution, Portfolio Analysis of retail lending assets, periodic industry review, Review of Country, Currency, Counter-party and Single-Obligor exposures are only some of the prudent measures, the Bank is engaged in mitigating risk exposures.

The current focus is on augmenting the Bank's abilities to quantify risk in a consistent, reliable and valid fashion, which will ensure advanced level of sophistication in the Credit Risk Measurement and Management in the years ahead.

Management of Liquidity and Market Risk

The Bank manages liquidity and market risk via its Asset and Liability Committee (ALCO) process. ALCO is primarily entrusted with the task of liquidity and market risk management. The Committee decides on product pricing, mix of assets and liabilities, stipulates liquidity and profit rate risk limits, monitors them, articulates Bank's profit rate view and determines the business strategy of the Bank.

Bank has well-established framework for Liquidity and Market Risk management with the Asset Liability Management Policy and the Treasury Policy forming the fulcrum for procedures, processes and structure. It has a major objective of protecting the Bank's net profit income in the short run and market value of the equity in the long run for enhancing shareholders wealth.

In accordance with the Basel recommendations on liquidity management, the Bank measures liquidity according to two criteria: "normal business", reflecting day-to-day expectations regarding the funding of the Bank; and "crisis scenario", reflecting simulated extreme business circumstances in which the Bank's survival may be threatened. The important aspect of the Market Risk includes profit rate risk management and the pricing of assets and liabilities. Further, Bank views the Asset Liability Management exercise as the total balance sheet management with regard to its size, quality and risk.

ALCO has determined the most appropriate liquidity horizon for the Bank as 3 months for the normal business scenario and 6 months for the crisis business scenario. This means that holding sufficient liquid funds for 3 months is acceptable for normal business purposes but 6 months would be more prudent in the event of a liquidity crisis.

The Bank's liquidity policy is to hold sufficient liquid assets to cover its committed statement of financial position requirements, plus its budgeted expenses for the liquidity horizon, plus its forecast investment commitments over the liquidity horizon. The Bank continues to strengthen its liquidity management activities in order to ensure that the Bank maintains a stable funding base and strong liquidity during the prevailing period of global market crisis. In tune with this, Bank ensures adequate liquidity at all times through systematic funds planning, maintenance of liquid investments and focusing on more stable funding sources, regular stress testing was implemented and liquidity strategy updates were regularly advised to the Board.

Management of Operational Risk

The policy framework envisages a fully functional risk framework which documents operational risk identification, assessment, control, mitigation and reporting. The Operational Risk Management Framework (Op. Risk Framework), approved by the Board, has been developed with the objective to ensure that operational risks within the Group are identified, monitored, managed and reported in a structured, systematic and consistent manner.

The management of Operational Risk has two key objectives:

- To minimize the impact of losses suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering an extreme (or unexpected) loss; and
- To improve the effective management of the bank and strengthen its brand and external reputation.

The bank has implemented SunGard system that supports multiple operational risk management processes and tools including operational risk event reporting, control self-assessment, key risk indicators, tracking of issues or action plans and operational risk reporting. A key component of the Op. Risk Framework is a set of a core operational risk standards which provides guidance on the baseline control to ensure a controlled and sound operating environment.

The Bank has comprehensive system of internal controls, systems and procedures to monitor and mitigate risk. The bank also institutionalized the approval process of new product, services, and outsourcing to identify the risk inherent in such activities.

Information Technology (IT) risk is managed in accordance to an IT Risk Management Framework (which covers risk governance, communication, monitoring, assessment, mitigation and acceptance), supported by a set of IT policies and standards, control processes and risk mitigation programs. Centralized functional control is exercised over all computer system developments and operations.

Compliance in the Bank is controlled centrally under the Bank Compliance Officer who is approved by the CBB to ensure divisional compliance in all of the Bank's operations and activities. The Internal audit function of the Bank through the Risk Based Internal Audit, compliments the Bank's ability to control and mitigate risk.

The Bank is continually enhancing the Business Continuity Planning (BCP) programme for an ongoing and actively management of the Bank's major critical business operations and activities at the Head Office, data centre, and branches locations.

AIB continually refines and strengthens existing policies, procedures and internal controls measures; conduct internal reviews, compliance monitoring, and comprehensive audits to prevent or minimize unexpected losses, and when necessary to cope with the growth in AIB's size and complexity.

Capital Management

Capital Management is an ongoing process of ensuring adequate capital is available to meet regulatory capital requirements and ensure optimum capital usage. The Bank has implemented a dedicated capital management system which calculates the capital adequacy ratio in compliance with CBB and Basel II guidelines. Using this system, exposures are measured at the most granular level so that account level data is correctly used for calculation of risk weights, credit conversions and allocation of credit risk mitigants. AIB has also adopted the Basel II Standardized Approach to measure regulatory capital requirement on credit risk and market risk. For operational risk, the regulatory capital requirement is calculated based on Basic Indicator Approach. AIB has adopted "Pillar I Plus" approach for ICAAP where the bank can assess the additional capital requirements on the Pillar 2 risks like credit concentration risk, profit rate risk and other risks relevant to AIB. This also includes the capital charge estimations resulting from stress testing.

Compliance

Compliance risk is the potential that the procedures implemented by the entity to ensure compliance with relevant statutory, regulatory and supervisory requirements are not adhered to and/or is inefficient and ineffective. The Bank manages compliance risk through the following key activities:

- Creating awareness through the training of employees and other affected stakeholders on the impact and responsibilities related to legislative requirements.
- Monitoring and reporting on the level of compliance with legislative requirements..
- Providing assurance that the risks relating to regulatory requirements are identified, understood and effectively managed.

The Bank is committed to, and requires all its employees to display, the highest standards of integrity, professionalism and ethical behaviour, and to comply with all relevant laws, rules and standards when conducting the business of the Bank. The Bank's compliance function is an independent function that identifies, evaluates, advises on, monitors and reports on the Bank's compliance risk. The Risk management Department, together with the Internal Audit and Compliance Departments, provides independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors.

CORPORATE GOVERNANCE (CONTINUED)

CODE OF BUSINESS CONDUCT AND ETHICS FOR MEMEBRS OF THE BOARD OF DIRECTORS

The Bank's Code of Business Conduct and Ethics applies to members of the Board, as well as Executive Management, officers, employees, agents, consultants and others, when they are representing or acting for the Bank. The Board of Directors, as well as officers and employees, act ethically at all times and acknowledge their adherence to the Bank's policies. Any waiver of the Code of Business Conduct and Ethics for a director or executive officer may be granted only by the Board or the appropriate Board committee, and must be promptly disclosed to the stockholders.

The Code is intended to focus the Board and each director on areas of ethical risk, provide guidance to directors to help them recognize and deal with ethical issues, provide mechanisms to report unethical conduct, and help foster a culture of honesty and accountability. Each director must comply with the letter and spirit of this Code. Directors should communicate any suspected violations of this Code promptly to the Chairman of the Audit Committee and the Chairman of the Corporate Governance Committee. Violations will be investigated by the Board or by a person or persons designated by the Board and appropriate action will be taken in the event of any violations of the Code.

The Code is intended to serve as a source of guiding principles for directors. Directors are encouraged to bring questions about particular circumstances that may implicate one or more of the provisions of this Code to the attention of the Chairman of the Audit Committee, who may consult with inside or outside legal counsel as appropriate.

The code envisages and expect from the board:

- adherence to the highest standards of honest and ethical conduct, including proper and ethical procedures in dealing with actual or apparent conflicts of interest between personal and professional relationships.
- Full, fair, accurate, sensible, timely and meaningful disclosures in the periodic reports required to be filed by the Bank with Government and regulatory agencies.
- Compliance with applicable laws, rules and regulations.
- To redress misuse or misapplication of the Bank's assets and resources.
- The highest level of confidentiality and fair dealing within and outside the Bank.

Conflict of interest:

A "conflict of interest" occurs when personal interest of any member of the Board of Directors interferes or appears to interfere in any way with the interests of the Bank. Every member of the Board of Directors has a responsibility to the Bank, its stakeholders and to each other. Although this duty does not prevent them from engaging in personal transactions and investments, it does demand that they avoid situations where a conflict of interest might occur or appear to occur. They are expected to perform their duties in a way that they do not conflict with the Bank's interest, some of the more common conflicts from which directors must refrain, however, are set out below:

- **Business Interests** – If any member of the Board of Directors considers investing in securities issued by the Bank's customer, supplier or competitor, they should ensure that these investments do not compromise their responsibilities to the Bank. Many factors including the size and nature of the investment; their ability to influence the Bank's decisions; their access to confidential information of the Bank, or of the other entity, and the nature of the relationship between the Bank and the customer, supplier or competitor should be considered in determining whether a conflict exists. Additionally, they should disclose to the Bank any interest that they have which may conflict with the business of the Bank.
- **Related Parties** – As a general rule, the Directors should avoid conducting Bank's business with a relative or any counterparty in which the relative or other person is associated in any significant role. If such a related party transaction is unavoidable, they must fully disclose the nature of the related party transaction to the appropriate authority as per the Corporate Governance Guidelines which are approved by the Board. Any dealings with a related party must be conducted in such a way that no preferential treatment is given to that party.

- **Use of Bank's Assets and Resources** – Each member of the Board of Directors has a duty to the Bank to advance its legitimate interests while dealing with the Bank's assets and resources. Members of The Board of Directors are prohibited from:
 - Using the Bank property, information or position for personal gain;
 - Acting on behalf of the Bank in any transaction in which they or any of their relative(s) have a significant direct or indirect interest.
- **Gifts** – Soliciting, demanding, accepting or agreeing to accept anything where any such gift is more than modest in value, or where acceptance of the gifts could create the appearance of a conflict of interest;

In the case of any other transaction or situation giving rise to conflicts of interest, the appropriate authority should after due deliberations decide on its impact.

Confidentiality:

Directors should maintain the confidentiality of information entrusted to them by the Company and any other confidential information about the Company that comes to them, from whatever source, in their capacity as a director, except when disclosure is authorized or legally mandated. For purposes of this Code, "confidential information" includes all non-public information relating to the Company.

COMMUNICATION POLICY

The Bank uses all available avenues to communicate with its stakeholders, in line with the principle of transparency and disclosure that is integral to good corporate governance. This includes wide use of corporate publications, website, direct mailers, electronic mail and local & regional media (through press releases), for the purposes of advertising and providing information on the Bank's progress.

Our commitment to providing timely, accurate and balanced disclosure of all material information to a broad audience is guided by the Disclosure Policy of the Parent Group (ABG). Furthermore the Bank maintains a website at www.albaraka.bh, which includes information of interest to various stakeholders including the regulatory authorities. Information available on the website includes the Annual Report, reviewed quarterly financials of the Bank, and carries updates of any significant events and regulatory requirements. The Bank's quarterly results are published in both Arabic and English newspapers, are posted on the Bank's website, and the provision of at least the last three years of financial data on the Bank's website

The Board attaches a high degree of importance to continuous communication with shareholders, especially direct dialogue with them at the Bank's annual general meetings. Shareholders are therefore encouraged to actively participate at such meetings.

The Board oversees communications with shareholders and other stakeholders. This includes reviewing and/or approving key disclosure documents such as the quarterly and annual financial statements, the Annual Report, etc.

The Bank communicates with shareholders through the Annual Report and by providing information at the Annual General Meeting. Individual shareholders can raise matters relating to their shareholdings and the business of the Bank at any time throughout the year. The Bank provide for detailed information about its Corporate Governance structure and other related information. Shareholders are given the opportunity to ask questions at the Annual General Meeting.

According to our policy, ABG's President, and the Bank CEO are the primary spokespersons responsible for communicating Company information to the investment community and the media. For purpose of these guidelines, the investment community refers to existing and potential investors of the Bank, analysts and market professionals. Where appropriate, the Bank may authorize other officers of the Bank to communicate with the investment community or the media as part of the Bank's investor relations or public communications program.

Investors and customers queries are dealt with one-on-one by senior management in the Bank, and the Bank's relationship managers. Additional information for the investor community is provided through:

- one-on-one meetings and conference calls with executive management;
- road shows, investor conferences and conference calls; and
- Financial and subject-specific presentations.

Customer-Centric Initiatives

As always, efficient customer service and customer satisfaction are the primary objectives of the Bank in its day to day operations. The Bank is highly responsive to the needs and satisfaction of its customers, and is committed to the belief that all technology, processes, products and skills of its people must be leveraged for delivering superior Banking experience to its customers without fail.

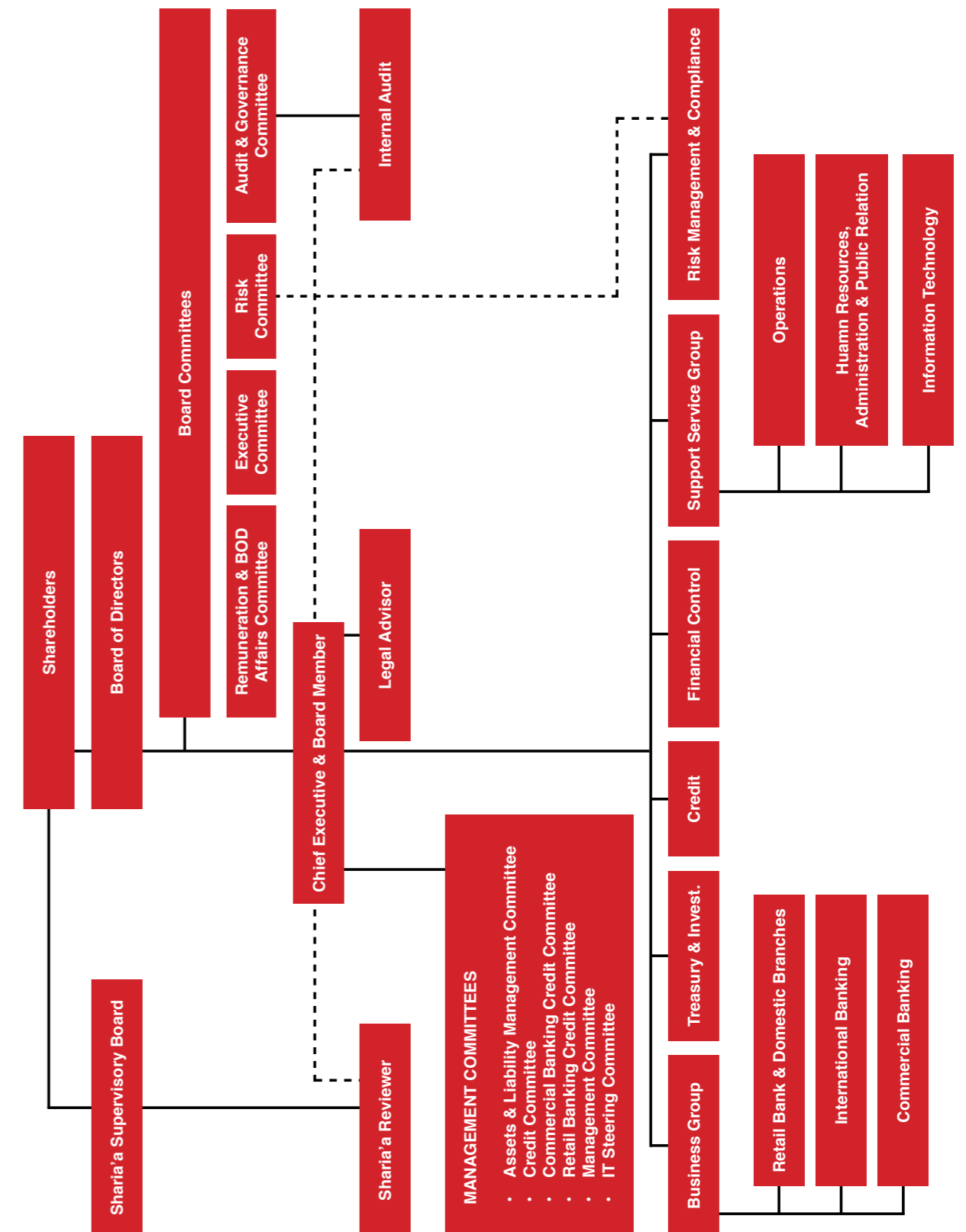
The Bank is focused towards providing excellent customer service through all delivery channels and has been making continuous efforts for enhancing the level of customers' satisfaction by leveraging technology to provide e-Banking in 2013 and alternative delivery channels best suited to the diverse needs of different customers. The varied interests and expectations of customers are taken care of by improving upon the various processes and procedures.

All our stakeholders, including investors, may use the Bank's website for logging a query or a complaint, through the "Customer Care" page available on the website. The query is automatically channeled to the appropriate department responsible to handle their issues.

The Bank maintains comprehensive policy on handling of Whistleblowing and Customer Complaints, approved by the Board. All employees of the Bank are aware of and abide by this. The Bank has a designated Whistleblowing Team for handling of all complaints and its contact details are displayed on the Bank's website and at the Branches. Complaints are normally investigated by persons not directly related to the subject matter of the complaint. The Bank endeavors to address all complaints within five working days. Wherever this is not possible, the customer is contacted directly and a time frame for rectification of his complaint advised. A periodical report on status of complaints is also submitted to CBB and to AIB's Board of Directors.

ANTI-MONEY LAUNDRING (AML) AND COUNTER-TERRORIST FINANCING POLICY.

The Bank has Board approved KYC-AML-CFT Policy in place. The said Policy is the foundation on which the Bank's implementation of KYC norms, AML standards, CFT measures and obligation of the Bank according to regulation and directives issued by CBB. The Bank has appointed MLRO and Deputy MLRO to oversee the proper implementation of the requirements of the Anti- Money Laundering Law, as amended, on covered and suspicious transactions as well as the freezing of accounts, and to ensure complying with the requirements and obligations set out in relevant legislation, rules and industry guidance for the financial services sector. The Bank continuously reviews the policies and the adopted measures to ensure the ongoing application of, and adherence to, best practice. Regular training sessions are conducted on KYC-AML-CFT guidelines for all the staff.



During 2013, the Bank continued to carry out its social responsibility by directing its products and services for the construction of the communities.



CORPORATE SOCIAL RESPONSIBILITY

The Bank continues its contributions and generous financial donations in the service of society through sponsorships and donations to charities, local clubs, centers of scientific and religious as well as supporting needy families in Bahrain and Pakistan. The Bank also has a special program to provide assistance to charities and humanity centers during the holy month of Ramadan.

It is also the bank recruited numbers of students who are in the final stages of their university studies or recent graduates in order to refine their knowledge and rehabilitate them as part of the Bank's contributions to the society.

The Bank continues its sponsorship of many events, conferences, Banking and Financial important global summit in Bahrain such as the World Conference of Islamic banks and the Conference of the Accounting and Auditing Organization for Islamic Financial Institutions as one of the main sponsors for them.



In the Name of Allah, The Merciful, The Compassionate

Praise be to Allah, Lord of the worlds, and blessings and peace be upon our Prophet Mohamed, His Family and Companions

**To:
The Shareholders of Al Baraka Islamic Bank**

May Peace and the Mercy and Blessings of Allah Be Upon You

We have supervised the principles and contracts used in transactions and applications by Al Baraka Islamic Bank BSC (exempt closed) (the "Bank") throughout the year up to the end of December 2013. We have performed our supervision as may be necessary to enable us express an opinion on whether the Bank has complied with the provisions and principles of Islamic Shari'a, as well as with the fatwas, resolutions and specific guidelines that were issued by us.

Ensuring that the Bank for actually operated in accordance with the provisions and principles of Islamic Shari'a, is the responsibility of the management team of the Bank. Our responsibility is limited to expressing an independent opinion based on our monitoring of the Bank's operations, and preparing a report for you.

We have performed our supervision, which included the examination of documentations and procedures of the Bank on the basis of the examination of each type of operation, either directly by us or through the Bank's Shari'a Supervision Department.

We planned and performed the supervision to obtain all the information and explanations we considered necessary to provide us with evidence sufficient to give reasonable assurance that the Bank did not violate the provisions and principles of Islamic Shari'a.

In our opinion

1. The contracts, transactions and dealings entered into by the Bank during the financial year ended 31st December 2013 which we reviewed were made in compliance with the provisions and principles of Islamic Shari'a.
2. The management has committed itself to segregate all the unintended gains obtained from sources or means prohibited by the provisions and principles of Islamic Shari'a and disburse of it towards charitable causes under the supervision of the Shari'a Supervisory Board.
3. The allocation of profits and charging of losses related to investment accounts conform to the basis that has been approved by us in accordance with Shari'a provisions and principles.
4. The management is not authorized to pay the Zakat on behalf of the shareholders, and as such the responsibility for payment of the Zakat lies with the shareholders in accordance with the Zakat calculation approved by the Shari'a Supervisory Board, which is USD 0.853 per share.

We pray to Allah Almighty to guide us to the righteous path.

May peace and the mercy and blessings of Allah be upon you.

Date: 18/02/2014
Kingdom of Bahrain.

Shari'a Board Members



DR. SHEIKH ABDUL SATTAR ABU GUDDAH
Chairman of Shari'a Board

SHEIKH ESAM MOHAMED ISHAQ
Member of Shari'a Board

SHEIKH NEDHAM MOHAMED YAQOOBI
Member of Shari'a Board

MOHAMED JASIM
Assistant Manager of Shari'a Department

	2013
Sources	
Non-Islamic Income	304,581
Others	-
Total Sources	304,581
Use of Charity Funds	
Charity for the poor and the needy	25,250
Charity for welfare	462,893
Education	37,503
General trainings	50,319
Foreign exchange translation	89,677
Total Uses	665,642
Net decrease source of funds	361,061
Beginning Balance of charity funds	1,736,509
Closing Balance of Charity Funds	1,375,448



Report on the Consolidated Financial Statements

We have audited the accompanying consolidated statement of financial position of Al Baraka Islamic Bank B.S.C (c) ("the Bank") and its subsidiaries ("the Group") as of 31 December 2013 and the related consolidated statements of income, cash flows, changes in owners' equity and changes in off-balance sheet equity of investment accountholders for the year then ended. These consolidated financial statements and the Group's undertaking to operate in accordance with Islamic Shari'a Rules and Principles are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2013, the results of its operations, its cash flows, changes in owners' equity and changes in off-balance sheet equity of investment accountholders

for the year then ended in accordance with the Financial Accounting Standards issued by AAOIFI.

Report on other regulatory requirements

As required by the Bahrain Commercial Companies Law and the Central Bank of Bahrain (CBB) Rule Book (Volume 2), we report that:

- a) the Bank has maintained proper accounting records and the consolidated financial statements are in agreement therewith; and
- b) the financial information contained in the Report of the Board of Directors is consistent with the consolidated financial statements.

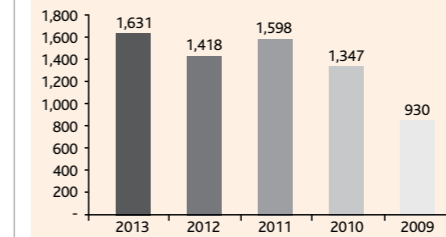
We are not aware of any violations of the Bahrain Commercial Companies Law, the Central Bank of Bahrain and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives, regulations and associated resolutions, rules and procedures of the Bahrain Bourse or the terms of the Bank's memorandum and articles of association during the year ended 31 December 2013 that might have had a material adverse effect on the business of the Bank or on its financial position. Satisfactory explanations and information have been provided to us by management in response to all our requests. The Bank has also complied with the Islamic Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group.



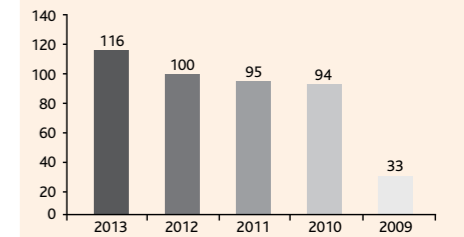
18 February 2014
Manama,
Kingdom of Bahrain



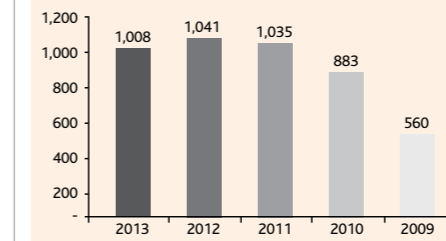
TOTAL ASSETS (USD Million)



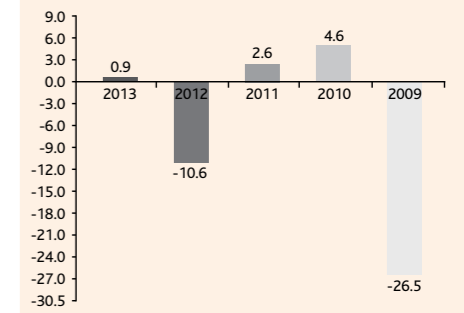
BRANCHES (USD Million)



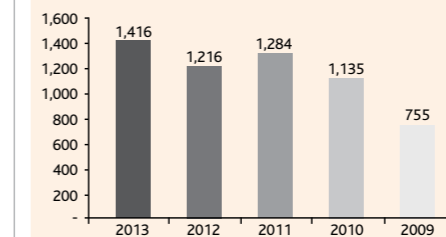
FINANCING AND INVESTMENTS (USD Million)



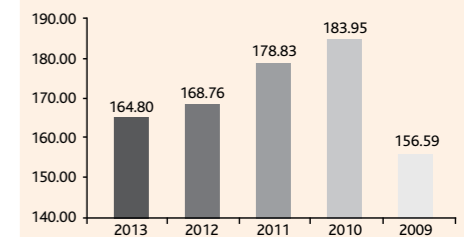
PROFIT FOR THE YEAR (USD Million)



TOTAL DEPOSITS (USD Million)



TOTAL EQUITY (USD Million)



CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2013

	Notes	2013 US\$	2012 US\$
ASSETS			
Cash and balances with banks and financial institutions	3	319,640,704	217,144,431
Sales receivables	4	633,697,727	475,460,417
Mudaraba financing	5	1,729,061	34,860,926
Ijara Muntahia Bittamleek	6	126,579,913	113,232,535
Musharaka	7	72,455,498	62,492,371
Investments	8	335,493,099	400,736,031
Investment in real estate	9	5,549,016	3,204,488
Ijara income receivables	10	17,251,392	22,323,494
Premises and equipment	11	23,342,211	22,056,788
Goodwill	12	17,560,934	19,038,642
Other assets	13	77,907,623	47,879,415
TOTAL ASSETS		1,631,207,178	1,418,429,538
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
LIABILITIES			
Due to banks and financial institutions		128,998,308	119,703,118
Current accounts		167,899,912	128,853,507
Other liabilities	14	50,744,711	33,568,600
TOTAL LIABILITIES		347,642,931	282,125,225
Equity of investment accountholders	15	1,118,764,934	967,538,012
Owners' Equity			
Share capital	16	122,457,800	122,457,800
Reserves		18,477,324	21,767,578
Retained earnings		7,241,110	6,369,122
Equity attributable to parent's shareholders		148,176,234	150,594,500
Non-controlling interest		16,623,079	18,171,801
Total owners' equity		164,799,313	168,766,301
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		1,631,207,178	1,418,429,538
OFF-BALANCE SHEET ITEMS: EQUITY OF INVESTMENT ACCOUNTHOLDERS		136,777,525	133,975,187
CONTINGENCIES AND COMMITMENTS	17	268,477,796	200,998,027

Khalid Rashid Al Zayani
Chairman

Adnan Ahmed Yousif
Deputy Chairman

Mohamed Isa Al-Mutaweh
Chief Executive Officer &
Board Member


The attached explanatory notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2013

	Notes	2013 US\$	2012 US\$
INCOME			
Income from jointly financed sales		38,669,022	35,449,258
Income from jointly financed, other financings and investments	18	39,512,212	49,460,625
Joint investment income		78,181,234	84,909,883
Return on equity of investment account holders before Group's share as a Mudarib		(68,753,815)	(75,886,460)
Group's share as a Mudarib		13,062,863	14,425,135
Return on equity of investment accountholders		(55,690,952)	(61,461,325)
Group's share of income from equity of investment accountholders (as a Mudarib and Rabalmal)		22,490,282	23,448,558
Group's income from self financed sales		3,188,975	1,072,379
Group's income from self financed, other financings and investments	18	7,738,493	7,046,998
Revenue from banking services	19	6,624,884	6,625,952
Other income	20	3,462,647	2,460,629
Group's Mudarib / agency fee from off-balance sheet equity of investment account holders		47,122	168,172
TOTAL OPERATING INCOME		43,552,403	40,822,688
OPERATING EXPENSES			
Staff expenses		21,242,205	21,068,538
Depreciation	11	2,809,039	3,268,170
Profit on due to banks and financial institutions		12,598	49,673
Other operating expenses	21	15,613,878	15,787,234
TOTAL OPERATING EXPENSES		39,677,720	40,173,615
NET OPERATING INCOME		3,874,683	649,073
Provision for impairment - net	22	(3,146,175)	(12,559,664)
Loss on sale of equity-type investment		-	(1,626,710)
INCOME (LOSS) BEFORE TAXATION		728,508	(13,537,301)
Taxation	23	186,965	2,914,655
INCOME (LOSS) FOR THE YEAR		915,473	(10,622,646)
Attributable to:			
Equity shareholders of the parent		968,876	(8,607,741)
Non-controlling interest		(53,403)	(2,014,905)
		915,473	(10,622,646)


Khalid Rashid Al Zayani
Chairman


Adnan Ahmed Yousif
Deputy Chairman


Mohamed Isa Al-Mutaweh
Chief Executive Officer &
Board Member

The attached explanatory notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2013

	2013 US\$	2012 US\$
OPERATING ACTIVITIES		
Net income / (loss) before taxation	728,508	(13,537,301)
Adjustments for:		
Depreciation	2,809,039	3,268,170
Provision for impairment - net	3,146,175	12,559,664
Gain on sale of premises and equipment	(84,139)	(91,094)
(Gain) / loss on sale of investments	(3,951,298)	156,744
Unrealised remeasurement gain	(500,000)	-
Operating profit before changes in operating assets and liabilities	2,148,285	2,356,183
Net changes in operating assets and liabilities:		
Sales receivables	(45,755,653)	(6,698,995)
Mudaraba financing	33,131,865	(9,304,302)
Ijara Muntahia Bittamleek	(13,347,378)	(10,675,260)
Musharaka	(9,568,107)	(3,288,228)
Ijara income receivables	4,501,044	(4,986,056)
Other assets	(5,627,096)	5,724,127
Other liabilities	17,176,111	(100,918,200)
Due to banks and other financial institutions	9,295,190	20,889,919
Current accounts	39,046,405	(411,271)
Equity of investment accountholders	151,413,735	(88,711,356)
Taxation paid	(585,614)	(802,817)
Net cash from / (used in) operating activities	181,828,787	(196,826,256)
INVESTING ACTIVITIES		
Purchase of investments	(132,016,436)	(72,802,599)
Investments sold / matured	174,658,804	96,341,635
Purchase of investment in real estate	(2,066)	(262,662)
Purchase of premises and equipment	(5,110,763)	(1,750,189)
Sale of premises and equipment	174,089	166,071
Net cash from investing activities	37,703,628	21,692,256
Foreign currency translation adjustments	(3,215,363)	(3,629,560)
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	216,317,052	(178,763,560)
Cash and cash equivalents at 1 January	288,006,344	466,769,904
CASH AND CASH EQUIVALENTS AT 31 DECEMBER (note 24)	504,323,396	288,006,344

The attached explanatory notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OWNERS' EQUITY

For the year ended 31 December 2013

	Equity attributable to shareholders of the parent								
	Reserves							Non-controlling interest US\$	Total owners' equity US\$
	Share capital US\$	Statutory US\$	General US\$	Cumulative changes in fair value US\$	Foreign exchange US\$	Retained earnings US\$	Total US\$		
Balance at 1 January 2013	122,457,800	21,748,828	8,687,143	(846,661)	(7,821,732)	6,369,122	150,594,500	18,171,801	168,766,301
Cumulative changes in fair value	-	-	-	767,770	-	-	767,770	(30,809)	736,961
Foreign currency translation reserve	-	-	-	-	(4,154,912)	-	(4,154,912)	(1,464,510)	(5,619,422)
Net income for the year	-	-	-	-	-	968,876	968,876	(53,403)	915,473
Transfer to statutory reserve	-	96,888	-	-	-	(96,888)	-	-	-
BALANCE AT 31 DECEMBER 2013	122,457,800	21,845,716	8,687,143	(78,891)	(11,976,644)	7,241,110	148,176,234	16,623,079	164,799,313
Balance at 1 January 2012	122,457,800	21,748,828	8,687,143	(7,542,916)	(3,305,494)	14,976,863	157,022,224	21,816,108	178,838,332
Cumulative changes in fair value	-	-	-	6,696,255	-	-	6,696,255	6,972	6,703,227
Foreign currency translation reserve	-	-	-	-	(4,516,238)	-	(4,516,238)	(1,636,374)	(6,152,612)
Net loss for the year	-	-	-	-	-	(8,607,741)	(8,607,741)	(2,014,905)	(10,622,646)
BALANCE AT 31 DECEMBER 2012	122,457,800	21,748,828	8,687,143	(846,661)	(7,821,732)	6,369,122	150,594,500	18,171,801	168,766,301

The attached explanatory notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN OFF-BALANCE SHEET EQUITY OF INVESTMENT ACCOUNTHOLDERS

For the year ended 31 December 2013

	Balance at 1 January 2013 US\$	Cumulative changes in fair value US\$	Net deposits (withdrawals) US\$	Gross income US\$	Mudarib's / agency fee US\$	Balance at 31 December 2013 US\$
Sales receivables	107,929,065	-	(1,367,808)	104,630	(47,122)	106,618,765
Investments	26,046,122	3,318,315	794,323	-	-	30,158,760
	133,975,187	3,318,315	(573,485)	104,630	(47,122)	136,777,525
	Balance at 1 January 2012 US\$	Cumulative changes in fair value US\$	Net deposits (withdrawals) US\$	Gross income US\$	Mudarib's / agency fee US\$	Balance at 31 December 2012 US\$
Sales receivables	235,360,992	-	(128,472,567)	1,208,812	(168,172)	107,929,065
Investments	24,600,518	(9,511)	1,455,115	-	-	26,046,122
	259,961,510	(9,511)	(127,017,452)	1,208,812	(168,172)	133,975,187

The attached explanatory notes 1 to 31 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2013

1 INCORPORATION AND PRINCIPAL ACTIVITY

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 (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.

The consolidated financial statements were approved by the Board of Directors on 18 February 2014.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements are prepared on historical cost basis, except for investment in real estate, equity-type instruments through statement of income and equity-type instruments through equity that have been measured at fair value.

The consolidated financial statements are presented in US Dollars (USD).

Statement of compliance

The consolidated financial statements are prepared in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), the Shari'a Rules and Principles as determined by the Shari'a Supervisory Board of the Group and in conformity with the Bahrain Commercial Companies Law, the CBB and Financial Institutions Law, the CBB Rule Book (Volume 2 and applicable provisions of Volume 6) and CBB directives. In accordance with the requirements of AAOIFI, for matters which are not covered by the AAOIFI standards, the Group uses the relevant International Financial Reporting Standards ('the IFRS') issued by International Accounting Standards Board.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at and for the year ended 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses are eliminated in full on consolidation.

Subsidiary is fully consolidated from the date control is transferred to the Bank and continue to be consolidated until the date that control ceases. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Non-controlling interest in a subsidiary's net assets is reported as a separate item in the Group's owners' equity. In the consolidated statement of income, non-controlling interest is included in net profit, and shown separately from that of the shareholders.

Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in owners' equity since the date of combination. Losses applicable to the non-controlling interest in excess of the non-controlling interest in a subsidiary's equity are allocated against the interests of

the Group except to the extent that the non-controlling interest has a binding obligation and is able to make an additional investment to cover the losses.

Transactions with non-controlling interests are handled in the same way as transactions with external parties. Sale of participations to non-controlling interests result in a gain or loss that is recognised in the consolidated statement of income. Changes in the ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transaction.

The following are the principal subsidiaries of the Bank, which are consolidated in these consolidated financial statements.

Bank	Ownership for 2013 / 2012	Year of incorporation	Country of incorporation	No. of branches/ offices at 31 December 2013 / 2012
<i>Held directly by the Bank</i>				
Al Baraka Bank (Pakistan) Limited*	64.64%	2004	Pakistan	108 / 89
Delmon properties company S.A.L**	100%	2011	Lebanon	N/A

*Al Baraka Bank (Pakistan) Limited became a subsidiary on 21 December 2010.

**The Company is a Special Purpose Vehicle (SPV) established by the Bank for the sole purpose of acquiring and leasing properties which was approved by the CBB via a letter dated 29 December 2011.

Further, the State Bank of Pakistan (SBP) vide BSD Circular No. 7 of 2009 dated 15 April 2009 required the minimum paid up capital (free of losses) for banks / development financial institutions (DFI) to be raised to Rs. 10 billion (US \$ 94.94 million). Further the banks / DFIs are also required to maintain a capital adequacy ratio of 10% at all times.

In order to meet the regulatory capital requirements, Al Baraka Bank (Pakistan) Limited (ABPL) has prepared a recapitalization plan which was submitted to the SBP. The SBP vide its letter no. BPRD/BA&CP/608/019652/2013 dated 28 December 2013 has allowed ABPL to proceed with the plan as follows:

- ABPL is required to maintain a minimum paid up capital (net of losses) (MCR) of at least Rs. 6 billion (US \$ 56.97 million) at all times and will have to meet the full MCR of Rs 10 billion (US \$ 94.95 million) by 31 December 2016.
- As a short term arrangement, ABPL has been allowed to raise a foreign currency sub-ordinated debt of USD 11 million from the Bank (Al Baraka Islamic Bank B.S.C. (c)). The said sub-ordinated debt shall be deposited with the SBP as interest free deposit till the time ABPL fully meets the minimum paid up capital requirements.
- The above foreign currency deposit with the SBP shall be increased to Rs. 2.1 billion (US \$ 19.9 million) by 31 December 2014 and Rs. 2.8 billion (US \$ 26.6 million) by 31 December 2015
- The foreign currency sub-ordinated debt will not be withdrawn unless ABPL achieves full compliance with MCR. However any withdrawal will be subject to prior approval of the SBP. In the event ABPL is not MCR complaint by 31 December 2016, the sub-ordinated debt will be converted into the paid up capital of ABPL.
- For regulatory purposes, the foreign currency sub-ordinated debt is allowed to be included in ABPL's capital and ABPL will be required to maintain a capital adequacy ratio (CAR) of at least 16% which may be reduced depending on the level of increase in the MCR.

The Bank as the parent is fully committed to comply with current and future regulatory requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2013

2 ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Investment in Itqan Capital

The Group's shareholders, in their Extra Ordinary General Assembly Meeting held on 25 January 2011, passed a resolution approving the sale of the Group's 5.88% stake in Al Tawfeeq Company for Investment Funds (ATCIF) and purchase of 60% stake in Itqan Capital (the "Company"), an investment firm based in the Kingdom of Saudi Arabia.

After obtaining all regulatory approvals, the Bank acquired 60% equity stake effective 1 July 2012 in the Company and sold 5.88% equity stake in ATCIF. Further the Bank via a management agreement dated 1 July 2012 assigned the control to govern the financial and operating policies of the Company to Al Baraka Banking Group (the "Ultimate Parent"), which has an indirect stake of 54.67% in the Company. The Bank has authorised the Ultimate Parent to represent it in the shareholders' meetings and to exercise control on the Company to do any or all acts and deeds and exercise all powers of the Bank pursuant to the Charter Document referred in the management agreement and or under any applicable laws.

The financial statements of the Company are not consolidated as it is controlled by the Ultimate Parent pursuant to the terms of the management agreement. The Ultimate Parent consolidates the financial statements of the Company in its consolidated financial statements which are prepared in accordance with AAOIFI standards and the same was approved by the CBB.

The investment acquired is initially recognised at cost, being the fair value of consideration given including acquisition charges associated with the investment. Subsequently, the investment is carried at cost less impairment losses, if any. An assessment is made at each date of statement of financial position to determine whether there is objective evidence that investment may be impaired. If such evidence exist, an impairment loss is recognised in the consolidated statement of income.

2.2 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements, for the year ended 31 December 2012, except for the adoption of new standards and interpretations effective as of 1 January 2013.

FAS 26 Investment in Real Estate

The Group has adopted FAS 26 issued by AAOIFI which covers the recognition, measurement, presentation and disclosure of investment in real estate that is acquired for the purpose of earning periodical income or held for future capital appreciation or both. The adoption of this standard did not have any impact on the accounting policies, financial position or performance of the Group and affected presentation only. Accordingly, the Group has changed the presentation for previously recognised changes in fair value as impairment to changes in fair value of investment in real estate in accordance with FAS 26.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2.3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below:

a Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise cash in hand, balances with central banks including balances with other banks and financial institutions with an original maturity of three months or less.

b Sales receivables

Murabaha receivables

Sales receivables consist mainly of sales transaction agreements (murabaha) and commodity agreements stated net of deferred profits and provision for impairment. The Group considers the promise made in the murabaha to the purchase orderer as obligatory.

Salam receivables

Salam receivables is the outstanding amount at the end of the year less any provision for doubtful amount.

Istisna'a receivables

Istisna'a receivables is the outstanding amount at the end of the year less any provision for doubtful amount.

c Mudaraba financing and Musharaka

Mudaraba financing and Musharaka are partnerships in which the Group contributes capital. These contracts are stated at the fair value of consideration given less impairment.

d Ijara Muntahia Bittamleek and Ijara income receivables

Assets acquired for leasing (Ijara) are stated at cost, less accumulated depreciation. Depreciation is provided on the straight-line method over the period of the lease or useful life whichever is lower.

Ijara income receivables represent outstanding rentals at the end of the year less any provision for doubtful amount.

e Investments

Investments comprise equity-type instruments at fair value through statement of income and through equity, debt-type instruments at amortised cost and investment in real estate.

Investment in real estate

Properties held for rental, or for capital appreciation purposes, or both, are classified as investment in real estate. Investments in real estate are initially recorded at cost, being the fair value of the consideration given and acquisition charges associated with the property. Subsequent to initial recognition, Investments in real estate are re-measured at fair value and changes in fair value (only gains) are recognised as property fair value reserve in the consolidated statement of changes in owners' equity.

Losses arising from changes in the fair values of investment in real estate are firstly adjusted against the property fair value reserve to the extent of the available balance and then the remaining losses are recognised in the consolidated statement of income. If there are unrealised losses that have been recognised in the consolidated statement of income in the previous financial periods, the current period unrealised gain shall be recognised in the consolidated statement of income to the extent of crediting back such previous losses in the consolidated statement of income. When the property is disposed of, the cumulative gain previously transferred to the property fair value reserve, is transferred to the consolidated statement of income.

Equity-type instruments at fair value through statement of income

This includes instruments held for the purpose of generating profits from the short term market fluctuations. These are initially recognised at cost, being the fair value of the consideration given excluding acquisition costs. These are subsequently re-measured at fair value. All related realised and unrealised gains or losses are included in the consolidated statement of income.

All other investments are initially recognised at cost, being the fair value of the consideration given including acquisition costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2013

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

e Investments (continued)

Equity-type instruments at fair value through equity

This includes all equity-type instruments that are not fair valued through statement of income. Subsequent to acquisition, investments designated at fair value through equity are re-measured at fair value with unrealised gains or losses recognised proportionately in owners' equity and equity of investment accountholders until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in owners' equity or equity of investment accountholders is recognised in consolidated statement of income.

Debt-type instruments at amortised cost

Debt-type instruments which are managed on a contractual yield basis and are not held for trading and has not been designated at fair value through statement of income are classified as debt-type instruments at amortised cost. Such investments are carried at amortised cost, less provision for impairment in value. Amortised cost is calculated by taking into account any premium or discount on acquisition. Any gain or loss on such investment is recognised in the consolidated statement of income, when the investment is de-recognised or impaired.

f Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation and accumulated impairment in value. The cost of additions and major improvements are capitalised; maintenance and repairs are charged to the consolidated statement of income as incurred. Gains or losses on disposal are reflected in other operating income. Depreciation is calculated using the straight-line method at rates intended to write-off the cost of the assets over their estimated useful lives.

g Fair values

Fair value is determined for each financial asset individually in accordance with the valuation policies set out below:

- (i) For investments that are traded in organised financial markets, fair value is determined by reference to the quoted market bid prices prevailing on the consolidated statement of financial position date.
- (ii) For unquoted investments, fair value is determined by reference to recent significant buy or sell transactions with third parties that are either completed or are in progress. Where no recent significant transactions have been completed or are in progress, fair value is determined by reference to the current market value of similar investments. For others, the fair value is based on the net present value of estimated future cash flows, or other relevant valuation methods.
- (iii) For investments that have fixed or determinable cash flows, fair value is based on the net present value of estimated future cash flows determined by the Group using current profit rates for investments with similar terms and risk characteristics.
- (iv) Investments which cannot be remeasured to fair value using any of the above techniques are carried at cost, less provision for impairment.

h Business combination and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets and liabilities (including contingent liabilities) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognised directly in the consolidated statement of income in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

i Equity of investment accountholders

All equity of investment accountholders are measured by the amount received during the time of contracting. At the end of the financial period equity of investment accountholders is measured at the amount received plus accrued profit and related reserves less amounts settled. Investment risk reserves and profit equalisation reserves are made at the Group level.

j Investment risk reserve

Investment risk reserves are amounts appropriated out of the income of equity of investment accountholders, after allocating the mudarib share, in order to cater against future losses for equity of investment accountholders.

k Profit equalisation reserve

Profit equalisation reserves are amounts appropriated out of the Mudaraba income, before allocating the mudarib share, in order to maintain a certain level of return on investments for equity of investment accountholders.

l Off-balance sheet equity of investment accountholders

Off-balance sheet equity of investment accountholders represent funds received by the Group from third parties for investment in specified products as directed by the investment accountholders. These assets are managed in a fiduciary capacity and the Group has no entitlement to these assets. Clients bear all of the risks and earn all of the rewards on these investments. Off-balance sheet equity of investment accountholders are not included in the consolidated statement of financial position since the Group does not have the right to use or dispose these investments except within the conditions of the contract between the Group and off-balance sheet equity of investment accountholders.

m Revenue recognition

Sales receivables

Profit from sales transactions (murabaha) is recognised when the income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised on a time-apportioned basis over the period of the transaction. Where the income from a contract is not contractually determinable or quantifiable, it is recognised when the realisation is reasonably certain or when actually realised. Income related to accounts that are 90 days overdue is excluded from the consolidated statement of income.

Mudaraba financing

Income on mudaraba financing is recognised when the right to receive payment is established or on distribution by the mudarib, whereas losses are charged to income on declaration by the mudarib.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2013

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

m Revenue recognition (continued)

Ijara Muntahia Bittamleek

Ijara income is recognised on a time apportioned basis over the Ijara term and is stated net of depreciation. Income related to non-performing ijara muntahia bittamleek accounts that are above 90 days is excluded from the consolidated statement of income.

Musharaka

Income on musharaka is recognised when the right to receive payment is established or on distribution.

Group's share of income from equity of investment accountholders (as a Mudarib and Rabalmaal)

The Group's share as a Mudarib for managing equity of investment accountholders is accrued based on the terms and conditions of the related Mudarib agreements.

Fees and commission income

Fees and commission income including structuring fees is recognised when earned.

Dividends

Dividends are recognised when the right to receive payment is established.

Mudarib's share of off-balance sheet equity of investment accountholders

The Group shares profit for managing off-balance sheet equity of investment accountholders based on the terms and conditions of related contracts.

Income from investments

Income from investments is recognised when earned.

Rental income

Rental income is accounted for on a straight-line basis over the Ijara terms.

n Return on equity of investment accountholders

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 costs and depreciation. The Group's "mudarib profit" is deducted from the investors' share of income before distributing such income. In some cases, equity of investment accountholders withdrawn before maturity and without completing three months are normally not entitled to any income. Equity of investment accountholders held for more than three months and withdrawn before their maturity are entitled to income only after deducting a penalty charge.

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

o Investment pool expenses

Investment pool expenses include business, administrative, general and other expenses.

p Taxation

There is no tax on corporate income in the Kingdom of Bahrain. The subsidiary in Pakistan pays tax as per Pakistan tax regulations.

Current

Provision for current taxation is based on taxable income in accordance with the tax laws as applicable in Pakistan.

Deferred

The Group accounts for deferred taxation on material temporary differences using the liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences. Deferred tax debits are recognised only if there is a reasonable expectation of realisation in the foreseeable future. Deferred tax is reduced to the extent that it is no longer probable that related tax benefits will be realised.

q Contingencies and Commitments

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

r Derecognition

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

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

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

s Earnings prohibited by Shari'a

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

t Foreign currencies

Foreign currency transactions at the entity level

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the consolidated statement of financial position date. All differences are taken to consolidated statement of income at the entity level.

Foreign currency translations

As at the reporting date, the assets and liabilities in foreign currencies are translated into the presentation currency of the Group (United States Dollar) at the rate of exchange ruling at the consolidated statement of financial position date and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2013

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

t Foreign currencies (continued)

Foreign currency translations (continued)

their income and expenses are translated at the average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of owners' equity. On disposal of a foreign operation, the deferred cumulative amount recognised in owners' equity relating to that particular foreign operation is recognised in the consolidated statement of income.

u Impairment of financial assets

An assessment is made at each consolidated statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of income. Specific provisions are created to reduce all impaired financial contracts to their realisable cash equivalent value. Financial assets are written off only in circumstances where effectively all possible means of recovery have been exhausted.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment value was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated statement of income. In the case of equity-type instruments at fair value through equity, impairment is reflected directly as a write down of the financial asset. Impairment losses on equity-type instruments at fair value through equity are not reversed through the consolidated statement of income while any subsequent increases in their fair value are recognised directly in owners' equity.

v Judgements and estimates

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

Impairment and uncollectibility of financial assets

An assessment is made at each consolidated statement of financial position date to determine whether there is objective evidence that a specific financial asset or a group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the assessment by the Group of the value to it of anticipated future cash flows, is recognised in the consolidated statement of income. Specific provisions are created to reduce all impaired financial contracts to their realisable cash equivalent value.

Fair valuation of investments

The determination of fair values of unquoted investments requires management to make estimates and assumptions that may affect the reported amount of assets at the date of consolidated financial statements.

Nonetheless, the actual amount that is realised in a future transaction may differ from the current estimate of fair value and may still be outside management estimates, given the inherent uncertainty surrounding valuation of unquoted investments.

Going concern

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

Classification of investments

Management decides on acquisition of an investment whether it should be classified as equity-type instrument at fair value through statement of income, equity-type instrument at fair value through equity or debt-type instrument at amortised cost.

w Employees' end of service benefits

Provision is made for leaving indemnity payable under the Bahraini Labour Law applicable to non-Bahraini employees' accumulated periods of service at the consolidated statement of financial position date. Moreover provision for indemnity payable is also made for Bahraini employees.

Bahraini employees of the Group are covered by contributions made to the Social Insurance Organisation (SIO) as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

Defined benefit plan

The subsidiary in Pakistan operates an approved funded gratuity scheme for all its permanent employees. Annual contributions are made to the scheme in accordance with the actuarial recommendation. The actuarial valuation is carried out using the projected unit credit method. Actuarial gains and losses at each valuation date in excess of the greater of 10% of the present value of the defined benefit obligation or 10% of the fair value of the plan assets, as computed as of the previous statement of financial position date, are amortised over the average remaining working lives of the employees.

Defined contribution plan

The subsidiary in Pakistan also operates a recognised contributory provident fund for all permanent employees. Equal monthly contributions are made, both by the subsidiary and the employees, to the fund at a rate of 10 percent of basic salary.

x Zakah

The responsibility of payment of Zakah is on individual shareholders and investment accountholders. In Pakistan, zakah is deducted at source from accountholders as required by local laws. Zakah per share is presented in the Shari'a Supervisory Board Report.

y Joint and self financed

Investments, financing and receivables that are jointly owned by the Group and the equity of investment accountholders are classified under the caption "jointly financed" in the consolidated financial statements. Investments, financing and receivables that are financed solely by the Group are classified under "self financed".

z Offsetting

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

aa Shari'a supervisory board

The Group's business activities are subject to the supervision of a Shari'a supervisory board consisting of four members appointed by the general assembly of shareholders.

ab Trade date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2013

3 CASH AND BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS

	2013 US\$	2012 US\$
Cash in hand	17,871,984	16,940,017
Balances with State Bank of Pakistan		
Current account	4,993,587	5,182,581
Capital deposit account	11,000,000	
Mandatory reserves	23,024,938	24,194,817
	39,018,525	29,377,398
Balances with CBB		
Current account	9,636,124	9,537,698
Mandatory reserves	16,618,037	13,177,719
	26,254,161	22,715,417
Balances with other banks and financial institutions	236,496,034	148,111,599
	319,640,704	217,144,431

The mandatory reserves with central banks are not available for use in the day-to-day operations.

4 SALES RECEIVABLES

	2013			2012		
	Self financed US\$	Jointly financed US\$	Total US\$	Self financed US\$	Jointly financed US\$	Total US\$
Commodities	-	184,773,667	184,773,667	-	70,904,447	70,904,447
Salam financing	-	43,610,867	43,610,867	-	35,509,004	35,509,004
Istisna'a financing	-	16,983,359	16,983,359	-	4,714,374	4,714,374
Murabaha	11,075,670	440,093,862	451,169,532	22,618,052	416,982,216	439,600,268
Others	-	5,984,312	5,984,312	-	-	-
Gross sales receivable	11,075,670	691,446,067	702,521,737	22,618,052	528,110,041	550,728,093
Deferred profits	-	(25,082,382)	(25,082,382)	(1,046,910)	(26,496,830)	(27,543,740)
	11,075,670	666,363,685	677,439,355	21,571,142	501,613,211	523,184,353
Provision for impairment (note 22)	-	(43,741,628)	(43,741,628)	-	(47,723,936)	(47,723,936)
Net sales receivable	11,075,670	622,622,057	633,697,727	21,571,142	453,889,275	475,460,417

Sales receivables which are non-performing as of 31 December 2013 amounted to US\$ 79.559 million (2012: US\$ 91.667 million).

5 MUDARABA FINANCING

	2013			2012		
	Self financed US\$	Jointly financed US\$	Total US\$	Self financed US\$	Jointly financed US\$	Total US\$
Banks and financial institutions	1,729,061	-	1,729,061	5,318,913	29,542,013	34,860,926

6 IJARA MUNTAHIA BITTAMLEEK

	2013			2012		
	Self financed US\$	Jointly financed US\$	Total US\$	Self financed US\$	Jointly financed US\$	Total US\$
Building						
Cost	-	91,617,654	91,617,654	-	89,280,633	89,280,633
Accumulated depreciation	-	18,720,175	18,720,175	-	21,214,134	21,214,134
Net book value	-	72,897,479	72,897,479	-	68,066,499	68,066,499
Equipment						
Cost	-	54,444,254	54,444,254	-	53,281,261	53,281,261
Accumulated depreciation	-	21,251,054	21,251,054	-	24,846,586	24,846,586
Net book value	-	33,193,200	33,193,200	-	28,434,675	28,434,675
Others						
Cost	1,851,441	28,265,040	30,116,481	2,713,849	25,736,757	28,450,606
Accumulated depreciation	1,851,441	7,775,806	9,627,247	2,713,849	9,005,396	11,719,245
Net book value	-	20,489,234	20,489,234	-	16,731,361	16,731,361
TOTAL						
Cost	1,851,441	174,326,948	176,178,389	2,713,849	168,298,651	171,012,500
Accumulated depreciation	1,851,441	47,747,035	49,598,476	2,713,849	55,066,116	57,779,965
Net book value	-	126,579,913	126,579,913	-	113,232,535	113,232,535

7 MUSHARAKA

	2013			2012		
	Self financed US\$	Jointly financed US\$	Total US\$	Self financed US\$	Jointly financed US\$	Total US\$
Musharaka	4,480,000	73,902,523	78,382,523	4,480,000	64,876,914	69,356,914
Provision for impairment (note 22)	-	(5,927,025)	(5,927,025)	-	(6,864,543)	(6,864,543)
	4,480,000	67,975,498	72,455,498	4,480,000	58,012,371	62,492,371

Musharaka which are impaired as of 31 December 2013 amounted to US\$ 9.251million (2012: US\$ 17.682 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2013

8 INVESTMENTS

	2013			2012		
	Self financed US\$	Jointly financed US\$	Total US\$	Self financed US\$	Jointly financed US\$	Total US\$
i) Debt-type instruments at amortised cost						
Quoted						
Sukuk	4,802,358	101,316,604	106,118,962	-	29,527,746	29,527,746
Unquoted						
Sukuk	57,828,883	137,229,000	195,057,883	42,257,418	248,017,798	290,275,216
	62,631,241	238,545,604	301,176,845	42,257,418	277,545,544	319,802,962
ii) Equity-type instruments at fair value through equity						
Quoted						
Private equity	-	186,005	186,005	-	295,981	295,981
Managed funds	-	-	-	13,501,342	-	13,501,342
Unquoted						
Private equity (note 8.1)	28,351,320	495,611	28,846,931	64,515,664	537,315	65,052,979
Managed funds	-	5,011,473	5,011,473	-	5,012,194	5,012,194
Real estate related	3,378,495	912,625	4,291,120	3,676,313	2,572,426	6,248,739
Others	1,000,000	-	1,000,000	1,000,000	-	1,000,000
	32,729,815	6,605,714	39,335,529	82,693,319	8,417,916	91,111,235
Less: Provision for impairment (note 22)	(2,460,643)	(2,558,632)	(5,019,275)	(6,904,957)	(3,273,209)	(10,178,166)
Total investments	92,900,413	242,592,686	335,493,099	118,045,780	282,690,251	400,736,031

Included in quoted equity type instruments, US\$ 0.099 million (2012: US\$ 10.024 thousand) of investments are fair valued using quoted prices in active markets for identical instruments;

Within unquoted equity type instruments, US\$ 6.031 thousand (2012: US\$ 42.237 thousand) investments are fair valued using directly or indirectly observable inputs; and

Under unquoted investments which are held at fair value through equity are investments amounting to US\$ 29.858 thousand (2012: US\$ 27.676 thousand) which are held at cost less provision for impairment.

The Group's investments in sukuk held at amortised cost amounting to US\$ 299.505 thousand (2012: US\$ 318.510 thousand) has a fair value amounting to US\$ 298.073 thousand (2012: US\$ 321.521 thousand).

The investments stated at a carrying amount of US\$ 48.870 thousand (2012: nil) are secured as guarantee against the borrowing from a financial institution.

Note 8.1

During the period, the Group sold 7.68% equity stake in Al Tawfeeq a related party for a consideration of US\$ 36.319 thousand.

9 INVESTMENT IN REAL ESTATE

	2013 US\$	2012 US\$
Building	3,204,488	2,941,826
Additions	2,066	262,662
Transfer from other assets (note 13.3)	1,842,462	-
Changes in fair value (note 20)	500,000	-
	5,549,016	3,204,488

During the year, the Group has revalued its investment in real estate based on valuation performed by independent valuers. The carrying values of the investment was adjusted to reflect the changes in fair value with the corresponding impact to the consolidated statement of income to the extent of crediting back previously recognised fair value losses.

10 IJARA INCOME RECEIVABLES

	2013			2012		
	Self financed US\$	Jointly financed US\$	Total US\$	Self financed US\$	Jointly financed US\$	Total US\$
Ijara income receivables	566,801	18,099,835	18,666,636	1,080,657	23,335,327	24,415,984
Provision for impairment (note 22)	-	(1,415,244)	(1,415,244)	-	(2,092,490)	(2,092,490)
	566,801	16,684,591	17,251,392	1,080,657	21,242,837	22,323,494

Total Ijara Muntahia Bittamleek and Ijara income receivables, which are non-performing as of 31 December 2013, amounted to US\$ 2.881 million (2012: US\$ 4.289 million).

11 PREMISES AND EQUIPMENT

	Land and Buildings US\$	Computer Software & license US\$	Office furniture and equipment US\$	Vehicles US\$	Total US\$
Cost:					
At 1 January 2013	18,891,157	7,917,857	15,896,502	1,280,856	43,986,372
Additions	2,923,860	208,608	1,731,828	246,467	5,110,763
Disposals	(181,166)	-	(2,101)	(416,994)	(600,261)
Exchange difference on opening balance	(690,098)	(181,946)	(643,803)	(85,906)	(1,601,753)
At 31 December 2013	20,943,753	7,944,519	16,982,426	1,024,423	46,895,121
Depreciation:					
At 1 January 2013	3,060,554	6,282,911	11,541,111	1,045,008	21,929,584
Provided during the year	729,451	645,731	1,302,367	131,490	2,809,039
Disposals	(94,757)	-	(1,667)	(413,887)	(510,311)
Exchange difference on opening balance	(67,072)	(125,713)	(415,016)	(67,601)	(675,402)
At 31 December 2013	3,628,176	6,802,929	12,426,795	695,010	23,552,910
Net book values:					
At 31 December 2013	17,315,577	1,141,590	4,555,631	329,413	23,342,211
At 31 December 2012	15,830,603	1,634,946	4,355,391	235,848	22,056,788
Estimated useful lives for calculation of depreciation	20-30 years	4-5 years	1-10 years	4-5 years	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2013

12 GOODWILL

	2013 US\$	2012 US\$
At 1 January	19,038,642	20,563,499
Foreign exchange translations	(1,477,708)	(1,524,857)
	17,560,934	19,038,642

Goodwill acquired through business combination has been entirely allocated to a single cash generating unit (CGU), Al Baraka Bank (Pakistan) Limited by the Group's management.

The recoverable amount of the CGU was determined based on value in use calculation using cash flow projections from financial budgets approved by the Group's senior management covering a five year period. Management determined budgeted spreads based on the CGU's past performance and its expectation of market development.

The calculation of value in use for the CGU is sensitive to the following key assumptions:

1) Discount rate

Discount rate represents the factor that translates the projected cash flows into present value terms in order to arrive at an indicative business valuation of the CGU. The rate used by the management to discount the future cash flow projections is 23.5% (2012: 24%) and is not only reflective of the time value of money but also the risk associated with the business future operations and the geographical segment in which it operates.

2) Terminal value

The Group's management has used industry's price to book multiple to arrive at the CGU's terminal value. The multiple used in calculating the CGU's value is 1.36 (2012: 1.2x).

At a discount rate of 23.5% (2012: 24%) and price to book multiple of 1.37 (2012: 1.2x), the recoverable amount of the CGU exceeded its net book value by US\$ 24.32 million (2012: US\$ 31.53 million).

Sensitivity to changes in key assumptions

The key assumptions used in estimating recoverable amounts of cash generating units were sensitised to test the resilience of value in use calculations. On this basis, management believes that reasonable changes in key assumptions used to determine the recoverable amount of the Group's cash generating units will not result in an impairment.

13 OTHER ASSETS

	2013 US\$	2012 US\$
Subordinated qard hasan (note 13.1)	26,665,782	-
Deferred tax (note 13.2)	13,673,932	13,929,761
Advance against financing transactions	12,240,225	12,952,495
Accounts receivable	8,569,925	6,209,039
Advance tax (note 23)	2,580,843	2,855,222
Income receivable	677,115	358,810
Advance against capital expenditure	5,779,797	6,854,183
Collateral pending sale (note 13.3)	-	1,842,462
Others	10,376,035	4,461,646
Total	80,563,654	49,463,618
Provision for impairment (note 22)	(2,656,031)	(1,584,203)
	77,907,623	47,879,415

- 13.1 This represents profit free subordinated qard hasan granted to Itqan Capital a related party to support its financial and operating activities maturing on 28 February 2018.
- 13.2 The above net deferred tax asset has been recognised in accordance with the Group's accounting policy. The management based on financial projections prepared during the year, estimates that sufficient taxable profits would be available in future against which the deferred tax asset could be realised.
- 13.3 During the year the management transferred its collateral pending sale to investment in real estate as it is currently being rented on operating lease. Accordingly, the classification has been changed to investment in real estate.

14 OTHER LIABILITIES

	2013 US\$	2012 US\$
Margins received	15,246,449	6,981,214
Accounts payable	11,666,217	4,145,598
Security deposit against Ijara Muntahia Bittamleek	7,710,530	6,589,970
Bills payable	6,889,262	7,685,569
Provision for employees benefits	4,337,015	3,632,897
Rentals received in advance	2,153,857	1,170,125
Charity fund	1,375,448	1,736,505
Others	1,365,933	1,626,722
	50,744,711	33,568,600

15 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH)

The Group manages and deploys Equity of IAH according to its Article of Association – Chapter 3 on Rules of Business. In this respect, the Bank invests its own funds separately or jointly with amount received from Equity of Investment Account Holders. These funds received are managed in accordance with Shari'a requirements and standard of prudence is applied in the context of managing the overall portfolios to enable the Bank to exercise its fiduciary responsibilities. The Group is authorised by Equity of Investment Accountholders to invest the funds on the basis of Mudaraba, Murabaha, Salam, Ijara transactions and other forms of contract in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

	2013 US\$	2012 US\$
IAH - Banks	212,097,474	145,465,301
IAH - Non-banks	903,675,439	818,923,132
Profit equalisation reserve (note 15.1)	573,411	544,632
Investment risk reserve (notes 15.2)	2,418,610	2,604,947
	1,118,764,934	967,538,012

15.1 Movement in profit equalisation reserve

	2013 US\$	2012 US\$
Balance at 1 January	544,632	524,542
Amount apportioned from income allocable to equity of investment accountholders	28,779	20,090
Balance at 31 December	573,411	544,632

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2013

15 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH) (CONTINUED)

15.2 Movement in investment risk reserve

	2013 US\$	2012 US\$
Balance at 1 January	2,604,947	2,737,120
Exchange difference	476	214
Amount apportioned to provision (note: 22)	(186,813)	(132,387)
Balance at 31 December	2,418,610	2,604,947

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.

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

As investment accountholder's 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 equity of investment accountholders is upto a maximum of 70% (2012: upto 70%) as per the terms of IAH agreements.

The Group has charged a total administrative expense of US \$ 2.429 million (2012: US \$ 2.451 million) to equity of investment account holders.

15.3 Equity of Investment Accountholders rate of return

	Average 2013 Rate of return %			Average 2012 Rate of return %		
	Bahrain		Pakistan	Bahrain		Pakistan
	BD	USD		BD	USD	
Saving Accounts	0.68%	0.53%	4.36%	0.78%	-	5.94%
One Month Investment Account	1.79%	0.90%	3.87%	1.82%	-	6.05%
Three Months Investment Account	2.07%	0.86%	5.44%	2.27%	0.79%	6.50%
Six Months Investment Account	2.35%	1.10%	5.69%	2.46%	0.84%	6.75%
Nine Months Investment Account	2.37%	1.29%	-	2.71%	-	-
1 Year Investment Account	2.74%	1.50%	6.76%	2.91%	0.90%	8.01%
2 Years Investment Account	3.19%	-	7.98%	-	1.01%	8.38%
3 Years Investment Account	3.19%	-	8.10%	-	-	8.44%
4 Years Investment Account	-	-	8.00%	-	-	8.55%
5 Years Investment Account	-	-	9.00%	-	-	9.54%

15.4 Equity of Investment Accountholders by type

	2013 US\$	2012 US\$
Saving Accounts	376,874,543	303,485,221
One Month Investment Account	74,410,731	64,210,067
Three Months Investment Account	99,348,785	148,370,912
Six Months Investment Account	159,779,074	76,039,834
Nine Months Investment Account	648,114	723,798
1 Year Investment Account	316,188,209	296,971,245
2 Year Investment Account	37,197,712	5,530,993
3 Year Investment Account	18,646,619	30,412,049
4 Year Investment Account	268,699	325,276
5 Year Investment Account	35,402,448	41,468,617
	1,118,764,934	967,538,012

15.5 Equity of Investment Accountholders by maturity

	2013 US\$	2012 US\$
Accounts on demand	376,874,543	303,485,221
Accounts on a contractual basis *	741,890,391	664,052,791
	1,118,764,934	967,538,012

* These can be withdrawn subject to deduction of profit upon management discretion.

16 OWNERS' EQUITY

	2013 US\$	2012 US\$
(i) <i>Share capital</i>		
Authorised 6,000,000 ordinary shares (2012: 6,000,000) of US\$ 100 each	600,000,000	600,000,000
	2013 US\$	2012 US\$
Issued and fully paid 1,224,578 ordinary shares (2012: 1,224,578) of US\$ 100 each	122,457,800	122,457,800

Additional information on shareholding pattern

Names and nationalities of the major shareholder and the number of shares where they have an interest of 5% or more of outstanding shares:

Name	Domicile	No. of shares	% holding
Al Baraka Banking Group B.S.C.	Bahrain	1,115,755	91.11%

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

Distribution schedule of shares, setting out the number and percentage of holders in the following categories;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2013

16 OWNERS' EQUITY (CONTINUED)

	2013			2012		
	Number of shares	Number of shareholders	% of total outstanding shares	Number of shares	Number of shareholders	% of total outstanding shares
Less than 1%	58,823	12	4.81%	58,823	12	4.81%
1% up to less than 5%	50,000	1	4.08%	50,000	1	4.08%
	108,823	13	8.89%	108,823	13	8.89%

(ii) Statutory reserve

In accordance with the Bahrain Commercial Companies Law and the Bank's articles of association, 10% of the net income for the year is transferred to the statutory reserve until such time as the reserve reaches 50% of the Bank's paid-up share capital. The reserve is not distributable except in such circumstances as stipulated in the Bahrain Commercial Companies Law and following the approval of the CBB. An amount of US \$ 0.097 million was transferred to statutory reserve for the year ended 31 December 2013 (31 December 2012 : nil).

(iii) General reserve

In accordance with the Bank's articles of association, the Bank may transfer any amount, as approved by the General Assembly, out of net income for the year to the general reserve after appropriating statutory reserve. The general reserve is distributable, subject to the approval of the CBB.

(iv) Cumulative changes in fair value

This represents the net unrealised fair value changes relating to the equity of the parent on equity-type instruments at fair value through equity and investment in real estate.

(v) Foreign exchange reserve

This represents the translation effects arising on the consolidation of the subsidiary.

17 CONTINGENCIES AND COMMITMENTS

	2013 US\$	2012 US\$
Letters of credit	132,329,788	50,993,450
Guarantees	58,989,262	61,098,982
Foreign exchange contracts	48,185,270	63,333,859
Acceptances	26,399,793	20,140,351
Taxation	1,928,283	2,090,543
Others (note 17.1)	645,400	3,340,842
	268,477,796	200,998,027

17.1 Law Suits

During the year 2010, a constitutional petition and certain suits have been filed by a client in Pakistan in the Honourable High Court of Sindh against Al Baraka Bank (Pakistan) Limited wherein the client has claimed that he was offered 24 million ordinary shares of Al Baraka Bank (Pakistan) Limited at an aggregate value of US \$ 2.85 million (2012: US \$ 3.08 million) as sale consideration against the commercial property sold to the Al Baraka Bank (Pakistan) Limited. He further claimed that in addition to the said property, he has also paid US \$ 0.57 million (2012: US \$ 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 the client. Based on the above, the client has alleged that Al Baraka Bank (Pakistan) Limited is involved in illegal business and has requested the Court to direct the SBP not to grant approval to the merger as discussed in note 1. Al Baraka Bank (Pakistan) Limited contends that the aforesaid allegations of the client are baseless and without any merit and that the subject property has been duly purchased and paid for by Al Baraka Bank (Pakistan)

Limited. Further, in the opinion of legal advisor of Al Baraka Bank (Pakistan) Limited, the petitioner is not likely to be successful in securing the reliefs requested in the said petitions.

In terms of the merger agreement dated 16 August 2010 between sponsors shareholders of Al Baraka Bank (Pakistan) Limited and the Bank, 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 Al Baraka Bank (Pakistan) Limited on account of the client's Litigations including any additional or ancillary litigation or proceedings filed by the client's Group in relation to the subject matter.

18 INCOME FROM JOINTLY AND SELF FINANCED, OTHER FINANCINGS AND INVESTMENTS

	2013 US\$	2012 US\$
Income from investments	25,431,503	36,175,482
Ijara Muntahia Bittamleek (note 18.1) - net	10,663,095	11,514,916
Musharaka	5,274,544	5,067,636
Gain on sale of investments	3,951,298	1,469,966
Mudaraba financing	971,826	1,246,080
Istisna financing	745,214	794,899
Dividends	49,500	34,911
Rental income	163,725	203,733
Total	47,250,705	56,507,623
Income from jointly financed, other financings and investments	39,512,212	49,460,625
Income from self financed, other financings and investments	7,738,493	7,046,998
	47,250,705	56,507,623

18.1 Ijara Muntahia Bittamleek

	2013 US\$	2012 US\$
Income from Ijara Muntahia Bittamleek	40,599,383	37,891,159
Depreciation on Ijara Muntahia Bittamleek	(29,936,288)	(26,376,243)
	10,663,095	11,514,916

19 REVENUE FROM BANKING SERVICES

	2013 US\$	2012 US\$
Fees and commissions	2,925,905	3,005,757
Letters of credit and acceptances	2,981,014	2,862,885
Guarantees	717,965	757,310
	6,624,884	6,625,952

20 OTHER INCOME

	2013 US\$	2012 US\$
Foreign exchange gain - net	2,235,531	1,639,256
Fair value gain on investment in real estate (note 9)	500,000	-
Others	727,116	821,373
	3,462,647	2,460,629

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2013

21 OTHER OPERATING EXPENSES

	2013 US\$	2012 US\$
Administrative expenses	4,934,048	4,853,435
Premises costs	6,549,291	6,499,398
Business expenses	2,769,523	3,061,386
General expenses	1,361,016	1,373,015
	15,613,878	15,787,234

22 MOVEMENT IN PROVISIONS FOR IMPAIRMENT

2013	Sales receivables US\$	Musharaka US\$	Investments US\$	Ijara income receivables US\$	Other assets US\$	Total US\$
Provision at beginning of the year	47,723,936	6,864,543	10,178,166	2,092,490	1,584,203	68,443,338
Charged during the year	5,673,815	1,323,195	1,260,888	617,706	1,433,224	10,308,828
Written back during the year	(4,521,506)	(1,718,215)	(637,847)	(46,648)	(238,437)	(7,162,653)
	1,152,309	(395,020)	623,041	571,058	1,194,787	3,146,175
	48,876,245	6,469,523	10,801,207	2,663,548	2,778,990	71,589,513
Written off during the year	(3,734,352)	-	(5,698,500)	(1,181,195)	-	(10,614,047)
Transferred from investment risk reserve (note 15.2)	186,813	-	-	-	-	186,813
Exchange difference on opening balance	(1,587,078)	(542,498)	(83,432)	(67,109)	(122,959)	(2,403,076)
Provision at end of the year	43,741,628	5,927,025	5,019,275	1,415,244	2,656,031	58,759,203
Notes	4	7	8	10	13	

2012	Sales receivables US\$	Musharaka US\$	Investments US\$	Ijara income receivables US\$	Other assets US\$	Total US\$
Provision at beginning of the year	46,717,680	3,348,563	6,026,895	2,333,516	752,200	59,178,854
Charged during the year	6,269,416	4,146,970	4,218,661	386,397	887,781	15,909,225
Written back during the year	(2,558,127)	(382,681)	(14,278)	(394,475)	-	(3,349,561)
	3,711,289	3,764,289	4,204,383	(8,078)	887,781	12,559,664
	50,428,969	7,112,852	10,231,278	2,325,438	1,639,981	71,738,518
Written off during the year	(1,336,914)	-	-	(147,499)	-	(1,484,413)
Transferred to investment risk reserve (note 15.2)	132,387	-	-	-	-	132,387
Exchange difference on opening balance	(1,500,506)	(248,309)	(53,112)	(85,449)	(55,778)	(1,943,154)
Provision at end of the year	47,723,936	6,864,543	10,178,166	2,092,490	1,584,203	68,443,338
Notes	4	7	8	10	13	

The total general provision maintained against financing facilities as of 31 December 2013 amounted to US\$ 598 thousand (2012: US\$ 600 thousand).

23 TAXATION

Taxation relates to subsidiary in Pakistan and comprise:

	2013 US\$	2012 US\$
Consolidated statement of financial position:		
Advance tax - net	2,580,843	2,855,222
Consolidated statement of income:		
Current tax	(638,382)	(403,122)
Deferred tax	825,347	3,317,777
	186,965	2,914,655

24 CASH AND CASH EQUIVALENTS

For the purpose of cash flows, cash and cash equivalents represent:

	2013 US\$	2012 US\$
Cash in hand	17,871,984	16,940,017
Balances with central banks	65,272,686	52,092,815
Balances with other banks and financial institutions	236,496,034	148,111,599
Sales receivables - international commodities (with an original maturity of 90 days or less)	184,682,692	70,861,913
	504,323,396	288,006,344

25 RELATED PARTY TRANSACTIONS

Related parties comprise major shareholders, directors of the Group, entities owned or controlled, jointly controlled or significantly influenced by them, companies affiliated by virtue of shareholding in common with that of the Group, Shari'a supervisory board and external auditors.

The significant balances with related parties at 31 December were as follows:

	Shareholders		Other Related Parties		Total	
	2013 US\$	2012 US\$	2013 US\$	2012 US\$	2013 US\$	2012 US\$
Assets						
Cash and balances with banks and financial institutions	66,606	13,120	177,419	85,661	244,025	98,781
Sales receivables	-	-	49,722,801	15,391,289	49,722,801	15,391,289
Mudaraba financing	-	-	1,729,061	34,860,926	1,729,061	34,860,926
Ijara Muntahia Bittamleek	-	-	4,107,393	5,011,117	4,107,393	5,011,117
Musharaka	-	-	927,765	739,510	927,765	739,510
Ijara income receivables	-	-	45,422	13,748	45,422	13,748
Investments	-	-	27,933,732	64,096,410	27,933,732	64,096,410
Other assets	2,615,401	572,290	29,375,942	238,458	31,991,343	810,748
	2,682,007	585,410	114,019,535	120,437,119	116,701,542	
Liabilities:						
Due to banks and financial institutions	4,346,142	2,964,513	45,526,662	25,501,556	49,872,804	28,466,069
Current accounts	1,974,081	2,039,058	585,092	428,099	2,559,173	2,467,157
Other liabilities	19,922	21,598	6,012,300	824	6,032,222	22,422
	6,340,145	5,025,169	52,124,054	25,930,479	58,464,199	30,955,648
Equity of investment accountholders	15,905,443	21,852,027	65,603,516	73,202,341	81,508,959	95,054,368
Off-balance sheet equity of investment accountholders	8,130,000	25,314,879	86,735,865	27,857,439	94,865,865	53,172,318
Contingencies and commitments	-	-	15,746,077	18,490,556	15,746,077	18,490,556

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2013

25 RELATED PARTY TRANSACTIONS (CONTINUED)

The transactions with the related parties included in the statement of income are as follows:

	2013 US\$	2012 US\$
Income		
Income from jointly financed sales	676,774	126,448
Income from jointly financed, other financings and investments	1,156,983	1,326,542
Group's income from self financed, other financings	174,327	381,127
Other income	574,415	574,415
Group's Mudarib/agency fee from off-balance sheet equity of investment account holders	31,603	77,753
	2,614,102	2,486,285
Expenses		
Return on equity of investment accountholders before Group's share as a Mudarib	2,681,086	3,014,101
Other expenses	796,247	750,794
Loss on sale of equity-type investment	-	1,626,710
	3,477,333	5,391,605

Compensation of key management personnel is as follows:

Key management personnel includes the staff in grade of senior manager and above.

	2013 US\$	2012 US\$
Salaries	3,057,853	3,033,621
Other benefits	1,738,397	1,724,763
	4,796,250	4,758,384

26 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.

a) 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 a regular basis.

The table below summarises the maturity profile of the Group's assets and liabilities as of 31 December 2013 based on expected periods to cash conversion from the consolidated statement of financial position date:

	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	268,997,729	-	-	-	-	-	-	-	50,642,975	319,640,704
Sales receivables	321,044,444	166,836,668	48,207,850	38,133,851	16,507,378	6,543,276	-	-	36,424,260	633,697,727
Mudaraba financing	1,729,061	-	-	-	-	-	-	-	-	1,729,061
Ijara Muntahia Bittamleek	11,370,893	3,238,609	7,841,949	35,386,301	33,502,583	16,861,643	15,988,481	2,389,454	-	126,579,913
Musharaka	3,553,495	11,440	7,052,497	20,266,145	14,977,033	18,280,458	4,923,195	-	3,391,235	72,455,498
Investments	63,257,095	4,803,850	68,533,404	60,518,528	71,805,323	29,167,430	1,000,000	-	36,407,469	335,493,099
Investment in real estate	-	-	-	5,549,016	-	-	-	-	-	5,549,016
Ijara income receivables	2,354,298	442,147	1,288,655	4,312,012	3,240,404	2,726,810	1,171,535	175,084	1,540,447	17,251,392
Premises and equipment	-	-	-	-	-	-	-	-	23,342,211	23,342,211
Goodwill	-	-	-	-	-	-	-	-	17,560,934	17,560,934
Other assets	13,732,828	528,244	8,515,460	86,321	51,511,295	-	-	-	3,533,475	77,907,623
Total assets	686,039,843	175,860,958	141,439,815	164,252,174	191,544,016	73,579,617	23,083,211	2,564,538	172,843,006	1,631,207,178
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS										
Due to banks and financial institutions	93,722,207	13,276,101	-	22,000,000	-	-	-	-	-	128,998,308
Current accounts	167,899,912	-	-	-	-	-	-	-	-	167,899,912
Other liabilities	31,476,851	816,444	263,802	13,914,456	4,258,992	14,166	-	-	-	50,744,711
Total liabilities	293,098,970	14,092,545	263,802	35,914,456	4,258,992	14,166	-	-	-	347,642,931
Equity of investment accountholders	471,504,143	252,968,739	224,118,637	157,025,277	13,148,138	-	-	-	-	1,118,764,934
Total owners' equity	-	-	-	-	-	-	-	-	164,799,313	164,799,313
Total liabilities, Equity of investment accountholders and owner's equity	764,603,113	267,061,284	224,382,439	192,939,733	17,407,130	14,166	-	-	164,799,313	1,631,207,178
Net gap	(78,563,270)	(91,200,326)	(82,942,624)	(28,687,559)	174,136,886	73,565,451	23,083,211	2,564,538	8,043,693	-
Cumulative net gap	(78,563,270)	(169,763,596)	(252,706,220)	(281,393,779)	(107,256,893)	(33,691,442)	(10,608,231)	(8,043,693)	-	-
Off-balance sheet equity of investment accountholders	30,618,765	76,000,000	30,158,760	-	-	-	-	-	-	136,777,525

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2013

26 RISK MANAGEMENT (CONTINUED)

a) Liquidity risk (Continued)

The table below summarises the maturity profile of the Group's assets and liabilities as of 31 December 2012 based on expected periods to cash conversion from the date of the consolidated statement of financial position:

	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Over 20 years	No fixed maturity	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
ASSETS										
Cash and balances with banks	179,771,895	-	-	-	-	-	-	-	37,372,536	217,144,431
Sales receivables	188,722,010	133,877,222	56,160,391	33,971,296	11,834,001	9,073,002	-	-	41,822,495	475,460,417
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

	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	10 to 20 years	Over 20 years	No fixed maturity	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2013

26 RISK MANAGEMENT (CONTINUED)

b) Market risk

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

Profit rate risk

Profit rate risk is the risk that the Group will incur a financial loss as a result of mismatch in the profit rate on the Group's assets and IAH. The profit distribution to IAH is based on profit sharing agreements. Therefore, the Group is not subject to any significant profit rate risk.

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.

Following is the Group's exposure to different currencies in equivalent Bahraini Dinars:

	2013		
	Operational equivalent Long US\$	Strategic equivalent Long US\$	Total equivalent Long US\$
Pakistani Rupees	31,253,905	30,387,887	61,641,792
Euro	(3,113,248)	-	(3,113,248)
Kuwaiti Dinars	10,217,508	-	10,217,508
Pound Sterling	105,341	-	105,341
Others	148,196	-	148,196
	2012		
	Operational equivalent Long US\$	Strategic equivalent Long US\$	Total equivalent Long 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
Others	2,977	-	2,977

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

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 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 judgment of the management of the Group.

Following is the sensitivity analysis that calculates the effect of a reasonable possible movement of the currency exchange rate against the Bahraini Dinar with all other variables held constant on the consolidated statement of income and the consolidated statement of owners' equity. The impact of a similar increase / (decrease) in exchange rates will be approximately opposite to the impact disclosed below:

Currency 2013	Particular	Local Currency exposures	Exposures in US\$	Variance after 20% depreciation
Euro	Net Short Position	(2,258,929)	(3,113,248)	(2,490,598)
Pakistani Rupees	Net long Position	6,492,397,086	61,641,792	49,313,434
Kuwaiti Dinars	Net long Position	2,884,810	10,217,508	8,174,006
Pound Sterling	Net long Position	63,727	105,341	84,273
Currency 2012	Particular	Local Currency exposures	Exposures in US\$	Variance after 20% depreciation
Euro	Net long Position	541,373	714,124	571,299
Pakistani Rupees	Net long Position	5,821,616,110	59,924,180	47,939,344
Kuwaiti Dinars	Net long Position	3,226,633	11,474,490	9,179,592
Pound Sterling	Net short Position	59,526	96,223	76,978

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the investment portfolio. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration.

In order to measure the risk of equity on its financial position, the Group adopts a sensitivity analysis on its equity portfolio for 10% increase and decrease of the portfolio's value:

Market indices	Change in equity price 2013 %	Effect on equity 2013 US\$	Change in equity price 2012 %	Effect on equity 2012 US\$
Mumbai Stock Exchange	10%	-	10%	723,880
Other Stock Exchange	10%	9,888	10%	248,894

As at the consolidated statement of financial position date, the Group had unquoted investments of US\$ 35.89 million (31 December 2012: US\$ 72.19 million). The impact of changes in the value of these unquoted investments and the related impact on equity will only be reflected when the investment is sold or deemed to be impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2013

26 RISK MANAGEMENT (CONTINUED)

b) Market risk (continued)

Concentration of investment portfolio

Concentration of an investment portfolio arises when a number of investments are made in entities engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would be affected by changes in economic, political or other conditions. The Group manages this risk through diversification of investments in terms of geographical distribution and industry concentration. The industry and geographical concentration of the Group's investment portfolio is as follows:

31 December 2013	*GCC US\$	Rest of the world US\$	Total US\$
Banking	36,224,799	10,408,734	46,633,533
Government	44,040,570	184,175,135	228,215,705
Investment companies	27,676,320	-	27,676,320
Manufacturing	-	491,129	491,129
Real estate	11,267,755	1,051,931	12,319,686
Others	9,590,058	10,566,668	20,156,726
	128,799,502	206,693,597	335,493,099

* GCC countries comprise members of the Gulf Co-operation Council being Kingdom of Bahrain, State of Kuwait, Sultanate of Oman, State of Qatar, Kingdom of Saudi Arabia and the United Arab Emirates.

31 December 2012	*GCC US\$	Rest of the world US\$	Total US\$
Banking	36,202,834	2,677,622	38,880,456
Government	17,592,995	244,809,891	262,402,886
Investment companies	63,840,664	-	63,840,664
Manufacturing	-	666,884	666,884
Real estate	7,785,036	1,169,957	8,954,993
Others	1,560,389	24,429,759	25,990,148
	126,981,918	273,754,113	400,736,031

c) 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.

Type of credit risk

Financing contracts mainly comprise Sales receivables, Istisna'a receivables, Mudaraba financing, Musharaka, Ijara financing, and Ijara Muntahia Bittamleek.

Sales receivables

The Group finances these transactions through buying a commodity which represents the object of the murabaha and then resells this commodity to the murabeh (beneficiary) at a profit. The sale price (cost plus the profit margin) is repaid in installments by the murabeh over the agreed period. The transactions are secured at times by the object of the murabaha (in case of real estate finance) and other times by a total collateral package securing the facilities given to the client.

Istisna'a receivables

Istisna'a is a sale agreement between the Group as the seller and the customer as the ultimate purchaser whereby the Group undertakes to have manufactured (or acquire) goods and sell it to the customer for an agreed upon price on completion at future date.

Mudaraba financing

The Group enters into mudaraba contracts by investing in funds operated primarily by other banks and financial institutions for a definite period of time.

Musharaka

An agreement between the Group and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared as per the agreement set between both parties while the loss is shared in proportion to their shares of capital or the enterprise.

Ijara Muntahia Bittamleek

This is a lease whereby the legal title of the leased asset passes to the lessee at the end of the Ijara (lease) term, provided that all Ijara installments are settled.

General credit policies and guiding principles

The following principles summarise the Group's financing and investing policies and form the framework of all financing decisions:

- 1) Financing will be extended when the Group can confidently expect that it will be repaid by the customer as agreed. This necessitates a thorough knowledge of the customer and clear understanding of the risks underlying the credit requests.
- 2) Financing should be extended where there are at least two clear sources of repayments.
- 3) It is generally preferred that the repayments are from cash generated by the customers' productive and ongoing income or activities.
- 4) Amounts, profits/other charges and terms under the prevailing market conditions for any proposed financing are to be consistent with the perceived quality of the risk being undertaken.
- 5) Financing should generally be extended where the Group's seniority as creditors is pari passu or better than any other financing.
- 6) Financing should be structured appropriately considering the purpose of the credit and the source of repayment.
- 7) Financing needs to be assessed on a stand alone basis as well as on portfolio basis to assess its impact on the total financing portfolio.
- 8) Compliance with all applicable local statutory and regulatory directives guidelines should be ensured in all cases.
- 9) Proprietary and ethical standards should be taken into account in all financing decisions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2013

26 RISK MANAGEMENT (CONTINUED)

c) Credit risk (continued)

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk by type of Islamic financing contracts before the effect of mitigation through the use of collateral or other credit enhancements.

	Gross Maximum Exposure to Credit Risk	
	2013 US\$	2012 US\$
Sales receivables	633,697,727	486,783,150
Mudaraba financing	1,729,061	34,860,926
Musharaka	72,455,498	62,492,371
Ijara Muntahia Bittamleek and Ijara income receivables	143,831,305	135,556,029
Contingencies and commitments	265,904,113	195,566,642

Credit quality by type of Islamic financing contracts

The table below shows the credit quality by type of Islamic financing contracts, based on the Group's Credit Rating System (CRS). The balances presented are gross of impairment provision.

Type of Islamic Financing Contract	31 December 2013			
	Neither past due nor non performing US\$	Past due but performing US\$	Non performing Islamic financing contracts US\$	Total US\$
Sales receivables	570,489,598	27,391,247	79,558,510	677,439,355
Mudaraba financing	1,729,061	-	-	1,729,061
Musharaka	68,088,343	1,043,034	9,251,146	78,382,523
Ijara Muntahia Bittamleek and Ijara income receivables	141,293,285	1,064,549	2,888,715	145,246,549
	781,600,287	29,498,830	91,698,371	902,797,488

Type of Islamic Financing Contract	31 December 2012			
	Neither past due nor non performing US\$	Past due but performing US\$	Non performing Islamic financing contracts US\$	Total US\$
Sales receivables	423,407,540	8,109,860	91,666,953	523,184,353
Mudaraba financing	34,860,926	-	-	34,860,926
Musharaka	50,644,451	1,030,650	17,681,813	69,356,914
Ijara Muntahia Bittamleek and Ijara income receivables	131,734,008	1,625,827	4,288,684	137,648,519
	640,646,925	10,766,337	113,637,450	765,050,712

Aging analysis of past due but performing Islamic financing contracts

Type of Islamic Financing Contract	31 December 2013			
	Less than 30 days US\$	31 to 60 days US\$	61 to 90 days US\$	Total US\$
Sales receivables	17,865,810	8,718,578	806,859	27,391,247
Musharaka	97,534	417,655	527,845	1,043,034
Ijara Muntahia Bittamleek and Ijara income receivables	719,086	292,025	53,438	1,064,549
	18,682,430	9,428,258	1,388,142	29,498,830

Type of Islamic Financing Contract	31 December 2012			
	Less than 30 days US\$	31 to 60 days US\$	61 to 90 days US\$	Total US\$
Sales receivables	6,991,257	900,771	217,832	8,109,860
Musharaka	23,401	21,911	985,338	1,030,650
Ijara Muntahia Bittamleek and Ijara income receivables	1,096,712	170,656	358,459	1,625,827
	8,111,370	1,093,338	1,561,629	10,766,337

Aging of Non-Performing Facilities

Type of Islamic Financing Contract	31 December 2013				
	3-6 Months US\$	6-12 Months US\$	1-3 Years US\$	3 Years & above US\$	Total US\$
Sales receivables	8,176,040	630,223	20,122,681	50,629,566	79,558,510
Musharaka	52,957	303,839	3,458,355	5,435,995	9,251,146
Ijara Muntahia Bittamleek and Ijara income receivables	1,694,495	76,929	389,517	727,774	2,888,715
	9,923,492	1,010,991	23,970,553	56,793,335	91,698,371

Type of Islamic Financing Contract	31 December 2012				
	3-6 Months US\$	6-12 Months US\$	1-3 Years US\$	3 Years & above US\$	Total US\$
Sales receivables	11,427,480	15,261,424	11,153,979	53,824,070	91,666,953
Musharaka	6,806,450	54,082	5,754,068	5,067,213	17,681,813
Ijara Muntahia Bittamleek and Ijara income receivables	257,763	1,379,382	647,449	2,004,090	4,288,684
	18,491,693	16,694,888	17,555,496	60,895,373	113,637,450

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2013

26 RISK MANAGEMENT (CONTINUED)

c) Credit risk (continued)

As at 31 December 2013 the fair value of the collateral that the Group holds relating to non performing facilities amounts to US\$ 27.617 million (2012: US\$ 37.55 million). The utilisation of the collaterals will be on customer by customer basis and will be limited to the customer's total exposure. None of the restructured facilities are non-performing as of 31 December 2013 (2012: nil).

Credit Risk Mitigation

For exposures secured by real estate or other collateral, the Group carries out regular and periodic collateral verification and evaluation. This collateral verification is conducted by an independent qualified assessor or Collateral Analyst at the Group. The frequency of such collateral verification is determined as a part of the credit or investment policy and approval process. The Group allows cars, premises and equipment, plant and machinery etc, as collateral for a credit and investment product but does not accept perishable assets. The Group does not accept any assets as collateral if the assets are susceptible for obsolescence. The Group also ensure that these assets are insured in order to be accepted as collateral.

Collaterals listed hereunder attract capital relief from capital adequacy requirements:

- 1) Hamish Jiddiyah (HJ) (Good faith deposit): The Group takes this type of collateral in the transactions for which non-binding promises to perform is given by the customer. If a customer does not honour his promise to perform, the Group has recourse to the HJ. HJ is taken by the Group at the inception of the transaction but before signing the contracts. HJ constitutes partial guarantee to the Group for the performance of the contract by the customer. The Group will still have recourse to the customers for the unsecured position in case of default.
- 2) Third party guarantee: The Group should have recourse to the guarantor in case of customer's default. In order to qualify as eligible collateral, the guarantee should be unconditional and irrevocable. The guarantor must be solvent and, if applicable, should provide the Group with signed audited financial statements.
- 3) Underlying assets of the lease contract: The underlying asset must be of monetary value and the Group must have legal access to it, own it and sell it to cover the open exposure with the customers in question. The assets have also to be free of any kind of encumbrance. In the same lease contract a customer can pledge other assets that customers own other than the underlying assets in the contract. In order for the Group to consider these assets as pledged assets, it must meet all the conditions for the underlying assets under the lease contract. It must be legally enforceable, accessible, saleable and free of any kind of encumbrance. The value of the pledged asset must be used only to offset the amount against the customers.

Any excess amount resulting from the closure of the pledge by the Group should be returned to the customer (pledgor). The Group is conducting at least annual evaluation of the pledged assets and keeping adequate documentation of this evaluation.
- 4) Cash deposit free from any legal encumbrance with the subsidiaries either in the form of equity of investment account holders or off-balance sheet equity of investment account holders.
- 5) Rated and unrated senior Sukuk issued by financial institutions or sovereigns.

Credit Quality

Countries, governments and financial institutions will be rated on the basis of their unsecured medium term foreign currency obligations. This means that for governments and financial institutions the cross-border risk will also be part of the rating and the country's rating will be, in most cases, the ceiling on the financial institution's rating. Corporates will be rated on their senior unsecured medium term local currency obligations, unless the credit granted is across border or in foreign currency. In the latter case, the obligor's country's rating will be the ceiling on corporates' rating. Where all credit to a government is in local currency, the rating for that government is the best i.e. 1 on the rating scale, however, if the exposure to the government includes foreign currency, the rating for that government will be the same as the country's rating.

A rating is a forward looking indication of creditworthiness. It is based on an evaluation of past performance, present conditions and outlook for the future. For the purpose of rating, the Group is using only those External Credit Assessment Institutions (ECAIs) which are allowed/ approved by the CBB and are mainly used in Banking exposures.

The basic approach of the major credit rating agencies to rating is the same as what the Group credit policies require i.e. a comprehensive fundamental analysis of all relevant quantitative and non quantitative factors aimed at identifying actual and potential vulnerability. Credit rating will be applied to Countries and Single Obligors. Single Obligors, in turn are categorised as financial institutions, corporates and governments. CRS therefore rates obligors (issuers) and not facilities. The obligor rating of countries and single obligors will identify the relative probability of default but will not take into account the impact of collateral security, structure etc in the event of default. Facility ratings by contrast, combine both the probability of default and loss severity in case of defaults. However, initially the Group wide policy will be to set up obligor ratings only (which does not prevent individual subsidiaries internally to also rate facilities).

During the year 2013, US\$ 5.745 million (2012: US\$ 4.331 million) of financing facilities were renegotiated. None of the restructured facilities are non-performing as of 31 December 2013 (2012: nil).

d) Operational risk

The Group categorises operational risk loss events into the following categories:

Infrastructure risks

Availability of information technology is of paramount importance to the Group's infrastructure. The operations of the Group might be disrupted and severe operational risks could occur.

In order to protect the Group from the infrastructure risk as outlined above, the Group is taking necessary measures as indicated in the Business Continuity Plan and/or Disaster Recovery Plan to cater for these risks.

Information technology risks

The main risks that the Group is exposed to in this context is from inadequate software and hardware quality, unauthorized access, by third parties or employees, etc.

Staff risk

The main risks that might arise from staff risks are risks due to larceny, fraud, corruption, crime, etc. In order to prevent these risks from occurring, the Group has established a corporate culture which entails constructive ways of dealing with mistakes. The Group has also established an approval control steps in business processes as well as creating separate control processes. Further, the Group has already established measures of organisational structure in terms of segregation of duties as well as diverse training measures to reduce human error.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2013

27 CONCENTRATION OF ASSETS, LIABILITIES AND EQUITY OF INVESTMENT

The distribution by geographic region and industry sector was as follows:

	Assets		Liabilities		Equity of investment accountholders	
	2013 US\$	2012 US\$	2013 US\$	2012 US\$	2013 US\$	2012 US\$
Geographical region						
Middle East	664,436,936	492,199,692	148,427,108	135,365,238	445,785,729	341,503,525
Europe	55,299,537	58,680,734	2,576,716	1,299,130	227,044	175,185
Asia	826,635,484	802,284,213	152,741,004	135,386,315	606,209,544	566,000,989
Others	84,835,221	65,264,899	43,898,103	10,074,542	66,542,617	59,858,313
	1,631,207,178	1,418,429,538	347,642,931	282,125,225	1,118,764,934	967,538,012

	Assets		Liabilities		Equity of investment accountholders	
	2013 US\$	2012 US\$	2013 US\$	2012 US\$	2013 US\$	2012 US\$
Industry sector						
Trading and manufacturing	378,121,164	303,822,469	51,997,755	33,666,328	123,795,964	56,075,445
Banks and financial institutions	656,480,731	494,890,842	162,748,029	109,973,472	318,170,336	203,659,618
Construction	28,741,126	24,329,303	9,585,164	7,005,421	11,834,007	13,269,403
Others	567,864,157	595,386,924	123,311,983	131,480,004	664,964,627	694,533,546
	1,631,207,178	1,418,429,538	347,642,931	282,125,225	1,118,764,934	967,538,012

28 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the value representing the estimate of the amount of cash or cash equivalent that would be received for an asset sold or the amount of cash or cash equivalent paid for a liability extinguished or transferred in an orderly transaction between a willing buyer and a willing seller at the measurement date.

Investments as described in note 8, includes certain equity-type instruments at fair value through equity which are carried at cost, due to the unpredictable nature of their future cash flows and the lack of other suitable methods for arriving at a reliable fair value for these investments.

The fair values of the Group's other financial instruments are not significantly different from their carrying values as at 31 December 2013 and 2012.

29 SEGMENTAL INFORMATION

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.

The results reported for the geographic segments are based on the Group's internal financial reporting systems. The accounting policies of the segments are the same as those applied in the preparation of the Group's consolidated financial statements as set out in note 2. Transactions between segments are conducted at estimated market rates on an arm's length basis.

	Middle East		Other Asian Countries	
	2013 US\$	2012 US\$	2013 US\$	2012 US\$
Assets	806,482,182	668,661,869	824,724,996	749,767,669
Liabilities and equity of investment accountholders	700,602,498	552,271,529	765,805,367	697,391,708
Total income	20,272,249	20,125,150	23,280,154	20,697,538
Total operating expenses	(19,219,673)	(19,642,078)	(20,458,047)	(20,531,537)
Net operating income	1,052,576	483,072	2,822,107	166,001
Provision for impairment - net	13,924	(3,780,746)	(3,160,099)	(8,778,918)
Loss on sale of equity-type investment	-	(1,626,710)	-	-
Taxation	-	-	186,965	2,914,655
Loss / (income) for the year	1,066,500	(4,924,384)	(151,027)	(5,698,262)

30 SOCIAL RESPONSIBILITY

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

31 COMPARATIVE FIGURES

Certain of the prior year figures have been reclassified to conform to the presentation adopted in the current year. Such reclassification did not affect previously reported net income or owner's equity.

BASEL II, PILLAR III DISCLOSURES
for the year ended 31 December 2013 (Unaudited)

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 (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 31 December 2013, refer note 2 of the 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: Public 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 ("AIH").

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.

Table – 1. Capital structure

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

	31 December 2013		31 December 2012	
	Tier 1 US \$	Tier 2 US \$	Tier 1 US \$	Tier 2 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	21,845,716	-	21,748,828	-
Others	(11,976,644)	-	(7,821,732)	-
Retained profit brought forward	7,241,110	-	6,369,122	-
Minority interest in consolidated subsidiaries	16,623,079	-	18,171,801	-
Less:				
Goodwill	17,560,934	-	19,038,642	-
Unrealised gross losses arising from fair valuing equity securities	78,890	-	2,148,174	-
Tier 1 Capital before PCD deductions	147,238,380	-	148,426,146	-

	31 December 2013		31 December 2012	
	Tier 1 US \$	Tier 2 US \$	Tier 1 US \$	Tier 2 US \$
Unrealised gain arising from fair valuing equities (45% only)		-		585,681
Profit equalization reserve		573,411		544,632
Investment risk reserve		2,418,610		2,604,947
Collective impairment loss provision		598,233		-
Tier 2 Capital before PCD deductions		3,590,255		3,735,260
Total available capital		150,828,635		152,161,406
Deductions				
Unconsolidated majority-owned or -controlled banking, securities or other financial entities	(27,171,217)	(27,171,217)	(13,838,160)	(13,838,160)
Excess amount over maximum permitted large exposure limit	(1,307,701)	(1,307,701)	(10,844,723)	(10,844,723)
Additional deduction from Tier 1 to absorb deficiency in Tier 2	(24,888,663)	-	(20,947,623)	-
Total deductions	(53,367,581)	(28,478,918)	(45,630,506)	(24,682,883)
Tier 1 and Tier 2 eligible capital	93,870,799	-	102,795,640	-
Total eligible capital	93,870,799	-	102,795,640	-

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

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

	31 December 2013 Capital requirements US \$	31 December 2012 Capital requirements US \$
Type of islamic financing contracts		
Sales receivables	22,759,868	23,516,744
Ijara Muntahia Bittamleek & Ijara income receivable	4,398,434	4,341,875
Musharaka	3,489,194	2,875,781
Mudaraba financing	207,487	4,183,311
	30,854,983	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:

	31 December 2013		31 December 2012	
	Self Financed US \$	URIA US \$	Self Financed US \$	URIA US \$
Market risk - standardised approach				
Equity position risk	-	-	-	-
Foreign exchange risk	5,800,564	-	5,931,906	170,249
Total of market risk - standardised approach	5,800,564	-	5,931,906	170,249
Multiplier	12.50	12.50	12.50	12.50
	72,507,050	-	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	72,507,050	-	74,148,825	638,434
Total market RWE	72,507,050	-	74,787,259	-
Minimum capital requirement (12%)	8,700,846	-	8,974,471	-

BASEL II, PILLAR III DISCLOSURES (CONTINUED)
for the year ended 31 December 2013 (Unaudited)

2 CAPITAL ADEQUACY (CONTINUED)

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:

	31 December 2013 US \$	31 December 2012 US \$
Indicators of operational risk		
Average gross income	68,884,231	61,985,696
Multiplier	12.5	12.5
	861,052,888	774,821,200
Eligible Portion for the purpose of the calculation	15%	15%
Total operational RWE	129,157,933	116,223,180
Minimum capital requirement (12%)	15,498,952	13,946,782

Management of Operational Risk

The policy framework envisages a fully functional risk framework which documents operational risk identification, assessment, control, mitigation and reporting. The Operational Risk Management Framework ("Op. Risk Framework"), approved by the Board, has been developed with the objective to ensure that operational risks within the Group are identified, monitored, managed and reported in a structured, systematic and consistent manner.

The management of Operational Risk has two key objectives:

- To minimise the impact of losses suffered in the normal course of business (expected losses) and to avoid or reduce the likelihood of suffering an extreme (or unexpected) loss; and
- To improve the effective management of the Bank and strengthen its brand and external reputation.

The Bank has implemented SunGard system that supports multiple operational risk management processes and tools including operational risk event reporting, control self-assessment, key risk indicators, tracking of issues or action plans and operational risk reporting. A key component of the Op. Risk Framework is a set of a core operational risk standards which provides guidance on the baseline control to ensure a controlled and sound operating environment.

The Bank has comprehensive system of internal controls, systems and procedures to monitor and mitigate risk. The Bank also institutionalised the approval process of new product, services, and outsourcing to identify the risk inherent in such activities.

Information Technology (IT) risk is managed in accordance to an IT Risk Management Framework (which covers risk governance, communication, monitoring, assessment, mitigation and acceptance), supported by a set of IT policies and standards, control processes and risk mitigation programs. Centralised functional control is exercised over all computer system developments and operations.

Compliance in the Bank is controlled centrally under the Bank Compliance Officer who is approved by the CBB to ensure divisional compliance in all of the Bank's operations and activities. The Internal audit function of the Bank through the Risk Based Internal Audit, compliments the Bank's ability to control and mitigate risk.

The Bank is continually enhancing the Business Continuity Planning (BCP) programme for an ongoing and actively management of the Bank's major critical business operations and activities at the Head Office, data centre, and branches locations.

The Bank continually refines and strengthens existing policies, procedures and internal controls measures; conduct internal reviews, compliance monitoring, and comprehensive audits to prevent or minimise unexpected losses, and when necessary to cope with the growth in the Bank's size and complexity.

Table – 5. Capital adequacy ratios

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

	31 December 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	13.98%	13.98%	16.79%	16.79%

Legal restrictions on capital and income mobility

Distributing profits by subsidiary 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). Mobilisation of capital, reserves and equivalent funds out of the subsidiary to the parent is subject to the local rules and regulations. The parent is not subject to any restriction to support its subsidiary in the form of deposits or capital. However, as a procedure, a prior written approval has to be obtained from the CBB for increasing investment in subsidiary.

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:

	31 December 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	11.97%	9.60%	11.18%	11.00%

The subsidiary's CAR computed in accordance with the CBB requirements is 22% (31 December 2012: 22.85%) which is above the minimum CAR threshold set by the CBB.

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 year 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.

BASEL II, PILLAR III DISCLOSURES (CONTINUED)
for the year ended 31 December 2013 (Unaudited)

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:

exposure	31 December 2013				31 December 2012			
	Self financed		Financed by IAH		Self financed		Financed by IAH	
	Total gross credit exposure US \$	*Average gross credit 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 credit exposure over the period US \$	Total gross credit exposure US \$	*Average gross credit risk exposure over the period US \$
exposure								
Cash and balances with banks and financial institutions	222,165,686	185,998,119	97,475,018	63,968,385	189,788,235	151,261,573	27,356,196	33,653,233
Sales receivables	79,773,473	44,014,062	553,924,254	524,634,428	32,178,777	19,924,765	443,281,640	443,976,273
Mudaraba financing	1,729,061	7,654,340	-	20,733,527	5,318,913	7,033,749	29,542,013	21,374,830
Ijara Muntahia Bittamleek	-	-	126,579,913	119,194,625	-	-	113,232,535	108,775,756
Musharaka	4,480,000	4,480,000	67,975,498	63,126,511	4,480,000	4,480,000	58,012,371	59,336,533
Investments	92,900,413	106,366,095	242,592,686	254,346,534	142,048,157	135,570,348	258,687,874	272,439,437
Investment in real estate	5,549,016	3,790,620	-	-	3,204,488	3,204,488	-	-
Ijara income receivables	566,801	762,556	16,684,591	17,859,103	1,080,657	1,196,886	21,242,837	23,095,059
Premises and equipment	23,342,211	22,456,546	-	-	22,056,788	22,696,767	-	-
Other assets	64,374,649	63,625,699	13,532,974	16,080,874	31,696,869	34,637,432	16,182,546	16,791,776
Unfunded exposure								
Contingencies and commitments	217,718,843	173,511,739	-	-	132,232,783	165,905,937	-	-
	712,600,153	612,659,776	1,118,764,934	1,079,943,987	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)

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:

	31 December 2013				31 December 2012			
	Self financed		Financed by IAH		Self financed		Financed by IAH	
	*geographic area	*geographic area	*geographic area	*geographic area	*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	105,625,107	116,540,579	2,357,694	95,117,324	82,199,490	107,588,745	11,075,716	16,280,480
Sales receivables	79,773,473	-	306,818,610	247,105,644	32,178,777	-	242,240,449	201,041,191
Mudaraba financing	1,729,061	-	-	-	5,318,913	-	29,542,013	-
Ijara Muntahia Bittamleek	-	-	94,996,394	31,583,519	-	-	85,038,850	28,193,685
Musharaka	4,480,000	-	5,063,004	62,912,494	4,480,000	-	3,099,445	54,912,926
Investments	30,269,170	62,631,241	90,902,673	151,690,015	99,790,739	42,257,418	16,802,902	241,884,972
Investment in real estate	5,549,016	-	-	-	3,204,488	-	-	-
Ijara income receivables	566,801	-	14,780,319	1,904,272	1,080,657	-	16,030,695	5,212,142
Premises and equipment	9,092,791	14,249,420	-	-	10,131,233	11,925,555	-	-
Other assets	36,766,076	27,608,575	151,059	13,381,913	7,222,157	24,474,712	186,702	15,995,844
	273,851,495	221,029,815	515,069,753	603,695,181	245,606,454	186,246,430	404,016,772	563,521,240

*The Group operates to provide products and services in separate economic environments having risk and rewards that are different for each economic environment. The two geographical areas are Middle East and Other Asian Countries. Other Asian Countries predominantly includes subsidiary's operations in Pakistan.

BASEL II, PILLAR III DISCLOSURES (CONTINUED)
for the year ended 31 December 2013 (Unaudited)

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:

	31 December 2013				31 December 2012			
	Self financed		Financed by IAH		Self financed		Financed by IAH	
	Funded US \$	Unfunded US \$	Funded US \$	Unfunded US \$	Funded US \$	Unfunded US \$	Funded US \$	Unfunded US \$
Cash items	8,209,369	-	9,662,615	-	16,940,017	-	-	-
Claims on Sovereigns	134,221,865	-	202,629,868	-	110,708,344	8,208,660	239,627,962	-
Claims on Public Sector Entities	3,177,474	-	62,229,960	-	-	-	75,227,887	-
Claims on banks	222,602,751	103,339,647	267,636,753	-	159,662,674	19,656,442	134,648,010	-
Claims on corporate	2,295,862	112,315,904	441,286,588	-	6,390,978	104,367,681	377,165,278	-
Mortgage	-	-	54,439,250	-	-	-	54,229,575	-
Past dues receivables	-	-	41,801,581	-	3,308,885	-	54,376,725	-
Regulatory Retail Portfolio	930,129	-	11,258,125	-	-	-	-	-
Equity investment	65,342,434	-	356,287	-	63,840,675	-	551,726	-
Investment in Funds	1,050,000	-	5,011,473	-	10,777,742	-	5,012,194	-
Holding of Real Estate	38,304,300	-	9,668,755	-	35,985,231	-	10,702,810	-
Other assets	18,747,126	2,063,292	12,783,679	-	24,238,338	-	15,995,845	-
	494,881,310	217,718,843	1,118,764,934	-	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.

Table – 10. Credit risk – related party transactions

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

	31 December 2013		31 December 2012	
	Self financed	Financed by IAH	Self financed	Financed by IAH
	Funded US \$	Funded US \$	Funded US \$	Funded US \$
Cash and balances with bank	-	244,025	-	98,781
Sales Receivable	-	49,722,801	-	15,391,289
Musharaka	-	927,765	-	739,510
Mudaraba Financing	1,729,061	-	5,318,913	29,542,013
Ijara Muntahia Bittamleek	-	4,107,393	-	5,011,117
Investments	27,676,320	257,412	63,840,664	255,746
Ijara Income Receivable	-	45,422	-	13,748
Other Assets	31,925,357	65,986	53,332	757,416
	61,330,738	55,370,804	69,212,909	51,809,620

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

3 RISK MANAGEMENT (CONTINUED)

The Group's intra-group transactions as of 31 December 2013 is its investment in subsidiary of USD 61,961 thousand (31 December 2012: USD 61,961 thousand) and amount receivable of USD 909 thousand (31 December 2012: USD 985 thousand) by the Bank from its subsidiary in Pakistan, and Subordinated debt to subsidiary in Pakistan of USD 11,000 thousand.

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 31 December 2013:

Counterparties *	Funded US \$
Counterparty # 1	154,359,950
Counterparty # 2	76,000,000
Counterparty # 3	54,342,103
Counterparty # 4	53,768,491
Counterparty # 5	50,830,586
Counterparty # 6	45,132,064
Counterparty # 7	39,297,164
Counterparty # 8	39,018,525

* The exposure is in excess of the 15% individual obligor limit.

Counterparty 1,3,4,5,6 & 8 are exempt from large exposure deduction as per the CBB rules or separate exemption have been obtained from the CBB.

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 1,2,4,5,6,7 & 8 are exempt from large exposure deduction 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

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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 and Risk Management 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.

a) **Credit risk (continued)**

Table – 12. 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:

	31 December 2013					31 December 2012				
	Past due but performing US \$	Non-Islamic financing contracts US \$	Aging of non performing facilities			Past due but performing US \$	Non-Islamic financing contracts US \$	Aging of non performing facilities		
			90 days to 1 year US \$	1 year to 3 years US \$	Over 3 years US \$			90 days to 1 year US \$	1 year to 3 years US \$	Over 3 years US \$
Banks	-	-	-	-	-	53,333	3,051,045	3,051,045	-	-
Corporates	28,046,578	48,272,544	10,071,578	21,814,485	16,386,481	8,928,999	64,884,058	28,739,698	15,633,236	20,511,124
Investment Firms	-	36,703,208	-	-	36,703,208	-	36,996,685	-	-	36,996,685
Individuals	276,029	2,438,278	304,724	604,439	1,529,115	124,235	4,357,501	2,302,596	324,869	1,730,036
Others	1,176,223	4,284,341	558,181	1,551,629	2,174,531	1,659,770	4,348,161	1,093,242	1,597,391	1,657,528
	29,498,830	91,698,371	10,934,483	23,970,553	56,793,335	10,766,337	113,637,450	35,186,581	17,555,496	60,895,373

Table – 13. Credit Risk – provision against financing facilities by counterparty type

The following table summarises the total provisions against financing facilities disclosed by counterparty type as of 31 December 2013:

	Specific allowances							Balance at the end of the year US \$
	Opening Balance US \$	Charges during the year US \$	Write-Back during the year US \$	Write-offs during the year US \$	Transferred to investment risk reserve US \$	Exchange difference on opening balance US \$		
Corporates	30,120,374	6,681,779	(6,123,714)	(4,845,081)	-	(1,942,854)	23,890,504	
Investment Firms	22,363,730	491,196	-	-	-	(45,373)	22,809,553	
Individuals	1,555,099	144,570	(133,099)	(68,702)	186,813	(49,981)	1,634,700	
Others	2,041,766	297,171	(29,556)	-	-	(158,474)	2,150,907	
	56,080,969	7,614,716	(6,286,369)	(4,913,783)	186,813	(2,196,682)	50,485,664	

A collective provision of US \$ 500 thousand against corporate and US \$ 98 thousand against individual counterparties is being maintained as at 31 December 2013.

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

	Specific allowances						
	Opening Balance US \$	Charges during the year US \$	Write-Back during the year US \$	Write-offs during the year US \$	Transferred to investment risk reserve US \$	Exchange difference on opening balance US \$	Balance at the end of the year 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 \$ 500 thousand against corporate and US \$ 100 thousand against individual counterparties is being maintained as at 31 December 2012.

Table – 14. Credit risk – non performing facilities and provisions

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

	31 December 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	41,870,969	23,959,948	598,236	50,919,533	28,363,724	600,000
Other Asian countries	49,827,402	26,525,716	-	62,717,917	27,717,245	-
	91,698,371	50,485,664	598,236	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 – 15. Credit risk – restructured Islamic financing contracts

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

	31 December 2013 Total US \$	31 December 2012 Total US \$
Restructured Islamic financing contracts	15,241,559	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.

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3 RISK MANAGEMENT (CONTINUED)

Table – 16. Counterparty credit risk exposure

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

	31 December 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 institutions	319,640,704	-	205,821,698	-
Sales receivables	633,697,727	374,272,469	486,783,150	285,207,600
Mudaraba financing	1,729,061	-	34,860,926	-
Ijara Muntahia Bittamleek	126,579,913	88,089,923	113,232,535	75,932,029
Musharaka	72,455,498	71,459,609	62,492,371	59,460,764
Investments	335,493,099	-	400,736,031	-
Investment in real estate	5,549,016	-	3,204,488	-
Ijara income receivables	17,251,392	-	22,323,494	-
Premises and equipment	23,342,211	-	22,056,788	-
Other assets	77,907,623	-	47,879,415	-
	1,613,646,244	533,822,001	1,399,390,896	420,600,394

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

a) Credit risk (continued)

Table – 17. 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:

	31 December 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	143,831,305	59,078,802	135,556,029	56,043,459

b) Market risk

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

Table – 18. Market risk capital requirements

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

	31 December 2013		31 December 2012	
	Equity position risk US \$	Foreign exchange risk US \$	Equity position risk US \$	Foreign exchange risk US \$
RWE	-	72,507,056	-	74,787,259
Capital requirements (12%)	-	8,700,847	-	8,974,471
Maximum value of RWE	-	75,711,023	1,752,000	75,246,956
Minimum value of RWE	-	72,507,056	-	62,113,705

Table – 19. 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 31 December 2013:

	Total gross exposure US \$	Average gross exposure over the period US \$	Publicly held US \$	Privately held US \$	Capital requirement US \$
Sukuk	299,505,157	321,261,781	106,118,962	193,386,194	4,478,715
Managed funds	5,011,473	6,844,586	-	5,011,473	601,377
Private equity	28,082,609	28,157,151	98,875	27,983,732	5,008,197
Real estate related	1,893,860	3,421,037	-	1,893,860	1,786,290
Others	1,000,000	1,000,000	-	1,000,000	24,000
	335,493,099	360,684,555	106,217,837	229,275,259	11,898,579

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	14,739,936	9,016,379	9,727,742	-	1,768,792
Private equity	64,442,390	2,311,381	295,981	64,146,409	11,509,526
Real estate related	2,035,286	6,376,558	-	2,035,286	488,469
Others	1,000,000	64,432,681	-	6,012,194	24,000
	400,736,031	414,709,862	24,691,111	376,044,920	17,673,431

Table – 20. Equity gains or losses in Banking Book

The following table summarises the cumulative realised and unrealised gains or (losses) during the year ended:

	31 December 2013 US \$	31 December 2012 US \$
Cummulative realised gains arising from sale or liquidation	3,951,298	(156,744)
Total unrealised losses recognised in the balance sheet but not through P&L	(78,891)	(846,661)
Unrealised gross losses included in Tier One Capital	(78,891)	(2,148,174)
Unrealised gains included in Tier Two Capital (45% only)	-	585,681

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c) Equity of Investment Accountholders

The Group manages and deploys Equity of IAH according to its Article of Association – Chapter 3 on Rules of Business. In this respect, the Bank invests its own funds separately or jointly with amount received from Equity of Investment Account Holders. These funds received are managed in accordance with Shari' a requirements and standard of prudence is applied in the context of managing the overall portfolios to enable the Bank to exercise its fiduciary responsibilities. The Group is authorised by Equity of Investment Accountholders to invest the funds on the basis of Mudaraba, Murabaha, Salam, Ijara transactions and other forms of contract in a manner which the Group deems appropriate without laying down any restrictions as to where, how and for what purpose the funds should be invested.

The composition, characteristics, diversification, and concentration of portfolios are monitored within appropriate risk limits and indicators detailed in the Group's credit risk, liquidity risk, and other risks policies of the group. The strategic objectives of the investments of the funds are:

- Investment in Shari' a compliant opportunities;
- Targeted returns;
- Compliance with credit and Investment policy and overall business plan; and
- Diversified portfolio.

Funds are invested in Shari' a compliant commercial or consumer financing as well as short, medium, and long term investments excluding strategic investments. A due diligence process is in place which is consistent with business and risk policy guidelines of the Group after deduction of mandatory reserves and making allowance for short-term liquidity requirements.

Under all the aforesaid arrangement the Group can commingle the IAH funds with its own funds (Self- Financed). Some of the assets right from inception is designated exclusively as Self Financed by the Group. These self financed assets are deducted from total assets to arrive at "Jointly Financed Assets". To segregate the Jointly Financed Assets into self financed and Investment accountholders (IAH), the Group applies formula to identify the proportional share of each fund's in the Jointly Financed Assets.

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 funds 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 accountholders 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.

3 RISK MANAGEMENT (CONTINUED)

c) Equity of Investment Accountholders (continued)

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).

Complaint procedure / awareness programs

A complaint management system is established; procedures on handling complaints have been developed, new Complaints form has been introduced, a number of complaints channels where customers can communicate through branches, call centre, email, dedicated staff number and web-site. Monitoring procedures have been developed as well.

The Group uses its website, print and electronic media for consumer awareness program and to inform about new products.

Penalty charges

A financial penalty of USD 2 thousand (2012: Nil) was charged by the CBB during the year ended 31 December 2013. A financial penalty of USD 183 thousand (2012: USD 635) was charged by SBP to the Group's subsidiary in Pakistan during the year ended 31 December 2013.

Non-Shari'a complaint income

The Group has received USD 305 thousand (2012: USD 426 thousand) from customers as penalty for default are other non sharia compliant sources, which was disposed through charity contribution.

Table – 21. 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:

	31 December 2013 US \$	31 December 2012 US \$
IAH - Banks	212,097,474	145,465,301
IAH - Non-banks	903,675,439	818,923,132
Profit equalisation reserve	573,411	544,632
Investment risk reserve	2,418,610	2,604,947
	1,118,764,934	967,538,012

Table – 22. Ratio of reserves to total IAH

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

	31 December 2013	31 December 2012
PER to IAH (%)	0.05%	0.06%
IRR to IAH (%)	0.22%	0.27%

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Table – 23. 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:

	31 December 2013	31 December 2012
Sales receivable	72.40%	67.19%
Mudaraba investments	-	4.37%
Musharaka	8.88%	8.57%
Ijara Muntahia Bittamleek & Ijara income receivable	18.72%	19.87%

Table – 24. 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	31 December 2013	31 December 2012
Banks	17.52%	15.11%
Investment Firms	7.29%	4.30%
Corporates	14.32%	31.92%
Residential	51.28%	47.41%
Others	9.59%	1.27%

Table – 25. 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 year ended:

	31 December 2013	31 December 2012
Administrative expenses charged to equity of investment accountholders	2,429,188	2,451,390
Share of profits earned by IAH, before transfers to/from reserves	68,753,815	75,886,460
Percentage share of profit earned by IAH before transfer to/from reserves	6.37%	7.75%
Share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	55,662,173	61,441,021
Percentage share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	5.15%	6.27%
Share of profit paid out to Bank as mudarib	13,062,863	14,425,135
Mudarib Fee to total Investment Profits	19.00%	19.01%

Table – 26. Movement in profit equalisation reserve

The following table summarises the movement in profit equalisation reserve during the year ended:

	31 December 2013 US \$	31 December 2012 US \$
Balance at 1 January	544,632	524,542
Amount apportioned from income allocable to equity of Investment accountholders	28,779	20,090
Amount utilised during the year	-	-
	573,411	544,632
Percentage of the profit earned on equity of investment accountholders appropriated to profit equalisation reserve	0.04%	0.03%

Table – 27. Movement in investment risk reserve

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

	31 December 2013 US \$	31 December 2012 US \$
Balance at 1 January	2,604,947	2,737,120
Amount apportioned from income allocable to equity of Investment accountholders	476	214
Amount apportioned (to) / from provision	(186,813)	(132,387)
	2,418,610	2,604,947

3 RISK MANAGEMENT (CONTINUED)

c) Equity of Investment Accountholders (continued)

Table – 27. Movement in investment risk reserve (continued)

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 2011: up to 70%) as per the terms of IAH agreements.

Table – 28. 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 year ended 31 December 2012:

	Opening Actual Allocation US\$	Movement US\$	Closing Actual Allocation US\$
Cash and balances with banks	27,356,196	70,118,822	97,475,018
Sales receivable	443,281,640	110,642,614	553,924,254
Mudaraba financing	29,542,013	(29,542,013)	-
Ijara Muntahia Bittamleek	113,232,535	13,347,378	126,579,913
Musharaka	58,012,371	9,963,127	67,975,498
Investments	258,687,874	(16,095,188)	242,592,686
Ijara income receivables	21,242,837	(4,558,246)	16,684,591
Other assets	16,182,546	(2,649,572)	13,532,974
	967,538,012	151,226,922	1,118,764,934

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The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets for the year ended 31 December 2012:

	Opening Actual Allocation US\$	Movement US\$	Closing Actual Allocation US\$
Cash and balances with banks	25,213,075	2,143,121	27,356,196
Sales receivable	493,760,773	(50,479,133)	443,281,640
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

Table – 29. 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	68,753,815	6.37%	55,662,173	5.15%
2012	75,886,460	7.75%	61,441,021	6.27%
2011	86,984,643	8.33%	68,601,248	6.57%
2010	45,896,366	6.11%	29,786,963	4.05%
2009	46,278,164	6.90%	35,740,826	5.30%

Table - 30. 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 31 December 2013:

	RWA US\$ '000	RWA for capital adequacy purposes US\$ '000	Capital charges US\$ '000
Type of Claims			
Claims on Sovereign	38,592,123	11,577,637	1,389,316
Claims on PSEs	1,845,379	553,614	66,434
Claims on Banks	112,654,581	33,796,374	4,055,565
Claims on Corporates	415,026,367	124,507,910	14,940,949
Mortgage	58,414,462	17,524,339	2,102,921
	7,477,199	2,243,160	269,179
Past due facilities	47,031,296	14,109,389	1,693,127
Investment in securities	5,496,466	1,648,940	197,873
Holding of Real Estates	19,337,509	5,801,253	696,150
Other Assets	13,381,914	4,014,574	481,749
	719,257,296	215,777,190	25,893,263

3 RISK MANAGEMENT (CONTINUED)

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:

Type of Claims	RWA US\$ '000	RWA for capital adequacy purposes US\$ '000	Capital charges US\$ '000
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

d) Off-balance sheet equity of Investment Accountholders

Off-balance sheet equity of Investment accountholders is invested and managed in accordance with Shari'a requirements.

The Group as fund manager will manage and administer the investment account in a proper, diligent and efficient manner in accordance with applicable laws and local regulations.

The Group has appropriate procedures and controls in place commensurate to the size of its portfolio which includes:

- Organizing its internal affairs in a responsible manner, ensuring it has appropriate internal controls and risk management systems and procedures and controls designed to mitigate and manage such risks;
- Observing high standards of integrity and fair dealing in managing the scheme to the best interest of its investors; and
- Ensuring that the Group has the requisite level of knowledge and experience for the tasks that is undertaken and is competent for the work undertaken.

Table – 31. 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	31 December 2013	31 December 2012
Sales receivables	77.95%	80.56%
Investments	22.05%	19.44%

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Table – 32. 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	31 December 2013	31 December 2012
Banks	55.58%	13.44%
Corporate	44.42%	86.56%

Table – 33. 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 year ended 31 December 2012:

	Opening actual allocation US\$	Movement US\$	Closing actual allocation US\$
Sales receivables	107,929,065	(1,310,300)	106,618,765
Investments	26,046,122	4,112,638	30,158,760
	133,975,187	2,802,338	136,777,525

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets for the year ended 31 December 2011:

	Opening actual allocation US\$	Movement US\$	Closing actual allocation US\$
Sales receivables	235,360,992	(127,431,927)	107,929,065
Investments	24,600,518	1,445,604	26,046,122
	259,961,510	(125,986,323)	133,975,187

Table – 34. Off-balance sheet equity of Investment Accountholders historical returns

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

	Dec 2013	Dec 2012	Dec 2011	Dec 2010	Dec 2009
Gross Income	104,630	1,208,812	458,674	2,756,802	1,116,995
Mudarib Fee	47,122	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. The liquidity management policy at a minimum includes the following:

3 RISK MANAGEMENT (CONTINUED)

- Provide clear guidance on the composition and role of the asset/liability committee or such other committee or department responsible for managing liquidity.
- Establish approval processes to ensure adherence to liquidity risk management processes.
- Require periodic calculations to determine the extent to which the segments are funding long-term assets with short-term liabilities.
- Establish liquidity ratio benchmarks, e.g. parameters for the funding of long-term assets with short-term liabilities to guide liquidity management and the method for computing liquidity indicators.
- Establish limits on the degree of concentrations that are deemed acceptable. This should:
 - Ensure diversification of funding by origin and term structure by, for example, guarding against concentration by individuals or groups of depositors, types of deposit instruments, market sources of deposit, geographical sources, term to maturity, and deposit currencies. Where concentrations occur, the segments manage their assets and liquidity profile to mitigate the risk; and
 - Set procedures for the orderly restoration of the liquidity position in the event of loss of funding where such concentrations are unavoidable. In addition, the segments conduct an impact analysis on its dependency on any such concentrations.
- Provide for periodic review of the deposit structure. The review should include the volume and trend of various types of deposits offered, maturity distributions of time deposits, profit rate paid on each type of deposit, prevailing market profit rate, limits on large time deposits, public funds, and non-resident deposits.
- Provide for the review of alternate funding sources including stand-by facilities and lines of credit.
- Establish a framework for the composition of assets.
- Assess the acceptable mismatch in combination with currency commitments. The segments undertake separate analysis of their strategy for each currency individually. They set and regularly review limits on the size of cash flow mismatches over particular time horizons for foreign currencies in aggregate, and for each significant currency.

e) Liquidity risk (continued)

Table – 35. Liquidity ratios

The following table summarises the liquidity ratios as of:

	31 December 2013	31 December 2012
Liquid assets to total assets	30.92%	19.51%
Short term assets to short term liabilities	79.88%	68.60%

Table – 36. Quantitative indicators of financial performance and position

	Dec 2013*	Dec 2012*	Dec 2011*	Dec 2010	Dec 2009
Return on average equity	0.6%	-6.1%	1.4%	2.8%	-15.5%
Return on average assets	0.1%	-0.8%	0.2%	0.5%	-2.7%
Cost to Income Ratio	91.1%	98.4%	91.0%	75.3%	103.5%

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

4 OTHERS

The responsibility for payment of Zakat is on individual shareholders and investment accountholders. However, in Pakistan Zakah is deducted at source from the Equity of Investment accountholders as required by local laws.