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

UNIFIED SHARI'A SUPERVISORY BOARD REPORT,
REPORT OF THE BOARD OF DIRECTORS,
INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS AND
CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2013

Building a better working world

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL BARAKA ISLAMIC BANK B.S.C. (c)

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.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL BARAKA ISLAMIC BANK B.S.C. (c) (continued)

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.

Ernst + Young

18 February 2014
Manama, Kingdom of Bahrain

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Notes	2013 BD	2012 BD
ASSETS			
Cash and balances with banks and financial institutions	3	**120,504,546**	81,863,450
Sales receivables	4	**238,904,043**	179,248,578
Mudaraba financing	5	**651,856**	13,142,569
Ijara Muntahia Bittamleek	6	**47,720,628**	42,688,666
Musharaka	7	**27,315,723**	23,559,624
Investments	8	**126,480,900**	151,077,484
Investment in real estate	9	**2,091,979**	1,208,092
Ijara income receivables	10	**6,503,775**	8,415,957
Premises and equipment	11	**8,800,010**	8,315,409
Goodwill	12	**6,620,472**	7,177,568
Other assets	13	**29,371,174**	18,050,539
TOTAL ASSETS		**614,965,106**	534,747,936
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY			
Liabilities			
Due to banks and financial institutions		**48,632,362**	45,128,075
Current accounts		**63,298,267**	48,577,772
Other liabilities	14	**19,130,756**	12,655,362
Total Liabilities		**131,061,385**	106,361,209
Equity of investment accountholders	15	**421,774,380**	364,761,831
Owners' Equity			
Share capital	16	**46,166,591**	46,166,591
Reserves		**6,965,951**	8,206,377
Retained earnings		**2,729,896**	2,401,157
Equity attributable to parent's shareholders		**55,862,438**	56,774,125
Non-controlling interest		**6,266,903**	6,850,771
Total owners' equity		**62,129,341**	63,624,896
TOTAL LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS AND OWNERS' EQUITY		**614,965,106**	534,747,936
OFF-BALANCE SHEET ITEMS: EQUITY OF INVESTMENT ACCOUNTHOLDERS		**51,565,127**	50,508,645
CONTINGENCIES AND COMMITMENTS	17	**101,216,130**	75,776,256

Khalid Rashid Al-Zayani
Chairman

Adnan Ahmed Yousif
Deputy Chairman

Mohammed Essa Al Mutaweh
Chief Executive & 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* *BD*	*2012* *BD*
INCOME			
Income from jointly financed sales		**14,578,221**	13,364,370
Income from jointly financed, other financings and investments	18	**14,896,104**	18,646,656
Joint investment income		**29,474,325**	32,011,026
Return on equity of investment accountholders before Group's share as a Mudarib		**(25,920,188)**	(28,609,195)
Group's share as a Mudarib		**4,924,699**	5,438,276
Return on equity of investment accountholders		**(20,995,489)**	(23,170,919)
Group's share of income from equity of investment accountholders (as a Mudarib and Rabalmal)		**8,478,836**	8,840,107
Group's income from self financed sales		**1,202,244**	404,287
Group's income from self financed, other financings and investments	18	**2,917,412**	2,656,718
Revenue from banking services	19	**2,497,581**	2,497,984
Other income	20	**1,305,418**	927,657
Group's Mudarib / agency fee from off-balance sheet equity of investment account holders		**17,765**	63,401
TOTAL OPERATING INCOME		**16,419,256**	15,390,154
OPERATING EXPENSES			
Staff expenses		**8,008,311**	7,942,839
Depreciation	11	**1,059,008**	1,232,100
Profit on due to banks and financial institutions		**4,749**	18,727
Other operating expenses	21	**5,886,433**	5,951,787
TOTAL OPERATING EXPENSES		**14,958,501**	15,145,453
NET OPERATING INCOME		**1,460,755**	244,701
Provision for impairment - net	22	**(1,186,108)**	(4,734,993)
Loss on sale of equity-type investment		**-**	(613,270)
INCOME (LOSS) BEFORE TAXATION		**274,647**	(5,103,562)
Taxation	23	**70,486**	1,098,825
INCOME (LOSS) FOR THE YEAR		**345,133**	(4,004,737)
Attributable to:			
Equity shareholders of the parent		**365,266**	(3,245,118)
Non-controlling interest		**(20,133)**	(759,619)
		345,133	(4,004,737)

Khalid Rashid Al-Zayani Chairman	Adnan Ahmed Yousif Deputy Chairman	Mohammed Essa Al Mutaweh Chief Executive & 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 *BD*	*2012* *BD*
OPERATING ACTIVITIES		
Net income / (loss) before taxation	**274,647**	(5,103,562)
Adjustments for:		
Depreciation	**1,059,008**	1,232,100
Provision for impairment - net	**1,186,108**	4,734,993
Gain on sale of premises and equipment	**(31,720)**	(34,342)
(Gain) / loss on sale of investments	**(1,489,639)**	59,093
Unrealised remeasurement gain	**(188,500)**	-
Operating profit before changes in operating assets and liabilities	**809,904**	888,282
Net changes in operating assets and liabilities:		
Sales receivables	**(17,249,881)**	(2,525,521)
Mudaraba financing	**12,490,713**	(3,507,722)
Ijara Muntahia Bittamleek	**(5,031,962)**	(4,024,574)
Musharaka	**(3,607,176)**	(1,239,663)
Ijara income receivables	**1,696,894**	(1,879,744)
Other assets	**(2,121,415)**	2,157,997
Other liabilities	**6,475,394**	(38,046,163)
Due to banks and other financial institutions	**3,504,287**	7,875,498
Current accounts	**14,720,495**	(155,050)
Equity of investment accountholders	**57,082,978**	(33,444,180)
Taxation paid	**(220,776)**	(302,662)
Net cash from / (used in) operating activities	**68,549,455**	(74,203,502)
INVESTING ACTIVITIES		
Purchase of investments	**(49,770,196)**	(27,446,580)
Investments sold / matured	**65,846,369**	36,320,798
Purchase of investment in real estate	**(779)**	(99,024)
Purchase of premises and equipment	**(1,926,758)**	(659,821)
Sale of premises and equipment	**65,632**	62,608
Net cash from investing activities	**14,214,268**	8,177,981
Foreign currency translation adjustments	**(1,212,193)**	(1,368,342)
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**81,551,530**	(67,393,863)
Cash and cash equivalents at 1 January	**108,578,391**	175,972,254
CASH AND CASH EQUIVALENTS AT 31 DECEMBER (note 24)	**190,129,921**	108,578,391

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							
	Share capital BD	*Statutory BD*	*General BD*	*Cumulative changes in fair value BD*	*Foreign exchange BD*	*Retained earnings BD*	*Total BD*	*Non-controlling interest BD*	*Total owners' equity BD*
Balance at 1 January 2013	46,166,591	8,199,308	3,275,053	(319,191)	(2,948,793)	2,401,157	56,774,125	6,850,771	63,624,896
Cumulative changes in fair value	-	-	-	289,449	-	-	289,449	(11,615)	277,834
Foreign currency translation reserve	-	-	-	-	(1,566,402)	-	(1,566,402)	(552,120)	(2,118,522)
Net income for the year	-	-	-	-	-	365,266	365,266	(20,133)	345,133
Transfer to statutory reserve	-	36,527	-	-	-	(36,527)	-	-	-
Balance at 31 December 2013	**46,166,591**	**8,235,835**	**3,275,053**	**(29,742)**	**(4,515,195)**	**2,729,896**	**55,862,438**	**6,266,903**	**62,129,341**
Balance at 1 January 2012	46,166,591	8,199,308	3,275,053	(2,843,679)	(1,246,171)	5,646,275	59,197,377	8,224,672	67,422,049
Cumulative changes in fair value	-	-	-	2,524,488	-	-	2,524,488	2,628	2,527,116
Foreign currency translation reserve	-	-	-	-	(1,702,622)	-	(1,702,622)	(616,910)	(2,319,532)
Net loss for the year	-	-	-	-	-	(3,245,118)	(3,245,118)	(759,619)	(4,004,737)
Balance at 31 December 2012	46,166,591	8,199,308	3,275,053	(319,191)	(2,948,793)	2,401,157	56,774,125	6,850,771	63,624,896

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 BD	***Cumulative changes in fair value BD***	***Net deposits (withdrawals) BD***	***Gross income BD***	***Mudarib's / agency fee BD***	***Balance at 31 December 2013 BD***
Sales receivables	**40,689,257**	**-**	**(515,664)**	**39,446**	**(17,765)**	**40,195,274**
Investments	**9,819,388**	**1,251,005**	**299,460**	**-**	**-**	**11,369,853**
	50,508,645	**1,251,005**	**(216,204)**	**39,446**	**(17,765)**	**51,565,127**

	Balance at 1 January 2012 BD	*Cumulative changes in fair value BD*	*Net deposits (withdrawals) BD*	*Gross income BD*	*Mudarib's / agency fee BD*	*Balance at 31 December 2012 BD*
Sales receivables	88,731,094	-	(48,434,158)	455,722	(63,401)	40,689,257
Investments	9,274,395	(3,585)	548,578	-	-	9,819,388
	98,005,489	(3,585)	(47,885,580)	455,722	(63,401)	50,508,645

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 Bahraini Dinars (BD).

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 including "Interim Financial Reporting," 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.

2 ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Basis of consolidation (continued)

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*
Held directly by the Bank				
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 (BD 35.79 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:

i) ABPL is required to maintain a minimum paid up capital (net of losses) (MCR) of at least Rs. 6 billion BD 21.478 million) at all times and will have to meet the full MCR of Rs 10 billion (BD 35.796 million) by 31 December 2016.

ii) As a short term arrangement, ABPL has been allowed to raise a foreign currency sub-ordinated debt of BD 4.147 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.

iii) The above foreign currency deposit with the SBP shall be increased to Rs. 2.1 billion (BD 7.50 million) by 31 December 2014 and Rs. 2.8 billion (BD 10.03 million) by 31 December 2015.

iv) 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.

v) 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.

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.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

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 consoliated 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.

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.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

h Business combination and goodwill (continued)

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.

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 Rabalmal)
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.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

p Taxation (continued)

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 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.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

u Impairment of financial assets (continued)

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.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

w Employees' end of service benefits (continued)

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.

3 CASH AND BALANCES WITH BANKS AND FINANCIAL INSTITUTIONS

	2013 BD	2012 BD
Cash in hand	**6,737,738**	6,386,386
Balances with State Bank of Pakistan		
Current account	**1,882,582**	1,953,833
Capital deposit account	**4,147,000**	-
Mandatory reserves	**8,680,402**	9,121,446
	14,709,984	11,075,279
Balances with CBB		
Current account	**3,632,819**	3,595,712
Mandatory reserves	**6,265,000**	4,968,000
	9,897,819	8,563,712
Balances with other banks and financial institutions	**89,159,005**	55,838,073
	120,504,546	81,863,450

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

4 SALES RECEIVABLES

	2013			2012		
	Self financed BD	Jointly financed BD	Total BD	Self financed BD	Jointly financed BD	Total BD
Commodities	-	**69,659,672**	**69,659,672**	-	26,730,977	26,730,977
Salam financing	-	**16,441,297**	**16,441,297**	-	13,386,895	13,386,895
Istisna'a financing	-	**6,402,726**	**6,402,726**	-	1,777,319	1,777,319
Murabaha	**4,175,528**	**165,915,386**	**170,090,914**	8,527,006	157,202,295	165,729,301
Others	-	**2,256,086**	**2,256,086**	-	-	-
Gross sales receivable	**4,175,528**	**260,675,167**	**264,850,695**	8,527,006	199,097,486	207,624,492
Deferred profits	-	**(9,456,058)**	**(9,456,058)**	(394,685)	(9,989,305)	(10,383,990)
	4,175,528	**251,219,109**	**255,394,637**	8,132,321	189,108,181	197,240,502
Provision for impairment (note 22)	-	**(16,490,594)**	**(16,490,594)**	-	(17,991,924)	(17,991,924)
Net sales receivable	**4,175,528**	**234,728,515**	**238,904,043**	8,132,321	171,116,257	179,248,578

Sales receivables which are non-performing as of 31 December 2013 amounted to BD 29.99 million (2012: BD 34.558 million).

5 MUDARABA FINANCING

	2013			2012		
	Self financed BD	Jointly financed BD	Total BD	Self financed BD	Jointly financed BD	Total BD
Banks and financial institutions	**651,856**	-	**651,856**	2,005,230	11,137,339	13,142,569

6 IJARA MUNTAHIA BITTAMLEEK

	2013			2012		
	Self financed BD	*Jointly financed BD*	*Total BD*	*Self financed BD*	*Jointly financed BD*	*Total BD*
Building						
Cost	-	**34,539,856**	**34,539,856**	-	**33,658,800**	33,658,800
Accumulated depreciation	-	**7,057,506**	**7,057,506**	-	7,997,729	7,997,729
Net book value	-	**27,482,350**	**27,482,350**	-	25,661,071	25,661,071
Equipment						
Cost	-	**20,525,484**	**20,525,484**	-	20,087,035	20,087,035
Accumulated depreciation	-	**8,011,647**	**8,011,647**	-	9,367,163	9,367,163
Net book value	-	**12,513,837**	**12,513,837**	-	10,719,872	10,719,872
Others						
Cost	**697,993**	**10,655,920**	**11,353,913**	1,023,121	9,702,757	10,725,878
Accumulated depreciation	**697,993**	**2,931,479**	**3,629,472**	1,023,121	3,395,034	4,418,155
Net book value	-	**7,724,441**	**7,724,441**	-	6,307,723	6,307,723
TOTAL						
Cost	**697,993**	**65,721,260**	**66,419,253**	1,023,121	63,448,592	64,471,713
Accumulated depreciation	**697,993**	**18,000,632**	**18,698,625**	1,023,121	20,759,926	21,783,047
Net book value	-	**47,720,628**	**47,720,628**	-	42,688,666	42,688,666

7 MUSHARAKA

	2013			2012		
	Self financed BD	*Jointly financed BD*	*Total BD*	*Self financed BD*	*Jointly financed BD*	*Total BD*
Musharaka	**1,688,960**	**27,861,251**	**29,550,211**	1,688,960	24,458,597	26,147,557
Provision for impairment (note 22)	-	**(2,234,488)**	**(2,234,488)**	-	(2,587,933)	(2,587,933)
	1,688,960	**25,626,763**	**27,315,723**	1,688,960	21,870,664	23,559,624

Musharaka which are impaired as of 31 December 2013 amounted to BD 3.49 million (2012: BD 6.666 million).

8 INVESTMENTS

	2013			2012		
	Self financed BD	*Jointly financed BD*	*Total BD*	*Self financed BD*	*Jointly financed BD*	*Total BD*
i) Debt-type instruments at amortised cost						
Quoted						
Sukuk	**1,810,489**	**38,196,360**	**40,006,849**	-	11,131,960	11,131,960
Unquoted						
Sukuk	**21,801,489**	**51,735,333**	**73,536,822**	15,931,047	93,502,710	109,433,757
	23,611,978	**89,931,693**	**113,543,671**	15,931,047	104,634,670	120,565,717
ii) Equity-type instruments at fair value through equity						
Quoted						
Private equity	-	**70,124**	**70,124**	-	111,585	111,585
Managed funds	-	-	-	5,090,006		5,090,006
Unquoted						
Private equity (note 8.1)	**10,688,448**	**186,845**	**10,875,293**	24,322,405	202,568	24,524,973
Managed funds	-	**1,889,325**	**1,889,325**	-	1,889,597	1,889,597
Real estate related	**1,273,693**	**344,060**	**1,617,753**	1,385,970	969,805	2,355,775
Others	**377,000**	-	**377,000**	377,000	-	377,000
	12,339,141	**2,490,354**	**14,829,495**	31,175,381	3,173,555	34,348,936
Less: Provision for impairment (note 22)	**(927,662)**	**(964,604)**	**(1,892,266)**	(2,603,169)	(1,234,000)	(3,837,169)
Total investments	**35,023,457**	**91,457,443**	**126,480,900**	44,503,259	106,574,225	151,077,484

Included in quoted equity type instruments, BD 0.037 million (2012: BD BD 3.779 million) of investments are fair valued using quoted prices in active markets for identical instruments;

Within unquoted equity type instruments, BD 2.273 million (2012: BD 15.923 million) 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 BD 11.256 million (2012: BD 10.433 million) which are held at cost less provision for impairment.

The Group's investments in sukuk held at amortised cost amounting to BD 112.913 million (2012: BD 120.078 million) has a fair value amounting to BD 112.374 million (2012: BD 121.213 million).

The investments stated at a carrying amount of BD 18.390 million (2012: nil) are secured as guarantee against the brorrowing from a financial institution.

Note 8.1
During the period, the Group sold 7.68% equity stake in Al Tawfeeq a retaled party for a consideration of BD 13.690 million.

9 INVESTMENT IN REAL ESTATE

	2013 *BD*	*2012* *BD*
Building	**1,208,092**	1,109,068
Additions	**779**	99,024
Transfer from other assets (note 13.3)	**694,608**	-
Changes in fair value (note 20)	**188,500**	-
	2,091,979	1,208,092

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 BD	*Jointly financed BD*	*Total BD*	*Self financed BD*	*Jointly financed BD*	*Total BD*
Ijara income receivables	**213,684**	**6,823,638**	**7,037,322**	407,408	8,797,418	9,204,826
Provision for impairment (note 22)	**-**	**(533,547)**	**(533,547)**	-	(788,869)	(788,869)
	213,684	**6,290,091**	**6,503,775**	407,408	8,008,549	8,415,957

Total Ijara Muntahia Bittamleek and Ijara income receivables, which are non-performing as of 31 December 2013, amounted to BD 1.089 million (2012: BD 1.617 million).

11 PREMISES AND EQUIPMENT

	Land and Buildings BD	*Computer Software & license BD*	*Office furniture and equipment BD*	*Vehicles BD*	*Total BD*
Cost:					
At 1 January 2013	**7,121,966**	**2,985,032**	**5,992,981**	**482,883**	**16,582,862**
Additions	**1,102,295**	**78,645**	**652,899**	**92,918**	**1,926,757**
Disposals	**(68,300)**	**-**	**(792)**	**(157,207)**	**(226,299)**
Exchange difference on opening balance	**(260,167)**	**(68,594)**	**(242,714)**	**(32,387)**	**(603,862)**
At 31 December 2013	**7,895,794**	**2,995,083**	**6,402,374**	**386,207**	**17,679,458**
Depreciation:					
At 1 January 2013	**1,153,829**	**2,368,657**	**4,350,999**	**393,968**	**8,267,453**
Provided during the year	**275,003**	**243,441**	**490,992**	**49,572**	**1,059,008**
Disposals	**(35,723)**	**-**	**(628)**	**(156,035)**	**(192,386)**
Exchange difference on opening balance	**(25,286)**	**(47,394)**	**(156,461)**	**(25,486)**	**(254,627)**
At 31 December 2013	**1,367,823**	**2,564,704**	**4,684,902**	**262,019**	**8,879,448**
Net book values:					
At 31 December 2013	**6,527,971**	**430,379**	**1,717,472**	**124,188**	**8,800,010**
At 31 December 2012	5,968,137	616,375	1,641,982	88,915	8,315,409
Estimated useful lives for calculation of depreciation	20-30 years	4-5 years	1-10 years	4-5 years	

12 GOODWILL

	2013 BD	*2012 BD*
At 1 January	**7,177,568**	7,752,439
Foreign exchange translations	**(557,096)**	(574,871)
	6,620,472	7,177,568

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.

12 GOODWILL (continued)

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 BD 9.17 million (2012: BD 11.887 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 BD	*2012 BD*
Subordinated qard hasan (note 13.1)	**10,053,000**	-
Deferred tax (note 13.2)	**5,155,072**	5,251,520
Advance against financing transactions	**4,614,565**	4,883,091
Accounts receivable	**3,230,862**	2,340,807
Advance tax (note 23)	**972,978**	1,076,419
Income receivable	**255,272**	135,271
Advance against capital expenditure	**2,178,983**	2,584,027
Collateral pending sale (note 13.3)	**-**	694,608
Others	**3,911,766**	1,682,041
Total	**30,372,498**	18,647,784
Provision for impairment (note 22)	**(1,001,324)**	(597,245)
	29,371,174	18,050,539

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 BD	*2012 BD*
Margins received	**5,747,911**	2,631,918
Accounts payable	**4,398,164**	1,562,890
Security deposit against Ijara Muntahia Bittamleek	**2,906,870**	2,484,419
Bills payable	**2,597,252**	2,897,460
Provision for employees benefits	**1,635,055**	1,369,602
Rentals received in advance	**812,004**	441,137
Charity fund	**518,544**	654,662
Others	**514,956**	613,274
	19,130,756	12,655,362

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 *BD*	*2012* *BD*
IAH - Banks	**79,960,747**	54,840,418
IAH - Non-banks	**340,685,641**	308,734,022
Profit equalisation reserve (note 15.1)	**216,176**	205,326
Investment risk reserve (notes 15.2)	**911,816**	982,065
	421,774,380	364,761,831

15.1 Movement in profit equalisation reserve

	2013 *BD*	*2012* *BD*
Balance at 1 January	**205,326**	197,752
Amount apportioned from income allocable to equity of investment accountholders	**10,850**	7,574
Balance at 31 December	**216,176**	205,326

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.

15.2 Movement in investment risk reserve

	2013 *BD*	*2012* *BD*
Balance at 1 January	**982,065**	1,031,894
Exchange difference	**179**	81
Amount apportioned to provision (note: 22)	**(70,429)**	(49,910)
Balance at 31 December	**911,815**	982,065

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 BD 0.916 million (2012: BD 0.924 million) to equity of investment account holders.

15 EQUITY OF INVESTMENT ACCOUNTHOLDERS (IAH) (continued)

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 BD	2012 BD
Saving Accounts	**142,081,703**	114,413,928
One Month Investment Account	**28,052,846**	24,207,195
Three Months Investment Account	**37,454,492**	55,935,834
Six Months Investment Account	**60,236,711**	28,667,017
Nine Months Investment Account	**244,339**	272,872
1 Year Investment Account	**119,202,955**	111,958,159
2 Years Investment Account	**14,023,537**	2,085,184
3 Years Investment Account	**7,029,775**	11,465,342
4 Years Investment Account	**101,300**	122,629
5 Years Investment Account	**13,346,722**	15,633,669
	421,774,380	364,761,829

15.5 Equity of Investment Accountholders by maturity

	2013 BD	2012 BD
Accounts on demand	**142,081,703**	114,413,928
Accounts on a contractual basis *	**279,692,677**	250,347,903
	421,774,380	364,761,831

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

16 OWNERS' EQUITY

	2013 BD	2012 BD
(i) Share capital		
Authorised 6,000,000 ordinary shares (2012: 6,000,000) of BD 37.7 each	**226,200,000**	226,200,000

	2013 BD	2012 BD
Issued and fully paid 1,224,578 ordinary shares (2012: 1,224,578) of BD 37.7 each	**46,166,591**	46,166,591

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;

			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 BD 0.037 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	*2012*
	BD	*BD*
Letters of credit	**49,888,330**	19,224,531
Guarantees	**22,238,952**	23,034,316
Foreign exchange contracts	**18,165,847**	23,876,865
Acceptances	**9,952,722**	7,592,912
Taxation	**726,963**	788,135
Others (note 17.1)	**243,316**	1,259,497
	101,216,130	75,776,256

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 BD 1.074 million (2012: BD 1.161 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 BD 0.215 million (2012: BD 0.234 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	*2012*
	BD	*BD*
Income from investments	**9,587,677**	13,638,157
Ijara Muntahia Bittamleek (note 18.1) - net	**4,019,987**	4,341,123
Musharaka	**1,988,503**	1,910,499
Gain on sale of investments	**1,489,639**	554,177
Mudaraba financing	**366,378**	469,772
Istisna financing	**280,946**	299,677
Dividends	**18,662**	13,161
Rental income	**61,724**	76,807
Total	**17,813,516**	21,303,373

	2013	*2012*
	BD	*BD*
Income from jointly financed, other financings and investments	**14,896,104**	18,646,656
Income from self financed, other financings and investments	**2,917,412**	2,656,718
	17,813,516	21,303,374

18 INCOME FROM JOINTLY AND SELFFINANCED, OTHER FINANCINGS AND INVESTMENTS (continued)

18.1 Ijara Muntahia Bittamleek

	2013 *BD*	*2012* *BD*
Income from Ijara Muntahia Bittamleek	**15,305,967**	14,284,967
Depreciation on Ijara Muntahia Bittamleek	**(11,285,981)**	(9,943,844)
	4,019,986	4,341,123

19 REVENUE FROM BANKING SERVICES

	2013 *BD*	*2012* *BD*
Fees and commissions	**1,103,066**	1,133,170
Letters of credit and acceptances	**1,123,842**	1,079,308
Guarantees	**270,673**	285,506
	2,497,581	2,497,984

20 OTHER INCOME

	2013 *BD*	*2012* *BD*
Foreign exchange gain - net	**842,795**	618,000
Fair value gain on investment in real estate (note 9)	**188,500**	-
Others	**274,123**	309,657
	1,305,418	927,657

21 OTHER OPERATING EXPENSES

	2013 *BD*	*2012* *BD*
Administrative expenses	**1,860,136**	1,829,744
Premises costs	**2,469,083**	2,450,273
Business expenses	**1,044,110**	1,154,143
General expenses	**513,104**	517,627
	5,886,433	5,951,787

22 MOVEMENT IN PROVISIONS FOR IMPAIRMENT

2013	*Sales receivables BD*	*Musharaka BD*	*Investments BD*	*Ijara income receivables BD*	*Other assets BD*	*Total BD*
Provision at beginning of the year	17,991,924	2,587,933	3,837,169	788,869	597,245	25,803,140
Charged during the year	2,139,028	498,845	475,355	232,875	540,325	3,886,428
Written back during the year	(1,704,608)	(647,767)	(240,468)	(17,586)	(89,891)	(2,700,320)
	434,420	(148,922)	234,887	215,289	450,434	1,186,108
	18,426,344	2,439,011	4,072,056	1,004,158	1,047,679	26,989,248
Written off during the year	(1,407,851)	-	(2,148,335)	(445,311)	-	(4,001,497)
Transferred from investment risk reserve (note 15.2)	70,429	-	-	-	-	70,429
Exchange difference on opening balance	(598,328)	(204,522)	(31,454)	(25,300)	(46,356)	(905,960)
Provision at end of the year	16,490,594	2,234,489	1,892,267	533,547	1,001,323	22,152,220
Notes	4	7	8	10	13	

2012	*Sales receivables BD*	*Musharaka BD*	*Investments BD*	*Ijara income receivables BD*	*Other assets BD*	*Total BD*
Provision at beginning of the year	17,612,565	1,262,409	2,272,139	879,736	283,579	22,310,428
Charged during the year	2,363,570	1,563,408	1,590,435	145,672	334,693	5,997,778
Written back during the year	(964,414)	(144,271)	(5,383)	(148,717)	-	(1,262,785)
	1,399,156	1,419,137	1,585,052	(3,045)	334,693	4,734,993
	19,011,721	2,681,546	3,857,191	876,691	618,272	27,045,421
Written off during the year	(504,017)	-	-	(55,607)	-	(559,624)
Transferred to investment risk reserve (note 15.2)	49,910	-	-	-	-	49,910
Exchange difference on opening balance	(565,690)	(93,613)	(20,022)	(32,215)	(21,027)	(732,567)
Provision at end of the year	17,991,924	2,587,933	3,837,169	788,869	597,245	25,803,140
Notes	4	7	8	10	13	

The total general provision maintained against financing facilities as of 31 December 2013 amounted to BD 0.226 million (2012: BD 0.226 million).

23 TAXATION

Taxation relates to subsidiary in Pakistan and comprise:	*2013 BD*	*2012 BD*
Consolidated statement of financial position:		
Advance tax - net	**972,978**	1,076,419
Consolidated statement of income:		
Current tax	**(240,670)**	(151,977)
Deferred tax	**311,156**	1,250,802
	70,486	1,098,825

24 CASH AND CASH EQUIVALENTS

For the purpose of cash flows, cash and cash equivalents represent:	*2013 BD*	*2012 BD*
Cash in hand	**6,737,738**	6,386,386
Balances with central banks	**24,607,803**	19,638,991
Balances with other banks and financial institutions	**89,159,005**	55,838,073
Sales receivables - international commodities (with an original maturity of 90 days or less)	**69,625,375**	26,714,941
	190,129,921	108,578,391

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*	
Assets:	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*
	BD	*BD*	*BD*	*BD*	*BD*	*BD*
Cash and balances with banks and financial institutions	**25,110**	4,946	**66,887**	32,294	**91,997**	37,240
Sales receivables	-	-	**18,745,496**	5,802,516	**18,745,496**	5,802,516
Mudaraba financing	-	-	**651,856**	13,142,569	**651,856**	13,142,569
Ijara Muntahia Bittamleek	-	-	**1,548,487**	1,889,191	**1,548,487**	1,889,191
Musharaka	-	-	**349,767**	278,795	**349,767**	278,795
Ijara income receivables	-	-	**17,124**	5,183	**17,124**	5,183
Investments	-	-	**10,531,017**	24,164,347	**10,531,017**	24,164,347
Other assets	**986,006**	215,753	**11,074,730**	89,899	**12,060,736**	305,652
	1,011,116	220,699	**42,985,364**	45,404,794	**43,996,480**	45,625,493
Liabilities:						
Due to banks and financial institutions	**1,638,496**	1,117,621	**17,163,552**	9,614,087	**18,802,048**	10,731,708
Current account	**744,229**	768,725	**220,580**	161,393	**964,809**	930,118
Other liabilities	**7,511**	8,142	**2,266,637**	311	**2,274,148**	8,453
	2,390,236	1,894,488	**19,650,769**	9,775,791	**22,041,005**	11,670,279
Equity of investment accountholders	**5,996,352**	8,238,214	**24,732,526**	27,597,283	**30,728,878**	35,835,497
Off-balance sheet equity of investment accountholders	**3,065,010**	9,543,709	**32,699,421**	10,502,255	**35,764,431**	20,045,964
Contingencies and commitments	-	-	**5,936,271**	6,970,940	**5,936,271**	6,970,940

25 RELATED PARTY TRANSACTIONS (continued)

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

	2013 *BD*	*2012* *BD*
Income		
Income from jointly financed sales	**255,144**	47,671
Income from jointly financed, other financings and investments	**436,183**	500,106
Group's income from self financed, other financings	**65,721**	143,685
Other income	**216,554**	216,554
Group's Mudarib/agency fee from off-balance sheet	**-**	
equity of investment account holders	**11,914**	29,313
	985,516	937,329
Expenses		
Return on equity of investment accountholders before		
Group's share as a Mudarib	**1,010,769**	1,136,316
Other expenses	**300,185**	283,049
Loss on sale of equity-type investment	**-**	613,270
	1,310,954	2,032,635

Compensation of key management personnel is as follows:

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

	2013 *BD*	*2012* *BD*
Salaries	**1,152,811**	1,143,675
Other benefits	**655,376**	650,236
	1,808,187	1,793,911

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 BD	*3 to 6 months BD*	*6 months to 1 year BD*	*1 to 3 years BD*	*3 to 5 years BD*	*5 to 10 years BD*	*10 to 20 years BD*	*Over 20 years BD*	*No fixed maturity BD*	*Total BD*
ASSETS										
Cash and balances with banks	101,412,144	-	-	-	-	-	-	-	19,092,402	120,504,546
Sales receivables	121,033,755	62,897,424	18,174,359	14,376,462	6,223,282	2,466,815	-	-	13,731,946	238,904,043
Mudaraba financing	651,856	-	-	-	-	-	-	-	-	651,856
Ijara Muntahia Bittamleek	4,286,827	1,220,956	2,956,415	13,340,635	12,630,474	6,356,839	6,027,657	900,825	-	47,720,628
Musharaka	1,339,668	4,313	2,658,791	7,640,337	5,646,341	6,891,733	1,856,045	-	1,278,495	27,315,723
Investments	23,847,925	1,811,051	25,837,093	22,815,485	27,070,607	10,996,121	377,000	-	13,725,618	126,480,900
Investment in real estate	-	-	-	2,091,979	-	-	-	-	-	2,091,979
Ijara income receivables	887,570	166,689	485,823	1,625,629	1,221,632	1,028,007	441,669	66,007	580,749	6,503,775
Premises and equipment	-	-	-	-	-	-	-	-	8,800,010	8,800,010
Goodwill	-	-	-	-	-	-	-	-	6,620,472	6,620,472
Other assets	5,177,276	199,148	3,210,328	32,543	19,419,758	-	-	-	1,332,121	29,371,174
Total assets	258,637,021	66,299,581	53,322,809	61,923,070	72,212,094	27,739,515	8,702,371	966,832	65,161,813	614,965,106
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS										
Due to banks and financial institutions	35,333,272	5,005,090	-	8,294,000	-	-	-	-	-	48,632,362
Current accounts	63,298,267	-	-	-	-	-	-	-	-	63,298,267
Other liabilities	11,866,773	307,799	99,453	5,245,750	1,605,640	5,341	-	-	-	19,130,756
Total liabilities	110,498,312	5,312,889	99,453	13,539,750	1,605,640	5,341	-	-	-	131,061,385
Equity of investment accountholders	177,757,062	95,369,215	84,492,726	59,198,529	4,956,848	-	-	-	-	421,774,380
Total owners' equity	-	-	-	-	-	-	-	-	62,129,341	62,129,341
Total liabilities, Equity of investment accountholders and owner's equity	288,255,374	100,682,104	84,592,179	72,738,279	6,562,488	5,341	-	-	62,129,341	614,965,106
Net gap	(29,618,353)	(34,382,523)	(31,269,370)	(10,815,209)	65,649,606	27,734,174	8,702,371	966,832	3,032,472	-
Cumulative net gap	(29,618,353)	(64,000,876)	(95,270,246)	(106,085,455)	(40,435,849)	(12,701,675)	(3,999,304)	(3,032,472)	-	-
Off-balance sheet equity of investment accountholders	11,543,274	28,652,000	11,369,853	-	-	-	-	-	-	51,565,127

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 BD	*3 to 6 months BD*	*6 months to 1 year BD*	*1 to 3 years BD*	*3 to 5 years BD*	*5 to 10 years BD*	*10 to 20 years BD*	*Over 20 years BD*	*No fixed maturity BD*	*Total BD*
ASSETS										
Cash and balances with banks	67,774,004	-	-	-	-	-	-	-	14,089,446	81,863,450
Sales receivables	71,148,198	50,471,713	21,172,467	12,807,179	4,461,418	3,420,522	-	-	15,767,081	179,248,578
Mudaraba financing	10,927,733	-	1,579,095	635,741	-	-	-	-	-	13,142,569
Ijara Muntahia Bittamleek	2,528,052	1,145,243	3,396,362	12,585,389	10,349,404	6,321,781	5,425,241	937,194	-	42,688,666
Musharaka	1,235,464	194,238	1,787,184	5,684,165	3,614,913	4,983,654	1,812,240	169,655	4,078,111	23,559,624
Investments	825,515	265,308	38,520,683	57,719,995	22,683,209	1,715,350	377,000	-	28,970,424	151,077,484
Investment in real estate	-	-	-	-	-	-	-	-	1,208,092	1,208,092
Ijara income receivables	531,126	172,058	720,278	2,335,645	1,695,597	1,324,198	689,910	119,179	827,966	8,415,957
Premises and equipment	-	-	-	-	-	-	-	-	8,315,409	8,315,409
Goodwill	-	-	-	-	-	-	-	-	7,177,568	7,177,568
Other assets	7,311,519	135,869	1,761,895	-	5,946,129	-	-	-	2,895,127	18,050,539
Total assets	162,281,611	52,384,429	68,937,964	91,768,114	48,750,670	17,765,505	8,304,391	1,226,028	83,329,224	534,747,936
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS										
Due to banks and financial institutions	32,999,886	4,718,159	7,410,030	-	-	-	-	-	-	45,128,075
Current accounts	48,577,772	-	-	-	-	-	-	-	-	48,577,772
Other liabilities	9,772,915	466,654	222,347	988,175	1,201,202	4,069	-	-	-	12,655,362
Total liabilities	91,350,573	5,184,813	7,632,377	988,175	1,201,202	4,069	-	-	-	106,361,209
Equity of investment accountholders	156,501,648	72,342,643	80,387,636	47,915,596	7,614,308	-	-	-	-	364,761,831
Total owners' equity	-	-	-	-	-	-	-	-	63,624,896	63,624,896
Total liabilities, Equity of investment accountholders and owner's equity	247,852,221	77,527,456	88,020,013	48,903,771	8,815,510	4,069	-	-	63,624,896	534,747,936
Net gap	(85,570,610)	(25,143,027)	(19,082,049)	42,864,343	39,935,160	17,761,436	8,304,391	1,226,028	19,704,328	-
Cumulative net gap	(85,570,610)	(110,713,637)	(129,795,686)	(86,931,343)	(46,996,183)	(29,234,747)	(20,930,356)	(19,704,328)	-	-
Off-balance sheet equity of investment accountholders	12,043,861	1,941,734	31,958,587	4,255,854	308,609	-	-	-	-	50,508,645

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 BD	***Strategic equivalent Long BD***	***Total equivalent Long BD***
Pakistani Rupees	**11,782,722**	**11,456,233**	**23,238,955**
Euro	**(1,173,694)**	**-**	**(1,173,694)**
Kuwaiti Dinars	**3,852,001**	**-**	**3,852,001**
Pound Sterling	**39,714**	**-**	**39,714**
Others	**55,870**	**-**	**55,870**

		2012	
	Operational equivalent Long BD	*Strategic equivalent Long BD*	*Total equivalent Long BD*
Pakistani Rupees	10,067,839	12,523,577	22,591,416
Euro	269,225	-	269,225
Kuwaiti Dinars	4,325,883	-	4,325,883
Pound Sterling	36,276	-	36,276
Others	1,122	-	1,122

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:

26 RISK MANAGEMENT (continued)

b) Market risk (continued)

Foreign currency risk sensitivity analysis (continued)

Currency	Particular	*Local Currency exposures*	*Exposures in BD*	*Variance after 20% depreciation*
2013				
Euro	Net short Position	**(2,258,928)**	**(1,173,694)**	**(938,955)**
Pakistani Rupees	Net long Position	**6,492,396,923**	**23,238,955**	**18,591,164**
Kuwaiti Dinars	Net long Position	**2,884,811**	**3,852,001**	**3,081,601**
Pound Sterling	Net long Position	**9,058**	**39,714**	**31,771**
2012				
Euro	Net long Position	541,373	269,225	215,380
Pakistani Rupees	Net long Position	5,821,616,110	22,591,416	18,073,133
Kuwaiti Dinars	Net long Position	3,226,633	4,325,883	3,460,706
Pound Sterling	Net short Position	59,526	36,276	29,021

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 BD***	*Change in equity price 2012 %*	*Effect on equity 2012 BD*
Mumbai Stock Exchange	**10%**	**-**	10%	272,903
Other Stock Exchange	**10%**	**3,728**	10%	93,833

As at the consolidated statement of financial position date, the Group had unquoted investments of BD 13.530 million (31 December 2012: BD 27.216 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.

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 BD***	***Rest of the world BD***	***Total BD***
Banking	**13,656,749**	**3,924,093**	**17,580,842**
Government	**16,603,295**	**69,434,026**	**86,037,321**
Investment companies	**10,433,973**	**-**	**10,433,973**
Manufacturing	**-**	**185,156**	**185,156**
Real estate	**4,247,944**	**396,578**	**4,644,522**
Others	**3,615,452**	**3,983,634**	**7,599,086**
	48,557,413	**77,923,487**	**126,480,900**

26 RISK MANAGEMENT (continued)

b) Market risk (continued)

Concentration of investment portfolio (continued)
* 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* *BD*	*Rest of the world* *BD*	*Total* *BD*
Banking	13,648,468	1,009,463	14,657,931
Government	6,632,559	92,293,329	98,925,888
Investment companies	24,067,930	-	24,067,930
Manufacturing	-	251,415	251,415
Real estate	2,934,959	441,074	3,376,033
Others	588,267	9,210,019	9,798,286
	47,872,183	103,205,300	151,077,483

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.

26 RISK MANAGEMENT (continued)

c) Credit risk (continued)

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.

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	*2012*
	BD	*BD*
Sales receivables	**238,904,043**	183,517,248
Mudaraba financing	**651,856**	13,142,569
Musharaka	**27,315,723**	23,559,624
Ijara Muntahia Bittamleek and Ijara income receivables	**54,224,403**	51,104,623
Contingencies and commitments	**100,245,851**	73,728,624

26 RISK MANAGEMENT (continued)

c) Credit risk (continued)

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.

	31 December 2013			
	Neither past due nor non performing BD	***Past due but performing BD***	***Non performing Islamic financing contracts BD***	***Total BD***
Type of Islamic Financing Contract				
Sales receivables	**215,074,579**	**10,326,500**	**29,993,558**	**255,394,637**
Mudaraba financing	**651,856**	**-**	**-**	**651,856**
Musharaka	**25,669,305**	**393,224**	**3,487,682**	**29,550,211**
Ijara Muntahia Bittamleek and Ijara income receivables	**53,267,569**	**401,335**	**1,089,046**	**54,757,950**
	294,663,309	**11,121,059**	**34,570,286**	**340,354,654**

	31 December 2012			
	Neither past due nor non performing BD	*Past due but performing BD*	*Non performing Islamic financing contracts BD*	*Total BD*
Type of Islamic Financing Contract				
Sales receivables	159,624,643	3,057,418	34,558,441	197,240,502
Mudaraba financing	13,142,569	-	-	13,142,569
Musharaka	19,092,959	388,554	6,666,044	26,147,557
Ijara Muntahia Bittamleek and Ijara income receivables	49,663,722	612,936	1,616,834	51,893,492
	241,523,893	4,058,908	42,841,319	288,424,120

Aging analysis of past due but performing Islamic financing contracts

	31 December 2013			
	Less than 30 days BD	***31 to 60 days BD***	***61 to 90 days BD***	***Total BD***
Type of Islamic Financing Contracts				
Sales receivables	**6,735,410**	**3,286,904**	**304,186**	**10,326,500**
Musharaka	**36,770**	**157,456**	**198,998**	**393,224**
Ijara Muntahia Bittamleek & Ijara income receivables	**271,096**	**110,093**	**20,146**	**401,335**
	7,043,276	**3,554,453**	**523,330**	**11,121,059**

	31 December 2012			
	Less than 30 days BD	*31 to 60 days BD*	*61 to 90 days BD*	*Total BD*
Type of Islamic Financing Contracts				
Sales receivables	2,635,704	339,591	82,123	3,057,418
Musharaka	8,822	8,260	371,472	388,554
Ijara Muntahia Bittamleek and Ijara income receivables	413,460	64,337	135,139	612,936
	3,057,986	412,188	588,734	4,058,908

26 RISK MANAGEMENT (continued)

c) Credit risk (continued)

Aging of Non-Performing Facilities

	31 December 2013				
	3-6 Months	*6-12 Months*	*1-3 Years*	*3 Years & above*	*Total*
	BD	*BD*	*BD*	*BD*	*BD*
Sales receivables	**3,082,367**	**237,594**	**7,586,251**	**19,087,346**	**29,993,558**
Musharaka	**19,965**	**114,547**	**1,303,800**	**2,049,370**	**3,487,682**
Ijara Muntahia Bittamleek and Ijara income receivables	**638,825**	**29,002**	**146,848**	**274,371**	**1,089,046**
	3,741,157	**381,143**	**9,036,899**	**21,411,087**	**34,570,286**

	31 December 2012				
	3-6 Months	*6-12 Months*	*1-3 Years*	*3 Years & Above*	*Total*
	BD	*BD*	*BD*	*BD*	*BD*
Sales receivables	4,308,160	5,753,557	4,205,050	20,291,674	34,558,441
Musharaka	2,566,032	20,389	2,169,284	1,910,339	6,666,044
Ijara Muntahia Bittamleek and Ijara income receivables	97,177	520,027	244,088	755,542	1,616,834
	6,971,369	6,293,973	6,618,422	22,957,555	42,841,319

As at 31 December 2013 the fair value of the collateral that the Group holds relating to non performing facilities amounts to BD 8.150 million (2012: BD 14.156 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 Jiddiyyah (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.

26 RISK MANAGEMENT (continued)

c) Credit risk (continued)

Credit Risk Mitigation (continued)

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 accountholders or off-balance sheet equity of investment accountholders.

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, BD 5.745 million (2012: BD 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.

26 RISK MANAGEMENT (continued)

c) Credit risk (continued)

Credit Quality (continued)

d) Operational risk (continued)

Infrastructure risks (continued)
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.

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	*2012*	***2013***	*2012*	***2013***	*2012*
	BD	*BD*	***BD***	*BD*	***BD***	*BD*
Geographical region						
Middle East	**250,492,725**	185,559,284	**55,957,020**	51,032,695	**168,061,220**	128,746,829
Europe	**20,847,925**	22,122,637	**971,422**	489,772	**85,596**	66,045
Asia	**311,641,577**	302,461,148	**57,583,359**	51,040,641	**228,540,998**	213,382,373
Others	**31,982,879**	24,604,867	**16,549,584**	3,798,101	**25,086,566**	22,566,584
	614,965,106	534,747,936	**131,061,385**	106,361,209	**421,774,380**	364,761,831

	Assets		*Liabilities*		*Equity of investment accountholders*	
	2013	*2012*	***2013***	*2012*	***2013***	*2012*
	BD	*BD*	***BD***	*BD*	***BD***	*BD*
Industry sector						
Trading and manufacturing	**142,551,679**	114,541,071	**19,603,154**	12,692,206	**46,671,078**	21,140,443
Banks and financial institutions	**247,493,236**	186,573,847	**61,356,007**	41,459,999	**119,950,217**	76,779,676
Construction	**10,835,405**	9,172,147	**3,613,607**	2,641,044	**4,461,421**	5,002,565
Others	**214,084,786**	224,460,871	**46,488,617**	49,567,960	**250,691,664**	261,839,147
	614,965,106	534,747,936	**131,061,385**	106,361,209	**421,774,380**	364,761,831

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	*2012*	***2013***	*2012*
	BD	*BD*	***BD***	*BD*
Assets	**304,043,783**	252,085,525	**310,921,323**	282,662,411
Liabilities and equity of investment accountholders	**264,127,142**	208,206,366	**288,708,623**	262,916,674
Total income	**7,642,638**	7,587,182	**8,776,618**	7,802,972
Total operating expenses	**(7,245,817)**	(7,405,064)	**(7,712,684)**	(7,740,389)
Net operating income	**396,821**	182,118	**1,063,934**	62,583
Provision for impairment - net	**5,249**	(1,425,341)	**(1,191,357)**	(3,309,652)
Loss on sale of equity-type investment	**-**	(613,270)	**-**	-
Taxation	**-**	-	**70,486**	1,098,825
Income / (loss) for the year	**402,070**	(1,856,493)	**(56,937)**	(2,148,244)

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.