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

Basel II, Pillar III Disclosures
30 June 2014

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1 INTRODUCTION

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

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

For details on the Group's subsidiaries as of 30 June 2014, refer note 2 of the interim condensed consolidated financial statements of the Group.

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

2 CAPITAL ADEQUACY

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

For the purpose of computing the Capital Adequacy Ratio ("CAR") the Group's financial subsidiary (Al Baraka Bank (Pakistan) Limited) is consolidated as per the requirement of the CA Module.

2 CAPITAL ADEQUACY (continued)

Table – 1. Capital structure

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

	30 June 2014		*31 December 2013*	
	Tier 1	*Tier 2*	*Tier 1*	*Tier 2*
	US $	*US $*	*US $*	*US $*
Components of capital				
Issued and fully paid ordinary shares	**122,457,800**		122,457,800	-
General reserves	**8,687,143**		8,687,143	-
Legal / statutory reserves	**21,845,716**		21,845,716	-
Others	**(8,756,075)**		(11,976,644)	-
Retained profit brought forward	**7,241,110**		7,241,110	-
Minority interest in consolidated subsidiaries	**18,399,946**		16,623,079	-
Less:				
Goodwill	**18,719,759**		17,560,934	-
Unrealised gross losses arising from fair valuing equity securities	**43,869**		78,890	-
Tier 1 Capital before PCD deductions	**151,112,012**		147,238,380	
Current interim profits (reviewed by external auditors)		**1,317,913**		-
Unrealised gain arising from fair valuing equities (45% only)		**-**		-
Profit equalization reserve		**590,764**		573,411
Investment risk reserve		**2,366,265**		2,418,610
Collective impairment loss provision		**648,233**		598,233
Tier 2 Capital before PCD deductions		**4,923,175**		3,590,255
Total available capital		**156,035,187**		150,828,635
Deductions				
Unconsolidated majority-owned or -controlled banking, securities or other financial entities	**(27,171,217)**	**(27,171,217)**	(27,171,217)	(27,171,217)
Excess amount over maximum permitted large exposure limit	**(1,352,659)**	**(1,352,659)**	(1,307,701)	(1,307,701)
Additional deduction from Tier 1 to absorb deficiency in Tier 2	**(23,600,701)**	**-**	(24,888,663)	-
Total Deductions	**(52,124,577)**	**(28,523,876)**	(53,367,581)	(28,478,918)
Tier 1 and Tier 2 eligible capital	**98,987,435**	**-**	93,870,799	-
Total eligible capital		**98,987,435**		93,870,799

2 CAPITAL ADEQUACY (continued)

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

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

Type of islamic financing contracts	*30 June 2014 Capital requirements US $*	*31 December 2013 Capital requirements US $*
Sales receivables	**19,128,692**	22,759,868
Ijara Muntahia Bittamleek & Ijara income receivable	**5,587,412**	4,398,434
Musharaka	**4,487,817**	3,489,194
Mudaraba financing	**1,247**	207,487
	29,205,168	30,854,983

Table – 3. Capital requirement for market risk

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

	30 June 2014		*31 December 2013*	
	Self Financed US $	*Financed by IAH US $*	*Self Financed US $*	*Financed by IAH US $*
Market risk - standardised approach				
Foreign exchange risk	**5,777,506**	**25,530**	5,800,564	-
Total of market risk - standardised approach	**5,777,506**	**25,530**	5,800,564	-
Multiplier	**12.50**	**12.50**	12.50	12.50
	72,218,825	**319,125**	72,507,050	-
Eligible Portion for the purpose of the calculation	**100%**	**30%**	100%	30%
Risk Weighted Exposures ("RWE") for CAR Calculation	**72,218,825**	**95,738**	72,507,050	-
Total market RWE		**72,314,563**		72,507,050
Minimum capital requirement (12%)		**8,677,748**		8,700,846

Table – 4. Capital Requirements for operational risk

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

	30 June 2014 US $	*31 December 2013 US $*
Indicators of operational risk		
Average gross income	**68,884,231**	68,884,231
Multiplier	**12.5**	12.5
	861,052,888	861,052,888
Eligible Portion for the purpose of the calculation	**15%**	15%
Total operational RWE	**129,157,933**	129,157,933
Minimum capital requirement (12%)	**15,498,952**	15,498,952

2 CAPITAL ADEQUACY (continued)

Table – 5. Capital adequacy ratios

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

	30 June 2014		*31 December 2013*	
	US $	*US $*	*US $*	*US $*
	Total capital ratio	**Tier 1 capital ratio**	Total capital ratio	Tier 1 capital ratio
Capital adequacy ratio	**13.83%**	**13.83%**	13.98%	13.98%

The subsidiary's CAR computed in accordance with the CBB requirements is 21.15% (31 December 2013: 22.48%) which is above the minimum CAR threshold set by the CBB.

Legal restrictions on capital and income mobility

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

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

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

	30 June 2014		*31 December 2013*	
	US $	*US $*	*US $*	*US $*
	Total capital ratio	**Tier 1 capital ratio**	Total capital ratio	Tier 1 capital ratio
Capital adequacy ratio	**11.37%**	**11.18%**	11.97%	9.60%

3 RISK MANAGEMENT

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

a) Credit risk

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

Table – 7. Credit risk exposure

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

	30 June 2014				*31 December 2013*			
	Self financed		*Financed by IAH*		*Self financed*		*Financed by IAH*	
	Total gross credit exposure US $	**Average gross exposure over the period US $*	*Total gross credit exposure US $*	**Average gross credit risk exposure over the period US $*	*Total gross credit exposure US $*	**Average gross exposure over the period US $*	*Total gross credit exposure US $*	**Average gross credit risk exposure over the period US $*
Funded								
Cash and balances with banks & Financial Institutions	**259,081,085**	**222,873,369**	**2,446,070**	**55,815,642**	138,019,839	164,961,658	181,620,865	85,004,847
Sales receivables	**4,340,874**	**10,650,867**	**647,851,329**	**662,259,003**	79,773,473	44,014,062	553,924,254	524,634,428
Mudaraba financing	**10,389**	**10,389**	**-**	**-**	1,729,061	7,654,340	-	20,733,527
Ijara Muntahia Bittamleek	**143,677**	**196,825**	**157,468,047**	**145,161,897**	-	-	126,579,913	119,194,625
Musharaka	**4,480,000**	**4,480,000**	**94,913,473**	**86,181,679**	4,480,000	4,480,000	67,975,498	63,126,511
Investments	**215,467,698**	**170,866,862**	**163,708,608**	**145,801,521**	177,046,260	127,402,556	158,446,839	233,310,072
Investment in real estate	**5,849,016**	**5,849,016**	**-**	**-**	5,549,016	3,790,620	-	-
Ijara income receivables	**129,492**	**149,752**	**17,912,829**	**20,550,921**	566,801	762,556	16,684,591	17,859,103
Premises and equipment	**23,717,882**	**23,885,539**	**-**	**-**	23,342,211	22,456,546	-	-
Other assets	**67,272,478**	**80,605,682**	**33,971,154**	**25,187,418**	64,374,649	63,625,699	13,532,974	16,080,874
Unfunded exposure								
Commitments and contingent liabilities	**199,691,870**	**196,051,415**	**-**	**-**	217,718,843	173,511,739	-	-
	780,184,461	**715,619,716**	**1,118,271,510**	**1,140,958,081**	712,600,153	612,659,776	1,118,764,934	1,079,943,987

*Average balances are computed based on quarter end balances.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 8. Credit risk – geographic breakdown

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

	30 June 2014				*31 December 2013*			
	Self financed		*Financed by IAH*		*Self financed*		*Financed by IAH*	
	**geographic area*		**geographic area*		**geographic area*		**geographic area*	
	Middle East	*Other Asian countries*	*Middle East*	*Other Asian countries*	*Middle East*	*Other Asian countries*	*Middle East*	*Other Asian countries*
	US $	*US $*	*US $*	*US $*	*US $*	*US $*	*US $*	*US $*
Cash and balances with banks	**78,611,453**	**180,469,632**	**2,024,124**	**421,946**	21,479,260	116,540,579	86,503,541	95,117,324
Sales receivables	**4,340,874**	**-**	**386,967,777**	**260,883,552**	79,773,473	-	306,818,610	247,105,644
Mudaraba financing	**10,389**	**-**	**-**	**-**	1,729,061	-	-	-
Ijara Muntahia Bittamleek	**143,677**	**-**	**114,754,762**	**42,713,285**	-	-	94,996,394	31,583,519
Musharaka	**4,480,000**	**-**	**5,052,689**	**89,860,784**	4,480,000	-	5,063,004	62,912,494
Investments	**88,218,716**	**127,248,982**	**26,780,379**	**136,928,229**	114,415,019	62,631,241	6,756,824	151,690,015
Investment in real estate	**5,849,016**	**-**	**-**	**-**	5,549,016	-	-	-
Ijara income receivables	**129,492**	**-**	**16,101,883**	**1,810,946**	566,801	-	14,780,319	1,904,272
Premises and equipment	**8,792,690**	**14,925,192**	**-**	**-**	9,092,791	14,249,420	-	-
Other assets	**35,885,338**	**31,387,140**	**134,681**	**33,836,473**	36,766,076	27,608,575	151,059	13,381,913
	226,461,645	**354,030,946**	**551,816,295**	**566,455,215**	273,851,497	221,029,815	515,069,751	603,695,181

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

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 9. Credit risk – counterparty type breakdown

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

	30 June 2014				*31 December 2013*			
	Self financed		*Financed by IAH*		*Self financed*		*Financed by IAH*	
	Funded	*Unfunded*	*Funded*	*Unfunded*	*Funded*	*Unfunded*	*Funded*	*Unfunded*
	US $	*US $*	*US $*	*US $*	*US $*	*US $*	*US $*	*US $*
Cash items	**19,219,007**	**-**	**133**	**-**	8,209,369	-	9,662,615	-
Claims on Sovereigns	**213,534,286**	**-**	**137,072,055**	**-**	134,221,865	-	202,629,868	-
Claims on Public Sector Entities	**4,406,567**	**-**	**80,030,131**	**-**	3,177,474	-	62,229,960	-
Claims on banks	**190,008,936**	**175,331,106**	**213,172,088**	**-**	222,602,751	103,339,647	267,636,753	-
Claims on corporate	**12,412,916**	**24,360,764**	**518,992,841**	**-**	2,295,862	114,379,196	441,286,588	-
Claims on Investment Firms	**-**	**-**	**1,519,000**	**-**	-	-	-	-
Mortgage	**-**	**-**	**72,470,971**	**-**	-	-	54,439,250	-
Past dues receivables	**-**	**-**	**37,478,731**	**-**	-	-	41,801,581	-
Regulatory Retail Portfolio	**2,154,843**	**-**	**15,132,487**	**-**	930,129	-	11,258,125	-
Equity investment	**55,393,602**	**-**	**355,780**	**-**	65,342,434	-	356,287	-
Investment in Funds	**1,050,000**	**-**	**5,016,429**	**-**	1,050,000	-	5,011,473	-
Holding of Real Estate	**38,253,921**	**-**	**3,268,781**	**-**	38,304,300	-	9,668,755	-
Other assets	**44,632,356**	**-**	**33,188,240**	**-**	18,747,126	-	12,783,679	-
	581,066,434	**199,691,870**	**1,117,697,667**	**-**	494,881,310	217,718,843	1,118,764,934	-

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

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 10. Credit risk – related party transactions

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

	30 June 2014		*31 December 2013*	
	Self financed Funded US $	***Financed by IAH Funded US $***	*Self financed Funded US $*	*Financed by IAH Funded US $*
Cash and balances with bank	**-**	**121,632**	-	244,025
Sales Receivable	**1,656,800**	**42,978,878**	-	49,722,801
Musharaka	**-**	**1,094,621**	-	927,765
Mudaraba Financing	**10,389**	**-**	1,729,061	-
Ijara Muntahia Bittamleek	**-**	**3,208,135**	-	4,107,393
Investments	**27,676,320**	**15,270,179**	27,676,320	257,412
Ijara Income Receivable	**-**	**915,026**	-	45,422
Other Assets	**30,631,728**	**-**	31,925,357	65,986
	59,975,237	**63,588,471**	61,330,738	55,370,804

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

The Group's intra-group transactions as of 30 June 2014 is its investment in subsidiary of USD 61,961 thousand (31 December 2013: USD 61,961 thousand) and amount receivable of USD 969 thousand (31 December 2013: USD 909 thousand) by the Bank from its subsidiary in Pakistan, and Subordinated debt to subsidiary in Pakistan of USD 11,000 thousand.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 11. Credit risk – concentration of risk

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

The following are the balances representing the concentration of risk to individual counterparties as of 30 June 2014:

Counterparties *	***Funded*** ***US $***
Counterparty # 1	209,478,873
Counterparty # 2	78,281,377
Counterparty # 3	56,171,605
Counterparty # 4	54,342,103
Counterparty # 5	50,446,370
Counterparty # 6	49,224,045
Counterparty # 7	48,897,610
Counterparty # 8	45,904,343
Counterparty # 9	37,609,004
Counterparty # 10	31,849,744
Counterparty # 11	30,905,405
Counterparty # 12	25,303,945
Counterparty # 13	21,715,188
Counterparty # 14	21,505,979
Counterparty # 15	20,834,458
Counterparty # 16	18,092,718
Counterparty # 17	17,684,652
Counterparty # 18	16,027,478
Counterparty # 19	15,443,429

* These exposures are in excess of individual obligor limits. Further, these exposures are either exempt or undertaken after obtaining due approval from Central Bank of Bahrain.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

The following are the balances representing the concentration of risk to individual counterparties as of 31 December 2013:

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

* These exposures are in excess of individual obligor limits. Further, these exposures are either exempt or undertaken after obtaining due approval from Central Bank of Bahrain.

Past due and non-performing facilities

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

Highly leveraged counter parties

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

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 12. Credit Risk – Residual Contractual Maturity Breakdown

65% of Group assets are financed by equity of IAH, while 35% are self financed. The following table summarises the residual contractual maturity breakdown of the whole credit portfolio as of 30 June 2014, broken down by major types of credit exposure:

	Up to 3 months US $	*3 to 6 months US $*	*6 months to 1 year US $*	*1 to 3 years US $*	*3 to 5 years US $*	*5 to 10 years US $*	*10 to 20 years US $*	*Over 20 years US $*	*No fixed maturity US $*	*Total US $*
ASSETS										
Cash and balances with banks	196,590,980	-	-	-	-	-	-	-	64,936,175	261,527,155
Sales receivables	389,540,640	98,780,581	73,477,455	52,542,048	12,397,267	7,374,858	-	-	18,079,354	652,192,203
Mudaraba financing	10,389	-	-	-	-	-	-	-	-	10,389
Ijara Muntahia Bittamleek	8,308,663	4,877,580	9,072,043	59,433,212	34,275,882	18,601,812	19,221,272	3,821,260	-	157,611,724
Musharaka	17,791,663	4,529,643	4,736,077	19,148,280	26,017,116	14,666,463	9,956,209	-	2,548,022	99,393,473
Investments*	49,349,124	51,453,130	24,188,209	145,548,106	48,393,417	25,930,057	1,000,000	-	33,314,263	379,176,306
Investment in real estate	-	-	-	5,849,016	-	-	-	-	-	5,849,016
Ijara income receivables	2,780,964	862,750	1,183,665	5,632,977	3,032,617	2,438,688	1,468,858	292,015	349,787	18,042,321
Premises and equipment	-	-	-	-	-	-	-	-	23,717,882	23,717,882
Goodwill	-	-	-	-	-	-	-	-	18,719,759	18,719,759
Other assets	31,287,895	670,560	13,341,237	90,981	52,063,678	-	-	-	3,789,281	101,243,632
Total assets	695,660,318	161,174,244	125,998,686	288,244,620	176,179,977	69,011,878	31,646,339	4,113,275	165,454,523	1,717,483,860
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS										
Due to banks and financial institutions	42,070,964	1,189,247	-	22,000,000	-	-	-	-	-	65,260,211
Current accounts**	301,947,998	-	-	-	-	-	-	-	-	301,947,998
Other liabilities	51,650,795	1,063,082	1,212,864	4,140,497	3,348,777	12,285	-	-	-	61,428,300
Total liabilities	395,669,757	2,252,329	1,212,864	26,140,497	3,348,777	12,285	-	-	-	428,636,509
Equity of investment accountholders	397,878,689	247,193,779	194,141,687	147,671,158	130,812,354	-	-	-	-	1,117,697,667
Total owners' equity	-	-	-	-	-	-	-	-	171,149,684	171,149,684
Total liabilities, Equity of investment accountholders and owner's equity	793,548,446	249,446,108	195,354,551	173,811,655	134,161,131	12,285	-	-	171,149,684	1,717,483,860
Net gap	(97,888,128)	(88,271,864)	(69,355,865)	114,432,965	42,018,846	68,999,593	31,646,339	4,113,275	(5,695,161)	-
Cumulative net gap	(97,888,128)	(186,159,992)	(255,515,857)	(141,082,892)	(99,064,046)	(30,064,453)	1,581,886	5,695,161	-	-
Off-balance sheet equity of investment accountholders	19,880,962	76,823,289	60,866,090	-	-	-	-	-	-	157,570,341

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

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

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

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

65% of Group assets are financed by equity of IAH, while 35% are self financed. The following table summarises the residual contractual maturity breakdown of the whole credit portfolio as of 31 December 2013, broken down by major types of credit exposure:

	Up to 3 months US $	*3 to 6 months US $*	*6 months to 1 year US $*	*1 to 3 years US $*	*3 to 5 years US $*	*5 to 10 years US $*	*10 to 20 years US $*	*Over 20 years US $*	*No fixed maturity US $*	*Total US $*
ASSETS										
Cash and balances with banks	268,997,729	-	-	-	-	-	-	-	50,642,975	319,640,704
Sales receivables	321,044,444	166,836,668	48,207,850	38,133,851	16,507,378	6,543,276	-	-	36,424,260	633,697,727
Mudaraba financing	1,729,061	-	-	-	-	-	-	-	-	1,729,061
Ijara Muntahia Bittamleek	11,370,893	3,238,609	7,841,949	35,386,301	33,502,583	16,861,643	15,988,481	2,389,454	-	126,579,913
Musharaka	3,553,495	11,440	7,052,497	20,266,145	14,977,033	18,280,458	4,923,195	-	3,391,235	72,455,498
Investments	63,257,095	4,803,850	68,533,404	60,518,528	71,805,323	29,167,430	1,000,000	-	36,407,469	335,493,099
Investment in real estate	-	-	-	5,549,016	-	-	-	-	-	5,549,016
Ijara income receivables	2,354,298	442,147	1,288,655	4,312,012	3,240,404	2,726,810	1,171,535	175,084	1,540,447	17,251,392
Premises and equipment	-	-	-	-	-	-	-	-	23,342,211	23,342,211
Goodwill	-	-	-	-	-	-	-	-	17,560,934	17,560,934
Other assets	13,732,828	528,244	8,515,460	86,321	51,511,295	-	-	-	3,533,475	77,907,623
Total assets	686,039,843	175,860,958	141,439,815	164,252,174	191,544,016	73,579,617	23,083,211	2,564,538	172,843,006	1,631,207,178
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS										
Due to banks and financial institutions	93,722,207	13,276,101	-	22,000,000	-	-	-	-	-	128,998,308
Current accounts**	167,899,912	-	-	-	-	-	-	-	-	167,899,912
Other liabilities	31,476,851	816,444	263,802	13,914,456	4,258,992	14,166	-	-	-	50,744,711
Total liabilities	293,098,970	14,092,545	263,802	35,914,456	4,258,992	14,166	-	-	-	347,642,931
Equity of investment accountholders	471,504,143	252,968,739	224,118,637	157,025,277	13,148,138		-	-	-	1,118,764,934
Total owners' equity	-	-	-	-	-	-	-	-	164,799,313	164,799,313
Total liabilities, Equity of investment accountholders and owner's equity	764,603,113	267,061,284	224,382,439	192,939,733	17,407,130	14,166	-	-	164,799,313	1,631,207,178
Net gap	(78,563,270)	(91,200,326)	(82,942,624)	(28,687,559)	174,136,886	73,565,451	23,083,211	2,564,538	8,043,693	-
Cumulative net gap	(78,563,270)	(169,763,596)	(252,706,220)	(281,393,779)	(107,256,893)	(33,691,442)	(10,608,231)	(8,043,693)	-	-
Off-balance sheet equity of investment accountholders	30,618,765	76,000,000	30,158,760	-	-	-	-	-	-	136,777,525

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

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

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

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

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

	30 June 2014					31 December 2013				
			Aging of non performing facilities					Aging of non performing facilities		
	Past due but performing US $	Non-performing Islamic financing contracts US $	90 days to 1 year US $	1 year to 3 years US $	Over 3 years US $	Past due but performing US $	Non-performing Islamic financing contracts US $	90 days to 1 year US $	1 year to 3 years US $	Over 3 years US $
Banks	46,000	-	-	-	-	-	-	-	-	-
Corporates	36,137,821	46,039,773	13,850,071	9,830,906	22,358,796	28,046,578	48,272,544	10,071,578	21,814,485	16,386,481
Investment Firms	65,396	36,823,571	-	-	35,734,604	-	36,703,208	-	-	36,703,208
Residentials	182,872	1,750,616	646,387	674,629	1,518,568	276,029	2,438,278	304,724	604,439	1,529,115
Others	5,221,105	5,768,564	722,870	1,983,401	3,062,293	1,176,223	4,284,341	558,181	1,551,629	2,174,531
	41,653,194	90,382,524	15,219,328	12,488,936	62,674,261	29,498,830	91,698,371	10,934,483	23,970,553	56,793,335

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

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

The following table summarises the total provisions against financing facilities disclosed by counterparty type as of 30 June 2014

		Specific allowances					
	Opening Balance	Charges during the period	Write-Back during the period	Write-offs during the period	Transferred to investment risk reserve	Exchange difference on opening balance	Balance at the end of the period
	US $	US $	US $	US $	US $	US $	US $
Corporates	23,890,504	2,399,275	(2,746,530)	(32,893)	-	1,568,514	25,078,870
Investment Firms	22,809,553	-	(500,000)	-	-	25,945	22,335,498
Individuals	1,634,700	72,954	(47,996)	-	53,838	40,022	1,753,518
Others	2,150,907	271,602	(477,950)	-	-	141,937	2,086,496
	50,485,664	2,743,831	(3,772,476)	(32,893)	53,838	1,776,418	51,254,382

A collective provision of US $ 648 thousand is being maintained against financing facilities as at 30 June 2014.

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

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

A collective provision of US $ 598 thousand is being maintained against financing facilities as at 31 December 2013.

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

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

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

	30 June 2014			*31 December 2013*		
	Non-performing Islamic financing contracts US $	***Specific provision US $***	***Collective provision* US $***	*Non-performing Islamic financing contracts US $*	*Specific provision US $*	*Collective provision* US $*
Middle East	**41,547,635**	**23,539,732**	**648,233**	41,870,969	23,959,948	598,236
Other Asian countries	**48,834,889**	**27,714,650**	**-**	49,827,402	26,525,716	-
	90,382,524	**51,254,382**	**648,233**	91,698,371	50,485,664	598,236

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

Table – 16. Credit risk – restructured Islamic financing contracts

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

	30 June 2014 Total US $	*31 December 2013 Total US $*
Restructured Islamic financing contracts	**2,695,329**	15,241,559

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

3 RISK MANAGEMENT (continued)

a) Credit risk (continued)

Table – 17. Counterparty credit risk exposure

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

	30 June 2014		31 December 2013	
	Gross positive FV of contracts US $	* Collateral held US $	Gross positive FV of contracts US $	* Collateral held US $
Cash and balances with banks and financial institution	261,527,155	-	319,640,704	-
Sales receivables	652,192,203	375,389,084	633,697,727	374,272,469
Mudaraba financing	10,389	-	1,729,061	-
Ijara Muntahia Bittamleek	157,611,724	90,221,041	126,579,913	88,089,923
Musharaka	99,393,473	94,413,483	72,455,498	71,459,609
Investments	379,176,306	-	335,493,099	-
Investment in real estate	5,849,016	-	5,549,016	-
Ijara income receivables	18,042,321	-	17,251,392	-
Premises and equipment	23,717,882	-	23,342,211	-
Other assets	101,243,632	-	77,907,623	-
	1,698,764,101	560,023,608	1,613,646,244	533,822,001

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

Table – 18. Counterparty credit risk exposure

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

	30 June 2014		31 December 2013	
	Gross positive FV of contracts US $	Collateral held US $	Gross positive FV of contracts US $	Collateral held US $
Ijara Muntahia Bittamleek & Ijara income receivable	175,654,045	59,555,470	143,831,305	59,078,802

b) Market risk

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

Table – 19. Market risk capital requirements

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

	30 June 2014	31 December 2013
	Foreign exchange risk US $	Foreign exchange risk US $
RWE	72,314,563	72,507,056
Capital requirements (12%)	8,677,748	8,700,847
Maximum value of RWE	73,633,407	75,711,023
Minimum value of RWE	72,314,569	72,507,056

3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

Table – 20. Equity position risk in Banking Book

The following table summarises the total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 30 June 2014:

	Total gross exposure US $	*Average gross exposure over the period US $*	*Publicly held US $*	*Privately held US $*	*Capital requirement US $*
Sukuk	**339,530,542**	**278,601,741**	**83,585,908**	**255,944,634**	**7,686,605**
Managed funds	**5,016,429**	**5,015,183**	**-**	**5,016,429**	**601,972**
Equity shares	**29,133,267**	**28,615,092**	**1,136,768**	**27,996,499**	**5,008,409**
Real estate related	**4,496,068**	**3,194,965**	**-**	**4,496,069**	**717,442**
Others	**1,000,000**	**1,000,000**	**-**	**1,000,000**	**24,000**
	379,176,306	**316,426,981**	**84,722,676**	**294,453,631**	**14,038,428**

The investments stated at a carrying amount of US $ 41,501 thousand are secured as guarantee against the borrowing from a financial institution.

The following table summarises the total and average gross exposure of equity based financing structures by types of financing contracts and investments as of 31 December 2013:

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

The investments stated at a carrying amount of US $ 48,780 thousand are secured as guarantee against the brorrowing from a financial institution.

Table – 21. Equity gains or losses in Banking Book

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

	30 June 2014 US $	*31 December 2013 US $*
Cumulative realised gains (losses) arising from sale or liquidation	**2,410,418**	3,951,298
Total unrealised losses recognised in the balance sheet but not through P&L	**(43,869)**	(78,891)
Unrealized gross losses included in Tier One Capital	**(43,869)**	(78,891)

3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

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.

Table – 22. Foreign currency translation risk

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

	30 June 2014		
	Operational equivalent Long (short) US $	***Strategic equivalent Long (short) US $***	***Total equivalent Long (short) US $***
Pakistani rupees	**28,005,695**	**33,636,097**	**61,641,792**
Euro	**469,705**	**-**	**469,705**
Kuwaiti dinars	**9,666,749**	**-**	**9,666,749**
Pound sterling	**79,549**	**-**	**79,549**
Others	**41,989**	**-**	**41,989**

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

	31 December 2013		
	Operational equivalent Long (short) US $	*Strategic equivalent Long (short) US $*	*Total equivalent Long (short) US $*
Pakistani rupees	31,253,905	30,387,887	61,641,792
Euro	(3,113,248)	-	(3,113,248)
Kuwaiti dinars	10,217,508	-	10,217,508
Pound sterling	105,341	-	105,341
Others	148,196	-	148,196

Foreign currency risk sensitivity analysis

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

3 RISK MANAGEMENT (continued)

b) Market Risk (continued)

Table – 23. Foreign currency risk sensitivity analysis

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

At 30 June 2014

Currency	**Particular**	***Local Currency exposures***	***Exposures in US $***	***Variance after 20% depreciation***
Pakistani rupees	Net long Position	**6,090,492,602**	**61,641,792**	**49,313,434**
Euro	Net long Position	**379,059**	**469,705**	**375,764**
Kuwaiti dinars	Net long Position	**2,725,451**	**9,666,749**	**7,733,399**
Pound sterling	Net long Position	**46,755**	**79,549**	**63,640**
Others	Net long Position	**222,506**	**41,989**	**33,591**

At 31 December 2013

Currency	Particular	*Local Currency exposures*	*Exposures in US $*	*Variance after 20% depreciation*
Pakistani Rupees	Net long Position	6,492,397,086	61,641,792	49,313,434
Euro	Net short Position	(2,258,929)	(3,113,248)	(2,490,598)
Kuwaiti Dinars	Net long Position	2,884,810	10,217,508	8,174,006
Pound Sterling	Net long Position	63,727	105,341	84,273

c) Equity of Investment Accountholders

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

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

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

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

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

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

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

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

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

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

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

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

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

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

Penalty charges
A financial penalty of US $ Nil thousand (Dec 2013: US $ 2 thousand) was charged by the CBB during the period ended 30 June 2014.

A financial penalty of US $ 1 thousand (Dec 2013: US $ 183 thousand) was charged by SBP to the Group's subsidiary in Pakistan during the period.

Non-Shari'a complaint income
The Group charged US $ 260 thousand (Dec 2013: US $ 305 thousand) to customers as penalty for default which was disposed through charity contribution.

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 24. Equity of Investment Accountholders

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

	30 June 2014 US $	*31 December 2013 US $*
IAH - Banks	**171,952,159**	212,097,474
IAH - Non-banks	**943,362,322**	903,675,439
Profit equalisation reserve	**590,764**	573,411
Investment risk reserve	**2,366,265**	2,418,610
	1,118,271,510	1,118,764,934

Table – 25. Ratio of reserves to total IAH

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

	30 June 2014 US $	*31 December 2013 US $*
PER to IAH (%)	**0.05%**	0.05%
IRR to IAH (%)	**0.21%**	0.22%

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

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

	30 June 2014	*31 December 2013*
Sales receivable	**70.54%**	72.40%
Musharaka	**10.34%**	8.88%
Ijara Muntahia Bittamleek & Ijara income receivable	**19.11%**	18.72%

Table – 27. Equity of Investment Accountholders by Counterparty Type

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

Counterparty type

	30 June 2014	*31 December 2013*
Banks	**15.50%**	17.52%
Investment Firms	**11.11%**	7.29%
Corporates	**11.53%**	14.32%
Residentials	**50.29%**	51.28%
Others	**11.57%**	9.59%

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 28. Investment Accountholders share of profit

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

	30 June 2014	*30 June 2013*
Administrative expenses charged to equity of investment accountholders holders	1,590,413	1,239,104
Share of profits earned by IAH, before transfers to/from reserves	34,441,452	35,317,740
Percentage share of profit earned by IAH before transfer to/from reserves	3.02%	3.36%
Share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	27,088,422	27,144,374
Percentage share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	2.37%	2.58%
Share of profit paid out to Bank as mudarib	7,353,030	8,173,366
Mudarib Fee to total Investment Profits	21.35%	23.14%

Table – 29. Movement in profit equalisation reserve

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

	30 June 2014 US $	*30 June 2013 US $*
Balance at 1 January	573,411	544,632
Amount apportioned from income allocable to equity of Investment Accountholders	19,107	11,827
Exchange Difference	(1,754)	(2,462)
	590,764	553,997
Percentage of the profit earned on equity of investment accountholders appropriated to profit equilisation reserve	0.06%	0.03%

Table – 30. Movement in investment risk reserve

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

	30 June 2014 US $	*30 June 2013 US $*
Balance at 1 January	2,418,610	2,604,947
Amount apportioned from income allocable to equity of Investment Accountholders	-	-
Amount apportioned to provision	(53,838)	(68,440)
Exchange Difference	1,493	(145)
	2,366,265	2,536,362
Percentage of the profit earned on equity of investment accountholders appropriated to investment risk reserve	-%	-%

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

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

The Group's share, as Mudarib, in the profits of IAH is up to a maximum of 70% (31 December 2013: up to 70%) as per the terms of IAH agreements.

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 31. Equity of Investment Accountholders rate of return

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

	Average 30 June 2014 Rate of return %		
	Bahrain		*Pakistan*
	BD	US $	
Saving Accounts	0.51%	0.44%	4.71%
One Month Term Deposits	1.33%	-	4.18%
Three Months Term Deposits	1.54%	0.83%	6.06%
Six Months Term Deposits	1.74%	0.86%	6.20%
Nine Months Term Deposits	1.76%	1.14%	-
1 Year Term Deposits	2.03%	1.18%	7.76%
2 Years Term Deposits	2.37%	1.05%	7.98%
3 Year Term Deposits	2.37%	-	8.10%
4 Years Term Deposits	-	-	8.00%
5Years Term Deposits	-	-	9.00%

	Average 31 Dec 2013 Rate of return %		
	Bahrain		*Pakistan*
	BD	US $	
Saving Accounts	0.68%	0.54%	4.36%
One Month Term Deposits	1.79%	0.90%	3.87%
Three Months Term Deposits	2.07%	0.86%	5.44%
Six Months Term Deposits	2.35%	1.10%	5.69%
Nine Months Term Deposits	2.37%	1.29%	-
1 Year Term Deposits	2.74%	1.50%	6.76%
2 Years Term Deposits	3.19%	-	7.98%
3 Year Term Deposits	3.19%	-	8.10%
4 Years Term Deposits	-	-	8.00%
5Years Term Deposits	-	-	9.00%

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

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

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the period ended 30 June 2014:

	Opening Actual Allocation US $	*Movement US $*	*Closing Actual Allocation US $*
Cash and balances with banks	**57,899,593**	**(55,453,523)**	**2,446,070**
Sales receivable	**537,383,597**	**110,467,732**	**647,851,329**
Mudaraba financing	**40,439,955**	**(40,439,955)**	**-**
Ijara Muntahia Bittamleek	**117,187,490**	**40,280,557**	**157,468,047**
Musharaka	**62,193,892**	**32,719,581**	**94,913,473**
Investments	**248,413,492**	**(84,704,884)**	**163,708,608**
Ijara income receivables	**16,683,138**	**1,229,691**	**17,912,829**
Other assets	**20,360,232**	**13,610,922**	**33,971,154**
	1,100,561,389	**17,710,121**	**1,118,271,510**

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

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

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

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

	Profit earned		*Profit paid to IAH*	
	US $	*%age*	*US $*	*%age*
2014* (six months)	**68,882,904**	**6.04%**	**54,176,844**	**4.75%**
2013	68,753,815	6.37%	55,662,173	5.15%
2012	75,886,460	7.75%	61,441,021	6.27%
2011	86,984,643	8.33%	68,601,248	6.57%
2010	45,896,366	6.11%	29,786,963	4.05%
2009	46,278,164	6.90%	35,740,826	5.30%

* Annualised

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

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

The following table summarises the treatment of assets financed by IAH in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of 30 June 2014:

	RWA US$ '000	*RWA for capital adequacy purposes - 30% US$ '000*	*Capital charges US$ '000*
Type of Claims			
Claims on Sovereign	**37,928,612**	**11,378,584**	**1,365,430**
Claims on PSEs	**9,201,448**	**2,760,434**	**331,252**
Claims on Banks	**119,675,532**	**35,902,660**	**4,308,319**
Claims on Corporates	**502,099,331**	**150,629,799**	**18,075,576**
Claims on Investment Firms	**759,500**	**227,850**	**27,342**
Regulatory Retail Portfolio	**14,049,302**	**4,214,791**	**505,775**
Mortgage	**74,061,139**	**22,218,342**	**2,666,201**
Past due facilities	**40,711,253**	**12,213,376**	**1,465,605**
Investment in securities	**5,507,299**	**1,652,190**	**198,263**
Holding of Real Estates	**6,537,562**	**1,961,269**	**235,352**
Other Assets	**33,836,473**	**10,150,942**	**1,218,113**
	844,367,451	**253,310,237**	**30,397,228**

The following table summarises the treatment of assets financed by IAH in the calculation of risk weighted assets (RWA) for capital adequacy purposes as of 31 December 2013:

	RWA US$ '000	*RWA for capital adequacy purposes - 30% US$ '000*	*Capital charges US$ '000*
Type of Claims			
Claims on Sovereign	38,592,123	11,577,637	1,389,316
Claims on PSEs	1,845,379	553,614	66,434
Claims on Banks	112,654,581	33,796,374	4,055,565
Claims on Corporates	415,026,367	124,507,910	14,940,949
Mortgage	58,414,462	17,524,339	2,102,921
Regulatory Retail Portfolio	7,477,199	2,243,160	269,179
Past due facilities	47,031,296	14,109,389	1,693,127
Investment in securities	5,496,466	1,648,940	197,873
Holding of Real Estates	19,337,509	5,801,253	696,150
Other Assets	13,381,914	4,014,574	481,749
	719,257,296	**215,777,190**	**25,893,263**

3 RISK MANAGEMENT (continued)

d) Off-balance sheet equity of Investment Accountholders

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

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

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

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

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

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

Islamic products

	30 June 2014	*31 December 2013*
Sales receivables	**93.48%**	77.95%
Investments	**6.52%**	22.05%

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

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

Counterparty type

	30 June 2014	*31 December 2013*
Banks	**98.64%**	83.91%
Corporate	**1.36%**	16.09%

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

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets and the changes in the asset allocation for the period ended 30 June 2014:

	Opening actual allocation US $	*Movement US $*	*Closing actual allocation US $*
Sales receivables	**106,618,765**	**40,680,187**	**147,298,952**
Investments	**30,158,760**	**(19,887,371)**	**10,271,389**
	136,777,525	**20,792,816**	**157,570,341**

3 RISK MANAGEMENT (continued)

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

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

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

	Opening actual allocation US $	*Movement US $*	*Closing actual allocation US $*
Sales receivables	107,929,065	(27,267,905)	80,661,160
Investments	26,046,122	1,437,078	27,483,200
	133,975,187	(25,830,827)	108,144,360

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

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

	June 2014 US $	*Dec 2013 US $*	*Dec 2012 US $*	*Dec 2011 US $*	*Dec 2010 US $*
Gross Income	**883,711**	104,630	1,208,812	458,674	2,756,802
Mudarib Fee	**60,422**	47,122	168,172	110,062	261,157

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

e) Liquidity risk

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

a. Provide clear guidance on the composition and role of the asset/liability committee or such other committee or department responsible for managing liquidity.

b. Establish approval processes to ensure adherence to liquidity risk management processes.

c. Require periodic calculations to determine the extent to which the segments are funding long-term assets with short-term liabilities.

d. Establish liquidity ratio benchmarks, e.g. parameters for the funding of long-term assets with short-term liabilities to guide liquidity management and the method for computing liquidity indicators.

e. Establish limits on the degree of concentrations that are deemed acceptable. This should:

i) Ensure diversification of funding by origin and term structure by, for example, guarding against concentration by individuals or groups of depositors, types of deposit instruments, market sources of deposit, geographical sources, term to maturity, and deposit currencies. Where concentrations occur, the segments manage their assets and liquidity profile to mitigate the risk; and

ii) Set procedures for the orderly restoration of the liquidity position in the event of loss of funding where such concentrations are unavoidable. In addition, the segments conduct an impact analysis on its dependency on any such concentrations.

3 RISK MANAGEMENT (continued)

e) Liquidity risk (continued)

f. Provide for periodic review of the deposit structure. The review should include the volume and trend of various types of deposits offered, maturity distributions of time deposits, profit rate paid on each type of deposit, prevailing market profit rate, limits on large time deposits, public funds, and non-resident deposits.

g. Provide for the review of alternate funding sources including stand-by facilities and lines of credit.

h. Establish a framework for the composition of assets.

i. Assess the acceptable mismatch in combination with currency commitments. The segments undertake separate analysis of their strategy for each currency individually. They set and regularly review limits on the size of cash flow mismatches over particular time horizons for foreign currencies in aggregate, and for each significant currency.

Table – 39. Liquidity ratios

The following table summarises the liquidity ratios as of:

	30 June 2014	*31 December 2013*
Liquid assets to total assets	**23.99%**	30.92%
Short term assets to short term liabilities	**79.37%**	79.88%

Table – 40. Quantitative indicators of financial performance and position

	June 2014*	*Dec 2013*	*Dec 2012*	*Dec 2011*	*Dec 2010*
Return on average equity	**2.32%**	0.6%	-6.1%	1.4%	2.8%
Return on average assets	**0.23%**	0.1%	-0.8%	0.2%	0.5%
Cost to Income Ratio	**90.55%**	91.1%	98.4%	91.0%	75.3%

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

4 OTHERS

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

Table – 41. Legal Contingencies

	30 June 2014 US $	*31 December 2013 US $*
Law suit	**3,700,000**	3,700,000

During the year 2010, certain suits have been filed by Mr. Faisal Vawda in the Honorable High Court of Sindh against the Bank wherein Mr. Vawda has claimed that he was offered 24 million ordinary shares of the Bank at an aggregate value of US $ 3.04 (2013 : US $ 2.85) million as sale consideration against the commercial property sold to the Bank. He further claimed that in addition to the said property, he has also paid US $ 0.61 (US $ 0.57) million towards the purchase consideration for the above referred shares. However, the said shares or any other consideration against the property has not been received by him. Based on the above, Mr. Vawda has alleged the Bank of involvement in illegal business. The Bank contends that the aforesaid allegations of Mr. Vawda are baseless and without any merit and that the subject property has been duly purchased and paid for by the Bank. Further, in the opinion of legal advisor of the Bank, the Bank is likely to successfully contest the aforementioned proceedings and accordingly is not likely to be exposed to the abovementioned claims being prayed against the Bank.

In terms of the merger agreement dated 16 August 2010 between sponsors shareholders of the Bank and AlBaraka, the Emirates Financial Holdings LLC (EFH) will keep the Bank fully indemnified, safe and secured against all losses, costs, claims, damages of any nature whatsoever resulting to the Bank on account of the Mr. Faisal Vawda Litigations including any additional or ancillary litigation or proceedings filed by Faisal Vawda Group in relation to the subject matter of the Faisal Vawda Litigations. In this regard, the Bank has invoked the indemnity and has submitted a legal notice upon EFH.