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

Basel III, Pillar III Disclosures
30 June 2015

(Unaudited)

Content **Page**

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 subsidiary (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 subsidiary as of 30 June 2015, 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”) and preparation of the PIRI form, the Group's financial subsidiary (Al Baraka Bank (Pakistan) Limited) and significant investment Itqan Capital Company are consolidated, as per the requirement of the CA Module, effectively from 01 January 2015 based on the approval obtained from the CBB dated 10 May 2015.

2 CAPITAL ADEQUACY (continued)

Table – 1. Capital structure

The following table summarises the eligible capital after deductions for Capital Adequacy Ratio (CAR) calculation in accordance with Basel III requirements as of:

	30 June 2015		
	CET 1	***AT1***	***Tier 2***
	US $	***US $***	***US $***
Common Equity Tier 1 (CET1)			
Issued and fully paid ordinary shares	122,457,800		
General reserves	8,687,143		
Legal / Statutory reserves	21,980,367		
Retained earnings	1,380,488		
Current interim cumulative net income / losses	1,389,892		
Unrealized gains and losses on available for sale financial instruments	(120,756)		
Gains and losses resulting from converting foreign currency subsidiaries to the parent currency	(10,292,565)		
Other reserves	(138,291)		
Total CET1 capital before minority interest	145,344,078		
Minority interest in banking subsidiaries	19,554,674		
Total CET1 capital prior to regulatory adjustments	**164,898,752**		
Less:			
Goodwill	35,255,144		
Intangible other than mortgage servicing rights	489,533		
Deferred tax assets	7,479,853		
Total CET 1 capital after the regulatory adjustments above (CET 1a)	**121,674,222**		
Other Capital (AT1 & T 2)			
Instruments issued by parent company		-	6,000,000
Instruments issued by banking subsidiaries to third parties		49,167	16,361,972
General financing loss provisions		-	1,811,889
Total Available AT1 & T2 Capital		**49,167**	**24,173,861**
Total CET 1 Capital	**121,674,222**		
Total T1 Capital		**121,723,389**	
Total Capital			**145,897,250**

2 CAPITAL ADEQUACY (continued)

Table – 1. Capital structure (continued)

The following table summarises the eligible capital after deductions for Capital Adequacy Ratio (CAR) calculation in accordance with Basel II requirements as of:

	31 December 2014	
	Tier 1	*Tier 2*
	US $	*US $*
Components of capital		
Issued and fully paid ordinary shares	122,457,800	-
General reserves	8,687,143	-
Legal / statutory reserves	21,980,367	-
Others	(9,766,140)	-
Retained profit brought forward	8,452,966	-
Minority interest in consolidated subsidiaries	18,110,998	-
Less:		
Goodwill	18,407,059	-
Unrealised gross losses arising from fair valuing equity securities	45,394	-
Tier 1 Capital before PCD deductions	151,470,681	
Profit equalization reserve		574,489
Investment risk reserve		2,338,207
Subordinated term debt		20,508,436
Collective impairment loss provision		1,487,924
Tier 2 Capital before PCD deductions		24,909,056
Total available capital		176,379,737
Deductions		
Unconsolidated majority-owned or -controlled banking, securities or other financial entities	(27,171,051)	(27,171,051)
Excess amount over maximum permitted large exposure limit	(1,268,655)	(1,268,655)
Additional deduction from Tier 1 to absorb deficiency in Tier 2	(3,530,650)	-
Total Deductions	(31,970,356)	(28,439,706)
Tier 1 and Tier 2 eligible capital	119,500,325	-
Total eligible capital		119,500,325

2 CAPITAL ADEQUACY (continued)

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

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

	30 June 2015 Capital requirements US $	*31 December 2014 Capital requirements US $*
Type of islamic financing contracts		
Sales receivables	**19,944,884**	22,044,055
Ijara Muntahia Bittamleek & Ijara income receivable	**7,898,757**	7,919,750
Musharaka	**5,086,211**	4,359,228
	32,929,852	34,323,033

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 2015		*31 December 2014*	
	Self Financed US $	***Financed by IAH US $***	*Self Financed US $*	*Financed by IAH US $*
Market risk - standardised approach				
Sukuk Risk	-	-	-	59,713
Foreign exchange risk	**5,732,338**	**-**	5,771,943	-
Total of market risk - standardised approach	**5,732,338**	**-**	5,771,943	59,713.00
Multiplier	**12.50**	**12.50**	**12.50**	**12.50**
	71,654,225	**-**	72,149,288	746,413
Eligible Portion for the purpose of the calculation	**100%**	**30%**	100%	30%
Risk Weighted Exposures ("RWE") for CAR Calculation	**71,654,225**	**-**	72,149,288	223,924
Total market RWE		**71,654,225**		72,373,211
		12.50%		12.00%
Minimum capital requirement		**8,956,778**		8,684,785

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 2015 US $	*31 December 2014 US $*
Indicators of operational risk		
Average gross income	**73,971,865**	72,331,244
Multiplier	**12.5**	12.5
	924,648,313	904,140,550
Eligible Portion for the purpose of the calculation	**15%**	15%
Total operational RWE	**138,697,247**	135,621,083
	12.50%	12.00%
Minimum capital requirement	**17,337,156**	16,274,530

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 2015			*31 December 2014*	
		US $	***US $***	*US $*	*US $*
	Total capital ratio	**Tier 1 capital ratio**	**CET 1 Capital Ratio**	Total capital ratio	Tier 1 capital ratio
Group Capital adequacy ratio	**17.06%**	**14.24%**	**14.23%**	15.39%	15.39%
Al Baraka Bank Pakistan Limited (ABPL)*	**24.86%**	**19.14%**	**13.25%**	27.02%	18.98%
Itqan Capital*	**36.21%**	**36.21%**	**36.21%**	-%	-%

**The subsidiaries' Capital adequacy ratio computed in accordance with the CBB requirements.*

Legal restrictions on capital and income mobility

Distribution of profits, mobilization of capital, realization of reserves and equivalent funds from subsidiaries are subject to compliance with local laws and regulations prevalent in countries of their incorporation. Further, the Group can support its subsidiaries after obtaining procedural approvals from Central Bank of Bahrain. However, there is no specific legal restriction on the Group to place funds in the form of deposit or capital.

Table - 6. The Group's subsidiary capital adequacy ratios as per local laws

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

	30 June 2015			*31 December 2014*	
		US $	***US $***	*US $*	*US $*
	Total capital ratio	**Tier 1 capital ratio**	**CET 1 Capital Ratio**	Total capital ratio	Tier 1 capital ratio
Capital adequacy ratio	**15.46%**	**11.02%**	**8.66%**	14.24%	10.50%

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 2015				*31 December 2014*			
	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 Instituitions	**216,751,407**	**213,307,785**	**138,034,695**	**105,413,320**	203,164,313	185,039,942	96,841,705	98,265,457
Sales receivables	**8,407,947**	**8,773,261**	**576,605,008**	**617,641,434**	5,152,565	7,428,054	615,837,801	624,198,587
Mudaraba financing	**-**	**-**	**-**	**-**	-	5,194	-	-
Ijara Muntahia Bittamleek	**22,373,247**	**11,611,985**	**231,519,485**	**236,852,095**	-	107,465	221,040,523	173,574,285
Musharaka	**-**	**-**	**135,243,106**	**130,647,082**	-	3,360,000	119,299,509	97,302,050
Investments	**276,245,270**	**258,502,976**	**177,242,756**	**172,892,101**	242,735,626	210,785,624	196,318,877	162,451,729
Investment in real estate	**5,973,584**	**5,973,584**	**-**	**-**	5,973,584	5,880,158	-	-
Ijara income receivables	**-**	**-**	**21,108,426**	**19,690,403**	-	97,411	13,144,231	18,735,158
Premises and equipment	**23,727,621**	**23,805,762**	**-**	**-**	23,273,257	23,446,545	-	-
Other assets	**46,859,465**	**46,601,620**	**25,823,502**	**25,563,134**	46,611,491	70,113,294	27,220,488	25,878,301
Unfunded exposure								
Commitments and contingent liabilities	**169,329,981**	**173,325,777**	**-**	**-**	189,363,717	193,700,436	-	-
	769,668,522	**741,902,750**	**1,305,576,978**	**1,308,699,569**	716,274,553	699,964,123	1,289,703,134	1,200,405,567

*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 2015				*31 December 2014*			
	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	**23,657,363**	**193,094,044**	**99,336,082**	**38,698,613**	58,504,428	144,659,885	40,347,755	56,493,950
Sales receivables	**8,407,947**	**-**	**308,153,064**	**268,451,944**	5,152,565	-	320,586,939	295,250,862
Mudaraba financing	**-**	**-**	**-**	**-**	-	-	-	-
Ijara Muntahia Bittamleek	**22,373,247**	**-**	**187,717,476**	**43,802,009**	-	-	178,840,935	42,199,588
Musharaka	**-**	**-**	**3,030,716**	**132,212,390**	-	-	3,041,998	116,257,511
Investments	**201,006,233**	**75,239,037**	**61,598,822**	**115,643,934**	169,176,488	73,559,138	71,102,044	125,216,833
Investment in real estate	**5,973,584**	**-**	**-**	**-**	5,973,584	-	-	-
Ijara income receivables	**-**	**-**	**19,453,160**	**1,655,266**	-	-	11,552,696	1,591,535
Premises and equipment	**8,722,849**	**15,004,772**	**-**	**-**	8,374,943	14,898,314	-	-
Other assets	**5,133,121**	**41,726,344**	**10,021,443**	**15,802,059**	5,702,305	40,909,186	5,867,119	21,353,369
	275,274,344	**325,064,197**	**689,310,763**	**616,266,215**	252,884,313	274,026,523	631,339,486	658,363,648

* 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 2015				*31 December 2014*			
	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	**11,182,899**	**-**	**11,574,992**	**-**	9,789,266	-	8,935,304	-
Claims on Sovereigns	**268,831,067**	**-**	**194,135,340**	**-**	234,729,229	-	184,288,446	-
Claims on Public Sector Entities	**65,787,422**	**-**	**47,774,081**	**-**	18,152,960	1,760,268	71,992,214	-
Claims on banks	**125,436,117**	**45,804,813**	**214,622,616**	**-**	103,163,343	73,360,327	185,222,115	-
Claims on corporate	**9,508,521**	**121,787,874**	**589,180,149**	**-**	13,539,034	112,747,499	638,950,972	-
Claims on Investment Firms	**-**	**-**	**-**	**-**	-	-	1,519,250	-
Mortgage	**-**	**-**	**138,127,139**	**-**	-	-	92,162,423	-
Past dues receivables	**-**	**-**	**50,766,645**	**-**	672,566	-	55,500,721	-
Regulatory Retail Portfolio	**876,819**	**-**	**21,760,304**	**-**	736,685	-	16,640,264	-
Equity investment	**8,511,178**	**-**	**328,955**	**-**	56,440,782	-	341,482	-
Investment in Funds	**1,550,000**	**-**	**5,026,424**	**-**	1,050,000	-	5,021,468	-
Holding of Real Estate	**62,877,549**	**-**	**8,268,722**	**-**	36,614,945	-	3,231,222	-
Other assets	**45,776,969**	**1,737,294**	**24,011,611**	**-**	52,022,026	1,495,623	25,897,253	-
	600,338,541	**169,329,981**	**1,305,576,978**	-	526,910,836	189,363,717	1,289,703,134	-

For the purpose of rating, the Group is using External Credit Assessment Institutions (ECAIs) Standard & Poors, Moodys, Capital Intelligence, Fitch and Islamic Rating Agency (IRA) 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 2015		*31 December 2014*	
	Self financed Funded US $	***Financed by IAH Funded US $***	*Self financed Funded US $*	*Financed by IAH Funded US $*
Cash and balances with bank	**-**	**301,864**	-	240,550
Sales Receivable	**-**	**50,323,878**	-	49,637,224
Musharaka	**-**	**1,072,944**	-	1,305,017
Mudaraba Financing	**-**	**-**	-	-
Ijara Muntahia Bittamleek	**-**	**1,650,798**	-	2,438,607
Investments	**72,192,204**	**-**	72,226,722	278,090
Ijara Income Receivable	**-**	**762,178**	-	63,988
Other Assets	**2,574,485**	**1,322,932**	2,537,309	4,731,477
Contingencies and commitments	**16,053,247**	-	11,989,180	-
	90,819,936	**55,434,594**	86,753,211	58,694,953

The Group's intra-group transactions are as follows:

	30 June 2015 Self financed US $	31 December 2014 Self financed US $
Assets		
Investment in a subsidiary	**61,960,834**	61,960,834
Subordinated mudaraba sukuk	**19,500,000**	11,000,000
Other receivables	**952,443**	952,443
	82,413,277	73,913,277
Contingencies and commitments		
Letters of credit	**294,169**	1,317,425
Guarantees	**285,000**	285,000
Acceptances	**35,640**	-
	614,809	1,602,425

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 2015:

Counterparties *	***Exposures*** ***US $***
Counterparty # 1	**161,832,565**
Counterparty # 2	**157,839,317**
Counterparty # 3	**78,574,485**
Counterparty # 4	**58,071,823**
Counterparty # 5	**49,363,139**
Counterparty # 6	**42,274,282**
Counterparty # 7	**34,663,040**
Counterparty # 8	**28,237,425**
Counterparty # 7	**25,083,886**

* These exposures includes the off balances sheet equity of investment accountholders and other off balance sheet items. 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 2014:

Counterparties *	*Exposures* *US $*
Counterparty # 1	167,448,786
Counterparty # 2	78,537,309
Counterparty # 3	57,287,784
Counterparty # 4	54,342,103
Counterparty # 5	51,192,836
Counterparty # 6	48,685,258
Counterparty # 7	42,423,057
Counterparty # 8	31,258,965
Counterparty # 9	27,466,330
Counterparty # 10	22,492,516
Counterparty # 11	20,823,876

* These exposures includes the off balances sheet equity of investment accountholders and other off balance sheet items. 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

68% of Group assets are financed by equity of IAH, while 32% are self financed. The following table summarises the residual contractual maturity breakdown of the whole credit portfolio as of 30 June 2015, 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	**175,280,936**	**-**	**78,204,644**	**19,500,000**	**-**	**-**	**-**	**-**	**81,292,681**	**354,278,261**
Sales receivables	**274,243,070**	**154,740,135**	**90,891,591**	**34,952,370**	**13,128,110**	**2,462,318**	**-**	**-**	**10,159,910**	**580,577,504**
Ijara Muntahia Bittamleek	**10,607,862**	**8,514,985**	**15,308,866**	**72,169,354**	**58,358,376**	**38,749,425**	**38,977,330**	**10,360,071**	**-**	**253,046,269**
Musharaka	**4,430,796**	**511,603**	**2,647,326**	**8,726,701**	**75,121,823**	**30,548,863**	**9,346,453**	**-**	**3,909,541**	**135,243,106**
Investments*	**17,845,166**	**34,172,858**	**5,983,810**	**154,920,571**	**145,350,256**	**56,676,050**	**1,000,000**	**-**	**63,626,146**	**479,574,857**
Investment in real estate	**-**	**-**	**-**	**5,973,584**	**-**	**-**	**-**	**-**	**-**	**5,973,584**
Ijara income receivables	**5,421,632**	**1,085,850**	**1,784,500**	**2,041,301**	**3,837,508**	**3,092,607**	**2,691,003**	**715,262**	**438,763**	**21,108,426**
Premises and equipment	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**23,402,391**	**23,402,391**
Goodwill	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**18,172,745**	**18,172,745**
Other assets	**10,741,091**	**1,899,091**	**20,173,497**	**19,500,000**	**14,146,106**	**-**	**-**	**-**	**3,829,197**	**70,288,982**
Total assets	**498,570,553**	**200,924,522**	**214,994,234**	**317,783,881**	**309,942,179**	**131,529,263**	**52,014,786**	**11,075,333**	**204,831,374**	**1,941,666,125**
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBT AND OWNERS' EQUITY										
Due to banks and financial institutions	**64,574,252**	**5,634,922**	**-**	**60,000,000**	**-**	**-**	**-**	**-**	**-**	**130,209,174**
Current accounts**	**255,991,431**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**255,991,431**
Other liabilities	**40,781,324**	**958,322**	**493,988**	**4,800,113**	**6,245,725**	**-**	**-**	**-**	**-**	**53,279,472**
Total liabilities	**361,347,007**	**6,593,244**	**493,988**	**64,800,113**	**6,245,725**	**-**	**-**	**-**	**-**	**439,480,077**
Subordinated debt	**1,849,243**	**-**	**1,403,605**	**5,614,419**	**5,614,419**	**10,224,130**	**-**	**-**	**-**	**24,705,816**
Equity of investment accountholders	**499,470,472**	**221,793,328**	**267,455,632**	**165,197,917**	**151,659,629**	**-**	**-**	**-**	**-**	**1,305,576,978**
Total owners' equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**171,903,254**	**171,903,254**
Total liabilities, Equity of investment accountholders, Subordinated debt and owner's equity	**862,666,722**	**228,386,572**	**269,353,225**	**235,612,449**	**163,519,773**	**10,224,130**	**-**	**-**	**171,903,254**	**1,941,666,125**
Net gap	**(364,096,169)**	**(27,462,050)**	**(54,358,991)**	**82,171,432**	**146,422,406**	**121,305,133**	**52,014,786**	**11,075,333**	**32,928,120**	**-**
Cumulative net gap	**(364,096,169)**	**(391,558,219)**	**(445,917,210)**	**(363,745,778)**	**(217,323,372)**	**(96,018,239)**	**(44,003,453)**	**(32,928,120)**	**-**	**-**
Off-balance sheet equity of investment accountholders	**19,882,899**	**76,000,000**	**9,494,062**	**-**	**-**	**-**	**-**	**-**	**-**	**105,376,961**

* 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)

71% of Group assets are financed by equity of IAH, while 29% are self financed. The following table summarises the residual contractual maturity breakdown of the whole credit portfolio as of 31 December 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	139,008,885	22,268,179	72,203,811	11,000,000	-	-	-	-	55,525,143	300,006,018
Sales receivables	288,053,672	143,205,082	64,541,773	59,190,653	12,148,051	6,317,490	-	-	47,533,645	620,990,366
Ijara Muntahia Bittamleek	8,785,891	6,484,905	16,337,697	73,606,187	50,839,681	30,589,084	27,425,315	6,878,913	92,850	221,040,523
Musharaka	5,040,669	3,963,439	3,147,603	10,933,265	46,055,798	43,122,860	6,125,657	-	910,218	119,299,509
Investments	39,876,875	5,624,984	27,789,315	148,498,373	122,533,486	30,894,125	1,000,000	-	62,837,345	439,054,503
Investment in real estate	-	-	-	5,973,584	-	-	-	-	-	5,973,584
Ijara income receivables	389,649	409,824	1,094,090	4,028,324	2,816,011	1,925,266	1,646,453	412,969	421,645	13,144,231
Premises and equipment	-	-	-	-	-	-	-	-	23,273,257	23,273,257
Goodwill	-	-	-	-	-	-	-	-	18,407,059	18,407,059
Other assets	22,904,983	3,714,905	17,825,326	-	25,707,564	-	-	-	3,679,201	73,831,979
Total assets	504,060,624	185,671,318	202,939,615	313,230,386	260,100,591	112,848,825	36,197,425	7,291,882	212,680,363	1,835,021,029
LIABILITIES, EQUITY OF INVESTMENT ACCOUNTHOLDERS, SUBORDINATED DEBT AND OWNERS' EQUITY										
Due to banks and financial institutions	53,840,674	14,567,047	-	22,000,000	-	-	-	-	-	90,407,721
Current accounts**	211,810,003	-	-	-	-	-	-	-	-	211,810,003
Other liabilities	42,970,151	862,432	719,828	4,330,755	3,822,102	8,727	-	-	-	52,713,995
Total liabilities	308,620,828	15,429,479	719,828	26,330,755	3,822,102	8,727	-	-	-	354,931,719
Subordinated debt	2,026,295	-	1,421,703	5,686,813	5,686,813	5,686,812	-	-	-	20,508,436
Equity of investment accountholders	562,428,675	231,351,200	172,522,365	173,138,469	150,262,425	-	-	-	-	1,289,703,134
Total owners' equity	-	-	-	-	-	-	-	-	169,877,740	169,877,740
Total liabilities, Equity of investment accountholders, Subordinated debt and owner's equity	873,075,798	246,780,679	174,663,896	205,156,037	159,771,340	5,695,539	-	-	169,877,740	1,835,021,029
Net gap	(369,015,174)	(61,109,361)	28,275,719	108,074,349	100,329,251	107,153,286	36,197,425	7,291,882	42,802,623	-
Cumulative net gap	(369,015,174)	(430,124,535)	(401,848,816)	(293,774,467)	(193,445,216)	(86,291,930)	(50,094,505)	(42,802,623)	-	-
Off-balance sheet equity of investment accountholders	25,278,334	76,000,000	10,369,945	-	-	-	-	-	-	111,648,279

* 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 2015					31 December 2014				
			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 $
Corporates	**20,437,890**	**51,926,457**	**25,811,219**	**4,273,139**	**21,842,099**	8,720,874	60,335,450	29,548,307	12,733,156	18,053,987
Investment Firms	**-**	**18,884,696**	**-**	**-**	**18,884,696**	-	34,974,335	-	-	34,974,335
Residentials	**171,343**	**5,292,214**	**4,261,848**	**637,406**	**392,960**	205,956	5,587,715	3,914,319	1,120,909	552,487
Others	**10,061,204**	**10,200,516**	**1,325,865**	**1,499,678**	**7,374,973**	7,482,714	4,929,338	63,109	1,670,018	3,196,211
	30,670,437	**86,303,883**	**31,398,932**	**6,410,223**	**48,494,728**	16,409,544	105,826,838	33,525,735	15,524,083	56,777,020

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 2015

	Specific allowances						
	Opening Balance US $	***Charges during the period US $***	***Write-Back during the period US $***	***Write-offs during the period US $***	***Transferred to investment risk reserve US $***	***Exchange difference on opening balance US $***	***Balance at the end of the period US $***
Corporates	**24,758,339**	**1,970,983**	**(72,625)**	**(97,426)**	**-**	**(313,621)**	**26,245,650**
Investment Firms	**21,935,272**	**3,870,241**	**(3,870,241)**	**(15,480,966)**	**-**	**(320,422)**	**6,133,884**
Individuals	**757,608**	**28,723**	**(108,912)**	**(95,917)**	**-**	**(6,986)**	**574,516**
Others	**2,631,127**	**360,442**	**(416,549)**	-	-	**(33,495)**	**2,541,525**
	50,082,346	**6,230,389**	**(4,468,327)**	**(15,674,309)**	**-**	**(674,524)**	**35,495,575**

A collective provision of US $ 324 thousand was charged during the period and accumulated balance has been increased to US $ 1,812 thousand as at 30 June 2015.

The following table summarises the total provisions against non performing facilities disclosed by counterparty type as of 31 December 2014:

	Specific allowances						
	Opening Balance US $	*Charges during the period US $*	*Write-Back during the period US $*	*Write-offs during the period US $*	*Transferred to investment risk reserve US $*	*Exchange difference on opening balance US $*	*Balance at the end of the period US $*
Corporates	23,890,504	6,436,572	(6,681,655)	(32,345)	-	1,145,263	24,758,339
Investment Firms	22,809,553	-	(500,000)	-	-	(374,281)	21,935,272
Individuals	1,492,900	225,686	(1,062,723)	-	79,407	22,338	757,608
Others	2,150,906	541,392	(164,806)	-	-	103,635	2,631,127
	50,343,863	7,203,650	(8,409,184)	(32,345)	79,407	896,955	50,082,346

A collective provision of US $ 748 thousand was charged during the year and accumulated balance has been increased to US $ 1,488 thousand as at 31 December 2014.

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 2015			*31 December 2014*		
	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	**43,273,751**	**6,383,508**	**1,583,235**	64,261,475	22,265,177	1,323,233
Other Asian countries	**43,030,132**	**29,112,067**	**228,654**	41,565,363	27,817,169	164,691
	86,303,883	**35,495,575**	**1,811,889**	105,826,838	50,082,346	1,487,924

* 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 2015 Total US $	*31 December 2014 Total US $*
Restructured Islamic financing contracts	**986,640**	11,358,786

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 2015		*31 December 2014*	
	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	**354,786,102**	**-**	300,006,018	-
Sales receivables	**585,012,955**	**412,160,842**	620,990,366	417,441,228
Ijara Muntahia Bittamleek	**253,892,732**	**116,818,690**	221,040,523	115,341,573
Musharaka	**135,243,106**	**132,265,534**	119,299,509	116,257,511
Investments	**453,488,026**	**-**	439,054,503	-
Investment in real estate	**5,973,584**	**-**	5,973,584	-
Ijara income receivables	**21,108,426**	**-**	13,144,231	-
Premises and equipment	**23,727,621**	**-**	23,273,257	-
Other assets	**72,682,967**	**-**	73,831,979	-
	1,905,915,519	**661,245,066**	1,816,613,970	649,040,312

* 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 2015		*31 December 2014*	
	Gross positive FV of contracts US $	***Collateral held US $***	*Gross positive FV of contracts US $*	*Collateral held US $*
Ijara Muntahia Bittamleek & Ijara income receivable	**275,001,158**	**83,311,059**	234,184,754	83,383,231

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 2015		*31 December 2014*	
	Equity/ Sukuk risk US $	***Foreign exchange risk US $***	*Equity/ Sukuk risk US $*	*Foreign exchange risk US $*
RWE	**-**	**71,654,225**	223,924	72,149,288
Capital requirements (12%)	**-**	**8,598,507**	26,871	8,657,915
Maximum value of RWE	**3,405**	**71,654,220**	223,924	73,633,407
Minimum value of RWE	**-**	**70,967,617**	-	71,650,564

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 2015:

	Total gross exposure US $	***Average gross exposure over the period US $***	***Publicly held US $***	***Privately held US $***	***Capital requirement US $***
Sukuk	**404,908,792**	**382,294,659**	**192,607,929**	**212,300,863**	**10,243,609**
Managed funds	**6,026,424**	**6,025,178**	**-**	**27,132,757**	**213,491**
Equity shares	**13,895,893**	**13,107,155**	**9,961,971**	**3,933,922**	**2,024,254**
Real estate related	**28,656,917**	**29,739,437**	**-**	**7,550,584**	**13,289,183**
	453,488,026	**431,166,429**	**202,569,900**	**250,918,126**	**25,770,537**

The investments stated at a carrying amount of US $ 98,998 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 2014:

	Total gross exposure US $	*Average gross exposure over the period US $*	*Publicly held US $*	*Privately held US $*	*Capital requirement US $*
Sukuk	345,365,908	320,836,051	137,418,489	207,947,419	10,239,565
Managed funds	6,021,468	6,017,696	-	6,021,468	204,773
Equity shares	59,854,762	36,702,328	2,162,071	57,692,691	2,660,745
Real estate related	7,498,177	4,602,946	-	7,498,177	1,746,903
Others					
	418,740,315	368,159,021	139,580,560	279,159,755	14,851,986

The investments stated at a carrying amount of US $ 49,756 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 / year ended:

	30 June 2015 US $	*31 December 2014 US $*
Cumulative realised gains arising from sale or liquidation	**1,276,250**	4,117,936
Total unrealised losses recognised in the balance sheet but not through P&L	**(120,756)**	(45,394)
Unrealized gross losses included in Tier One Capital	**(120,756)**	(45,394)

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 2015		
	Operational equivalent Long (short) US $	***Strategic equivalent Long US $***	***Total equivalent Long (short) US $***
Pakistani rupees	**28,309,149**	**33,651,685**	**61,960,834**
Euro	**(4,042,034)**	**-**	**(4,042,034)**
Kuwaiti dinars	**9,693,386**	**-**	**9,693,386**
Pound sterling	**(1,716,096)**	**-**	**(1,716,096)**
Others	**(172,068)**	**-**	**(172,068)**

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

	31 December 2014		
	Operational equivalent Long (short) US $	*Strategic equivalent Long US $*	*Total equivalent Long (short) US $*
Pakistani rupees	27,442,009	33,107,886	60,549,895
Euro	(2,678,213)	-	(2,678,213)
Kuwaiti dinars	9,426,627	-	9,426,627
Pound sterling	327,651	-	327,651
Others	187,204	-	187,204

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)

Foreign currency risk sensitivity analysis (continued)

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 2015

Currency	**Particular**	*Change*	*Exposures in US $*	*Effect on profit and loss/ Equity*
Pakistani rupees	Net long Position	**20%**	**61,960,834**	**12,392,167**
Euro	Net short Position	**20%**	**(4,042,034)**	**(808,407)**
Kuwaiti dinars	Net long Position	**20%**	**9,693,386**	**1,938,677**
Pound sterling	Net short Position	**20%**	**(1,716,096)**	**(343,219)**
Others	Net short Position	**20%**	**(172,068)**	**(34,414)**

At 31 December 2014

Currency	Particular	*Change*	*Exposures in US $*	*Effect on profit and loss / Equity*
Pakistani Rupees	Net long Position	20%	60,549,895	12,109,979
Euro	Net short Position	20%	(2,678,213)	(535,643)
Kuwaiti Dinars	Net long Position	20%	9,426,627	1,885,325
Pound Sterling	Net short Position	20%	327,651	65,530

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.

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.

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

Investors' share of income is calculated based on the income generated from joint investment accounts after deducting the expenses related to investment pool "mudarib expenses". Mudarib expenses include all expenses incurred by the Group, including specific provisions, but excluding staff cost and depreciation. The Group's "mudarib profit" is deducted from investors' share of income before distributing such income. In some cases, equity of IAH withdrawn before maturity will get profits for the term funds remained invested with banks after deduction of penaltly charge, if any.

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.

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Penalty charges

No financial penalty (Dec 2014: US $ 5.5 thousand) was charged by the CBB during the period ended 30 June 2015.

A financial penalty of US $ 3 thousand (Dec 2014: US $ 297 thousand) was charged by SBP to the Group's subsidiary in Pakistan during the period.

Non-Shari'a complaint income

The Group charged US $ 161 thousand (Dec 2014 US $ 392 thousand) to customers as penalty for default which was disposed through charity contribution.

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 2015 US $	*31 December 2014 US $*
IAH - Banks	**196,903,460**	235,104,709
IAH - Non-banks	**1,105,772,565**	1,051,685,729
Profit equalisation reserve	**561,305**	574,489
Investment risk reserve	**2,339,648**	2,338,207
	1,305,576,978	1,289,703,134

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 2015 US $	*31 December 2014 US $*
PER to IAH (%)	**0.04%**	0.04%
IRR to IAH (%)	**0.18%**	0.18%

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 2015	*31 December 2014*
Sales receivable	**59.78%**	63.53%
Musharaka	**14.02%**	12.31%
Ijara Muntahia Bittamleek & Ijara income receivable	**26.19%**	24.16%

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

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 2015	*31 December 2014*
Banks	**15.14%**	18.32%
Investment Firms	**5.50%**	5.69%
Corporates	**29.61%**	20.23%
Residentials	**38.95%**	45.63%
Others	**10.80%**	10.13%

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 2015	*30 June 2014*
Administrative expenses charged to equity of investment accountholders holders	**1,691,256**	**1,590,413**
Share of profits earned by IAH, before transfers to/from reserves	**37,645,285**	**34,441,452**
Percentage share of profit earned by IAH before transfer to/from reserves	**2.88%**	**3.02%**
Share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	**28,698,601**	**27,088,422**
Percentage share of profit paid out to IAH after Mudarib fee and transfer to/from reserves	**2.19%**	**2.37%**
Share of profit paid out to Bank as mudarib	**8,946,684**	**7,353,030**
Mudarib Fee to total Investment Profits	**23.77%**	**21.35%**

Table – 29. Movement in profit equalisation reserve

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

	30 June 2015 US $	*30 June 2014 US $*
Balance at 1 January	**574,489**	573,411
Amount apportioned from income allocable to equity of Investment Accountholders	**-**	19,107
Exchange Difference	**(13,184)**	(1,754)
	561,305	590,764
Percentage of the profit earned on equity of investment accountholders appropriated to profit equilisation reserve	**0.00%**	0.06%

3 RISK MANAGEMENT (continued)

c) Equity of Investment Accountholders (continued)

Table – 30. Movement in investment risk reserve

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

	30 June 2015 US $	*30 June 2014 US $*
Balance at 1 January	**2,338,207**	2,418,610
Amount apportioned from income allocable to equity of Investment Accountholders	**2,221**	-
Amount apportioned to provision	**-**	(53,838)
Exchange Difference	**(780)**	1,493
	2,339,648	2,366,265
Percentage of the profit earned on equity of investment accountholders appropriated to investment risk reserve	**0.01%**	**-%**

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 2014: up to 70%) as per the terms of IAH agreements.

Table – 31. Equity of Investment Accountholders rate of return

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

	Average 30 June 2015 Rate of return %		
	Bahrain		***Pakistan***
	BD	**US $**	
Saving Accounts	**0.14%**	**0.14%**	**3.49%**
One Month Term Deposits	**0.72%**	-	**3.89%**
Three Months Term Deposits	**0.84%**	**0.82%**	**4.54%**
Six Months Term Deposits	**0.95%**	**0.88%**	**4.04%**
Nine Months Term Deposits	**0.96%**	-	-
1 Year Term Deposits	**1.11%**	**0.94%**	**5.15%**
2 Years Term Deposits	**1.27%**	**1.06%**	**5.25%**
3 Year Term Deposits	**1.43%**	-	**5.75%**
4 Years Term Deposits	-	-	**5.50%**
5Years Term Deposits	-	-	**6.03%**

	Average 31 Dec 2014 Rate of return %		
	Bahrain		*Pakistan*
	BD	US $	
Saving Accounts	0.34%	0.32%	5.03%
One Month Term Deposits	1.20%	-	5.87%
Three Months Term Deposits	1.39%	0.83%	6.40%
Six Months Term Deposits	1.58%	0.89%	5.79%
Nine Months Term Deposits	1.67%	0.95%	-
1 Year Term Deposits	1.76%	0.89%	7.82%
2 Years Term Deposits	2.06%	0.95%	7.98%
3 Year Term Deposits	2.06%	-	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 2015:

	Opening Actual Allocation US $	***Movement US $***	***Closing Actual Allocation US $***
Cash and balances with banks	**96,841,705**	**41,192,990**	**138,034,695**
Sales receivable	**615,837,801**	**(39,232,793)**	**576,605,008**
Ijara Muntahia Bittamleek	**221,040,523**	**10,478,962**	**231,519,485**
Musharaka	**119,299,509**	**15,943,597**	**135,243,106**
Investments	**196,318,877**	**(19,076,121)**	**177,242,756**
Ijara income receivables	**13,144,231**	**7,964,195**	**21,108,426**
Other assets	**27,220,488**	**(1,396,986)**	**25,823,502**
	1,289,703,134	**15,873,844**	**1,305,576,978**

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

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***
2015* (six months)	**75,290,570**	**5.75%**	**57,397,202**	**4.39%**
2014	72,635,382	6.05%	58,785,969	4.90%
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%

* 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 2015:

	RWA US$ '000	***RWA for capital adequacy purposes - 30% US$ '000***	***Capital charges US$ '000***
Type of Claims			
Claims on Sovereign	**46,045,696**	**13,813,709**	**1,726,714**
Claims on PSEs	**9,534,651**	**2,860,395**	**357,549**
Claims on Banks	**111,819,930**	**33,545,979**	**4,193,247**
Claims on Corporates	**540,538,117**	**162,161,435**	**20,270,179**
Regulatory Retail Portfolio	**11,536,295**	**3,460,889**	**432,611**
Mortgage	**95,019,529**	**28,505,859**	**3,563,232**
Past due facilities	**62,384,796**	**18,715,439**	**2,339,430**
Investment in securities	**7,222,784**	**2,166,835**	**270,854**
Holding of Real Estates	**33,074,888**	**9,922,466**	**1,240,308**
Other Assets	**24,011,614**	**7,203,484**	**900,436**
	941,188,300	**282,356,490**	**35,294,560**

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 2014:

	RWA US$ '000	*RWA for capital adequacy purposes - 30% US$ '000*	*Capital charges US$ '000*
Type of Claims			
Claims on Sovereign	55,453,064	16,635,919	1,996,310
Claims on PSEs	11,255,494	3,376,648	405,198
Claims on Banks	131,679,583	39,503,875	4,740,465
Claims on Corporates	594,263,919	178,279,176	21,393,501
Claims on Investment Firms	759,625	227,888	27,347
Mortgage	95,117,018	28,535,105	3,424,213
Regulatory Retail Portfolio	9,067,952	2,720,386	326,446
Past due facilities	73,171,423	21,951,427	2,634,171
Investment in securities	5,501,993	1,650,598	198,072
Holding of Real Estates	6,462,444	1,938,733	232,648
Other Assets	27,220,489	8,166,147	979,938
	1,009,953,004	**302,985,902**	**36,358,309**

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 risks;

(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 2015***	*31 December 2014*
Sales receivables	**90.99%**	91.30%
Investments	**9.01%**	8.70%

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 2015***	*31 December 2014*
Banks	**72.12%**	68.07%
Corporate	**27.88%**	31.93%

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

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 2015:

	Opening actual allocation US $	***Movement US $***	***Closing actual allocation US $***
Sales receivables	**101,930,266**	**(6,047,367)**	**95,882,899**
Investments	**9,718,013**	**(223,951)**	**9,494,062**
	111,648,279	**(6,271,318)**	**105,376,961**

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 2015:

	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

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 2015 US $	*Dec 2014 US $*	*Dec 2013 US $*	*Dec 2012 US $*	*Dec 2011 US $*
Gross Income	**893,422**	1,772,278	104,630	1,208,812	458,674
Mudarib Fee	**38,844**	99,056	47,122	168,172	110,062

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

e) Liquidity risk

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

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.

3 RISK MANAGEMENT (continued)

e) Liquidity risk (continued)

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.

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 2015	*31 December 2014*
Liquid assets to total assets	**23.84%**	17.11%
Short term assets to short term liabilities	**67.22%**	68.96%

Table – 40. Quantitative indicators of financial performance and position

	June 2015*	*Dec 2014*	*Dec 2013*	*Dec 2012*	*Dec 2011*
Return on average equity	**3.46%**	1.2%	0.6%	-6.1%	1.4%
Return on average assets	**0.31%**	0.1%	0.1%	-0.8%	0.2%
Cost to Income Ratio	**88.21%**	92.7%	91.1%	98.4%	91.0%

* 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

During the year 2010, a constitutional petition and certain suits have been filed by a client in Pakistan in the Honourable High Court of Sindh against Al Baraka Bank (Pakistan) Limited wherein the client has claimed that he was offered 24 million ordinary shares of Al Baraka Bank (Pakistan) Limited at an aggregate value of US $ 2.94 million (2014: US $ 2.98 million) as sale consideration against the commercial property sold to the Al Baraka Bank (Pakistan) Limited. He further claimed that in addition to the said property, he has also paid US $ 0.58 million (2014: US $ 0.59 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. 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 (EFH) 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. In this regard, Al Baraka Bank (Pakistan) Limited has invoked the indemnity and has submitted a legal notice upon EFH.

5 COMPARATIVE INFORMATION

In tables 2, 3, 6,7, 8,9, 11, 17, 18, 19, 20, 21,22 , the comparative information do not correspond to the current period balances due to the fact that the Group's Investment in Itqan was consolidated being a financial subsidiary for regulatory purposes effectively from 1 January 2015